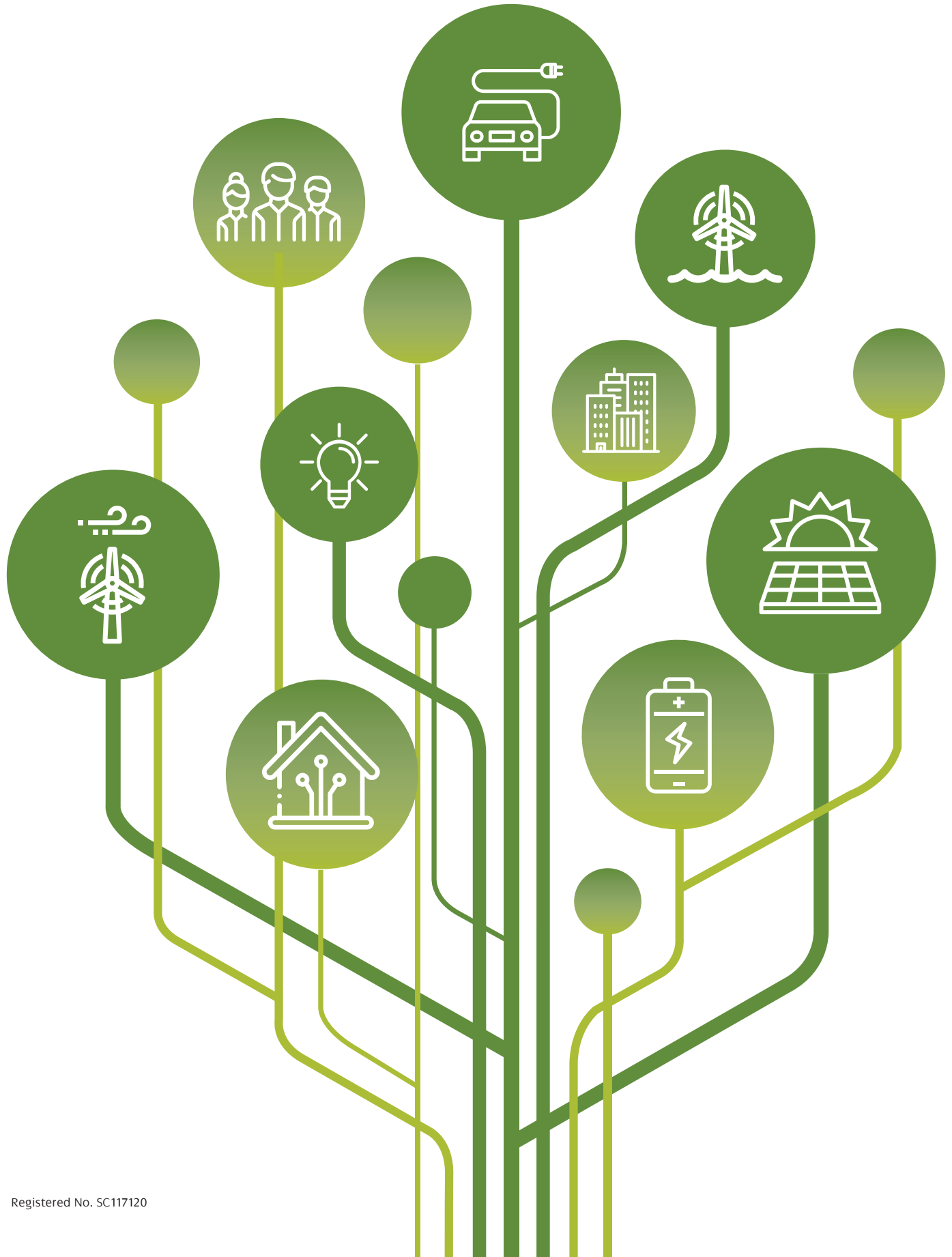




SCOTTISHPOWER

SCOTTISH POWER UK PLC
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2020



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Some of the statements contained herein are forward looking statements about Scottish Power UK plc and its subsidiaries, and Iberdrola, S.A.'s strategic plans. Although Scottish Power UK plc and Iberdrola, S.A. believe that the expectations reflected in such statements are reasonable, the statements are not guarantees as to future performance and undue reliance should not be placed on them.

Group Strategic Report for the year ended 31 December 2020

The directors present their Strategic Report on the Scottish Power UK plc Group ("the Group") for the year ended 31 December 2020. This includes an overview of the Group's structure, 2020 performance and strategic outlook including principal risks and uncertainties. References to "ScottishPower" below apply fully to the Scottish Power UK plc Group.

SCOTTISHPOWER TODAY

ScottishPower: creating a better future, quicker, by delivering a low-carbon future for the UK

WHO WE ARE

Scottish Power UK plc ("the Company"), registered company number SC117120, principally acts as the holding company of the ScottishPower UK plc Group, whose activities comprise the generation, transmission and distribution of electricity, energy management and the supply of electricity and gas principally in the United Kingdom ("UK"). The Company is a wholly-owned subsidiary of Iberdrola, S.A. ("Iberdrola"), one of the largest utility companies in the world and a leader in renewable energy.

Scottish Power Limited is the UK holding company of the Scottish Power Limited Group ("The ScottishPower Group") of which the Company is a member.

The three divisions operated by the Group during the year were Energy Networks, Renewables, and Energy Retail and Wholesale, which are owned by their respective Head of Business Sub-holding Companies: Scottish Power Energy Networks Holdings Limited ("SPENHL"), ScottishPower Renewable Energy Limited ("SPREL"), and Scottish Power Retail Holdings Limited ("SPRHL").

The Head of Business Sub-holding Companies have their own boards of directors with the necessary autonomy to carry out the day-to-day management and effective administration of their division.

Further information regarding the corporate governance and board structure of ScottishPower is set out in the Corporate Governance section of the Directors' Report on page 43.

OUR ACTIVITIES

The Group has three operating divisions:

Energy Networks

Energy Networks is responsible for three regulated electricity network businesses in the UK. These businesses are 'asset-owner companies', holding the regulated assets and electricity distribution and transmission licences of the Group, and are regulated monopolies. They own and operate the network of cables and power lines transporting electricity to around 3.5 million connected customers in the Central Belt and South of Scotland, Cheshire, Merseyside, North Shropshire and North Wales.

Renewables

Renewables is responsible for the origination, development, construction and operation of renewable energy generation plants, principally onshore and offshore wind, with a growing presence in emerging renewable technologies and innovations such as battery storage and solar. Renewables' ambitious growth plans include expansion of our existing onshore wind portfolio, investment in new large-scale solar deployment and innovative grid storage systems including batteries. The division is also delivering the Iberdrola Group's offshore wind farms in the Southern North Sea off East Anglia. Renewables' 40 wind farms produce over 2,800 megawatts ("MW") of clean, renewable energy that supplies around 2.1 million homes.

Energy Retail and Wholesale

Energy Retail is responsible for the supply of electricity and gas to almost five million domestic and business customers throughout the UK, including customer registration, billing and handling enquiries in respect of these services. Energy Retail is also responsible for the associated metering activity, including the smart meter installation programme, and managing the Group's Smart Solutions activities. Furthermore, in 2020, the Group created a hydrogen department to begin working with businesses to seek appropriate green hydrogen solutions. This is a pioneering strategic move to support the UK's efforts to achieve 'net zero' by 2050.

Energy Wholesale is responsible for managing the Group's exposure to the UK wholesale electricity and gas markets for Energy Retail and Renewables and the optimisation of gas storage.

2020 financial highlights

REVENUE
£5,164.0m

(2019 £5,124.5m)

**OPERATING
PROFIT**
£991.1m

(2019 £828.7m)

**CAPITAL
INVESTMENT**
£1,308.5m

(2019 £1,660.9m)

**ADJUSTED
NET DEBT***
£5,371.6m

(2019 £3,888.1m)

* Loans and other borrowings plus lease liabilities less cash and short-term deposits.

OUR PURPOSE, VALUES, STRATEGY AND ROLE

Iberdrola and ScottishPower are “committed to an energy model that prioritises the wellbeing of people and the preservation of the planet.”

OUR PURPOSE

Shaping the future of energy in the UK

We are the first integrated energy utility in the UK to have 100% of its generation of electricity derived from renewable energy sources. Our focus is on wind energy, smart grids, and driving the change to a cleaner, electric future. We are playing a leading role in the delivery of a clean, low-carbon system for the UK, currently investing £5 million every working day to create a better future, quicker.

With our future plans to invest significantly in renewables generation and the electricity network infrastructure that will support the green transition, we are well-placed to contribute to the UK achieving its net zero ambitions. In November 2020, as part of the €75 billion investment programme announced by our parent company, Iberdrola, we set out plans for £10 billion of investment in clean energy by 2025. Under these plans, we expect to extend significantly our existing renewable generation capacity.

In November 2021, the UK will host the next United Nations (“UN”) Climate Change Conference, the Conference of the Parties (“COP 26”), in our home city of Glasgow and we are proud to have been announced as a principal partner for the event. Despite being postponed for a year due to the COVID-19 pandemic, COP 26 presents a valuable opportunity to raise public awareness of the importance and urgency of the climate change challenge, and to galvanise the action necessary to meet the UK’s decarbonisation goals. We are committed to playing a leading role in ensuring the legacy of COP 26 is both positive and lasting, by advocating a swift and just transition to a cleaner and greener future.

Delivering a better future, quicker for everyone

We are committed to speeding up the transition to cleaner electric transport, improving air quality and, over time, helping to reduce energy bills.

As part of Iberdrola, one of the world’s largest integrated utility companies and a global leader in wind energy, we believe in developing an energy model that prioritises the wellbeing of people and the preservation of the planet. Recognising the importance of taking care of the environment and people’s health, we want to offer society our experience in addressing these urgent social needs through our work on the decarbonisation and electrification of the economy as a whole, using renewable energy sources, efficient energy storage, smart grids and digitisation.

We share Iberdrola’s purpose and values, and this is the bridge that connects the communities we serve with our growing Group. We are dedicated to the purpose of building together, each day, a healthier, more accessible energy model, based on electricity.

OUR VALUES

Our values rest on continuing to develop as a leading, global and sustainable Group in the 21st century. To meet our purpose, we are founded on three corporate values that define the Group’s identity and form the foundation of our strategy: being sustainable, dynamic and collaborative.

Sustainable

We are pioneers of renewable energy. We seek to inspire others by creating economic, social and environmental value wherever we are now and looking to the future. We put this value into action by continually putting safety first, respecting the environment, and acting ethically, rationally and responsibly to meet our commitments.

Dynamic

We bring about efficient change, big and small, through constantly challenging ourselves and our processes. We innovate to deliver continuous improvement. We put this value into action by asking how we can do things more simply or efficiently, coming up with ideas and leading innovation, and anticipating our customers’ needs.

Collaborative

We are an energetic and responsible force for change. Through working together, we build and grow talent to achieve our common goals and purpose. We put this value into action by sharing knowledge and information; working together with our employees, suppliers and customers; and by breaking the mould and encouraging diversity.

OUR STRATEGY

Our strategy is to create value from investment in networks, renewable energy generation and retail to help our customers realise a better future, quicker, under the pillars of our strategic values.

Our key strategic goals include:

- investing in networks to make them smarter and more resilient, and creating a platform for the UK’s sustainable electric future;
- investing in renewable energy generation, principally onshore and offshore wind, solar and battery storage, to tackle climate change and reduce the cost of electricity generation;
- creating a fairer and more transparent market where customers are in control of their energy usage through digitisation and smart metering; and
- designing and delivering an energy system to facilitate and encourage the growth of electric vehicles (“EVs”) and clean heating solutions to improve air quality and tackle climate change.

Group Strategic Report for the year ended 31 December 2020

OUR PURPOSE, VALUES, STRATEGY AND ROLE *continued*

To achieve these goals:

- We will continue to invest in transmission and distribution networks, to ensure all customers have the power they need as set out in our business plans, which are determined through a framework of multi-year price controls and regulated by The Office of Gas and Electricity Markets ("Ofgem"). The RIIO-T1 price control for the transmission business ends on 31 March 2021 and the RIIO-ED1 price control for the distribution business ends in March 2023. In December 2019, following a lengthy period of scrutiny and oversight, Energy Networks submitted its final transmission business plan to Ofgem for the RIIO-T2 price control, which will run from April 2021 to March 2026. In December 2020, Ofgem published its Final Determinations for the RIIO-T2 price control. Having reviewed Ofgem's Final Determination and the associated RIIO-T2 licence modifications, Energy Networks recognises the progress that has been made in agreeing a number of aspects of our business plan, but we remain concerned at Ofgem's approach on the cost of equity, ongoing efficiency targets and the legal process it follows when amending certain of our transmission business' licence conditions. On 3 March 2021, Energy Networks made an application to the Competition and Markets Authority ("CMA") for permission to appeal against Ofgem's RIIO-T2 Final Determination on a number of discrete technical issues. This application was accepted by the CMA on 31 March 2021. The CMA process will conclude by the end of October 2021.
- In Renewables, we will continue to build on our current portfolio of wind farms, with our planned investment from 2020 to 2025 of more than £3.7 billion to increase renewable capacity across the UK. This includes construction of around 2.1 Gigawatts ("GW") of installed capacity of innovative onshore wind, solar and battery storage projects, some of which will be hybrid 'energy parks'. Onshore Renewables is targeting significant growth by 2030, having grown its pipeline of onshore wind, solar and battery projects from approximately 3 GW in 2019 to approximately 5 GW in 2020. Our Sheiridrum Renewable Energy Development includes a combination of onshore wind, solar and battery storage which are all being developed together to create an optimal and innovative project. Our offshore pipeline includes the 3.1 GW East Anglia Hub ("EA Hub") offshore project which could power 2.7 million homes. We will continue to consider further opportunities to invest more widely in renewable generation and storage. Our 714 MW East Anglia One ("EA1") offshore wind project was completed during 2020, providing sufficient electricity to meet the annual demands of the equivalent of almost 630,000 homes.
- In Retail, we continue to innovate and seek efficiencies following the introduction of a retail price cap by Ofgem in January 2019, which can be extended on an annual basis until 2023. We will continue to engage with customers to help ensure that they are on the best deal for them. As the smart meter rollout continues, we will explore opportunities to offer customers a wider range of products to help them control their energy usage consistent with their lifestyle, and in 2020, we established a new Smart Solutions department to support our activities in this area. In addition, we also created a hydrogen department to begin working with businesses to seek appropriate green hydrogen solutions. This is a pioneering strategic move to support the UK's efforts to achieve net zero by 2050.

OUR ROLE

In the wider legislative, regulatory and commercial context in which we operate, our commitment to playing a leading role in the UK's contribution to combating climate change has been reflected in a number of significant developments during 2020. We are able to make an active and distinctive contribution to these policy debates, using our expertise and experience across many aspects of the electricity generation, retail and network infrastructure sectors.

Building on the Zero Carbon Communities plan launched in Liverpool in October 2019, we published a similar report for Glasgow in February 2020. This set out independent forecasts for the scale of the city's decarbonisation in the form of a 'road map' to assist local policymakers and communities in assessing future electricity infrastructure needs in respect of EV charge points, energy-efficient home heating solutions, and network investment. At the same time, we announced our sponsorship of Glasgow's first fleet of e-bikes, enhancing the city's green transport offering. The emergence of the COVID-19 crisis in March 2020 required policymakers, stakeholders and companies alike to reprioritise several areas of policy and regulatory activity. In our response to the crisis, we have been committed to taking all necessary measures to help protect the safety and wellbeing of our employees, our customers and the communities we serve. We have continued to work closely with our suppliers during the pandemic and in 2020 we awarded contracts with a total value of around £1.8 billion.

As the crisis developed, policymakers renewed their focus on measures to stimulate an economic recovery and to accelerate progress towards net zero. We made an active contribution to policy discussions on the shape and scope of a 'green recovery', and in June 2020, we published 'Unlocking Net Zero'; a ten-point plan that focused on practical steps to create jobs, leverage private sector investment in green networks and generation infrastructure, and stimulate sustainable economic growth. Focusing on four key areas, namely renewable energy, EVs, low-carbon homes, and energy networks, the ten steps include: lifting the cap on future wind farm contract auctions to boost investment in renewable energy; bringing forward the ban on petrol and diesel vehicles from 2040 to 2030 to encourage people to buy EVs sooner; bringing forward the Future Homes Standard from 2025 to 2022 to install EV chargers and electric heat pumps in people's homes more quickly; and providing the right environment for greater investment in the electricity networks in order to support the growth of renewables generation projects and the demands placed on the grid by the increased electrification of transport and heating.

Our networks division has continued to deliver a 99.99% reliability level of supply to our customers. We understand just how critical electricity is to the lives and work of all the customers we are here to serve. That is why it is important we look to the future; anticipating future needs and making sure we play our role in enabling a better future, quicker for everyone. Our investment plans take account of a number of complex current and future demands. Given how quickly the energy sector is changing, technological advancements and political uncertainties, we need to make sure that we are adaptable to change, in case the future energy system turns out differently to what we have planned for.

Building on the successful completion of Renewables' EA1 offshore wind farm, work continued on redefining and developing our already consented 1.4 GW East Anglia Three ("EA3") offshore wind project as part of the EA Hub. This includes the 800 MW East Anglia One North ("EA1 North") and the 900 MW East Anglia Two ("EA2") projects which are currently progressing through the planning process. Leveraging on this scale in the supply chain is expected to produce significant optimisation opportunities.

As part of the UK Government's restated commitment to deploying 40 GW of offshore wind by 2030, Contracts for Difference ("CfD") auctions are expected to be run around every two years with the next auction (Allocation Round 4 ("AR4")) due to open in late 2021, which will also be open to onshore wind and solar. We expect to have up to 3.5 GW of onshore wind, solar and offshore wind projects eligible to bid into the AR4.

Group Strategic Report for the year ended 31 December 2020

OUR PURPOSE, VALUES, STRATEGY AND ROLE *continued*

With regards to new development opportunities, we support the ambitions of The Crown Estate in developing the seabed in England and Wales for future offshore wind projects. We note the outcomes of offshore wind leasing Round 4 in February 2021. In addition, we have registered as an interested applicant in Crown Estate Scotland's Scotwind offshore wind leasing round, which was launched in June 2020. Up to 10 GW of potential sites are expected to be offered to the market, including sites suitable for floating wind projects. Bids are expected to be submitted in July 2021, in line with current Crown Estate Scotland schedules.

In Retail, the obligation on energy suppliers to use all reasonable steps to install smart meters for customers was extended from December 2020 to June 2021, due to the impact of COVID-19. Recognising that full industry progress has been slower than anticipated when the original 'all reasonable steps' obligation was implemented, a new regime will be in place from July 2021, in which suppliers must achieve annual rollout targets to 2025. As at 31 December 2020, the overall progress is that 34.6% of our relevant customer base has a smart meter. As required by the Domestic Gas and Electricity (Tariff Cap) Act 2018, a price cap for default tariffs came into effect in January 2019, which can be extended annually until 2023. Ofgem must publish a review of market conditions each year to assess whether the cap should be extended for a further year and provide a recommendation to the Secretary of State for Business, Energy & Industrial Strategy ("BEIS"). In October 2020, Ofgem's recommendation was accepted and the current cap price was extended for a year to the end of 2021. Ofgem has consulted, and continues to consult, on its approach to setting cap levels for future periods, including for the smart meter allowance (with changes having been put in place from October 2020) and for COVID-19-related costs (with changes being put in place from April 2021). The UK retail market remains very competitive and a number of energy suppliers exited the market during 2020. Following a competitive process run by Ofgem (to achieve the best deal possible for customers) in October and December 2020, we were appointed to take on supplying Tonik Energy's 130,000 domestic customers and Yorkshire Energy's 74,000 customers respectively.

Other notable developments in 2020 included the publication in May of the Scottish Government's first annual progress report on its Climate Change Adaptation programme. The recommendations of the Scottish Government's Economic Advisory Group were accepted by the Scottish Government in June. In July, the Just Transition Commission's advice on a green recovery was published, as was the Infrastructure Commission for Scotland's Delivery Findings Report, which set out recommendations on how to meet Scotland's future infrastructure needs. The Scottish Government also published an Action Plan to decarbonise Scotland's rail passenger services by 2035, and propose a Scottish National Investment Bank, in order to achieve a just transition to net zero carbon emissions by 2045.

In September 2020, the Scottish Government's Programme for Government set out a range of funding and policy measures with a focus on health, equality and green jobs, with a headline announcement of a youth guarantee for jobs, education and training. The Programme committed £1.6 billion over the next Parliament term to supporting heat and energy efficiency in homes and buildings, delivering a £100 million Green Jobs Fund, and providing £60 million for industrial decarbonisation, while establishing a zero emission heavy-duty vehicle programme with a minimum investment of £1 million. On the need for a low-carbon transition, the Programme for Government set out plans for a £62 million Energy Transition Fund to support businesses in the oil, gas and energy sectors over the next five years. £25 million will also be allocated to zero carbon energy infrastructure and heat networks, and residential and commercial premises along the River Clyde. The Scottish Government is also working on a heat decarbonisation strategy, and has established an expert group to make recommendations to Scottish Ministers on the scope of a potential heat pump sector deal. In September 2020, the Scottish Government published a draft Infrastructure Investment Plan, with various funding commitments around the themes of enabling net zero emissions and environmental sustainability, driving inclusive economic growth, and building resilient and sustainable places. In December 2020, the Scottish Government published its Hydrogen Policy Statement, which set out a range of commitments to establish hydrogen as a key element of Scotland's decarbonisation plans. In December 2020, the Scottish Government also published its Update to the 2018 Climate Action Plan, which emphasised the importance of a green and just recovery, and the integral role of businesses in supporting the transition to a low carbon economy.

Looking forward, under investment plans announced by Iberdrola in November 2020, we expect to invest £10 billion in the UK between 2020 and 2025 in renewable energy, electricity networks and customer solutions, with the aim of supporting the delivery of the UK's net zero goals. While the immediate operating environment continues to present challenges, in particular the adverse impacts of COVID-19, we are well positioned to manage these risks. We continue to engage with the UK and devolved Governments on these issues and many others related to the future of energy policy.

OUR ONGOING RESPONSE TO COVID-19

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, due to its rapid spread throughout the world. In common with many governments, the UK and devolved Governments put in place restrictive measures to contain the spread of the virus. These have been in place to various extents since March 2020 and are expected to endure in some form during 2021 and perhaps 2022. The specific risks presented by COVID-19 are considered as part of our principal risks and uncertainties. Whilst acknowledging the risks faced by the Group and those of the Iberdrola Group, COVID-19 is not deemed to impact the conclusions that the Company and the Group will continue as a going concern.

As the COVID-19 crisis has developed, we have been committed to taking all necessary measures to help to protect the safety and wellbeing of our employees, our customers and the communities we serve. At a Group level, and across our Energy Networks, Renewables and Energy Retail and Wholesale operations, we have been working closely with government departments, Ofgem and industry bodies to ensure that we continue to follow the latest advice. Through our membership of Energy UK and the Energy Networks Association ("ENA"), we contributed to the industry agreement announced by BEIS on 18 March 2020 on the importance of supporting vulnerable people through the disruption caused by COVID-19.

As part of the response to COVID-19, Iberdrola successfully undertook a global audit of its COVID-19 mitigation protocols, which was overseen and certified by the Spanish Association for Standardization and Certification ("AENOR"). ScottishPower played an active part in this audit and received independent AENOR certification for our policies, procedure and compliance with local regulations. At a ScottishPower Group level, we have implemented several measures to ensure we are well positioned to respond to the significant challenges posed by COVID-19. These include ongoing reviews of business continuity, IT resilience, supply chain operations, and the safety and wellbeing of critical and non-critical employees. Employees have received regular communications updates on developments and the ScottishPower website has been routinely updated with the latest information on how we are responding to the crisis. Further detail is provided in the 'Employees' section of the Strategic Report.

Group Strategic Report for the year ended 31 December 2020

OUR ONGOING RESPONSE TO COVID-19 *continued*

In addition, several measures have been implemented at an operational level across our divisions.

Energy Networks

The operational response to COVID-19 has been of the highest priority to Energy Networks. Activities have included: initiating business continuity plans to ensure resilience across network control room operations; undertaking an engineering review of the physical network and developing a resilience plan to ensure continuity of supply for essential services; reviewing supply chain integrity, stock levels and fuel provision; reviewing arrangements for public-facing activity to ensure that faults can be addressed and network resilience supported without exposing employees, customers or members of the public to adverse risks; and engaging constructively and proactively with UK resilience and emergency preparedness bodies. Energy Networks has worked closely on arrangements at an industry level with the ENA. The Energy Networks website has presented information and updates intended to provide reassurance to customers and stakeholders that it has robust, well-practised contingency plans in place to make sure its resilient network continues to deliver services during any challenging times. This is available at www.spenergynetworks.co.uk. In addition, regular reports are provided to Ofgem on any COVID-19-related matters and our operational performance.

Renewables

In 2020, COVID-19 showed that the renewables industry is resilient and strong in uncertain times. Our agility as a business and the dedication of everyone in Renewables, has not only kept wind farms operating as normal but ensured continued progress on our pipeline of new projects. Throughout the COVID-19 restrictions, with our contingency arrangements in place, we have been able to safely continue to operate. These include the adoption of contingency arrangements for the staffing of our control centres, which manage the operation of all our wind farms in the UK, and the implementation of business continuity measures for the construction of current wind farm and battery projects in line with COVID-19 guidelines. Additionally, Public Information Days held with communities, where we are developing wind farms, were successfully moved online. Communities have also been using community benefit funds that we provide from our operational wind farms to address COVID-19 requirements within their local area.

Energy Retail and Wholesale

Energy Retail understands that customers may be financially impacted due to the impact of COVID-19 and, by following government advice to stay at home, could be using more energy than normal, which may result in their bills increasing. Recognising these challenges, we set out clear guidance and information for our customers on where to get help and advice. Detailed information on how we could help with issues such as online account management, affordability, prepayment, energy services and smart meter installation has been made available at www.scottishpower.co.uk/coronavirus.

We reacted quickly and responsibly to the uncertainty a number of our customers faced, providing greater flexibility for our Direct Debit ("DD") customers by allowing them to lower their monthly payments, and offering extended payment periods and payment breaks for many of our customers. Our prepayment customers were provided with payment keys already charged with credit.

We have reviewed field operations from the perspective of mitigating the risk of exposure to the virus, and of prioritising services such as boiler repair for vulnerable customer groups. In line with government guidance, we stopped all non-essential meter installations for several months in 2020. Our smart meter rollout recommenced at the point at which it was safe to do so for our customers and installer workforce. Since then, we have monitored government guidelines on non-essential work; we will continue to do so and use this insight to assist us in any future decisions on temporarily stopping installations.

Further detail on our ongoing response to COVID-19 is provided in the 'Engagement with Stakeholders' section of the Strategic Report and the financial impacts of COVID-19 are detailed in the 'How ScottishPower Performed' section of the Strategic Report.

BREXIT

Though the UK left the EU on 31 January 2020, all EU laws continued to apply until 31 December 2020. Following intensive negotiation, a UK/EU Trade and Cooperation Agreement was concluded on 24 December 2020, and is being applied provisionally pending ratification.

The conclusion of the Trade and Cooperation Agreement greatly reduced the contractual and foreign exchange risks Brexit posed for our business. Key remaining risks are possible supply chain disruption and reduced mobility of labour: there is also continuing uncertainty about the EU's assessment of the adequacy of the UK Data Protection arrangements.

A cross-business operational working-group enabled us to monitor Brexit risks at all stages, and has ensured that they are now fully integrated into our assessment of risks to the business.

Further details are provided in the 'Principal Risks and Uncertainties' section of the Strategic Report. We shall continue to monitor the consequences of Brexit, and will take mitigating action as appropriate.

GROUP PRINCIPAL RISKS AND UNCERTAINTIES

The delivery of our strategy requires the Group to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting our performance and reputation by prudently managing the risks inherent in the business. Risk management within the Iberdrola Group, and so the Group, is based on foresight, independence, commitment to the Group's business objectives and the engagement of senior management and the Board of Directors of Scottish Power Limited ("the SPL Board"). To maintain this strategic direction, the Group develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation.

During 2020, the governance structure was supported by risk policies approved by the Board of Directors of Iberdrola and adopted by the SPL Board. Our business risk assessment team and independent Group risk management function supported the SPL Board in the execution of due diligence and risk management. In addition, ScottishPower is represented at the Iberdrola Risk Management Committee to ensure that the business risks are adequately assessed, monitored, mitigated and managed. Further details of ScottishPower's governance structure and risk management are provided in Note 10(e) to the Accounts.

The principal risks and uncertainties of ScottishPower (and so the Group), and the individual divisions, that may impact current, future operational and financial performance and the management of these risks are described below.

FINANCIAL RISKS

RISK	RESPONSE	DIVISION IMPACTED
Market Risk Impacts arising from COVID-19 and Brexit following market reactions to events. These could include: <ul style="list-style-type: none"> Increased volatility on the value of Sterling and foreign currencies. Movement in the market price of electricity and gas. Increased volatility and estimation uncertainty risks on factors affecting the pension scheme including asset values and key assumptions. In the longer term, there could be positive or negative changes in the UK economy. 	In addition to monitoring ongoing developments related to COVID-19 and Brexit, the Group has specific procedures in place to manage key market risks. Further details are as follows: <ul style="list-style-type: none"> A treasury risk management policy is in place to hedge financial risks and is discussed further in Note 10; The mitigation of energy market risk is discussed further in Note 10(e)B; The pension scheme valuation risk is discussed further in Note 17; and Treasury risk, comprising liquidity, foreign currency and interest rate risks are discussed further in Note 10(e)C. 	Group
Credit Risk Deterioration in the level of overdue debt specifically in Energy Retail, driven by the impacts of COVID-19, impacting on the level of debt write-off required. This negative impact on the economy also increases the risk of supplier defaults, which may result in unpaid supplier charges being shared across the remaining industry.	There are measures in place across the Retail business to manage the key drivers of overdue debt, assess and implement remedial and preventative action, and to establish key metrics to monitor progress in reducing debt levels. Refer to Note 10(e) for further details. Energy Retail also continues to consult with Ofgem, on its approach to setting price cap levels for future periods.	Energy Retail and Wholesale

Group Strategic Report for the year ended 31 December 2020

GROUP PRINCIPAL RISKS AND UNCERTAINTIES *continued*

BUSINESS RISKS		
RISK	RESPONSE	DIVISION IMPACTED
<p>The risk that Iberdrola's and ScottishPower's strategy, investments or operations have an unacceptable impact on the environment and on national and international targets to tackle climate change.</p> <p>The impacts of climate change, include:</p> <ul style="list-style-type: none"> the risks of transition (regulatory, market, technological, reputational changes, lawsuits, demand variations); physical risks (increase in temperatures, rise in sea level, variation in the rainfall regime, increase in extreme meteorological phenomena in frequency and intensity etc.); and other risks such as the credit deterioration of counterparties (suppliers, banks, others), social phenomena (humanitarian crises, impacts on crops and fishing, refugee crises, epidemics) and greater competition for financial resources. 	<p>Iberdrola's and ScottishPower's commitment to tackle climate change is reflected in our strategy which includes investment in renewable generation and our networks (to make them smarter and more resilient) and facilitate the growth of EVs and clean heating solutions.</p> <p>Iberdrola's and ScottishPower's key measures to mitigate climate change risks include:</p> <ul style="list-style-type: none"> our commitment to decarbonisation (detailed in the 'Environment' section of the Strategic Report); the design and specifications of the new equipment will consider more severe weather scenarios, and technological improvements will maximise economic value from the new projects; incorporating climate change risk into all investment decisions; the Iberdrola Group's accumulated experience on the management of climate events as well as the digitisation and modernisation of the networks; insurance cover; regulatory coverage in the Networks division; and solid financial capacity to be able to carry out investments in adaptation. <p>Overall, the opportunities deriving from the decarbonisation of the global economy (growth in renewables, investment in integrating smart grids, electrification of transport etc.) outweigh the risks.</p> <p>For further information, please refer to Iberdrola's latest Integrated Report and Sustainability Report. In addition, Iberdrola's Climate Change policy is available at www.iberdrola.com.</p>	<p>Group – new emerging risk</p>
<p>Reduced UK energy supplier customer demand for electricity driven in 2020 by the impact of COVID-19 could continue into 2021 and beyond. This could impact Energy Networks' revenues which are dependent on supplier volumes.</p>	<p>In Energy Networks, as allowed revenue for each regulatory year is fixed, any shortfall in revenues during a period would be collected in future years in line with the RIIO price control mechanism.</p>	<p>Energy Networks</p>

Group Strategic Report for the year ended 31 December 2020

GROUP PRINCIPAL RISKS AND UNCERTAINTIES *continued*

BUSINESS RISKS *continued*

RISK	RESPONSE	DIVISION IMPACTED
Network operators are key facilitators to governments' net zero ambitions and the failure of Energy Networks to respond to customers' changing requirements through the low-carbon transition, for example EVs, distributed generation and storage, could result in a failure to meet these targets.	Mitigating actions include owning a clear Distribution System Operator ("DSO") vision and influencing developments at industry forums, undertaking scenario modelling of the impact of low-carbon technologies, considering technical and commercial innovation projects and engaging with key stakeholders.	Energy Networks
Allocation risk in competitive CfD auction for onshore wind and solar, and offshore wind due to auction parameters (including capacity caps) set by the UK Government and bid strategy of competitors.	Following inclusion of onshore wind in the next round of the CfD auction, we have continued engagement with the UK Government regarding access to and parameters of the CfD framework. Working to optimise Renewables' portfolio of assets and approach to development (on and offshore) to ensure high performing and competitive assets will be able to participate in future auctions. EA3 was not awarded a CfD in the Allocation Round 3 auction, however, the project will now be developed as a hub together with EA1N and EA2, increasing synergies and economies of scale. These additional efficiencies will increase the competitiveness of all three projects and likelihood of success in the next or future CfD auctions.	Renewables
Reduced Energy Retail and Wholesale customer demand driven in 2020 by the impact of COVID-19 could continue into 2021 and beyond. This would reduce revenue and would require a realignment of hedged positions and, given the lower price environment, could impact margins.	Analysis undertaken to assess the impact of changes in demand profile and the impacts on hedged positions. Details of the 2020 impact are detailed in the 'Energy Retail and Wholesale' section of the Strategic Report.	Energy Retail and Wholesale
Impact of competition on Energy Retail's market share and profitability.	Constantly managing our operating cost base to ensure that our profitability is protected and focusing on growth through organic and other acquisition opportunities.	Energy Retail and Wholesale

Group Strategic Report for the year ended 31 December 2020

GROUP PRINCIPAL RISKS AND UNCERTAINTIES *continued*

OPERATIONAL RISKS		
RISK	RESPONSE	DIVISION IMPACTED
<p>The impact of COVID-19 increases the risk of the group not being able to meet its operational obligations to maintain the continuity of electricity supply, and obligations as a renewable generator and energy supplier.</p> <p>Key areas of risk include:</p> <ul style="list-style-type: none"> • supply chain disruption; and • mobility of labour, <p>which are impacted also by the Brexit deal.</p>	<p>Business continuity plans enacted with 'Gold Command'; making strategic decisions and determining priorities across the group. This is underpinned by 'Silver Groups' specific to each business division at an operational level to ensure continuity of decisions and communications. This ensures consistency in prioritising key issues, and timely and efficient escalation of matters to the appropriate level of management focusing on those issues which might impact the continuity of supply and the other obligations of the group.</p> <p>Supply chain monitoring groups were established across all business divisions to identify early shortages and gaps in the supply chain in terms of products, equipment and labour.</p> <p>This has been supplemented by emergency procurement procedures to expedite orders for replacements and utilising the framework agreements the group already has in place. An assessment of key equipment and components was undertaken and additional orders placed in order to increase stock levels prior to 31 December 2020, including any additional storage requirements.</p> <p>Notification has been provided to sub-contractors highlighting their importance in the provision of essential services such that appropriate levels of labour are maintained within the UK and devolved Governments' social distancing guidelines.</p> <p>EU nationals who arrived in the UK before 31 December 2020 can continue living in the UK by registering under EU Settlement Scheme by 30 June 2021. During 2020, we have been engaging with employees to ensure that they are informed of any actions they may need to take. Preparation for the new points-based global immigration system has commenced, including workshops with external immigration advisors and training of the ScottishPower Human Resources team.</p> <p>Further details are provided in the 'Employees' section of the Strategic Report.</p>	Group
<p>A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.</p>	<p>ScottishPower's Health and Safety function provides specialist services and support for the businesses in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes, is established throughout ScottishPower, which aims to ensure not only continuing legal compliance but also to drive towards best practice in all levels of health and safety operations. Further details are provided in the 'Employees' section of the Strategic Report.</p>	Group

Group Strategic Report for the year ended 31 December 2020

GROUP PRINCIPAL RISKS AND UNCERTAINTIES *continued*

OPERATIONAL RISKS <i>continued</i>		
RISK	RESPONSE	DIVISION IMPACTED
Breach in cyber security and unwanted infiltration of ScottishPower's IT infrastructure by internal and external parties impacting key infrastructure, networks or core systems.	Implementation of a cyber-risk policy which provides the framework for mitigation. Proactive approach to identifying where ScottishPower is vulnerable and addressing these points through technical solutions. Educating company employees and contractors as to how behaviour can reduce this risk. Embedding cyber security in all projects where appropriate.	Group
Within Energy Networks, reduced security of supply due to potential asset failures alongside reduced generation capacity. Reduced security of supply has the potential to disrupt many of our customers, in both our own licence areas and beyond.	Risk-based asset investment programme in place, business continuity and emergency planning well established including Black Start. Strategic spares policy in place.	Energy Networks
Inability to recruit or retain an appropriately skilled workforce within Energy Networks to deliver agreed transmission and distribution outputs.	A Strategic Workforce Planning and Implementation plan has been put in place that incorporates: a) retirement profiles with demographics; b) a one-year ahead strategic recruitment plan; and c) a ten-year strategic recruitment plan. Identification of business critical roles and succession planning.	Energy Networks
Failure to protect Energy Networks' customer service performance. This has the potential to severely damage Energy Networks' reputation as one of the UK's top Distribution Network Operators ("DNOS") for customer satisfaction and adversely impact our performance against our regulated customer satisfaction financial incentive.	Well-established customer service processes to respond to power loss, including storm readiness. Priority Service Register to protect vulnerable customers in the event of power loss. Implementation of a single emergency number to route customer queries.	Energy Networks
The potential for Renewables' plant performance issues reducing plant availability. This is also impacted by restrictions on the flow of goods and equipment and mobility of labour due to COVID-19 and Brexit.	Proactive technical assessments and monitoring of key risk areas associated with wind turbine performance, diversification of the service and maintenance model where reliance is placed on framework agreement for key activities, optimising service and maintenance activities to ensure each activity is appropriate based on operational knowledge. In addition, co-ordination with the procurement team in negotiating terms and conditions with turbine suppliers and independent operations and maintenance service providers to ensure plant performance is optimised.	Renewables
Failure of Renewables to deliver large and complex projects on time and within budget. This is also impacted by restrictions on the flow of goods and equipment and mobility of labour due to COVID-19 and Brexit.	ScottishPower and Iberdrola have a strong track record in delivering large scale engineering projects and have gained significant experience from developing numerous onshore wind farms, and the West of Duddon Sands ("WODS"), Wiking and EA1 offshore wind farms. Use of established and experienced suppliers and advisors along with robust financial management including appropriate foreign exchange hedging.	Renewables
Reputational damage caused by poor Energy Retail customer service performance.	Continued investment in the simplification and enhancement of the processes our customers use together with continual training of our customer facing staff. Ongoing actions to remove the need for our customers to contact ScottishPower via telephone, with greater flexibility for our customers to contact us through a variety of channels.	Energy Retail and Wholesale

Group Strategic Report for the year ended 31 December 2020

GROUP PRINCIPAL RISKS AND UNCERTAINTIES *continued*

REGULATORY AND POLITICAL RISKS		
RISK	RESPONSE	DIVISION IMPACTED
Material deterioration in the relatively stable and predictable UK regulatory and political environment, including any sudden changes of policy, or interventions outside established regulatory frameworks.	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained and public backing is secured for the necessary investment in the UK energy system. Providing stakeholders with evidence of the risks of ad hoc intervention in markets.	Group
Failure to deliver the Energy Network distribution and transmission outputs agreed with Ofgem in their respective price controls under the RII framework.	Mitigating actions include formulating detailed investment, resource, outage and contingency plans supported by an extensive procurement strategy. Good communication and co-ordination of activities across the business is integral to success, complemented by a comprehensive monitoring regime that provides early warning of potential issues.	Energy Networks
Price cap values are not set at an accurate rate to reflect the real cost of servicing the customer preventing a reasonable Energy Retail profit margin.	Continued focus on encouraging competition and promoting the use of fixed-price products; ongoing support to the government and regulatory bodies to demonstrate the need for accurate price cap calculations. Lower proportion of customers on default tariffs reduces the impact in comparison to other major suppliers.	Energy Retail and Wholesale
The potential for non-compliance with the UK Government's mandate to complete the rollout of smart metering to Energy Retail customers in accordance with prescribed timescales.	Dedicated project team focused on ensuring adequate business processes and systems are developed. The team is responsible for ensuring the rollout capability is secured to enable deployment of meters. Energy Retail is an active participant in industry bodies responsible for developing smart metering.	Energy Retail and Wholesale

Group Strategic Report for the year ended 31 December 2020

HOW SCOTTISH POWER UK PLC PERFORMED

Financial highlights

- Revenue from continuing operations up 1% year on year
- Operating profit from continuing operations increased 20% year on year
- Capital investment in the UK energy market was £1.3 billion in 2020

2020 Group operating performance

The table below provides key financial information relating to our performance during the year. Further detail is provided in the individual divisional sections of the Strategic Report.

Financial key performance indicators ("KPIs")	Revenue*		Operating profit*		Capital investment	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Continuing operations – Scottish Power UK plc	5,164.0	5,124.5	991.1	828.7	1,308.5	1,660.9

*The Group's revenue and operating profit from continuing operations as presented on page 60.

In the financial year, revenue has increased by £40 million. Operating profit for the financial year was £991 million, an increase of £162 million. This increase is reflective of a full year of the EA1 wind farm production and reduced operating losses in the Energy Retail and Wholesale division.

The COVID-19 pandemic has had an estimated £100 million adverse impact on the 2020 operating profit as illustrated in the table below:

	Energy Networks £m	Renewables £m	Energy Retail and Wholesale £m	Total £m
COVID-19 impact				
Gross margin	(21)	(15)	(29)	(65)
Net operating expenses, Other taxes and Depreciation	1	–	22	23
Net expected credit losses ("ECLs") on trade and other receivables	–	–	(58)	(58)
Operating loss	(20)	(15)	(65)	(100)

Gross margin is adversely impacted by a reduction in customer volume in both the Energy Networks and Energy Retail and Wholesale divisions. The Energy Networks decrease is expected to be recovered in 2023/24 under the RII framework. The Renewables division's gross margin was also adversely impacted. This was due to a decrease in the Renewables Obligation Certificates ("ROCs") recycle prices following a fall in UK-wide demand and increased procurement costs from balancing the UK system.

Net operating expenses, Other taxes and Depreciation were lower by £23 million as lockdown restrictions impacted activities such as meter readings, debt collection, sales and smart meter installations.

The estimated COVID-19 ECL impact reflects business insolvencies as well as the additional cash collection risks associated with forward-looking macro-economic indicators, such as increased unemployment, the withdrawal of government support schemes and the risk of further lockdowns.

The Group's capital investment decreased by £352 million to £1.3 billion in 2020, primarily reflecting reduced Renewables business investment in the EA1 wind farm. COVID-19 led to an estimated £93 million reduction in planned 2020 capex as restrictions reduced smart meter installations and customer contract costs as well as re-planning and re-prioritisation of some capital programmes.

Liquidity and cash management

Cash and net debt

ScottishPower operates and manages a centralised cash management model within the UK, with liquidity being centralised at the Scottish Power Limited level. Our liquidity position and short-term financing activities are integrated and aligned with Iberdrola's.

The Iberdrola Group objective is to retain sufficient liquid resources and facilities to cover anticipated cash flow requirements for a period in excess of twelve months; currently liquidity in the Iberdrola Group is in excess of €14 billion, which can be utilised, if required, to fund our activities.

Net cash flows from operating activities increased by £751.1 million to £1,603.6 million for the year, as detailed on page 62. As detailed in the table below, cash increased by £66.2 million with overall adjusted net debt increasing by £1,483.5 million to £5,371.6 million.

	Notes	2020 £m	2019 £m
Analysis of net debt			
Cash and short-term deposits	(a)	140.1	73.9
Group loans receivable	(b)	831.5	1,553.9
Group loans payable	(c)	(3,662.0)	(2,886.2)
External loans payable	(d)	(2,183.5)	(2,178.7)
Lease liabilities	(e)	(497.7)	(451.0)
Adjusted net debt		(5,371.6)	(3,888.1)

(a) As detailed on the consolidated balance sheet on page 58.

(b) As detailed in Note 11 on page 96.

(c) Loans with Iberdrola and other related Iberdrola Group companies as detailed in Note 19 on page 106.

(d) External loans payable comprises external debt as detailed in Note 19 on page 106.

(e) As detailed in Note 8 on page 83.

Group Strategic Report for the year ended 31 December 2020

Capital and debt structure

The Company is funded by a combination of debt and equity; all equity is held by Scottish Power Limited. Our financing structure is determined by our position in the wider Iberdrola Group. As stated above, we can obtain funding via the liquidity resources maintained at the Iberdrola Group. The Company holds Investment grade ratings with Moody's Investor Services (Baa1), Standard & Poor's Rating Services (BBB+) and Fitch Ratings (BBB+). Details of our financial risk management policy are set out in Note 10(e).

Dividend policy

The Company's approved dividend policy is to pay a sustainable dividend to ordinary shareholders taking into consideration the impacts on current and forecast credit rating metrics and forecast profitability over a medium-term horizon. During 2020, a total dividend of £1,595.9 million was declared and paid.

Investment and funding

The overall funding objective is to maintain a forecast debt position for the various Group entities at least in line with their current credit ratings. As indicated above, the ongoing support of the ultimate parent company for future funding and liquidity provides a central underpinning for the directors in their assessments of ongoing funding for the Company and Group.

Taxes and other government obligations

To help give an understanding of our contribution to UK taxes and other UK Government obligations, the table below highlights the key taxes and other obligations in the financial year, on an accruals and cash basis.

Analysis of taxes and other government obligations	Notes	Income statement expense		Cash tax paid in the year	
		2020 £m	2019 £m	2020 £m	2019 £m
Social security costs	(a)	30.8	29.5	30.5	30.4
Taxes other than income taxes	(b)	220.8	201.8	222.4	195.3
UK Corporation Tax	(c), (d)	106.2	83.6	129.5	95.6
		357.8	314.9	382.4	321.3

(a) Social security costs as presented in Note 23 on page 109.

(b) Taxes other than income taxes as presented in Note 24 on page 109.

(c) UK Corporation Tax as presented in Note 28 on page 110.

(d) For accounting periods beginning on or after 1 April 2019, HM Revenue and Customs ("HMRC") amended the rules relating to quarterly Corporation Tax instalment payments and introduced new payment dates for companies categorised as being 'very large'. The amended rules affect companies with annual taxable profits exceeding £20 million and has resulted in companies being required to pay their Corporation Tax instalments earlier than what was required compared to the previous regime. The new instalment dates for each chargeable accounting period under assessment are now the 14th day of each calendar quarter. The interaction between the old and new Corporation Tax payment regimes has resulted in six Corporation Tax instalment payments being settled with the UK Collector of Taxes relating to the year ended 31 December 2020 (2019 four instalment payments). The six payments relate to the obligation to settle the third and fourth instalment payments with respect to the year ended 31 December 2019 and all four instalment payments that are required under the new regime for the year ended 31 December 2020. Going forward there will be a requirement to make four Corporation Tax instalment payments in each year, all relating to that year's current tax charge.

SCOTTISHPOWER DIVISIONS

ENERGY NETWORKS

Introduction to Energy Networks division

Our Energy Networks division is responsible for three regulated electricity network businesses in the UK. These businesses are 'asset-owner companies', holding the regulated assets and the electricity distribution and transmission licences of the Group, and are regulated monopolies. They own and operate the network of cables and power lines transporting electricity to around 3.5 million connected customers in the South of Scotland, Cheshire, Merseyside, North Shropshire and North Wales.

One of the regulated businesses, SP Transmission plc ("SPT"), is a transmission network owner. The electricity transmission network consists of the high voltage electricity wires that transport electricity from power stations to distribution system entry points or, in certain cases, direct to end users' premises via a national network of high voltage assets.

The other two regulated businesses are Distribution Network Operators ("DNOs"); SP Distribution plc ("SPD") and SP Manweb plc ("SPM"). The electricity distribution networks are regional grids that transport electricity at a lower voltage from the national transmission grid and embedded generators and connect to industrial, commercial and domestic users.

All three regulated businesses are natural monopolies and are governed by Ofgem via regulatory price controls. The primary objective of the regulation of the electricity networks is the protection of consumers' interests while ensuring that demand can be met and companies are able to finance their activities. Price controls are the method by which the amount of allowed revenue is set for network companies over the period of the price control. Price control processes are designed to cover each company's efficient costs and allow them to earn a reasonable return, provided they act in an efficient manner, deliver value for customers, and meet Ofgem targets. Price controls are delivered on a regulatory basis covering April to March of any given year. Therefore, a majority of Energy Networks' performance and key deliverables are measured and reported on this basis.

Operating review

COVID-19

Electricity networks are essential to the transportation of energy from generators to homes and businesses and are critical national infrastructure. Without them, reliable essential services could cease to operate and life would become harder for everyone, particularly the most vulnerable. Those who work for network operators are critical to maintaining these supplies. Throughout the pandemic we have ensured:

- a safe working environment is in place for Energy Networks' employees that complies with the latest government guidance; and
- a prioritisation of 'essential works' i.e. those that are necessary for the short to medium term security of supply or for the protection and safety of consumers and workers.

We will continue to provide non-essential services to the extent that we can, balancing the impact on our workforce with the impact on our network and our customers.

Energy Networks has regularly engaged with BEIS' Downstream Gas and Electricity Resilience team and Ofgem since March 2020. During the initial height of the pandemic, sessions were held at least twice weekly and provided a central source of industry information and sharing of best practice. Regular reports provided by BEIS allowed cross-sector comparisons and a UK perspective as the pandemic unfolded.

The pandemic has resulted in a reprioritisation of our operational activities and resources, and the Governments' restrictions to civic life will continue to have impacts on business operations. Throughout the COVID-19 pandemic, Energy Networks has done everything possible to ensure our networks operate as close to normal as possible, and all of our regulated businesses are undertaking works necessary to meet their licence conditions. Where activities have stopped or been delayed, there is a clear link to restrictions placed on them by third parties which has been captured in Ofgem reporting.

Group Strategic Report for the year ended 31 December 2020

SCOTTISHPOWER DIVISIONS *continued*

Transmission business

During 2020, we moved into the final year of the eight-year RIIO-T1 price control, where our focus has been on delivering the commitments set out in our RIIO-T1 business plan. Our asset replacement programme continues to be on course for a successful delivery. To date, for the eight-year price control period, we have delivered 96.5% of our commitments related to maintaining and reinforcing the current network. We are forecasting to achieve 100% delivery by 31 March 2021, which is the end of the regulatory period. Our comprehensive planning approach has enabled us to achieve more than what we originally forecast from our business plan without increasing network risk.

The Western Link High Voltage Direct Current ("HVDC") ("Western Link") project is a joint venture with National Grid Electricity Transmission ("NGET") to increase the interconnection capacity between Scotland and England. In January 2020, the Western HVDC Link suffered a cable fault in the southern onshore location, which was the cause of an outage for the link. SPT and NGET worked closely with the cable manufacturer and the repair works were completed and the link returned to service on 7 February 2020. Ofgem have opened an investigation into both SPT and NGET in relation to compliance with their respective obligations relating to the Western Link and we are constructively working with Ofgem on this investigation.

During 2020, Crossdykes and Tralorg wind farms were connected to our network. Our forecast for the wind farm connections for RIIO-T1 period has increased to 1,950 MW, following commencement of construction works for the Nearth Na Goithe offshore wind farm (448 MW). We continue to work closely with developers to seek early connections where it is cost efficient to do so.

Innovation has continued to be a key focus in 2020 as part of the RIIO-T1 regime to find new and better solutions for our customers. For example, Project Phoenix is being trialled over the next twelve months and will help address system issues to ensure customers receive an uninterrupted and stable supply of electricity as we move to a sustainable and net zero energy system. The project will provide an innovative solution to help ensure a robust and resilient energy system that can adapt to meet the needs of customers, both now, and well into the future. There are plans to roll out the technology across our operational area once complete.

In December 2019, following a lengthy period of scrutiny and oversight, Energy Networks submitted its final transmission business plan (worth £1.4 billion) to Ofgem for the RIIO-T2 price control, which will run from April 2021 to March 2026. In December 2020, Ofgem published its Final Determination for the RIIO-T2 electricity transmission price control proposing an allowed total expenditure of £1.3 billion. However, there has been criticism from network operators in the public domain in relation to Ofgem's proposed cost of equity proposals for transmission companies (allowed return on equity of 4.02%). On 3 March 2021, Energy Networks made an application to the CMA for permission to appeal against Ofgem's RIIO-T2 Final Determination on a number of discrete technical issues. This application was accepted by the CMA on 31 March 2021. The CMA process will conclude by the end of October 2021.

Distribution business

We continue to serve our distribution customers in the Central Belt and South of Scotland, Cheshire, Merseyside, North Shropshire and North Wales with 99.99% reliability levels at a cost which equates to 24 pence per day on a typical bill. This is at a time when we are facing an unprecedented level of change to the way in which the UK's energy networks operate. With energy decarbonisation, digitisation and decentralisation, we are moving away from the traditional model where DNOs deliver electricity in one direction from centralised power plants to homes and communities, to one which requires DSOs to play an active coordinating role between all market participants.

During 2020, we moved into the sixth year of the eight-year RIIO-ED1 price control period. We are on track to deliver the commitments we made within our original business plan for the remainder of the period. Our reporting reveals that, in 2020, we are performing on, or ahead of, targets in our approach to safety, reliability and availability, and customer service. We have also established a team who will focus on the next distribution price control, RIIO-ED2. This team will lead our engagement with a number of stakeholders across the business over the next year to develop a business plan. This business plan will detail our investment decisions for the years 2023 to 2028, and the first draft is due to be submitted to Ofgem in summer 2021. The final RIIO-ED2 business plan will be submitted to Ofgem in December 2021.

Innovation continues to be a key focus for our distribution business as we build towards delivering a dynamic and accessible network for our customers. We are continuing to see the benefits of our innovation projects which continued throughout 2020 and are helping us to realise our goal of being a flexible DSO on the road to net zero. Our Low Voltage Engine project revolves around trialling smart transformers on our network, allowing us the flexibility to connect low-carbon technologies while maximising the use of our existing assets. Our CHARGE project aims to develop a strategy to facilitate and accelerate the electrification of transport, specifically, the connection of charging infrastructure. Our FUSION project aims to roll out network access to all parties and to develop the flexibility of our existing network. This will empower customers to commoditise their flexibility, thanks to new routes to market for existing and emerging flexibility providers in the distribution network. Our latest innovation project in 2020 is called PACE. This project involves the rollout of public EV charging infrastructure which is essential to meeting the Scottish and UK Governments' net zero and carbon reduction targets as this will support customers and communities' adoption of EVs. In 2020, we published our site selection report associated with PACE, demonstrating the value network operators can bring when rolling out EV charging infrastructure.

2020 has been an exciting year for our industry as we move towards reduced government carbon targets and net zero. As a result of governments' ambitions to achieve low-carbon targets, a significant amount of investment is required in our distribution networks to accommodate the increased electricity demands on our electricity system. In December 2020, the Committee on Climate Change announced their sixth Carbon Budget in which they recommended that polluting emissions in the UK must fall by almost 80% by 2035. The UK Government has also published its '10 Point Plan for a Green Industrial Revolution', which has now been followed by the UK Government's Energy White Paper and the Scottish Government's Climate Change Plan Update. These climate change ambitions and targets show the need to deliver substantial decarbonisation in several sectors, each of which will have a significant impact on electricity distribution networks over the next ten years. We have worked closely with industry to develop a set of proposals which aim to provide solutions for introducing new investment to facilitate the connection of new low-carbon technologies, such as EVs.

Group Strategic Report for the year ended 31 December 2020

SCOTTISHPOWER DIVISIONS *continued*

Our values in action

Net zero continues to attract huge public attention. We are collaborating with the Scottish, Welsh and UK Governments to deliver their sustainability plans and meet the challenges of the low-carbon revolution, with a focus on accommodating increasing electrical flows associated with growing low-carbon energy sources and meeting the needs of both our current and future customers. We place great value in all parts of society benefiting from the low-carbon revolution, access to EVs and the health benefits of low or zero emissions. There has been much debate around the role of anticipatory investment for low-carbon solutions. The future is uncertain, and whilst we have encountered reluctance from Ofgem to invest ahead of need, we contend that without investment in our infrastructure now, there will be significant lost opportunities that could slow down the pace required to meet the net zero deadline.

In 2020, we have further facilitated competition by developing design tools to quickly identify where the adoption of flexibility can save consumers money on upgrading our network. In September 2020, we launched our largest ever tender for flexibility services which aims to procure a total of 960 MW of active power and 38 mega volt amps of reactive power ("MVAR") for the period 2023 to 2028. From the first tender round, which concluded in February 2021, we accepted bids for a total of 139.6 MW. The next tender round process commenced in March 2021.

In March 2018, we announced the launch of a Green Economy Fund ("GEF"), which is referred to in more detail in the Community section at page 33. Working alongside the Scottish Government, Ofgem and independent economic advisors, funding has been made available for initiatives focused on delivering sustainable low-carbon transport and heating. The GEF aims to further Scotland's ambitious green energy plans and at the same time create economic growth opportunities for local communities. We awarded £20 million to 35 projects through three rounds of funding, ensuring that all of the available funds are committed. Projects were selected that not only meet the overall aims of the scheme, but can also be delivered within the two years when this funding is available. In our next transmission price control, Ofgem has permitted a similar £5 million fund for 2021-2026, called the 'Net Zero Fund'.

Our commitment as a business area to our values has been vital, earning the following awards in 2020:

- Our GEF won the Community Engagement Award at the prestigious Planet Mark Awards.
- Energy Networks was benchmarked first in the UK by Institute of Customer Service, scoring 89.9 in this survey, higher than both the utilities sector and overall sectors.

2020 performance

Financial key performance indicators ("KPIs")	Revenue		Operating profit		Capital investment	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Continuing operations – Energy Networks	1,254.4	1,246.8	582.9	572.8	551.0	586.6

* Energy Networks' KPIs as presented in Note 5 on pages 75 to 77.

Energy Networks' revenue is £8 million higher than the prior year. Allowable transmission revenues have increased under RIIO-T1 by £1 million. Distribution revenues saw reduced customer demand due to COVID-19, estimated as a 4% volume/£21 million revenue reduction versus previous year. This decrease, which is expected to be recoverable in 2023/24, was more than offset by increased base revenues allowed under RIIO-ED1.

Operating profit is £10 million higher than 2019 mainly reflecting £8 million higher revenues. Lower operating costs were offset by increased depreciation. COVID-19 has had no material operating profit impact other than reduced customer demand and a £1 million reduction in Scottish property tax charges.

Energy Networks' capital investment decreased by £36 million to £551 million in 2020, primarily due to higher 2019 Western Link HVDC capital expenditure. In response to COVID-19, 2020 capex programmes were re-prioritised to network resilience, fault resolution and continuity of supply for essential services. This led to £16 million less spend than anticipated during the year.

Group Strategic Report for the year ended 31 December 2020

SCOTTISHPOWER DIVISIONS *continued*

The three regulated businesses within Energy Networks are required to prepare regulatory financial performance reporting for the years ending 31 March. Reporting of key performance indicators is aligned to the regulatory year end. Consequently, the latest available data for the last regulatory year for Energy Networks has been disclosed in the table below, with the exception of distributed energy that is reported for the years ending 31 December.

Non-financial key performance indicators ("KPIs")	Notes	Actual 2020	Target 2020	Actual 2019	Target 2019
Distributed energy (GWh)*					
- SPD		15,929	N/A	17,003	N/A
- SPM		13,696	N/A	14,448	N/A
Customer interruptions ("CI")	(a)				
- SPD		44.5	50.6	49.3	51.1
- SPM		32.2	36.4	36.1	37.0
Customer minutes lost ("CML")	(b)				
- SPD		33.7	42.1	35.0	43.4
- SPM		33.8	38.2	35.6	40.3
Customer Performance:	(c)				
Broader customer service measure – interruptions					
- SPD		9.13	8.20	8.89	8.20
- SPM		9.06	8.20	9.00	8.20
Broader customer service measure – connections					
- SPD		9.12	8.20	8.82	8.20
- SPM		9.10	8.20	8.88	8.20
Broader customer service measure – general enquiries					
- SPD		9.32	8.20	9.30	8.20
- SPM		9.44	8.20	9.33	8.20
Energy Ombudsman (customer complaints)	(d)				
- SPD		2	–	3	–
- SPM		5	–	3	–
Transmission operational performance (incentivised incidents)	(e)				
- SPT		1	–	9	–

* Gigawatt hours ("GWh")

- (a) Customer interruptions are reported as the number of customers, per 100 customers, that are affected during the year by power cuts that last three minutes or more.
- (b) Customer minutes lost is reported as the average number of minutes that a customer is without power during a year due to power cuts that last three minutes or more.
- (c) Broader customer service measures are assessed using the following three methods: a customer satisfaction survey, complaints metric and stakeholder engagement.
- (d) The Energy Ombudsman Services, an independent body, monitors and adjudicates complaint cases.
- (e) Transmission operational performance is reported as the number of 'energy not supplied' and associated incidents. These incentivised incidents are incidents where the loss of supply is longer than three minutes.

Underlying CI and CML, quoted in the table above, are key statistics, which measure the reliability and security of supply typically provided to customers. The Company is focused on minimising CI and CML to outperform the System Performance Interruption Incentive Scheme targets agreed with Ofgem.

The underlying CI and CML for the year to 31 March 2020 were 44.5 and 33.7 for SPD and 32.2 and 33.8 for SPM respectively. These values have been validated and confirmed by Ofgem, and published in November 2020. During 2019/20 the supply of energy to customers was disrupted by one major wind and gale storm event in February 2020 which met Ofgem's 'exceptional event' exclusion criterion (three exceptional storm events in 2018/19).

The long-term safety and reliability of Energy Networks' electricity distribution networks and their impact on customers are key business priorities. Whilst working to improve reliability and restoration, the networks are designed and operated in a way that ensures the safety of the public and employees, with a minimal number and duration of supply interruptions.

Customer service performance: Information regarding all contact with customers relating to interruption of power supplies, requests for and delivery of new connections to the network and any other general enquiries, are passed to an independent research agency on a weekly basis (for all DNOs). The independent agency randomly samples customers each week to ask a series of customer satisfaction questions. Sampled customers give a score out of ten and the average annual score for each of the three categories drives each year's performance in this incentive. A reward is received if the average score is above 8.2 out of 10 and anything below 8.2 attracts a financial penalty. The customer satisfaction performance for each of the three elements in 2019/20 is shown in the table above.

Complaints performance: This is a 'penalty-only' incentive. Companies are measured on their complaints performance over a number of key metrics: volume of complaints resolved in one day; volume of complaints resolved in 31 days; volume of repeat complaints; and the number of complaints referred to the Energy Ombudsman which have been ruled against the DNOs. The Energy Ombudsman, an independent body, monitors and adjudicates complaint cases. The Energy Ombudsman performance is shown in the table above for 2019/20 performance. The Ofgem complaints metric results of 1.46 for SPD and 1.40 for SPM, translates to a position of fourth and third respectively, out of the fourteen distribution areas.

Stakeholder engagement and customer vulnerability: This is a 'reward-only' incentive and is an annual assessment of the DNO's stakeholder engagement activities. An annual submission is provided to Ofgem in April in respect of the previous regulatory year, and is assessed by Ofgem and an independent panel (including social assessors) in July and scored out of ten in order to determine a financial reward. The submissions set out the DNO's strategy, engagement and outputs for stakeholder engagement and customer vulnerability. The results for 2019/20, published in November 2020, show that we scored 5.94 for our transmission business and 6.85 for our distribution business, equivalent to an award of £3.0 million. This is an improvement on the previous year's scores for which we were awarded £2.4 million.

Group Strategic Report for the year ended 31 December 2020

SCOTTISHPOWER DIVISIONS *continued*

Outlook for 2021 and beyond

In line with the Group's strategic goals and its regulatory obligations, we are maintaining significant investment in our energy networks. Over the last ten years, we have invested around £6.0 billion in the transmission and distribution networks, and during the next ten years, we plan to invest a further £8.5 billion to modernise and improve service to our customers. Our ten-year investment plans are reviewed annually in detail to ensure they are aligned with, and continue to support, UK Government energy policy.

In 2020, the UK Government announced the ban on selling new diesel, petrol and hybrid cars will be brought forward to 2030 under the Prime Minister's '10 Point Plan for a Green Industrial Revolution', announced in November 2020. The Scottish Government target remains at 2032 as announced in 2017. To enable the wide-scale rollout of EVs and facilitate governments' net zero targets, it is key that the UK's electricity networks can facilitate suitable charging infrastructure for customers at a reasonable cost. We continue to engage with a range of stakeholders to understand the capabilities of EV products and thereby understand the potential impact on customers' electrical needs.

We have a significant part to play in meeting the UK Government's net zero carbon reduction targets. Our ultimate aim is to empower our cities and communities to achieve the economic and health ambitions which can be realised from a low-carbon economy. As noted previously, in November 2021 Glasgow will play host to COP 26. Energy Networks are already engaged with government, Glasgow City Council and other relevant stakeholders with regard to ensuring the required electricity capacity is delivered for all of the conference venues and arrangements are in place to ensure the security of that supply is maintained throughout the event.

Energy Networks also recognise the opportunity COP 26 brings to raise public awareness of what needs to be done to deliver against the Global Climate Challenge and the part that we play to deliver the net zero target set for the UK and Scotland. On that basis, we are engaged with stakeholders in Glasgow and across Scotland delivering a number of projects particularly focused on decarbonisation of generation, transport and heat. We intend to use COP 26 to publicise these initiatives, raising awareness and gaining support for continuing to deliver similar projects at greater scale.

We have collaborated with CALA Homes to monitor new housing developments that are pioneering the use of a range of heat pump and renewable technologies. By understanding how customers use technologies, we will be better informed to provide future-ready networks to engage on how we meet the UK Government's net zero targets. We continue to be a key facilitator to increasing productivity by introducing new technologies to support economic growth and increase the working age population as a result of job creation.

When smart meters are installed, our smart meter systems team focus on the data which will be useful to a DNO to create benefits for customers. From this we will have more information about the end points of our network to better inform the design and management of the network as we respond to the uptake of low-carbon technologies. This will help us to identify power outages and consequently improve our service to customers.

As stated previously, in 2019 we finalised our business plan submission for the RIIO-T2 period (which takes effect from April 2021), where the role of the network will continue to evolve as the demands on the network continue to change. The generation landscape will undergo further radical change as existing nuclear and carbon intensive generation closes and more renewable generation connects to the system. In the same timescale, demand patterns are expected to change as a result of the increase in electrification of transport and heat. This is expected to begin reversing the trend of reducing demand that we have seen over the last ten years. As a result of this transition, the role of the transmission network will become even more vital to the economy; transferring power across the country to facilitate greater interconnection and maintaining a coordinated national system. It therefore remains important to invest in the network at the correct time to ensure that there is no risk of stranded assets or barriers created for customers.

Ofgem's December 2020 Final Determination for the RIIO-T2 electricity transmission price control proposed an allowed total expenditure of £1.3 billion to be spent over a five-year period (2021-2026). Subject to Ofgem's assessment, this expenditure will be able to flex upwards to accommodate for the investment associated with further generation connecting to our network which could not have been foreseen at the time of our business plan submission. Ofgem has proposed a weighted average cost of capital ("WACC") of 2.81% as part of this transmission price control.

Group Strategic Report for the year ended 31 December 2020

SCOTTISHPOWER DIVISIONS *continued*

RENEWABLES

Introduction to Renewables

Renewables is responsible for the origination, development, construction and operation of renewable generation plants principally onshore and offshore wind, with a growing presence in emerging renewable technologies and innovations such as battery storage and solar. We will continue to consider further opportunities to invest more widely in renewable generation and storage.

Operating review

COVID-19

In 2020, COVID-19 showed that the renewables industry is resilient and strong in uncertain times. Our agility as a business and the dedication of everyone in Renewables has not only kept wind farms operating as normal, but ensured continued progress on our pipeline of new projects. Throughout the COVID-19 restrictions, given our contingency arrangements in place, we have been able to continue to operate safely.

Our offshore business adapted to the demands of COVID-19, successfully installing and commissioning the final turbines at EA1. This was facilitated by creating new processes around such considerations as social distancing, travel restrictions, and reduced vessel capacities, and was managed within project contingencies.

Our control centres and operational wind farms have continued to operate fully and we were able to ensure that our projects in development continued to progress by reviewing our stakeholder and community engagement and moving this online. Construction work was able to recommence safely and in line with government working guidance. Additionally, communities have been able to utilise community benefit funds, which we provide from our operational wind farms within their community, to support their response to COVID-19.

Onshore renewables

Throughout 2020, our onshore operational wind farms continued to deliver production and availability in line with expectations. The portfolio is operated centrally, primarily from the control centre at Whitelee wind farm, with local field-based resources deployed at each wind farm to carry out operations and maintenance, and to manage the activities of wind turbine and infrastructure maintenance companies. These functions are supported in their delivery by engineering support, commercial services and maintenance planning and logistics teams. Contingency arrangements have been put in place to ensure the safe and continued operation of the control centres and all operational wind farms whilst COVID-19 restrictions apply.

Onshore Renewables has grown its pipeline of onshore wind, solar and battery projects from approximately 3 GW in 2019 to approximately 5 GW in 2020. We are targeting significant growth in our operating fleet by 2030. Onshore Renewables has achieved unprecedented development of its pipeline with the submission of around 1.1 GW of planning applications in 2020 which resulted in approximately 1.45 GW of planning applications for onshore renewable developments awaiting determination.

During 2020, and with the implementation of business continuity measures to comply with COVID-19 restrictions, construction progressed at our two onshore wind farm developments at Beinn an Tuirc 3 ("BATIII") and Halsary, and the Whitelee and Gorman battery storage systems. The investment in BATIII and Halsary onshore wind farms has been catalysed by corporate offtake agreements with Amazon Energy Eorai Ltd ("Amazon") and Tesco respectively. These sites were also awarded a 15-year Capacity Market contract following auctions in 2020. Both projects are nearing completion with turbine installation complete. Following the acquisition in 2020 of two wind farm developments, we will develop a combined capacity of 165 MW near Douglas in South Lanarkshire, which will include the repowering of Scotland's very first commercial wind farm, Hagshaw Hill. It is expected that this combined project could create around 600 jobs at the peak of construction activity and 280 long-term jobs. We will continue to assess further opportunities to invest more widely in renewable generation, including further solar and battery projects, as well as exploring opportunities for the development of hybrid sites. Construction of the Whitelee battery, 50 MW of lithium-ion battery technology, also progressed during 2020 and a 15-year Capacity Market contract has been awarded. The battery is expected to become operational in 2021. In Ireland, the construction of the Gorman 50 MW battery project is progressing and is expected to be operational by the end of 2021. This project is supported by a six-year contract awarded in Ireland's first DS3 System Services Volume Capped auction. The onshore business has been active in National Grid's Optional Downwards Flexibility Management ("ODFM") service since its introduction in April 2020 to manage reduced demand caused by the impact of the UK and devolved administrations' public health strategy due to COVID-19. We have also received funding approval for our investment in three solar projects (Carland Cross, Coldham and Coal Clough), each located with existing onshore wind farms in England which, subject to planning consent, are expected to become operational in 2021.

Offshore wind

The 389 MW WODS project in the East Irish Sea, a 50/50 joint arrangement with Orsted West of Duddon Sands (UK) Limited ("Orsted"), continues to deliver availability and production in line with expectations. The project is in its second operational term, with Orsted Power (UK) Limited appointed as the operations and maintenance service provider. Activities have been carried out to further enhance performance such as power curve upgrades, applying innovative Power Boost software (which can increase power production of the turbine by raising the output limitation under specific operating conditions) and the application of polymer shells to the leading-edge area of each blade which mitigates against the impact of blade erosion. These upgrade activities were completed in December 2020.

Off the East Anglian coast, the 714 MW EA1 project secured the final phase of CfD revenue on 29 May 2020, through its contract with the Low Carbon Contracts Company. Construction was completed with commissioning of the final turbine on 11 July 2020. The Ofgem-led process for the divestment of the transmission assets has completed the Invitation to Tender ("ITT") stage with Transmission Capital Partners announced as the preferred bidder in December 2020. In respect of the cost assessment, EA1 is now in the Final Transfer Value stage which is expected to be agreed in the first half of 2021.

We continue to develop a pipeline of offshore wind projects of 3.1 GW within the EA Hub area. Consent applications for EA1N and EA2 have been submitted and are undergoing examination. Key engineering, design, and site investigation works are scheduled to support development programmes. Supplier offers have been received for the HVDC converter stations and export cable and foundation supply and foundation installation. A supplier strategic agreement has been signed in relation to wind turbines and procurement activities have commenced with the remaining scopes. Site investigation works commenced in July 2020, representing the first deployment of personnel and contractors onto the EA Hub project.

Group Strategic Report for the year ended 31 December 2020

SCOTTISHPOWER DIVISIONS *continued*

Our values in action

Renewables is at the forefront of the development of our industry through pioneering ideas, forward thinking and outstanding innovation. Our projects continue to create economic, social and environmental benefits to the communities in which they are developed and operated, and contribute to the UK's net zero targets.

Through a combination of internal processes and external dialogue, we continue to focus on sustainability in the advancement of renewable energy. Our onshore business has been proactively unlocking cutting edge flexibility opportunities to develop new services and markets to support the system in achieving greater renewable generation. It is fundamental that wind farms are able to actively participate in balancing and frequency responses and so we are currently rolling out changes to the Power Available signal across the transmission connected sites. The Power Available signal is a live data feed from generation sites to the grid operator, showing maximum potential output and available capacity in real time.

Key offshore projects have continued through development and construction phases, providing skilled local employment opportunities. Renewables is committed to developing a strong, innovative supply chain, and has collaborated on initiatives such as the Power Available Hackathon. This event, organized by the Offshore Renewable Energy Catapult, uses data scientists from other industries to solve some of the challenges facing integration within renewables. We recognise the importance of biological diversity and are actively assessing the effects of renewables development on marine and bird life, while also identifying potential improvements in vessel emission levels and life-management of components.

Despite a year of turbulence and restricted industrial practices, we have adjusted and continued to innovate. In November 2020, in what is believed to be a global first, Renewables, in partnership with Siemens Gamesa Renewables Energy and in collaboration with SP Energy Networks, successfully used energy from our 69 MW Dersaloch onshore wind farm to re-energise part of the power grid. Further collaborations are ongoing as we strive to advance the renewables industry in a responsible manner. As well as engaging with government and regulatory stakeholders, we are working alongside key academic stakeholders from the fields of marine biology and ornithology to increase understanding and identify research needs in these areas. Discussions with suppliers aim to reduce the environmental impact of our procured wind farm components. We are continuing to work with our suppliers on the end of life management of components, particularly with turbine suppliers, to ensure all blades can be re-used or recycled when required.

2020 performance

Financial key performance indicators ("KPIs")	Revenue		Operating profit		Capital investment	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Continuing operations – Renewables	906.0	638.3	448.0	318.9	599.4	859.4

* Renewables' KPIs as presented in Note 5 on pages 75 to 77.

Renewables revenue increased by £268 million to £906 million in 2020 reflecting the inclusion of a full year of the EA1 wind farm production. COVID-19 had no direct impact on production but did have a detrimental impact on the ROC recycle revenue price, estimated to be £11 million.

Operating profit increased by £129 million to £448 million in 2020 as increased revenues were partly offset by higher operating and maintenance costs and depreciation, primarily as a result of the EA1 wind farm being fully commissioned during the year.

Capital investment decreased by £260 million to £599 million in 2020 as EA1 investment reduced. This was partly offset by spend across a number of other growth sites.

Non-financial key performance indicators	Notes	2020	2019
Plant output (GWh)	(a)	6,691	4,640
Installed capacity (MW)	(b)	2,864	2,520
Availability	(c)	97%	97%

(a) Plant output is a measure of the electrical output generated in the year, which in turn drives the revenues of the business. The increase year on year has been driven primarily by the EA1 wind farm being fully commissioned during the course of 2020.

(b) Installed capacity represents the total number of MW installed within the wind farm sites. This includes all turbines erected irrespective of whether they are generating or not.

(c) Availability is a measure of how effective the business is at ensuring wind generating plant is available and ready to generate. As EA1 was in construction during 2019 and 2020, availability of EA1 is excluded in both years to ensure year on year comparability is appropriate.

Group Strategic Report for the year ended 31 December 2020

SCOTTISHPOWER DIVISIONS *continued*

Outlook for 2021 and beyond

ScottishPower is the first energy company in the UK to be producing 100% green electricity from onshore and offshore wind.

We have a successful track record as a developer of onshore and offshore wind, with a current installed capacity of over 2,800 MW of wind capacity. Our portfolio also now includes battery storage development (including construction of a 50 MW battery at Whitelee wind farm), solar developments, and a focus on new technologies, innovation and the hybridisation of sites. As at the end of Q4 2020, the onshore business had 262 MW in construction, a further 214 MW consented and 1.4 GW in planning consisting of 857 MW wind, 105 MW solar and 483 MW battery storage. These advanced stage development projects are part of a 5 GW onshore pipeline which also includes projects at the feasibility stage of development.

We have completed construction of our first UK onshore wind projects to be developed with a corporate power purchase agreement ("PPA"). The BATIII project with Amazon will see 50 MW of green energy delivered. Located on the Kintyre Peninsula in Scotland, the wind farm is powered by 14 Vestas turbines. The Halsary project with Tesco, is one part of the retailer's pledge to use 100 per cent renewable energy by 2030, and has seen us build a wind farm in Halsary, in Caithness, Scotland. The 15 turbine, 30 MW project, is again powered by Vestas turbines, capable of generating enough renewable energy to power the equivalent of over 27,000 homes.

The Climate Change Committee's net zero report in 2019 identified the need to decarbonise, and quadruple the low-carbon generation mix by 2050, which would require increased deployment of both onshore and offshore wind. CfDs are allocated in a competitive auction process, in which projects compete with each other within technology-specific pots. The CfD framework has proven to be an effective tool in reducing costs, and further deployment of onshore and offshore wind will support economic growth and jobs across the UK.

The UK Government has committed to run CfD auctions around every two years, with the next auction, AR4, due to take place in late 2021. The UK Government has confirmed that the next auction will be open to both 'established' technologies (including onshore wind, solar and offshore wind) and 'less-established' technologies (including advanced conversion, remote island wind, and wave and tidal), in recognition that all technologies will play an important role in meeting the UK Government's objective of decarbonising the power sector to meet net zero at the lowest cost.

In October 2020, the UK Government set out new plans to 'Build Back Greener' by making the UK a world leader in clean energy. The announcement contained a number of commitments to ensure the UK will be at the forefront of the green industrial revolution whilst accelerating progress towards net zero, including:

- setting a target to support up to double the capacity of renewable energy in the AR4;
- increasing the UK Government's 2030 target for offshore wind from 30 GW to 40 GW;
- creating a new target for floating offshore wind to deliver 1 GW of energy by 2030; and
- £160 million to upgrade ports and infrastructure across the north of England, Scotland and Wales.

These commitments by the UK Government reinforce our strategy and present an exciting opportunity for the onshore and offshore businesses as we work towards achieving our growth targets.

The planning process has a key role to play in facilitating the deployment of the renewable energy generation that is required to deliver net zero. Following the enactment of the Planning (Scotland) Act in 2019, the Scottish Government is drafting the new National Planning Framework ("NPF4"), expected Autumn 2021, with the final NPF4 expected to be adopted in Autumn 2022. The NPF4 offers the opportunity to put in place national policies to ensure that the planning process acts as a tool for the delivery of the 2030 and 2045 emissions targets. A proportionate and timely consenting process will also be key to the delivery of these targets, and we will continue to engage with the UK and Scottish Governments to advocate for improvements in planning performance to support the delivery of new and repowered renewable energy projects.

As well as the focus on developing the onshore pipeline, we continue to look for ways to improve the performance of our offshore operational wind farms and development pipeline. The technological investments at WODS noted previously will be completed and allow the project to continue delivering strong performance.

We will continue to develop 3.1 GW of offshore projects in the EA Hub in anticipation of the AR4. Progressing the EA Hub as a single delivery concept will produce synergies, facilitate strategic agreements and a continuous installation programme that accelerates development and increases its cost-competitiveness.

The Crown Estate's offshore wind leasing Round 4 completed in early 2021, with over 7 GW of projects being awarded through the process. We note The Crown Estate's ambitions to increase the volume of offshore wind projects in the development process.

Crown Estate Scotland launched its ScotWind offshore wind leasing round in June 2020. Up to 10 GW of potential sites, including those suitable for floating wind technology, are expected to be offered to the market. Bidders will propose potential projects in July 2021, according to current Crown Estate Scotland schedules. We intend to participate in the ScotWind leasing project and we are encouraging the Scottish Government and Crown Estate Scotland to maximise ambition through this and subsequent leasing rounds.

As noted above, COP 26 will be held in Glasgow in November 2021. ScottishPower has been announced as a Principal Partner and Renewables, working with the Glasgow Science Centre, and building on our pre-existing relationship, will together deliver an impactful series of formal education and public engagement programmes. These include discussion-based activities with online learning and digital content and a four-week renewables design challenge.

Group Strategic Report for the year ended 31 December 2020

SCOTTISHPOWER DIVISIONS *continued*

ENERGY RETAIL AND WHOLESALE

Introduction to Energy Retail and Wholesale

Our Energy Retail business is responsible for the supply of electricity and gas to domestic and business customers throughout Great Britain, including customer registration, billing and handling enquiries in respect of these services. Energy Retail is also responsible for the associated metering activity including the smart meter installation programme and managing ScottishPower's Smart Solutions activities. During 2020, an average of 4.65 million gas and electricity customers were supplied by Energy Retail. As at 31 December 2020, Energy Retail supplied 4.74 million gas and electricity customers.

During 2020, the Group expanded its offerings to create a hydrogen department. This is a pioneering partnership that works with businesses to seek appropriate green hydrogen solutions. This new department fully supports the large-scale transformation to replace heavy diesel vehicles with cleaner, greener alternatives. This drive towards green economic recovery helps support the UK's efforts to achieve net zero by 2050.

Our Energy Wholesale business continues to focus on managing the group's exposure to the UK wholesale electricity and gas markets for Energy Retail and Renewables. Energy Wholesale is predominantly responsible for the purchase of external supplies of electricity and gas for onward sale to customers; the optimisation of gas storage; and the sale of electricity from wind PPAs to wholesale market participants in the UK.

Operating review

COVID-19

The supply of electricity and gas to our customers is an essential service and we understand the challenges our customers may have faced, and continue to face, during this time, particularly the elderly and vulnerable, including those with underlying health conditions and households and businesses struggling to pay for energy due to loss of income.

Energy Retail has engaged regularly with BEIS and Ofgem since the initial lockdown period to demonstrate our quick action to ensure our customers can access the advice and support they need while also ensuring the safety of our staff, at all times taking account of the latest UK and local government advice.

Our actions have included:

- quickly transitioning to new ways of working to ensure we could continue to support our customers in need and, in particular, prioritising those customers requiring emergency assistance. This included a transition to homeworking for our office-based staff, and the implementation of additional personal protective equipment ("PPE") and safety protocols for those staff required to undertake essential home visits;
- implementing additional support measures at appropriate points throughout the pandemic for those customers impacted financially, or through the need to self-isolate. This included offering payment holidays, reduced DD payment amounts, advanced credits for prepayment customers, and the pausing of debt follow up activity; and
- proactively contacting customers to provide guidance and signposting to support measures available.

Throughout the pandemic, Energy Retail has, and continues to, adjust our customer facing and operational activities to ensure we can deliver the service and support customers require as circumstances change under the evolving national and local restrictions and associated government advice.

Energy Retail and Wholesale business

2020 continued to be a challenging year for Energy Retail with the ongoing presence of the cap on default tariff prices, the challenges from lower-cost new entrant suppliers, and the impact of the COVID-19 pandemic. Our teams have worked hard to position ourselves positively with customers, government and Ofgem to mitigate the impact of current circumstances on us and our customers, while seeking to influence the future market to our benefit and to the benefit of our customers. Refer to the 'Engaging with Stakeholders' section on page 26 for further detail on how we have supported our most vulnerable customers.

Following the acquisition of SSE Energy Services by OVO in 2019, entrant suppliers now account for 44% of the domestic market share, up from around 27% in 2018. Customer switching figures at an industry level for 2020 were down 6.5% versus 2019 according to the latest Energy UK figures (published January 2021). This is largely as a result of COVID-19 which has impacted certain sales channels such as face-to-face sales. Aggressive pricing strategies continue to be deployed by both large and small suppliers, particularly in the more price-sensitive broker channel.

Ofgem implemented the price cap required by the Domestic Gas and Electricity (Tariff Cap) Act on 1 January 2019, which limits the rates charged for the supply of gas and electricity to domestic customers on default tariffs. This is extendable on an annual basis until 2023, and the Secretary of State confirmed, after the first assessment was undertaken and advised by Ofgem, that the current price cap will be extended at least until the end of 2021. The initial cap period (1 January to 31 March 2019) was set at £1,104 for dual fuel customers with typical consumption paying by DD, and £1,186 for those paying by standard credit ("SC"). In November 2019, Centrica won a judicial review challenging Ofgem's methodology for the allowance under the cap for this period, and after consultation, Ofgem implemented an adjustment for the cap period 1 October 2020 to 31 March 2021 to recover the wholesale cost allowance under-recovered during the first cap period. From 1 October 2020, Ofgem took over responsibility for the prepayment price cap from the CMA, with the cap for October 2020 to March 2021 being set at £1,070. The table below shows the prices for the charge restriction periods impacting on the 2020 results (on an equivalent consumption basis based on Ofgem Typical Domestic Consumption Values).

Period commencing/payment plan	October 2019	April 2020	October 2020
Direct Debit	£1,143	£1,126	£1,042
Standing Credit	£1,227	£1,210	£1,121
Prepayment	£1,182	£1,163	£1,070

Ofgem has consulted, and continues to consult, on its approach to setting cap levels for future periods, including for the smart meter allowance (with changes having been put in place from October 2020) and for COVID-19-related costs (with changes being put in place from April 2021). Ofgem has announced that from 1 April 2021 the price cap level will increase, principally as a result of changes in wholesale prices. For six months from 1 April 2021 the price cap will increase to £1,138 for DD customers, and £1,223 for SC customers with the prepayment cap now set at £1,156.

Group Strategic Report for the year ended 31 December 2020

SCOTTISHPOWER DIVISIONS *continued*

While the new entrant market share has increased, we are continuing to see a decline in the number of active domestic suppliers, with several small to medium suppliers either choosing to cease trading or, due to liquidity challenges, being forced to exit, and then being swept up into the regulatory Supplier of Last Resort ("SoLR") process. We were named as SoLR for Tonik Energy's 130,000 domestic customers in October 2020 and for Yorkshire Energy's 74,000 customers in December 2020. We will continue to assess future SoLR opportunities as they arise.

We remain committed to the rollout of smart meters across our domestic and small and medium-sized enterprises ("SME") customer base. We strongly support the aims and objectives of the smart meter programme and we believe that this investment in our infrastructure is critical to realising the smart energy future that we aspire to deliver for our customers, for our business, and to enable the UK to meet its legally binding target of net zero emissions by 2050.

Notwithstanding the challenges of COVID-19 in 2020, we have made significant efforts and investments to support our smart meter rollout target thus far and demonstrable progress has been made, having installed approximately 1.7 million smart meters across Great Britain as at the end of December 2020 with 34.6% of our retail customers now having a smart meter installed. We have an established network of installers across Great Britain, who provide a strong platform to further increase our deployment capability for the remainder of the rollout. In 2020, we have been actively increasing our installer engineer capacity through this network of installers, as well as increasing the number of customers who are eligible for a smart meter. We will continue to work with the UK Government to reach an appropriate policy for post June 2021 which takes into account any COVID-19 impact, in order to enable a safe and successful conclusion to the smart metering implementation programme.

Ofgem opened an investigation into whether Energy Retail breached rules around its obligations to install smart meters for domestic consumers in 2019. The opening of this investigation does not imply that Ofgem have made any findings about non-compliance by Energy Retail. Energy Retail will continue to work with Ofgem to bring this investigation to a satisfactory conclusion.

Our Smart Solutions business continues to progress, despite the COVID-19 challenges throughout the year, with a comprehensive range of products and services across Smart Services and Smart Mobility in the growing EV market. Our product range and price points offer a wide selection of options for new and existing customers, whether for Boiler Care, Appliance Care or Plumbing, Drains and Electrical products. Added to this choice is the continued improvement to service levels from our strategic delivery partners, such as Domestic & General and AXA, who maintained our service provision and have continued to make emergency home visits throughout the COVID-19 lockdown when our customers needed us the most – taking the appropriate protective and social distancing measures, and always adhering to government guidelines.

As the UK promotes the switch to cleaner, greener transport, our Smart Mobility product offering continues to grow, increasing the number of EV charging installations carried out in homes, workplaces and public charging sites. We continue to offer an end-to-end package for EV owners through our partnership with major car retailer, Arnold Clark, enabling EV buyers to organise their EV charger installation at the point of purchasing their EV, and then also benefit from our 100% renewable electricity tariff. Our strategic early move into the EV market supports the noticeable switch to EVs as businesses and car owners across the UK make the move to support a net zero environment.

The Wholesale business has focused on meeting the commodity trading requirements of the Energy Retail and Renewables businesses. It supports the Retail business in delivering 100% green retail domestic products and supports the Renewables business by advising on long-term commodity price trends which supports the construction of new wind farms, and provides a route to market for new technologies.

Our values in action

During 2020, governments and Ofgem continued to focus strongly on the need for suppliers to deliver a positive consumer experience for all customer groups, recognising the need for suppliers to identify the particular needs of their customers, especially those in vulnerable circumstances. 2020 has seen a significant focus on this due to the additional challenges posed by COVID-19 on consumer finances, and Ofgem has continued to focus on delivering a market whereby all consumers get a consistent experience, regardless of supplier.

During 2020, Energy Retail has supported our customers through our normal activity to identify customers' individual needs and offer support where needed, and, in response to the COVID-19 pandemic, offering additional support options to respond to the unprecedented circumstances and ensure our most vulnerable customers are supported. Ofgem introduced additional protections for domestic consumers struggling to pay for their energy in December 2020, with a particular focus on prepayment customers who self-disconnect. In most part, we have already been applying these protections, and these changes bring a consistency of experience for all customers regardless of their supplier, by placing previously voluntary obligations on all suppliers.

We want to ensure that we are there for our customers whenever they need us. That is why, in addition to our ongoing expansion of digital services, we are working hard to answer calls from our customers as quickly as possible. The improvements we have made in this area were highlighted in a recent mystery shop investigation by the consumer champion 'Which?', to reveal how long it took customer service teams to answer. ScottishPower performed second best of the largest ten suppliers, with our customer service team answering calls in an average time of two minutes and 28 seconds. This compared with other suppliers who averaged over 20 minutes to answer calls.

Energy Retail continued to provide direct financial support to our customers through a number of schemes during 2020. Since its launch in 2015, the ScottishPower Hardship Fund has provided direct support of around £24.5 million in response to applications from around 20,000 customers, and around a further £19 million of automatic awards have been made. Our Prepayment Voucher Scheme has provided support of around £250,000 to 5,500 customers since its launch in 2017. We also continue to provide Warm Home Discount Scheme payments to eligible customers and provide energy efficiency measures through the Energy Company Obligation.

While gas and electricity continue to be our core business, Energy Retail aims to deliver end-to-end solutions to meet the changing needs of consumers, recognising the significant changes the future will present to both consumers and energy suppliers. Energy Retail aims to deliver this through the provision of Smart Solutions to consumers alongside their energy, including EV charging, smart home devices, and boiler and appliance care. We are committed to delivering for the customer of the future, and our expansion of services recognises the changing needs of our customers.

In addition to meeting our consumer needs as the market evolves, these actions also act to support the decarbonisation of energy and the transition to net zero. In early 2020, we introduced a range of domestic fixed-term tariffs which provide 100% green electricity, backed by our UK-based wind farms. This includes our tariffs linked to our energy service offerings – our EV and 'smart time of use' tariffs. We offer these to our customers alongside other tariffs where the energy mix will come from a combination of generation sources (both renewable and otherwise). We continue to focus on the delivery of smart services to support the transition to net zero, facilitated by the rollout of smart meters to as many customers as possible, including in 2020, those customers who pay in advance via a prepayment meter, which will support further smart services being offered to consumers.

Group Strategic Report for the year ended 31 December 2020

SCOTTISHPOWER DIVISIONS *continued*

We now believe that the UK needs to focus harder on decarbonisation, to benefit both the economy and the consumer. We believe Energy Retail can play a key role in supporting this, and in late 2020, we created a new hydrogen department and an expanded Smart Solutions team to assess alternative heat sources in order to achieve this vision.

2020 Performance

Financial key performance indicators ("KPIs")	Revenue		Operating loss		Capital investment	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Continuing operations – Energy Retail and Wholesale	3,750.6	3,962.3	(40.8)	(81.3)	138.4	190.1

* Energy Retail and Wholesale's KPIs as presented in Note 5 on pages 75 to 77.

Energy Retail and Wholesale revenue reduced by £212 million to £3,751 million in 2020. Retail domestic revenues dropped mainly as a result of tariff reductions. Whilst COVID-19 led to increased domestic demand (principally power), this was more than offset by lower average customer numbers across the year. The more material COVID-19 revenue impact was in business revenues which fell by £126 million as demand reduced due to lockdown conditions.

Operating losses reduced by £40 million to £41 million. Excluding the COVID-19 impact, estimated as a loss of £65 million, there was an underlying improvement of £105 million year on year.

The COVID-19 £65 million impact is explained as follows:

- Gross margin reduction of £29 million, mainly in business customers which was impacted by lower demand and from the adverse impact of reversing hedged positions at lower market prices, estimated at £10 million. Domestic demand increases were more than offset by higher non-energy procurement unitary costs.
- Operating costs, other taxes and depreciation were lower by £22 million as lockdown restrictions impacted activities such as meter readings, debt collection, sales and smart meter installations.
- The estimated COVID-19 ECL of £58 million reflects the impact of lower cash collection and business insolvencies as well as the additional cash collection risks associated with forward-looking macro-economic indicators; such as increased unemployment, the withdrawal of government support schemes and the risk of further lockdowns.

The non COVID-19 improvement in operating losses is mainly attributable to lower energy costs as well as lower personnel costs reflecting reorganisation costs incurred in 2019.

From a financial reporting perspective, it is important to note that, due to the impact on meter reading activity in the first half of the year, there may be a higher level of estimation uncertainty within Revenue. Refer to Note 3A(d).

Capital investment in Energy Retail and Wholesale decreased by £52 million mainly reflecting reduced smart meter installations and new customer contract costs due to COVID-19 restrictions.

Non-financial key performance indicators	Notes	2020	2019
Volume supplied (GWh)	(a)	41,955	43,907
Customer service performance	(b)	5th	6th
Smart meters in portfolio	(c)	34.6%	31.6%
Customers (thousands)	(d)		
- Electricity		2,777	2,856
- Gas		1,870	1,904
		4,647	4,760

(a) Lower volumes in 2020 due to a decrease in business demand related to COVID-19, and lower average customer numbers.

(b) Based on the Citizens Advice Domestic Energy Suppliers' Customer Service Report. Rankings reflect ScottishPower's position relative to the other 'Big Seven' Energy Companies. We have continued to invest in our customer service teams with a key focus on improving our timely management and resolution of complaints, coupled with an overall focus on service quality across all of our advisors.

(c) Percentage of relevant Energy Retail customer base with a smart meter. We continue to make progress towards our smart meter rollout plan that has been submitted to Ofgem.

(d) Customer numbers are based on the average number of Meter Point Administration Numbers for electricity customers and Meter Point Reference Numbers for gas customers during the year to 31 December. The reduction in the portfolio volume year-on-year can be attributed to a lower volume of direct sales activity as a result of COVID-19.

Outlook for 2021 and beyond

Market consolidation continues, with 47 active domestic suppliers at December 2020, down from 51 active suppliers at December 2019. We would expect this trend to continue over the coming months and years, based on a combination of regulatory and competitive pressures; which may present opportunities for well-placed suppliers to grow. The continued growth of EVs presents further opportunity due to the related increase in electricity demand that this will provide. Environmental considerations have become an increasingly important factor for consumers in relation to choosing their energy supplier, as evidenced by Ofgem's own recent research, and we expect that to increase further moving forward. We are well-placed to take advantage of this evolving consumer mindset following the launch of our new consumer proposition in Q1 2020, whereby all of our new domestic fixed price tariffs include 100% green electricity supplied by our own wind farms in the UK. This proposition sets us apart from many suppliers in the industry who either do not generate their own renewable electricity or who simply buy renewable electricity certificates (and not the associated electricity) to 'greenwash' their tariff offerings. Continued regulatory and competitive pressures mean that cost efficiency will remain a key consideration for suppliers to support profitability and growth objectives.

The continued digitisation of our customer propositions and internal processes will be central to delivering these emerging market demands. Utilising in-house, customer-centric digital development capabilities enables the rapid evolution of our digital engagements with customers. While we continue to focus on providing a digital experience that benefits our customers, we are harnessing the latest technologies and innovations, in areas such as artificial intelligence and machine learning, to further expand our retail digital offering and increased digital adoption amongst our customer base throughout 2021 and beyond.

Our Smart Solutions business will continue to expand throughout 2021 via customer growth from the current and expanding range of products and services, which will be supported by our strategic partners' ongoing focus and commitment to a good customer experience. In addition, during 2021 we will be exploring the opportunities within Smart Solar and Smart Heating, understanding how we can influence these markets to move forward faster and become more accessible to customers, achieving a better, cleaner future, quicker.

Group Strategic Report for the year ended 31 December 2020

SCOTTISHPOWER DIVISIONS *continued*

Our range of EV products, services and tariffs support and enable the accelerating transition to EVs in the UK and will continue to expand and offer smarter solutions for EV charging in the coming year. We will continue to build partnerships with manufacturers, installers and technology experts, not forgetting our core city region partnerships with Glasgow and Liverpool.

The decarbonisation of heat is an area of growing interest and we are continuing to implement small pilot schemes to help us understand the future heating technologies and how the UK heating market will transform in the coming years. The success of these schemes will continue to support the transition and decarbonisation of heating in the UK.

Our aim is to support all of our customers to understand realistic steps they can take to decarbonise their energy consumption, and be there to help them make the transition. It is important to ScottishPower that we help transform the UK from carbon-intensive energy sources; with greater electrification across the nation we can achieve the goals set out by government. Where electrification is not economically viable, for many applications, we believe green hydrogen is the appropriate and responsible solution. In 2020, Energy Retail created a Hydrogen department to begin working with businesses to seek appropriate green hydrogen solutions. Unlike grey and blue hydrogen, green hydrogen is produced using renewable energy. Hydrogen fuel, which is particularly suitable for larger vehicles, is produced through a chemical process known as electrolysis, using an electrolyser to extract hydrogen from water. Powering the electrolyser from renewable sources, like wind and solar power, means the process is completed without any carbon emissions making the hydrogen 'green'. Our significant generation of wind energy, supported by our expanding solar portfolio, places Energy Retail in a prominent position to generate genuine green hydrogen.

Ahead of the COP 26 conference in Glasgow in 2021 Energy Retail is preparing to play its part in the transition to net zero and building on the changes we have already made. Our role is to make this transition easy for our customers. We are proud that all our new fixed price tariffs provide 100% renewable electricity.

As well as committing to fully green energy, we are also working to promote the enabling technologies that encourage its use and take-up. One of these technologies is smart meters, which allow customers to see the power they are using, and their spending, in real time. Having a smart meter also makes EV and solar panel installations much easier. We can provide our customers with this infrastructure along with tariffs offering a cheaper overnight price that can support EVs. In addition, we have partnerships with some key car organisations to help them make the decision on using one of these vehicles. Workplace charging will also be a key enabler for EVs and will offer three distinct types of charging solutions; domestic, public and workplace. Indeed, we will provide an EV charging hub for COP 26 delegates at the SEC venue. We are also already actively working to incorporate the use of green hydrogen as a route towards decarbonisation for sectors where electrification is not feasible due to technological limitations, such as some industrial processes and heavy duty transport.

For 2021 and beyond, Energy Wholesale will continue to contribute towards the management of new, flexible assets being commissioned by Renewables and delivery of greener energy for Energy Retail. Our Energy Wholesale business continues to optimise the value of its gas storage facility and to manage the ongoing decommissioning and sale of the non-operational sites of former generation plant.

ENGAGING WITH STAKEHOLDERS

THE IMPORTANCE OF ENGAGING WITH OUR STAKEHOLDERS

References to 'ScottishPower' below apply fully to 'Scottish Power UK plc Group' ('the Group').

As part of the Iberdrola Group, we are developing a responsible and sustainable energy model which focuses on the wellbeing of people, the protection of the environment, and the economic and social progress in the communities in which we operate. We strongly believe that effective and meaningful engagement with stakeholders, especially employees, is key to promoting the success and values of the Group.

Meaningful engagement with our stakeholder groups supports the ethos of section 172 of the Companies Act 2006 which states that directors should have regard to stakeholder interests when discharging their duty to promote, in good faith, the success of the Company for the benefit of its members as a whole. Details of how the Group and our individual businesses engage with our stakeholders, and how these activities influence the Group's operations, are set out below.

Our key stakeholders

We have four key stakeholder categories:



Behind these stakeholders are millions of people, and thousands of institutions, organisations and groups. All of them, with their decisions and opinions, influence the Group and are also affected by our activities. In addition, these stakeholders interact with each other, creating a universe of relationships that the Group needs to manage in order to achieve a better understanding of our operating environment and to deliver a more sustainable performance across our activities.

Our shareholders are also important to us. All shareholder management activities are carried out on our behalf by our ultimate parent company, Iberdrola, which is listed on the Madrid Stock exchange. Iberdrola is committed to dialogue, proximity and actions in favour of shareholders. Iberdrola is one of the first companies in the world, to formalise a Shareholder Engagement Policy focusing upon two-way interaction with the shareholders in order to forge a sense of belonging and to encourage their engagement in the corporate life of Iberdrola. Iberdrola's Shareholder Engagement Policy is published at <https://www.iberdrola.com/corporate-governance/corporate-governance-system/corporate-policies/shareholder-engagement-policy>.

“Putting people first to achieve a better future, quicker”

EMPLOYEES AND ENERGY CUSTOMERS

Employees

The Group employs approximately 5,600 employees, working across a range of roles within our Energy Networks, Renewables, and Energy Retail and Wholesale business divisions and our Corporate function. Our employees make a real difference in determining how successfully we operate. The creativity, innovation and individuality of our employees enables us to build on our future capability to operate effectively in a competitive market, and continue to have aspirations which are challenging and rewarding. We respect and recognise the importance of individuality as part of our ongoing commitment to promoting a culture where individuality is celebrated. We also understand that being a diverse organisation goes beyond having legally compliant policies and practices; it includes a focus on creating an innovative, integrated organisation where people feel valued, inspiring them to perform at their best.

COVID-19

We responded quickly to the COVID-19 pandemic in March 2020, announcing changes to policies such as restricting business travel to critical only, restricting employee attendance at external conferences, and increasing the volume and frequency of our building cleaning regime. In addition, on 17 March 2020, we issued a company-wide communication to employees to advise that all employees who were able to work from home, should do so with immediate effect. We have a responsibility to maintain the integrity of our networks, and as such a large proportion of our employees are classed as essential. Approximately 1,750 employees were categorised as 'essential' and were issued with official letters to allow them to continue to work and move freely while the UK is in national lockdown. Additional health and safety measures were introduced at this time to protect those essential workers, such as; provision of COVID-19 safety work procedures, one person per vehicle policy, additional COVID-19 specific PPE, minimising time spent in depots, hygiene guidance for those using vans, and checks on hygiene provision.

As an organisation, we made the decision that we would not place any Group employees on furlough, and therefore there has been no impact on 2020 remuneration. Annual bonus and merit processes were paid in line with normal reward timetable. We have not reduced remuneration for employees who have required to shield or self-isolate.

Group Strategic Report for the year ended 31 December 2020

ENGAGING WITH STAKEHOLDERS *continued*

Under a continually changing landscape, we have responded to government advice, and monitored and adapted our employee policies. We are still continually monitoring these policies. Various supportive measures have been put in place, both for employees and line managers, to help support employees who may have childcare, caring or mental health concerns, using technology by hosting various live events on Microsoft Teams and promoting occupational health support materials. A dedicated microsite was created on the ScottishPower intranet to make all policy amendments, support documentation and advice available to all employees.

Throughout the pandemic, all our decisions have been made to ensure the safety and wellbeing of our employees. We have responded to employees who find it difficult to work from home, and have therefore allowed these employees to return to site. To facilitate this, additional measures in our locations have been introduced including social distancing and changing the layouts of our buildings, imposing one way systems and installing plexiglass where appropriate. In addition, face coverings have been issued to staff and it is mandatory to wear a face covering whilst moving around in our buildings. Sanitising stations have also been installed in all of our locations. A user-friendly induction video has been created and issued to all employees to outline the safety measures and protocols in place across all of our buildings. In addition, all employees who predominantly work from home have been issued with a portable work pack which promotes agile working arrangements to help employees work from any location.

As the pandemic evolves, The Group continues to respond to changes in government guidance and is committed to the health and wellbeing of our employees. Recent changes in the Scottish Government guidelines, which strengthens provisions relating to work carried out inside people's homes, only allows for entry into private dwellings if it is essential for the upkeep, maintenance and functioning of the household. In response to this, we have amended our practices, reviewed our risk assessments for work programmes and re-prioritised, where appropriate, those that involve extensive interaction on domestic premises. All activity that is deemed non-essential has been paused including smart meter installation, meter reading activity and face-to-face sales.

Employment regulation

We have well-defined policies in place throughout our businesses to ensure compliance with applicable laws and related codes of practice. These policies cover a wide range of employment issues such as disciplinary, grievance, harassment, discrimination, stress, anti-bribery, anti-corruption and 'whistleblowing', and have been brought together in the Code of Ethics of Iberdrola and its group of companies (which also outlines expectations for employees' conduct).

Training

We have a continuing commitment to training and personal development for our employees and provided 2,914 training events in 2020 (3,190 in 2019). Throughout 2020, although our opportunity to train employees has been reduced as a result of the pandemic and ongoing restrictions, shown by our reduced number of training events, we have worked with suppliers to ensure continuity of training offerings where possible. Our priorities remain compliance-related training; and health and safety critical and engineering-based training ensuring field staff, both onshore and offshore, are safe and competent in undertaking their roles. This has been our focus throughout 2020 as we adapted to the COVID-19 pandemic. We recruit over 100 apprentices, graduates and trainees annually who undertake a structured training programme leading towards the achievement of an apprenticeship and recognised qualification, as well as business graduates who progress through business specific training programmes. We have three programmes for people leaders: Leadership Fundamentals for new people leaders; Advanced Leadership aimed at leaders of leaders; and Leadership Mastery for new senior leaders. Alongside these programmes, in 2020 we introduced two new online modules for all people leaders; Positive Influencing and Powerful Conversations. In addition, in 2020 we refreshed our Personal Development Guidance and Career Planning Toolkit for all employees, and for a target population, introduced a new mentoring programme, 'SP Mentor Connect'. Additionally, training is, and will continue to be, focused around new requirements related to skills and competence development such as data analytics, digitalisation and agile project management.

Employee feedback and consultation

Our employee engagement survey is called 'the LOOP'. The LOOP provides an opportunity for our employees across the organisation to share their views on their employee experience at ScottishPower and is completed by all employees bi-annually. The last full survey was completed in 2019, with the 2020 focus being delivery against our actions plans. In order to gauge how these actions are progressing, in 2020, a pulse survey was conducted with 11% of employees who were randomly selected to participate. The response rate remained high. Overall, the positive insights from the LOOP feedback showed an increase in employee engagement and enablement across the Group. The opportunities highlighted from the survey included ensuring a focus on cross-company collaboration, which aligns with our values as described in detail on page 2.

As well as employee feedback through the LOOP, we consult regularly with employees and their representatives via a variety of channels, including monthly team meetings, virtual business conferences, health and safety committees and employee relations forums.

In 2020, due to COVID-19 implications on working patterns, further pulse surveys have been conducted regularly to gauge our employees' experience, with a particular focus on working from home and mental health. These surveys enabled us to gain feedback, and then take action in real-time, enabling positive change to happen fast. The results from these surveys have generally been positive and feedback has been used to develop an employee support package to address any concerns. We have also consulted regularly with Trade Union and Employee Representatives on COVID-19 measures and adjustments.

Inclusion and diversity

We are committed to driving diversity in the energy industry, increasing our diverse and inclusive workforce whilst taking action to address the deepening skills shortage in the sector.

We want to attract and inspire the best talent regardless of gender, age, sexual orientation, disability, ethnicity or any other factor. We value every individual's differences and the insights they bring to how we think, what we believe and who we are.

Group Strategic Report for the year ended 31 December 2020

ENGAGING WITH STAKEHOLDERS *continued*

We published our latest Gender Pay Report in March 2021 and reiterated our commitment to pay for performance equally and fairly. This continued our focus on breaking down barriers across the employee lifecycle, as over time this will improve our gender pay gap position whilst widening the inclusion of other under-represented groups. For more information, the Gender Pay Report 2021 is published on www.scottishpower.com under 'People and Careers'/'Inclusion at ScottishPower'/'Gender Pay Reporting'. E-learning and training on unconscious bias, was designed and rolled out to 334 recruiting managers and new people managers (in addition to the 600 trained in 2018/19). The STEM (science, technology, engineering and mathematics) Returners programme aims to help employees returning to work after a lengthy career break to grow and develop their career, offering the time and support needed to refresh and redevelop their skills to help them in returning to employment on a more permanent basis. The 2019/20 cohort celebrated the scheme's fourth year, with six out of the nine participants securing a permanent job with ScottishPower as a direct result of taking part in the programme. The 2020/21 programme commenced in November 2020. We received a high volume of applicants and ten returners were successfully recruited.

As part of our commitment to closing our gender pay gap, the Senior Leadership Team set two aspirational targets in 2018 to break down the barriers for women:

- increase in the proportion of women in our senior management population to exceed 30% by 2022; and
- increase in the proportion of women in our middle management population to exceed 40% by 2022.

The 2020 Gender Pay Report published on 9 March 2021, highlighted positive movement against these targets; females now make up 26% of our senior management population (2019 24%) and 33% of our middle management population (2019 33%).

Work is continuing on the following initiatives to achieve these targets and progress is monitored on a continuing basis:

- Inclusive recruitment principles such as balanced shortlisting and gender-balanced interviewing are now incorporated into all our external recruitment campaigns. Recruitment consultants encourage all hiring managers to adopt these inclusive recruitment principles.
- All of our job adverts are reviewed using gender de-coding (i.e. highlighting masculine and feminine language for all our external job adverts).
- STEM engagement – throughout 2020, the team have delivered our STEM message to school-age girls and boys using virtual delivery; we work with a range of partners and events to communicate our early careers programmes to school children and their families.
- Inspiring women in sport – Energy Networks has continued its rugby partnerships in Scotland and Wales to support more women in sport. This includes becoming the first shirt sponsor of the Scotland Women national squad and the creation of more Welsh age group teams for girls. With our support, the number of young women playing organised rugby in North Wales has significantly increased over recent years.
- ScottishPower continued to share best practice through the Energy Leaders Coalition which comprises eight of the leading Chief Executive Officers from the UK's energy sector who have made a public declaration to improve gender diversity in their groups and in the sector as a whole.
- We are a corporate partner of the Women's Engineering Society to help with the important work that they do in supporting women engineers and encouraging girls to see engineering as a career option.
- We launched a new initiative to provide Maternity/Parent Coaching to females within our talent population who are on the maternity journey, whether that be preparing for, or on, leave, or returning to work. The initiative is intended to blend practical support and advice to both the participants and the line managers as well as focused career coaching to maximise the participant's potential for future progression.

We continue to work with a number of recognised organisations as part of our commitment to diversity and inclusion. These include: Business Disability Forum, Carers UK Employers Network for Equality & Inclusion, Equate, Working Families, ENABLE, POWERful Women and Stonewall.

We expect all our employees to be treated with respect and we have supporting policy guidance to help ensure equality of employment opportunity for people with disabilities. We have renewed our Disability Confident standard and maintained our accredited level at 'established' with Carers Scotland.

In 2020, in response to the COVID-19 pandemic, the third cohort of the inspirational Breaking Barriers programme moved online. We also supported additional students, who were unable to complete placements with our partner, Marriott Hotels, due to the impact of the pandemic on the hospitality industry. The programme aims to support aspirations for young people with learning disabilities and provide equal opportunities to access university courses. Between January and June 2020, ten learners aged between 18 and 24 studied for a Certificate in Applied Business Skills at the University of Strathclyde Business School. As part of this experience, the learners gained valuable skills and work experience as part of a placement with ScottishPower.

ScottishPower continues to support the growth of our employee-led networks; Future Connections, Connected Women, Carers, In-Fuse and VIBE. Despite the challenges of the COVID-19 pandemic, all the networks continued to engage their members through online awareness sessions celebrating key dates on the inclusion calendar and sharing knowledge to promote personal development. The networks also play a key role in the attraction and retention of new employees from underrepresented groups to maximise engagement and performance. On 9 April 2020, ScottishPower launched a new section of our external careers website, 'Inclusion at ScottishPower'. This is a dedicated space on our website to share some of the important initiatives that go on internally, such as our employee networks, involvement with community programmes, partnerships with external organisations and our transition to flexible working.

Our newest network has been created to provide support and guidance on all aspects of being a parent or carer by joining with the Carers Network and re-branding as SPACE – Supporting Parent and Carer Experiences. This network has been established to support parents working from home. Following a successful online session in August 2020, this will progress to listen and share experiences, run events on a range of parenting and caring topics, and open discussions on employee experiences. SPACE is open to all employees in order to provide guidance to both our parents and carers, but also colleagues and line managers.

Group Strategic Report for the year ended 31 December 2020

ENGAGING WITH STAKEHOLDERS *continued*

Rewards and benefits

As our business continues to change and evolve, it is important that the benefits that we provide to our employees also develop to meet these challenges. We recognise that the benefit needs of employees are unique to the individual and we want them to be able to tailor benefits to their own circumstances. We provide a benefits programme, 'Your ScottishPower Benefits', which offers employees the flexibility to choose from a range of benefits, such as participation in the ScottishPower Share Incentive Plan ("SIP"), purchasing a bike through the Cycle to Work scheme, or purchasing additional holidays. Employees can also participate in one of the Group's pension schemes. The Group has both a defined contribution and two defined benefit schemes which allow employees to save for their retirement. All employees who have joined the organisation on or after 1 April 2006 are offered membership of the Iberdrola Group (UK) Stakeholder Pension Plan.

Health and safety

Employee health and wellbeing, the prevention of harm to employees, contractors and members of the public, and the protection of business assets and operational capability, are top priorities. We have continued to strive for improved performance, and both internal and external health and safety assessments have again returned positive findings. However, tragically in August 2020, Energy Networks had an employee fatal accident at work and further details are noted below.

We have an established Health and Safety Management System ("HSMS") to ensure that the Group and its employees meet all applicable internal, external, legal and regulatory requirements and standards, and aligns with the Iberdrola global health and safety approach.

This HSMS has been established to provide an overview of how health and safety is managed across the organisation and includes how risks are managed. The HSMS includes items such as:

- The Health and Safety Policy, which details what we want to achieve with respect to health and safety, who will implement the requirements (detailing the roles and responsibilities) and how the policy will be achieved.
- How the health and safety programmes such as the annual Preventive Activity Plan, Operational Plans and Communications Plans have been implemented. All these are aimed at maintaining and improving health and safety performance.
- How compliance is delivered through a governance structure, audits and inspections and external and internal certification.
- An annual training plan is established to ensure employees are competent on the basis of appropriate education, training or experience.
- A Risk Management Procedure details how we will manage and control hazards and risks.
- We have an established annual Health and Safety communication plan.
- At a ScottishPower level, a Health and Safety Management Review is completed every six months and a specific report format used to record and communicate the findings.

To work in conjunction with the Group HSMS, each of our divisions has its own specific HSMS. Each business HSMS expands upon the Group HSMS; they are not intended to duplicate or contradict, but to focus on division-specific scope of works and requirements.

Performance

We successfully maintained our ISO 45001 certification following an audit in November 2020. The annual ScottishPower employee accident and incident statistics remained low with six lost time accidents* in 2020; this equates to 1.07 lost time accidents per 1,000 employees. Five of these lost time accidents were reported to the Health and Safety Executive ("HSE") under The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations ("RIDDOR"). A first aid incident involving creosote was also reported under RIDDOR.

As noted above, in August 2020, Energy Networks tragically recorded a fatal accident involving a colleague who was carrying out electrical working activity. This was the only incident involving an electrical hazard in 2020 resulting in harm to staff, and is currently under investigation by a legally privileged Panel of Inquiry to establish the root causes and all contributory factors. Any potential lessons learned from this incident will be communicated to all staff internally and shared with the wider industry.

The table below provides the occurrence of lost time accidents in each business division (including Corporate):

Lost time accidents	Employees		Contractors		Total	
	2020	2019	2020	2019	2020	2019
Energy Networks	6	9	15	10	21	19
Renewables	–	–	7	12	7	12
Energy Retail and Wholesale	–	–	4	6	4	6
Corporate	–	–	1	–	1	–
	6	9	27	28	33	37

* Number of accidents on the job involving ScottishPower employees and contractors resulting in the loss of at least one day's work. The employee total includes the fatal accident.

As described above, there were six employee lost time accidents during 2020 compared to nine in 2019. Despite this decrease, cognisance must be given to the fatal accident in Energy Networks. Regarding contractor lost time accidents, there were 27 in 2020 compared with 28 in 2019. The severity was mainly low, and is a consequence of the continued volume of construction and maintenance activity in our Renewables and Energy Networks divisions. Based on these figures along with the results from audits and inspections, health and safety standards and performance remain high.

The total number of employee and contractor lost time accidents in 2020 was 33 compared with 37 in 2019.

Energy Networks showed a decrease in lost time accidents between 2019 and 2020 for employees but an increase for contractors. The main contributory factor in lost time accidents is loss of situational awareness when engaged in work activity resulting in injury.

Group Strategic Report for the year ended 31 December 2020

ENGAGING WITH STAKEHOLDERS *continued*

Employee lost time incidents in Renewables have maintained the excellent zero result from 2019, and contractor lost time accidents decreased from twelve to seven. The main contributory factor in lost time accidents was situational awareness, largely slip/trip/fall and hand injuries.

In Energy Retail and Wholesale, there were no lost time accidents in either 2019 or 2020 and contractor lost time accidents decreased from six to four. The main contributory factor in lost time accidents was, again, situational awareness, specifically regarding the smart meter rollout programme.

In Corporate, there were no employee lost time accidents in either year and one contractor lost time accident, which was a low severity incident.

Public safety

In addition to the physical measures we take to protect the public from electricity, for example secure compounds, safety distances and signage, we also strive to raise electrical safety awareness with the public via a number of campaigns and initiatives. Due to COVID-19, a different approach was taken to public safety in 2020 to deliver key messages. To ensure communication continued, we attended a number of virtual agricultural shows. Social media channels were also utilised to reach different audience groups. Our existing PowerWise website was promoted through our social media network. PowerWise is a curriculum-linked teaching resource to inform young people about the dangers of electricity with free, interactive resources. The website aim is to help young people to stay safe, be responsible and promote their interest in the future of electricity. The interaction is carried out through a combination of activities, animations, creative missions and inspiring lesson ideas aimed at children and young adults. Various communication campaigns have been delivered throughout the year and significant work was done in conjunction with the ENA for the production and promotion of consistent energy and utility safety messages.

Employee health and wellbeing

We promote and support the physical and mental health and wellbeing of our employees through a programme of health promotion and information run by our Occupational Health department. In addition to the typical activities carried out by this department, and as part of our focus on health and wellbeing, conscious efforts have been made to reduce the stigma and discrimination surrounding mental health, and increase the support available to employees. Occupational Health has initiated a mental health first aiders' training programme and support forums. A Mental Health Steering Group was introduced in early 2020 with the purpose of creating a working environment where we all feel safe and able to talk openly about mental health, and providing the support that will help keep us well.

There are representatives from each of the divisions and the Corporate functions on the steering group. Conversations around mental health have become more open in recent times. There have been a number of campaigns supported by the steering group to encourage more open conversations around mental health including Mental Health Awareness Week, World Suicide Prevention Day and World Mental Health Day.

Providing health and wellbeing support has been vital during 2020. The Occupational Health team has worked with Human Resources to support all employees during the COVID-19 pandemic. This has involved managing all cases and providing up-to-date public health advice and guidance to employees, line managers and people leaders across the Group. The Team has also provided up-to-date advice and information through the COVID-19 microsite and virtual health and wellbeing sessions focusing on both physical and mental health. We have also introduced the Occupational Health Portal which enables individuals and their managers to access health questionnaires, referrals and reports.

In addition to COVID-19 assistance, Occupational Health has been able to maintain its Gold Status for Healthy Working Lives. The department also led the 'See.me' survey for all employees on their mental health, with results discussed within the Senior Management Group.

Working within the Occupational Health are the occupational hygienists whose role is to help identify potential chronic health risks (from exposure to industrial processes) and to provide mitigating solutions in order to reduce the risk of harm. This work is in addition to statutory health surveillance requirements, which the occupational hygienists and the wider Occupational Health department are responsible for.

Brexit

We value the diversity of our workforce, and seek to attract and retain the best available talent now and in the future. We have supported and encouraged our employees who are EU nationals to apply to the EU Settlement Scheme. Following the UK's departure from the EU on 31 January 2020, we will utilise the new UK points-based immigration system introduced in January 2021 to help us to recruit the skilled talent we require to continue to deliver our business strategy and plans.

Group Strategic Report for the year ended 31 December 2020

ENGAGING WITH STAKEHOLDERS *continued*

Employee volunteering

We pride ourselves in being a good corporate neighbour, providing support to the communities we serve in each of our divisions. Employee volunteering provides employees a platform to engage actively with charitable organisations in their community. Despite 2020 being a difficult time for all, the number of employees getting involved in volunteering activities increased from 2019. Our company-wide volunteering policy allows employees to take one additional day's paid leave as a volunteering day.

Modern Slavery Statement

The term 'modern slavery' covers both slavery and human trafficking. ScottishPower is committed to human and labour rights and to eliminating modern slavery that could in any way be connected to our business. In accordance with the Modern Slavery Act 2015, we have produced our own Modern Slavery Statement, which has been approved by the SPL Board. This statement is published on the ScottishPower website at: https://www.scottishpower.com/userfiles/file/SP_Modern_Slavery_Statement_2019.pdf?v=1.2.

Energy customers

We provide energy and related services to millions of domestic and business customers. Our success depends on our ability to understand and meet the needs of our customers, and engagement is key to our success in this rapidly changing environment. We seek feedback in several ways including forums, market research and product testing, as well as via complaints channels and surveys.

Energy Networks

Our performance relating to the RIIO price controls is measured and reported on a regulatory year basis (April to March of any given year).

Delivering for stakeholders and vulnerable customers

Improving customer service, particularly for vulnerable members of society, continued to be a key objective for us in 2020.

We are the first utility company in the world to achieve the BSI Customer Service Kitemark Certification and Vulnerability Standard. In addition, we performed better than the top ranked UK Service Leader (First Direct) in the Institute of Customer Service benchmarking exercise, demonstrating our commitment to exceptional customer service.

We are dedicated to understanding the needs of vulnerable customers in our licence areas, demonstrated by the addition of around 150,000 customers to our Priority Services Register in 2019/20, bringing the total to over one million.

Under the Stakeholder Engagement and Consumer Vulnerability ("SECV") Incentive, set out in the Energy Networks '2020 Performance' section above, we were awarded £3.0 million for 2019/20.

Earning customer satisfaction

We continue to raise awareness of how best to contact us and the services we provide for customers. As a result of our targeted awareness raising activities since 2015, the number of people who know who to call in a power cut (via the National 105 number) has risen from 13% to 47%, and registrations to the Priority Services Register increased from 8% to 31%. Making continual improvements to customer service is a cornerstone of our RIIO-ED1 strategy. Our focus in the Broad Measure of Customer Service incentive scheme ("BMCS") has placed us first across all the UK DNOs during 2019/20 with scores of 9.17 in SPD and 9.16 in SPM, and puts us ahead of where we committed to be on our journey to score 9.42 by the end of the RIIO-ED1 price control period. This performance in 2019/20 will deliver a reward for customer satisfaction of £7.7 million.

The value in connections

Core engagement, such as connections stakeholder panels and in-depth annual surveys, help us to shape our strategic direction, confirming stakeholder priorities and identifying new themes as they emerge. In response to stakeholder feedback, we have increased the number of ways we engage, and are reaching more stakeholders than ever before. In 2019/20 we received 27,975 enquiries and issued 21,623 quotations. We were awarded a total of £0.8 million under the Average Time to Connect Incentive for 2019/20. Ofgem confirmed in October 2018 its decision not to penalise us under the 'penalty only' Incentive on Connections Engagement. We have not received a penalty under the 'penalty only' Incentive on Connections Engagement scheme since its introduction at the beginning of the RIIO-ED1 price control.

Targeting reliable supply performance

Under Ofgem's Interruptions Incentive Scheme, we are incentivised on our performance in the number of CML and CI, which include both planned and unplanned supply interruptions. We aim to have reduced the average time our customers are off supply by 25% over the current RIIO-ED1 price control period. By achieving more than a 24% reduction so far; we are well on our way to exceeding this target.

In 2019/20, Storm Ciara impacted 38,988 customers within SPM. 99% of all customers were reconnected within 24 hours. We already manage the network by automatically restoring a proportion of customers after a fault. We now have 1,828 automatic restoration schemes built enabling 1.4 million customers (40% of our customer base) to be restored within three minutes should they experience a power cut.

During 2019/20, energy to customers was disrupted by one storm event which met Ofgem's 'exceptional event' exclusion criterion; a wind and gale storm in February 2020 (2018/19 three exceptional storm events wind and gale storms in June 2018, September 2018 and October 2018). As a result, the underlying CML and CI for the year to 31 March 2020 were 33.7 and 44.5 respectively for SPD and 33.8 and 32.2 respectively for SPM. This corresponds to our total award of £10.1 million for 2019/20 performance (£8.3 million in 2018/19).

Group Strategic Report for the year ended 31 December 2020

ENGAGING WITH STAKEHOLDERS *continued*

Energy Retail

Understanding our retail customers extends to our ability to identify their needs, in particular for our vulnerable customers.

We are continuing to focus on delivering customer service through a number of digital channels as well as retaining our traditional telephone and email service channels. We have continued to promote our digital online web chat offering to support customers with product, tariff and account enquiries, and we have also seen a growth in the number of customers wanting to engage with us via social media channels for customer service enquiries. We have invested in our social media customer service support team this year, both in terms of training and expertise, and additional staff to support customers via this growth channel.

Through ongoing expansion of the range of digital services throughout 2020, we have seen continued adoption of digital tools as the channel of choice amongst our customer base. With around 500,000 digital interactions per week with our customers, we saw significant growth during the COVID-19 lockdown period of customers utilising digital channels and have maintained higher levels year on year following this initial spike. Previous investment supporting in-house digital development capabilities enabled the rapid design and creation of multiple new customer-centric processes and refinements to meet the immediate demands of customers, and helped to manage operational requirements in this unique period. Offering increased flexibility around payments and digital communication methods, we were and are able to respond rapidly to the evolving situation and meet the needs of our customers. Further detail is provided on page 5 of the Strategic Report and the Retail Community section on page 38.

This growth has been supported and sustained primarily through increased adoption and utilisation of more accessible, easier to use services such as web chat and a simplified approach to digital billing.

Our Smart Solutions operation is all about serving our customer at a time when they need us most. We have a range of products and emergency services that our customers can call on, such as a central heating or boiler breakdown, a plumbing leak or a kitchen appliance breakdown. We have long-term contracts with our strategic partners who provide these services on our behalf, and we continue to work together focusing on the value and service being delivered for our customers, closely monitoring and learning from our customers' feedback. Looking to the future, in order to achieve the transition to EVs, it is essential that customers have easy access to the right charging solutions. Whether this is at home, work or in public areas, we are committed to making it easy for our customers to go 100% green.

For our most vulnerable customers, we offer specific help:

- The ScottishPower Hardship Fund continues to support our vulnerable customer base and has provided over £43 million in debt relief to customers with financial difficulties since its launch in 2015. We are fully committed to the hardship fund as a cornerstone of our policy of alleviating the debt of our most vulnerable customers. In 2020, we expanded the prepayment voucher fund to help more customers who have self-disconnected and who contact food banks and Citizens Advice Bureau. In 2020 the scheme provided £146,000 of support.
- We have also helped to refer more than 14,000 customers in 2020 to get help with ongoing household budget and debt issues from the National Debtline.
- We have a wide range of categories of vulnerability for customer-facing staff to use to ensure that we understand customer circumstances, both temporary and longer term. This ensures that we can offer appropriate support to customers on an ongoing basis, or through shorter periods of uncertainty.

As an energy company who wishes to remain in contact with its customers, we are one of the very few who continue to offer a community liaison service where our service experts will visit customers throughout Great Britain to help resolve any service-related query. This in-person service was interrupted for a short period during the COVID-19 lockdown, but was promptly re-mobilised in early August 2020 to ensure that we are accessible to all customers when they need us most.

The delivery of energy efficiency measures continues to be an important responsibility of our business, and 2020 was the seventh year of delivery of the UK Government's Energy Company Obligation ("ECO"). The ECO scheme focuses on reducing heating costs for the most vulnerable customers and aims to improve the energy efficiency of properties. Our programme was impacted by the COVID-19 lockdown with all non-urgent activity cancelled. However, we have amended our process to support our supply chain through this period and have recovered all activity stopped during lockdown. Despite localised restrictions, we continue to make strong progress towards meeting our current obligations. Legislation which defines the 'ECO 3' scheme came into effect in December 2018 and covers the period from that date until 31 March 2022. There are now 24 obligated suppliers due to changes in the scheme which now requires the participation of some smaller suppliers who were previously exempt.

We also support vulnerable customers with their energy bills through the Warm Home Discount Scheme ("WHD"). Now in its ninth year, the WHD is the UK Government's main policy for tackling fuel poverty. The scheme is delivered by energy suppliers to qualifying customers by providing rebates on electricity accounts to help when bills may be higher over the winter period. During scheme Year 9, which operated from 1 April 2019 to 31 March 2020, we spent £29.2 million providing assistance to 208,449 customers by applying a rebate of £140 to their electricity account.

In addition, £4 million of funding was awarded to third party organisations to deliver industry initiative projects to provide a range of assistance to domestic customers. The demand for these support services is high with the impact of COVID-19 being felt in all households. Measures included fuel debt assistance, benefit entitlement checks and energy advice.

Group Strategic Report for the year ended 31 December 2020

ENGAGING WITH STAKEHOLDERS *continued*

“Being collaborative”

GOVERNMENT AND REGULATORS

Governments and regulators play a central role in shaping the energy sector. We engage with them directly and through trade associations, responding to issues of concern and providing expertise to support policy development. Through this engagement, we aim to contribute to the delivery of a UK energy system that functions in the interests of customers now, and in the future, including achievement of the UK and Scottish Governments' net zero decarbonisation targets. In the early part of the year much of our engagement with government and Ofgem was focused on the response to COVID-19, including steps to reassure energy customers who might find themselves in financial difficulty, ensuring that our key workers and engineers were able to continue the vital role in the communities we serve, and seeking appropriate adjustments of regulatory obligations affected by lockdown. We have continued to engage extensively with governments, local authorities and other stakeholders on decarbonisation, publishing in June 2020 a report 'Unlocking Net Zero' setting out a ten point plan to deliver jobs and investment for a green recovery. In the latter part of the year much of our engagement with government, Ofgem and other stakeholders has been on the RII0-2 network price controls, highlighting the need for appropriate levels of ambition towards net zero, and with government on future support for renewables.

“Being responsible”

SUPPLIERS AND CONTRACTORS

As part of our mission for a better future, quicker, we are always looking for new suppliers and contractors, and for ways to improve our working relationships with our existing suppliers and contractors. We have a broad and diverse supply chain with over 3,000 suppliers, and during 2020, we awarded contracts with a cumulative value of around £1.8 billion. Our suppliers have a key role to play in the delivery of our projects and services that we are undertaking to provide a low-carbon future for the UK. We aim to develop and maintain strong relationships across our supply base with a focus on health and safety, quality and cost. We expect our suppliers to operate to a high standard including working in an ethical and sustainable manner, and we have a range of policies that all suppliers must adhere to including ScottishPower's Code of Ethics.

Engaging proactively with our supply chain is key in ensuring positive outcomes for both us and our suppliers, and we seek to engage specifically with suppliers through a variety of methods including business update sessions focused on the supply chain, participation at trade fairs and our Supplier Awards, which recognise excellence in the supply chain along with giving a wide range of suppliers the opportunity to interact with both the procurement team and other ScottishPower employees.

Engagement with our supply chain has been vital during the COVID-19 pandemic and allowed us to assess the impact not only on our supply of goods, services and progress on works, but also how the pandemic was affecting our suppliers. We asked for our suppliers to highlight significant risks they were facing and how this would affect our supplies, and this put us in a position to take any remedial action as required. In order to support our suppliers, we collated information on sources of government assistance and relevant contacts, which was shared within our organisation to ensure this information could reach as many suppliers as possible.

COMMUNITY AND ENVIRONMENT

The community

Being a trusted, respected and integrated part of the community is something we continually aim for at ScottishPower. This is realised through operating with integrity, transparency, and working closely within the community to build relationships. As our business has grown, so has our presence, and we aim to ensure we conduct our activities responsibly and make a positive contribution to society. Engaging with these communities, as key stakeholders, is therefore essential to delivering our objectives, and underpins our core value of collaboration.

Investing in the community

We have a long track record of supporting communities by sharing our resources and the skills of our employees. We promote payroll giving and encourage employee development through volunteering and community-based programmes. We aim, where possible, to create opportunities for local employment during construction and operations, through events such as 'Meet the Developer' days where local contractors are invited to find out about opportunities at our facilities. We work closely with the UK Government and devolved administrations to develop policy on community engagement and benefit, and to ensure that observe to all voluntary codes of good practice.

As part of the Iberdrola Group, we use the London Benchmarking Group ("LBG") Framework to evaluate our community investment activity. This framework is used by leading businesses around the world and provides a comprehensive and consistent set of measures for companies to determine their contributions to the community.

During 2020, the Group voluntarily contributed £18.4 million (2019 £17.3 million) in community support activity, through cash, time, in-kind support and management costs associated with running community programmes. The £18.4 million (2019 £17.3 million) incorporated £13.2 million (2019 £11.7 million) categorised as community investment, £4.6 million (2019 £5.2 million) categorised as commercial initiatives, £0.4 million (2019 £0.3 million) categorised as charitable gifts and £0.2 million (2019 £0.1 million) in management costs. Included within these figures, Renewables made £5.6 million (2019 £5.3 million) in voluntary community benefit payments to the communities neighbouring its wind farms. These figures are compiled for the Iberdrola Sustainability Report and which are being independently verified by 'Managing a Sustainable Business, S.L.' which coordinates the Grupo LBG España.

Group Strategic Report for the year ended 31 December 2020

ENGAGING WITH STAKEHOLDERS *continued*

Community engagement and consultation

We engage with communities across our operations, where developments are planned, or where we are decommissioning assets. The key areas of community interaction include; the siting of new facilities such as wind farms, the presence of distribution and transmission lines, decommissioning older plant, and routine maintenance work. We take a proactive approach to providing accurate information, from pre-planning through to completion.

We maintain strong relationships with local communities by working with community groups, elected representatives, interest groups and individuals, in order to ensure that those affected by our work are aware in advance, and thus allowing communities to have their say. This is particularly important to us as a developer, owner and operator, with longstanding relationships in many of the communities in which we work.

A variety of consultation methods are used to engage with the needs of communities. Our community consultation processes include; representation at community meetings, presentations and forums such as public information days, with further information published on the ScottishPower website and through social media. Our facilities host visits from community groups, maintain visitor centres and run Local Liaison Committees which provide a forum for discussion between ourselves and community representatives.

As many of our assets are situated on land that we do not own, policies are in place to ensure that the safety and integrity of the plant is maintained, while respecting the needs of the landowner, the local community and the general public. Energy Networks, and those working on its behalf, adhere to a Grantor's Charter which sets out guidance of commitment to grantors and has been prepared in consultation with key stakeholders.

ScottishPower Foundation

The ScottishPower Foundation ("the Foundation") was established in 2013 to reinforce our commitment to charitable work throughout the UK. It is a registered Scottish charity (SC043862) and a company limited by guarantee (SC445116).

There are five main categories of funding:

- the advancement of education;
- the advancement of environmental protection;
- the advancement of the arts, heritage, culture or science;
- the prevention or relief of poverty and the relief of those in need by reason of disability or other disadvantage; and
- the advancement of citizenship and community development.

Decisions to award funding are made independently of ScottishPower by an experienced Board of Trustees who have a special interest in the above areas.

Applying to the Foundation for funding is highly competitive every year. The successful charities show passion, skill and a commitment to making a positive change in their communities. Above all they are chosen for their ability to demonstrate innovation in how they respond to the challenges facing society, and 2020 has certainly been a challenging year for the charitable sector. The Foundation enters into funding agreements with charities, setting out their project deliverables. As the COVID-19 crisis took hold, it became clear that it would have an impact on the charities' ability to deliver within the timescales. The Foundation's Board of Trustees made a commitment to honour 100% of the grants awarded for 2020, agreeing that, if projects were unable to go ahead due to COVID-19, the charities could request a change to the scope or timescales of their project. In some cases, they could ask for some or all of the grant to be redirected to their core costs to help them survive, provided that their core purposes match the Foundation's.

In 2020, the Foundation awarded funding of over £1.2 million to 21 registered charities to support their work throughout the UK. Projects included a new on-site and mobile planetaria for Earth and space observation for the Dynamic Earth Charitable Trust based in Edinburgh. Using new, state of the art technology, the planetarium will offer interactive, live, presenter-led shows, and the mobile planetarium will deliver an outreach programme across Scotland. The Foundation also supported MockCOP run by Size of Wales, which empowers young people from across Wales to use their voices to tackle climate change.

The funding pot included £30,000 awarded at the annual ScottishPower Foundation Awards, announced on social media in December 2020. There are four awards, including the Charity Champion Award giving special recognition to individuals working in the charitable sector for personal dedication. A further 16 grants were shortlisted by trustees in December 2020 to be delivered during 2021 subject to budget and contract.

Networks

Energy Networks has shaped its business around geographical districts, enabling them to be closer to the communities they serve and allowing communities to have influence upon the delivery of projects in their area.

Our Strategic approach to community engagement

Engaging with our communities is at the heart of everything we do. We have a significant presence within the communities we serve across both our transmission and distribution licence areas, managed by our dedicated teams to develop and maintain strong relationships. Our proactive programme of engagement covers a range of community activity including engaging with those affected by engineering works, delivering innovation projects within local communities, as well as developing local partnerships to better understand and safeguard hard-to-reach and vulnerable communities. All whilst maintaining our high standards of customer service.

Engagement with communities is critical to our operations. Through our robust engagement approach, we make sure individuals and their communities are involved at every stage of our decision-making and embedded in strategic and investment plans to maximise local opportunities and resulting benefits. The end of 2020 sees us commissioning Community Energy Scotland (a community support charity), with input from Community Energy England and Community Energy Wales to develop our first ever Community Energy Strategy, which will be embedded in our upcoming RII0-ED2 business plan, to be submitted in December 2021.

Group Strategic Report for the year ended 31 December 2020

ENGAGING WITH STAKEHOLDERS *continued*

Zero Carbon Communities

Following on from our strategic stakeholder panels and independent research regarding community energy, we have taken great strides in the last year to put measures in place to ensure no communities are left behind throughout the energy transition. This is especially exemplified with the creation of our new Zero Carbon Communities ("ZCC") Hub (https://www.spenergynetworks.co.uk/pages/zero_carbon_community_tools.aspx). This online tool supports the UK's community energy sector who need advice and support to get their projects off the ground or who may just be starting their local energy journey. This tool is a free, centralised source of information, built with the practical knowledge and experience of Community Energy Scotland. It brings together shared knowledge and sign-posting as well as advice and funding opportunities around the UK. The ZCC Hub provides a consumer-minded interface between community energy groups and industry, boosts awareness and investment in the growth of the community energy sector, and allows local communities to take part in net zero ambitions while maximising benefits to both the local and the wider economy.

Supporting local communities to achieve net zero

We have contributed £20 million over the last two years through our innovative Green Economy Fund ("GEF") to support initiatives directly benefiting the people of Scotland as well as supporting Scotland's ambitious green energy plans and local economic growth. We have funded 35 projects with a wide geographic spread across our network area in Scotland.

Our GEF projects specifically target key areas where major transmission work is being carried out, allowing us to provide direct benefit and support to our local communities helping to meet demand, reduce energy costs and address fuel poverty. The sustainability of the projects sees them fit a low-carbon future, benefiting hundreds of thousands of people and the environment for years to come.

In creating our GEF, we prioritised a model for taking stakeholder engagement to the next level. Continuous engagement between our team and those working on the projects has helped to forge stronger relationships, bring us closer to the communities we serve, and grow our stakeholder group.

Our GEF was awarded the Community Engagement award at the 2020 Planet Mark Awards. The Planet Mark certification recognises continuous improvements, encourages action, and builds an empowered community of like-minded individuals. Our stakeholders have recognised the benefits that the fund has delivered for communities and that network operators are well-placed to support their communities. In our next transmission price control, Ofgem has permitted a £5 million fund for 2021-2026, called the 'Net Zero Fund' which will be similar to the GEF, but with more focus on supporting vulnerable consumers and promoting low-carbon projects.

A snapshot of our GEF impact:

- 53 full-time jobs created;
- 169 metric tonnes of CO₂ equivalent ("tCO₂e") per annum carbon savings;
- 26 EV's purchased;
- 8,385 vulnerable customers engaged about energy issues;
- 318 awareness-raising events held by GEF projects;
- 887 learning discussions with other organisations; and
- 13,120 energy customers who have received support directly through the project.

Continuing our programme of engagement throughout COVID-19

Even throughout this time of uncertainty, the UK continues to have one of the most reliable energy networks in the world. Our top priority is to keep the power flowing for our 3.5 million customers, while ensuring critical national infrastructure sites, like hospitals, receive the vital electricity supplies they need. Engagement is central to the unprecedented challenges faced in operating a safe and reliable network and serving our customers, especially those in vulnerable circumstances. Our proactive approach helps us shape new ways of working to overcome these challenges and we are committed to ensuring we maintain our full programme of engagement throughout these challenging times. In March 2020, we set out a COVID-19 Specific Engagement Strategy for both local and national engagement. In line with our Central Stakeholder Engagement Strategy, our COVID-19 engagement strategy sets out how we have managed existing relationships with key stakeholders to:

- maintain key engagement links between the business and our stakeholders;
- utilise third party stakeholders to disseminate key information relating to our management of the COVID-19 situation;
- work in conjunction with key stakeholders to safeguard customers in vulnerable circumstances; and
- inform and keep the public up to date with essential operational activity.

We carefully monitored the external environment to be responsive to any issues our customers and communities faced and adapted our approach accordingly. We also used our communication channels to share positive stories to celebrate the dedication of our teams in supporting communities most in need through the use of our '#SPENHeroes' tag, as well as communicating the vital role our employees have in maintaining security of supply through our 'We're here for you' video.

How we have adapted

How, where and when we work changed significantly during the COVID-19 crisis. We focused on our practices at work, in our personal lives and on supporting our communities.

Group Strategic Report for the year ended 31 December 2020

ENGAGING WITH STAKEHOLDERS *continued*

We continued to work round the clock to keep the power flowing, ensuring people could keep working and stay connected to family and friends, as well as going the extra mile to protect power supplies to critical facilities. As part of the wider support, we delivered the following initiatives:

- protection of critical sites such as hospitals, care homes and food supply operations;
- talking to the NHS to stay ahead of their needs for increased capacity and urgent connections;
- additional Priority Services Register ("PSR") category added for customers with the Governments' shielding letter;
- provided our front-line staff with extra PPE supplies to protect themselves and those they come into contact with;
- outbound calling to PSR customers most at risk; and
- sharing our vulnerability mapping tool and PSR data with all local authorities and emergency services.

As a business we also signed up to the UK's C-19 Business Pledge. Founded by former UK Cabinet Minister, Rt Hon. Justine Greening and UK entrepreneur David Harrison, the aim of the C-19 Business Pledge was to mobilise the immediate response to the COVID-19 pandemic.

Throughout the pandemic, we proactively engaged with customers as never before, especially whilst working in and around their properties. This resulted in better service and more positive solutions being delivered to our customers, as is reflected in our customer service scores which are trending upwards. In the regulatory year 2019/20, SPD achieved a customer satisfaction score of 9.17 out of 10 and SPM achieved a score of 9.16 out of 10.

We responded decisively to support our communities and opened an application process for partner organisations to apply for funding to deliver essential services to vulnerable communities during COVID-19. As a result, we delivered over £600,000 in value to our customers and communities to provide support services such as:

- stocking food banks, delivering shopping and prescription deliveries;
- essential supplies to support carers;
- wellbeing calls and helpline for families with autistic children;
- technology for family education and medication reminders;
- fuel top-ups for those self-isolating; and
- coordination of community volunteering.

It also uncovered new ways of working with partners. For example, we partnered with The Royal National Institute for the Blind ("RNIB") by making 'wellbeing' calls to our blind and partially sighted customers registered on our PSR, ensuring they were made aware of the support on offer, by both the RNIB and ourselves, by referring them to our additional services.

During the pandemic, our GEF worked with Community Transport Glasgow ("CTG"), who provided the communities of Glasgow and beyond with support from all the staff and volunteers in CTG's response to COVID-19. Between March and September 2020, CTG:

- made 595 catch-up calls with the CTG's individual and group members;
- provided transport to get key workers to work;
- delivered 2,168 care, food and activity packages;
- picked up 97 wholesale bulk food orders;
- delivered 279 bulk food drop-offs to 21 community organisations throughout Glasgow;
- carried out 305 pharmacy deliveries throughout Glasgow since July 2020; and
- assisted NHS Lanarkshire with non-emergency and COVID-19-related transport.

We also continued to support our communities in light of COVID-19 restrictions impacting engagement opportunities such as the cancellation of Agricultural Shows. Attending these events provides us with a great platform to engage with our customers, local communities and agricultural businesses to promote our key safety messages and give information on how we provide further support. We overcame this by:

- attending virtual agricultural shows, for example The Royal Cheshire Virtual Agricultural Show and the Anglesey Virtual Agricultural Show 2020, showcasing key safety awareness videos, emergency 105 messaging, PSR and information on Zero Carbon Communities and our educational tool, Power Wise;
- engaging with various sectors across the agricultural community such as harvesting companies and through online agricultural trading platform SellMyLivestock.com, reaching 46,000 members twice weekly as well as increasing exposure through magazine publications; and
- utilising partnership links such as National Farmers' Unions across Scotland, England and Wales who shared information on key safety messaging, PSR, emergency 105 messaging and critical working messaging.

Group Strategic Report for the year ended 31 December 2020

ENGAGING WITH STAKEHOLDERS *continued*

Renewables

The Renewables business focuses its activities on the communities located near existing and proposed wind farm developments, with specialist teams who manage the planning process and have responsibility for community engagement. Relationships are established with local stakeholders including Local Authority Councillors, MSP/MPs, industry groups and other interested parties. This ensures that they are informed of development plans and progress throughout all stages of the project and that they have opportunities to engage in the consultation process. We are mindful that we will be operating in the area for many years and our aim is to ensure that we are trusted neighbours working alongside the community.

Throughout the COVID-19 pandemic, to ensure that our projects in development continued to progress as planned, we assessed and amended our engagement processes, allowing us to continue to provide information to our local stakeholders. Public Information Days, usually held within the community, were moved online. This enabled us to provide the same level of detail about our developments, outlining the findings of our environmental assessments, sharing the benefits our projects will deliver, and gathering local feedback. Project teams also scheduled phone calls with local stakeholders who wished to discuss aspects of the project in more detail. Analysis of these events showed that viewers were able to take time to review information at their own convenience. We were also able to reach a larger audience than at face-to-face meetings.

To alleviate concerns about workers returning from outside of the area when construction work recommenced at our wind farm developments, we held discussions with local MSP/MPs, Local Authority Councillors and with Community Council representatives to agree a twelve point plan outlining our commitment, as well as our contractors', to adhere to appropriate measures and behaviours. We also donated a total of £1,250 towards four local charities to help them deliver COVID-19 services to vulnerable and shielding people across Kintyre.

Communities have utilised the community benefit funds that we provide from our operational wind farms to address COVID-19 requirements within their community. This has included:

Dumfriesshire East Community Benefit Group (Ewe Hill Windfarm)

- Contribution towards food costs for the provision of cooked meals to vulnerable or isolating individuals and families delivered via the Aberlour Trust.

Carrick Futures (Arecleoch and Mark Hill Windfarms)

- £30,000 emergency fund to support activities by local community organisations providing help to vulnerable people in difficulty because of the COVID-19 pandemic.
- £500 – £3,000 awarded to various initiatives within the eligible communities.

North Carrick Community Benefit Company (Dersalloch Windfarm)

- 130 volunteers supporting vulnerable and isolated residents to ensure they received essential supplies from the local pharmacies and shops.
- Brochures delivered through all doors within the eligible communities with vouchers to be used in the local shop, post office or petrol station for essentials during lockdown (total given to date £41,000).

Glencairn Community Council (Wether Hill Windfarm)

- COVID-19 hardship fund, mainly used to pay fuel expenses for volunteers delivering meals cooked at local hotel or shopping from local shops to people in the community who are self-isolating.
- Donation to a local resident to make face masks for community members.

Community engagement – Whitelee Windfarm Visitor Centre

As part of the Renewables stakeholder engagement programme, the Whitelee Visitor Centre continues with its public activities and community events. Located at Whitelee Windfarm, our visitor centre has welcomed over 815,000 visitors since it opened in 2009. Managed by the Glasgow Science Centre, it is a free facility offering an interactive, educational experience for members of the public and houses a cafe, shower facilities, a bike shed and free car parking (including a solar car charging canopy) which can accommodate charging for four EVs. Visitors to the facility are able to book bus tours to explore the wind farm, learn more about the history and ecology of the site, and get close to the wind turbines.

The Visitor Centre offers an education programme, with curriculum-based sessions from nursery level to further education which over 46,000 school pupils have attended since opening. There is also a programme of craft activities delivered during weekends and school holidays.

Complementing this is the provision of the Whitelee Countryside Ranger Service ("WCRS"), which we fund via a portion of the community benefit fund. This comprises a Project Supervisor and three Countryside Rangers, who promote responsible access within the wind farm, install and maintain recreational furniture and signage and also host free events throughout the year. These events include guided woodland walks, pond searches, learning wildflower apothecary, summer holiday clubs like 'Boggy Beasties' and a weekly guided buggy walk.

In accordance with government guidance to reduce the spread of COVID-19, the visitor centre was closed from mid-March until the beginning of October 2020 and all events were therefore cancelled. The wind farm remained accessible throughout this time for local recreational use and, following an update in government guidance, the car park was re-opened in June 2020 providing visitors with the opportunity to exercise in an open location with the space to appropriately distance from others. The anecdotal evidence and indicative numbers visiting site in the summer of 2020 compared to the corresponding months in 2019 suggests that Whitelee has become a key location for individuals and families seeking to keep active and healthy in an outdoor setting. The visitor centre re-opened in October 2020 with the relaxing of government guidance until the reintroduction of a lockdown in November 2020 and the annual closure for the winter period.

Group Strategic Report for the year ended 31 December 2020

ENGAGING WITH STAKEHOLDERS *continued*

Our team have been progressing plans for an additional investment of around £200,000 in an extensive refresh of the exhibition area to keep the content relevant and engaging for visitors. This is expected to be delivered in 2021.

Retail

From the very beginning of the COVID-19 pandemic, we focused our efforts on assisting those customers with no supply, ensuring they were able to contact us immediately to have their supply restored. Our other main efforts were for vulnerable and elderly customers, and specifically those with prepayment metering, to ensure they could top-up if they were self-isolating. For other customers, we provided them with the reassurance that they could pause or reduce payments towards their energy account should they be facing financial difficulties.

Over 364,000 households and businesses took advantage of one of these support measures, and almost £2.2 million has been issued on pre-loaded prepayment keys/cards to customers who have been unable to access shops or afford to top-up themselves. Feedback from customers has confirmed just how valuable this help has been to them.

During this unprecedented time, we proactively contacted around 2.5 million customers to advise them of the support measures available. Encouraging customers, where possible, to use our digital My Account services available via our website and app, and helped keep our phone lines free for customers who needed our help most. The content was tailored as to how a customer pays for energy as the support and advice given for each payment method varies and regularly updated as the COVID-19 pandemic evolved.

As with all our customer interactions, if we became aware that a customer would benefit from any of our priority services, or they wished to have their personal circumstances recorded, we offered to add them to our Priority Services Register.

To further safeguard our customers and staff, and in line with government guidance, we temporarily stopped all non-essential meter changes. Where emergency meter exchanges were required, our installers used the appropriate health and safety equipment and followed the protocols to protect both themselves and our customers to allow them to carry out the installation as safely as possible.

In addition to our customers, we also support the charity sector, particularly our longstanding relationship with Cancer Research UK. During this difficult period for charities, customers on our "Help Beat Cancer" tariffs continue to make a vital contribution to the incredible work that Cancer Research UK does. ScottishPower has raised over £30 million to date through a combination of sponsorship of events like Stand Up to Cancer, sales of our "Help Beat Cancer" tariffs, and fundraising activities.

Throughout this period, we have engaged regularly with the key industry stakeholders, e.g. Ofgem, Citizens Advice and Ombudsman Services, to keep them fully updated of our community actions designed to ensure the business was able to continue operating safely and successfully for our customers during these unprecedented challenging times.

The environment

Environment

Iberdrola has made a commitment to decarbonisation, setting strategic goals to become a 'zero carbon' company in Europe (in relation to power generation) by 2030 and reduce its global CO₂ emissions by 86% to 50g per kilowatt hour ("kWh") by the end of the decade. The Science Based Target initiative ("SBTi") has approved new targets for Iberdrola to reduce absolute greenhouse gas emissions by 43% by 2030 from a 2017 base year. The targets covering greenhouse gas emissions from company operations are consistent with reductions required to keep global warming to 1.5°C. As an additional contribution, Iberdrola will plant 20 million trees by 2030 (8 million trees by 2025). This commitment to a net zero path is central to Iberdrola's sustainable business strategy, and aligns with the Sustainable Development Goals ("SDGs") set out by United Nation's 2030 Agenda for Sustainable Development which are concerned with global issues including tackling climate change and justice. Iberdrola's Sustainability Report 2019 explains the Iberdrola Group's focus upon accelerating action towards the SDGs especially SDG 7 (Clean & Affordable Energy) and SDG 13 (Climate Action). In 2020, ScottishPower commissioned a cross-business programme of work to set similar greenhouse gas emissions reductions targets recognised by the SBTi, to complement the targets set by Iberdrola. This work will be supported by an implementation plan and new reporting and delivery structures across the Group's divisions.

We are working to minimise our carbon footprint through environmental management systems ("EMSs"), which align with the SDGs. We have formal EMSs certified to International Standard 14001:2015, and managed by our operational businesses. At a corporate level, we have an Integrated EMS which was subject to a successful external surveillance audit in June 2020.

We are committed to reducing our environmental footprint by:

- reducing emissions to air, land and water, and preventing environmental harm;
- cutting waste and encouraging re-use and recycling;
- protecting natural habitats and restoring biodiversity;
- minimising energy consumption and use of natural and man-made resources; and
- sourcing material resources responsibly.

In June 2020, global firm RELX recognised our work to advance the UN SDGs through our leadership as a responsible and sustainable company. Judges were impressed by our environmental management approach (ISO14001) and awarded us the RELX's SDG Customer Award. Our EMS coverage is enlarging as Renewables implements a business level EMSs across the offshore global portfolio. They are ensuring consistency, quality and continuous improvement across all their construction and operational activities through collaboration.

In Energy Networks, we are committed to delivering the infrastructure to enable the electrification of transport and heating through the connections to the renewable generation capacity required to hit UK climate targets. In addition, Energy Networks are focussed on supporting environment protection and enhancement. For example, reducing the volume of waste associated with our construction projects, and making greater use of alternatives for sulphur hexafluoride ("SF₆") in our network assets; a gas that has many times the global warming potential of CO₂. We aim to minimise and mitigate construction

Group Strategic Report for the year ended 31 December 2020

ENGAGING WITH STAKEHOLDERS *continued*

impacts for the benefit of species and habitats throughout our work. Therefore, collaboration with landowners and organisations like Scottish Forestry and North Wales Wildlife Trust have provided opportunities to encourage natural regeneration, create woodland and prevent bird collisions with overhead lines including the red kite and peregrine falcon. This involves significant engagement with national regulators and local stakeholders including the Scottish Environment Protection Agency ("SEPA"), NatureScot, Local Authorities, land owners and species specialists. All contractors and site staff receive training on protected species and mitigation processes, and in many cases specialist contractors are employed to supervise the activities. We are continuing to embed the UN SDGs, we demonstrate how SDG 17 (Delivering Through Partnership) is crucial in achieving our ambitions. This includes strategic level partnerships and community engagement to support the development of local sustainable energy initiatives and helping to grow the green economy.

In Renewables, our investments plan will bring new renewable generation on line to help decarbonise the power sector, and in turn the transport and heating sectors. The EMS is being used to influence suppliers of offshore wind farm components to reduce the environmental impact of the products they are supplying during operation (and future decommissioning). This includes, for example, reducing the volumes of environmentally sensitive chemicals and gases like SF₆ in our procured electrical equipment, and requiring improved environmental performance from suppliers and contractors through bespoke environmental contractual documents.

In addition, we recognise the importance of biological diversity and cultural heritage, and respecting natural resources in order to enhance the environment. For example, Renewables have implemented habitat management plans (covering over 9,000 hectares of land) and committed to over 200 ecological activities in relation to onshore wind farms, the majority of which concern the restoration of degraded habitat, creation of native woodlands and species monitoring. In addition, we are supporting and implementing research in partnership with a wide range of bodies such as the Royal Society for Protection of Birds to support nationally important bird species including black grouse and the short eared owl.

Our offshore projects are developed and delivered with industry-leading environmental collaborations and innovative techniques. Throughout 2020, we assessed the noise monitoring data collected during the EA1 offshore construction phase. We are working with marine biology academics to understand potential effects on the harbour porpoise, and how current population impact models could be improved. We have also been engaging with a UK Government-funded project to share our underwater noise recordings collected during unexploded ordnance detonation to understand the noise profiles of this activity for wider offshore wind industry modelling. In ornithology, we continue to participate in an innovative pilot scheme working with key UK stakeholders to identify research needs for black-legged kittiwake.

We became the first integrated energy company in the UK to shift completely from coal and gas generation to wind power in 2019, and our Retail business purchases the related renewable output to support our 100% renewable electricity tariffs, for a totally sustainable solution. We are also committed to helping our customers consume energy more efficiently and by promoting products and technologies such as smart meters, remote heating control solutions and installation of charging infrastructure for EVs, we can give customers more control over their energy consumption and help them to transition to a low-carbon future. We're also working to deliver green options for the wider population and we are building a public charging network across the UK so that drivers can quickly and conveniently charge around their schedule, making EVs the smart and easy choice.

Sustainability

The fight against climate change and respect for the environment lie at the heart of both Iberdrola's and the ScottishPower's Sustainable Energy Business Model. This focuses upon working to achieve sustainable development and is put into action by integrating the SDGs into strategy and operations. Across the Iberdrola Group, the General Sustainable Development Policy states the strategic pillars which align our sustainability values with the UN SDGs. Therefore, our focus is on working in partnerships and collaborations to deliver more and smarter networks, clean energy generation, and energy storage and customer solutions.

Our contributions to the SDGs map accordingly to each of the 17 Global Goals. Iberdrola's Sustainability Report gives a more in-depth picture of these impacts at a global and UK level. It describes the programme of leadership, investment and innovation in delivering sustainable outcomes with a strong focus in contributing to the decarbonisation of energy (SDG 7). This is evidenced by our commitment to renewable generation, low-carbon technologies such as electric transport, and a smarter electricity infrastructure to enable a low-carbon future.

We are members of UN Global Compact and active participants in UK Network. This means we put a principles-based approach to the way we do business sustainably to meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption. We incorporate the Ten Principles of the UN Global Compact into our business strategies and governance to protect people and planet. We are members of the UK Global Compact Task Force on Climate-related Financial Disclosures ("TCFD") Working Group. In addition to our participation in the UN Global Compact Network we continue to be an active member of the Corporate Leaders Group UK, the Aldersgate Group, and in Scotland specifically we are also active in the SCDI Clean Growth Leadership Group and the Climate Emergency Response Group.

Group Strategic Report for the year ended 31 December 2020

ENGAGING WITH STAKEHOLDERS *continued*

Streamlined Energy and Carbon Reporting ("SECR")

Energy and carbon data

ScottishPower is committed to producing meaningful climate disclosures in line with those required by The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the 2018 Regulations"). The table below provides details of the information required by the 2018 Regulations relating to the Scottish Power Limited Group and has been independently verified by Mabbett & Associates Ltd.

Year ended 31 December 2020		Notes	kWh	tCO ₂ e
Scope 1	Gas		31,668,959	5,823
	Combustion of fuel for transport		31,978,525	7,683
		(a)	63,647,484	13,506
Scope 2	Purchased electricity for own use – location-based	(a), (b), (c)	75,833,492	18,536
Scope 3	Business travel – vehicles (employee-owned and leased)	(a)	6,194,903	1,548
Total			145,675,879	33,590
Based on the above Scope 1, 2 and 3 figures:				7.12 gCO ₂ /kWh*
ScottishPower generated electricity with a carbon intensity of:				0.00001 tCO ₂ /kWh**

* grams of CO₂ equivalent per kilowatt hour

** tonnes of CO₂ equivalent per kilowatt hour

(a) Scope 1 – Direct emissions from owned or controlled sources

Scope 2 – Indirect emissions from generation of purchased electricity

Scope 3 – Indirect emissions that occur in our supply chain

(b) Emissions associated with purchased electricity are reported as location-based, however a significant proportion of electricity consumption is covered by renewable energy contracts.

(c) Electricity consumption related to company-owned/leased EVs is accounted for in purchased electricity.

(d) All data reported is based on January to December 2020 in line with ScottishPower's financial year with the exception of Energy Networks data. Energy Networks data used is as reported to Ofgem as the Business Carbon Footprint (April 2019 to March 2020), using BEIS 2019 conversion factors.

(e) With the exception of Energy Networks data, an estimate for Q4 is included as actual data is not available at time of reporting.

(f) ScottishPower uses the GHG Protocol Corporate Reporting Standard and account for 100% of Scope 1 and 2 emissions from operations over which we have control, with the exception of joint ventures, where we report based on percentage ownership.

(g) In future years, all material upstream and downstream Scope 3 categories beyond those required under mandatory reporting will be included in the calculation of the carbon intensity figure.

Energy efficiency

A number of energy efficiency measures were carried out during 2020 and included measures such as:

- refurbishment at key sites including improvements to lighting, insulation, air conditioning and the building management system, as well as installation of a new heating system;
- installation of additional EV chargers, with further planning to expand the charging capacity at a number of sites;
- a number of cars and vans within our fleet were replaced with EVs;
- the heating system at our Whitelee Visitor Centre was upgraded whilst solar panels were added to power the EV charging points; and
- detailed investigations began in order to inform the further installation of small-scale solar technology at additional sites within our portfolio.

With 2020 activities being slowed due to the COVID-19 pandemic, 2021 is expected to deliver further improvements such as those planned in our transmission substations, with the aim of reducing energy consumption by more than 1,000 MWh per annum. The planned energy efficiency works will be further supported by the ongoing Science Based Targets workstream. This program of work across the Group is expected to highlight additional implementation steps in our trajectory to reduce our overall carbon footprint.

Group Strategic Report for the year ended 31 December 2020

INNOVATION

Our future and strategic success relies on an innovative and dynamic culture in both internal initiatives and external collaborations. Our diverse range of stakeholders helps us to deliver innovation activities across technical and commercial challenges. With consideration of our Group values, collaboration features strongly in our open invitation model which allows close working relationships with academics, our supply chain, public agencies and customers, amongst others.

In our strategic partnership with the University of Strathclyde, and specifically within the Low Carbon Power and Energy collaboration programme, we have carried out studies in many future value areas such as; the ability of wind farms to support the ancillary services market, the use of data analytics to predict health and safety trends, the use of advanced forecasting techniques for energy markets, and using predictive analytics to support future asset planning in electricity networks.

Our future innovations will benefit from rapid prototyping and testing in real world environments and to that end, we have signed an agreement with the Halo Kilmarnock project to work together in a world-leading, 'living lab' development. This project plans to create a 100% renewable energy-fed community comprising more than 200 homes and 30 small businesses, a large enterprise and innovation office, and a range of low-carbon technologies throughout. This will enable the trialling and deployment of low-carbon heating, energy storage, electrification of transportation and smart home products and services. This flagship project is intended to allow innovations across the Group to be tested quicker, accelerate time to market, and to provide a conveyor belt of future innovations in the next few years.

Energy Networks

- 2020 saw Energy Networks build on the success of their Year of Innovation in 2019. Staff are key to this success, and an ideas management platform has been embedded in the business to give staff direct access to solve challenges faced by the business.
- The Project PACE team at Energy Networks are working in collaboration with Transport Scotland and Local Authorities to deliver around 180 new public chargers in more than 40 locations across Lanarkshire, targeting areas and communities where the commercial market has not yet delivered and is unlikely to in the short to medium term. Project PACE is exploring the benefits of having a DNO involved in the various stages of deploying universally accessible public EV charger infrastructure, including costs and delivery timescales.
- As the electricity network continues to evolve, and demand for power continues to grow, the ability to actively manage our network becomes ever more critical. Fault level management is a key part of that, which is why we have been working on new and innovative technology that allows us to measure and manage fault levels in real time. As part of trials being run, prototype monitors are installed in substations across Chester, Warrington and Liverpool, allowing us greater visibility of the entire electrical network at any given time.

Renewables

- 'Green Hydrogen for Scotland' is a partnership of Renewables, BOC – (a Linde company), and ITM Power, and brings together industry-leading names in the renewables and clean fuel industries to offer an end-to-end market solution for reducing vehicle emissions through the provision of green hydrogen. The partnership's first project, 'Green Hydrogen for Glasgow', is designed to provide carbon-free heavy vehicle transport and clean air for communities across the city, which wants to become the first net zero city in the UK by 2030. A proposed green hydrogen production facility located on the outskirts of the city will use wind and solar generation produced by Renewables to power an electrolyser, delivered by ITM Power. The project aims to supply hydrogen to the market in 2022.
- The future of renewable generators providing substantial ancillary services to the energy system, such as frequency response and black start, were trialled in 2020 as part of a government-backed 'Virtual Synchronous Machine' project. A project consortium, including Renewables, is looking to demonstrate the operational systems and technological capability that will ensure large-scale renewables generators will play a key role in a secure and reliable future energy system.
- As the potential of the offshore wind sector continues to grow, deeper waters will create more challenging environments for developing wind farms. In order to address this challenge, Renewables are looking towards opportunities for floating wind technologies, and have partnered on the Carbon Trust's Joint Industry Project on Floating Wind to investigate the deployment at commercial scale.
- Renewables is also committed to developing a strong, innovative supply chain for the renewable sector and have partnered on initiatives such as the Power Available Hackathon, an event aimed at bringing in knowledge and expertise from data scientists in other industries to solve some of the challenges facing integration on renewables. Additionally, Renewables has also supported the Launch Academy, an initiative developed by the ORE Catapult to identify start-up businesses with game-changing technologies for the offshore wind sector and support their development to deliver commercially viable products and services for the industry.

Energy Retail and Wholesale

- There is a continued focus on the decarbonisation of transport through innovative partnerships with Arnold Clark and Wallbox. There is a focus on increasing uptake of the combined EV charger and green energy package offered to customers. All EV tariffs sold to customers are backed by 100% renewable electricity.
- Research is ongoing to investigate the potential for delivery of significant numbers of air-sourced heat pumps to customers in off-gas grid areas and those living in properties run by Registered Social Landlords. The decarbonisation of heat remains a high priority in order to help deliver the UK Government emissions targets and so the electrification of heat and a move away from fossil fuels presents a number of opportunities and also challenges.
- In direct response to the COVID-19 crisis, enhancements were made to the ScottishPower app, which now allows customers to make more significant changes to their monthly DD payments in recognition of the financial pressures some faced. A focus on vulnerable customers remains a priority.

SECTION 172 STATEMENT

Statement by the directors in performance of their statutory duties in accordance with section 172 of the Companies Act 2006

The Companies (Miscellaneous) Reporting Regulations 2018 requires the directors of Scottish Power UK plc to give a statement which describes how the directors have had regard to the matters set out in section 172(1) of the Companies Act 2006 when discharging their duty under that section.

The directors acknowledge and understand their duties and responsibilities, including that, under section 172 of the Companies Act 2006, a director of a company must act in the way he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- (a) the likely consequences of any decision in the long term;
- (b) the interests of the Company's employees;
- (c) the need to foster the Company's business relationships with suppliers, customers and others;
- (d) the impact of the Company's operations on the community and the environment;
- (e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
- (f) the need to act fairly as between members of the Company.

The delivery of the strategy of the Group, of which the Company is the principal parent company, requires the Group to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting the Group's performance and reputation by prudently managing risks inherent in the business. In carrying out this strategy, the directors' duties under section 172 of the Companies Act 2006 have been considered.

The directors strongly believe that effective and meaningful engagement with stakeholders and employees is key to promoting the success of the Company. Details of our key stakeholders and how we engage with them are as follows:

- **Customers:** details of how the Group assesses broader customer service measures are explained in the 'Energy customers' sub-section of the Strategic Report, on page 31.
- **Employees:** details of how the Group engages with its employees are set out in the 'Employees' sub-section of the Strategic Report, on page 26.
- **Communities and the environment:** details of how the Group engages with communities and considers the environment are set out in the 'Community and environment' section of the Strategic Report, on page 33.
- **Suppliers and contractors:** details of how the Group engages with its suppliers are set out in the 'Suppliers and contractors' sub-section of the Strategic Report, on page 33.
- **Government and regulators:** details of how the Group engages with governments and regulators are set out in the 'Government and regulators' section of the Strategic Report, on page 33.

In addition, a statement in relation to the Company's interaction with its shareholders is described in the introduction to the 'Engaging with stakeholders' section of the Strategic Report on page 26.

The directors, both individually and together as a board, consider that the decisions taken during the year ended 31 December 2020 in discharging the function of the board of Scottish Power UK plc ("the Board") were in conformance with their duty under section 172 of the Companies Act 2006.

We ensure the Board are assisted in considering key stakeholders as part of the decision-making process by including stakeholder considerations in board papers as appropriate, and board papers are carefully reviewed and considered by all directors.

BY ORDER OF THE BOARD



Marion S Venman

Secretary

29 April 2021

Directors' Report

The directors present their report and audited Accounts for the year ended 31 December 2020. References to 'ScottishPower' below apply fully to 'the Group'.

Information contained within the Strategic Report

The directors have chosen to disclose information on the following, required by the Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 42:

- information on financial risk management and policies;
- information regarding future developments of the Group;
- information in relation to innovation activities; and
- information on employee regulations and policies.

In addition, Energy and Carbon reporting disclosures, as required by the 2018 Regulations are included in within the Strategic Report on page 40.

Results and dividend

The net profit for the year attributable to the equity holders of the parent amounted to £532.5 million (2019 £549.7 million). A dividend of £1,595.9 million was paid during the year (2019 £365.0 million). Refer to Note 30 for further details.

Taxation

The Iberdrola Board has explicitly acknowledged its responsibility for tax policy and strategy in all of the companies that it controls. The Iberdrola Board has approved a Corporate Tax Policy which forms part of the Corporate Governance System and sets out that board's commitment to responsible tax practices throughout the Iberdrola Group. The Corporate Tax Policy was initially approved by the Iberdrola Board in 2010 and is regularly updated.

The Company applies the Corporate Tax Policy as approved by the SPL Board and the ScottishPower Tax Strategy as approved by the SPL Board's Audit and Compliance Committee which accords with the policy and, as required by UK law, is published on www.scottishpower.com ("the Corporate website") under 'About Us'/'Company Reporting'.

We are a responsible tax payer and seek to be open, honest and transparent in dealings with the tax authorities and to comply with both the letter and the spirit of tax laws set by the UK Government. We remit taxes due on a timely basis, and have a relationship with HMRC based on mutual trust and cooperation. Payment of taxes is our principal contribution to sustaining public expenditure and one of our contributions to society.

Further details on taxes and other government obligations can be found in the Strategic Report on page 13.

Political donations and expenditure

We are a politically neutral organisation. We are subject to the Political Parties, Elections and Referendums Act 2000, which defines political 'donations' and 'expenditure' in wider terms than would be commonly understood by these phrases. In previous years, we have sponsored receptions and events during the annual party conference season. However, due to COVID-19, these events operated on virtual online platforms and as a result we incurred no expenditure for the activities that would be regarded as falling within the terms of this Act during the year ended 31 December 2020 (2019 £39,000).

CORPORATE GOVERNANCE

Statement regarding the corporate governance arrangements of the Group

As required by the Companies (Miscellaneous) Reporting Regulations 2018, the directors of the Company have set out as follows a statement of the corporate governance arrangements of the Company.

The ultimate parent of the Company is Iberdrola, S.A., which is listed on the Madrid stock exchange. The Company, which is wholly owned by Iberdrola, S.A., does not apply a corporate governance code on the basis that the Board, in accordance with its terms of reference and the Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation (the "Group Governance Framework"), has adopted its own rules and principles which are based on widely recognised good governance recommendations. Those rules and principles that applied to the Company and its Group during 2020 are set out as follows:

The Board's terms of reference and the Group Governance Framework, are published on the Corporate website under 'Corporate Governance'/'Governance and Sustainability System'/'Corporate Governance'.

Corporate governance system

The Company is governed by the Board, which consists of directors who bring a broad range of skills and experience to the Company. The Board is regulated in accordance with the Company's Articles of Association which are published on the Corporate website under 'Corporate Governance'/'Governance and Sustainability System'/'By-Laws'.

In discharging its responsibilities and in the exercise of its decision-making powers, and in accordance with the Company's Articles of Association and the Board's terms of reference, the Board has, in accordance with the 'Group Governance Framework', defined and approved the ScottishPower corporate governance system (also known as ScottishPower's Governance and Sustainability System) which applies to the Company and its Group. The ScottishPower corporate governance system includes the internal corporate rules (including the Purpose and Values of the Iberdrola Group, the Code of Ethics, corporate policies and other internal codes and procedures) that make up the corporate governance system of the Iberdrola Group, which the Board, having reviewed the same, has expressly adopted as part of the ScottishPower corporate governance system, as well as the specific rules and regulations required to implement or supplement it.

In addition, the Board routinely considers and takes into account those parts of the corporate governance system of the Iberdrola Group (of which the Company is part) which may have direct or indirect application to ScottishPower. Furthermore, the Board actively considers and adopts specific policies and rules which apply to ScottishPower.

Board composition

The directors who held office during the year were as follows:

Marion S. Venman

David Wark

Donald Wright

As at the date of this report, there have been no changes to the composition of the Board of the Company since year end.

There is no separate appointments committee within ScottishPower. Instead, appointment matters relevant to ScottishPower and the Company are dealt with by the Iberdrola, S.A. Appointments Committee ("IAC"). The IAC has a function to report on the process of selection of directors and senior managers of the Iberdrola Group companies.

Purpose and values

The structure of the Company, and ScottishPower, is set out in the 'Who we are' section of the Strategic Report.

During 2020, the Board has taken into account the Purpose and Values of the Iberdrola Group and the Code of Ethics which are published on the Corporate website under 'Corporate Governance'/'Governance and Sustainability System'/'Purpose'. These documents define and promote the purpose, values and culture of the Company and ScottishPower.

Director responsibilities

The directors are fully aware of their duties under the Companies Act 2006, including as set out in section 172 of the same. The primary responsibilities of the Board, is to supervise the provision of common corporate services to the three Head of Business Sub-holding companies of ScottishPower, which the Company directly and wholly owns, in accordance at all times with the provisions of all applicable legislation and regulations.

The Head of Business Sub-holding companies have their own boards of directors which have the necessary autonomy to carry out the day-to-day management and effective administration of their respective divisions, as well as responsibility for their ordinary control.

Further information on the administrative, management and supervisory bodies of the boards of the three Head of Business Sub-holding companies are described in the section below.

Opportunity and risk

The delivery of ScottishPower's strategy requires the Group to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting our performance and reputation by prudently managing the risk inherent in the business.

To maintain this strategic direction, we develop and implement risk management policies and procedures and promote a robust control environment at all levels of the organisation. Details of the applicable risk policies are published on the Corporate website under 'Corporate Governance'/'Governance and Sustainability System'/'Corporate Governance'.

During 2020, the governance structure was supported by the risk policies of ScottishPower. Our business risk assessment team and independent Group risk management function supported the Board in the execution of due diligence and risk management, as described in the 'Group Principal Risks and Uncertainties' section of the Strategic Report.

Remuneration

The directors of the Company are subject to an annual evaluation of their performance in respect of their executive responsibilities as part of the performance management framework which is in place throughout ScottishPower.

There is no separate Remuneration Committee within ScottishPower. Instead, remuneration matters relevant to ScottishPower and the Company are dealt with and reviewed by the Iberdrola, S.A. Remuneration Committee ("IRC"). The IRC has a function to report on the remuneration of directors and senior managers of the Iberdrola Group companies.

Stakeholders

The Board fully recognises that effective and meaningful engagement with stakeholders is key to promoting the success of the Company. The details of our key stakeholders, why they are important to the Company, and how we engage with our stakeholders are an integral part of our strategic goals which are described in the 'Our strategy' section in the Strategic Report.

ScottishPower identifies and interacts with its stakeholders via its three principal business divisions. Please refer to the Energy Networks, Renewables, and Energy Retail and Wholesale sections of the Strategic Report for further information on these business divisions' respective engagement with their specific stakeholders. In particular, refer to the 'Engaging with stakeholders' section of the Strategic Report which sets out the Board's oversight of the consideration given to the Company's, and the Group's, engagement with key stakeholders.

Administrative, management and supervisory bodies

Scottish Power Limited Board

The SPL Board comprised the Chairman Jose Ignacio Sánchez Galán and nine other directors as at 31 December 2020. Jose Ignacio Sánchez Galán is also the Chairman and Chief Executive Officer of Iberdrola.

The directors of the Board were:

José Ignacio Sánchez Galán	Chairman, non-independent, non-executive director
Lord Kerr of Kinlochard GCMG	Vice Chairman, independent, non-executive director
Keith Anderson	CEO
Wendy Jacqueline Barnes	Independent, non-executive director (appointed 12 May 2020)
Dame Nicola Brewer	Independent, non-executive director (resigned 16 March 2020)
Iñigo Fernández de Mesa Vargas	Independent, non-executive director
Suzanne Fox	Independent, non-executive director
Professor Sir James McDonald	Independent, non-executive director
Daniel Alcaín López	Non-independent, non-executive director (appointed 26 March 2020)
Gerardo Codes Calatrava	Non-independent, non-executive director
Juan Carlos Rebollo Liceaga	Non-independent, non-executive director (resigned 1 March 2020)
José Sainz Armada	Non-independent, non-executive director

Meetings of the Board were held on five occasions during the year under review. Attendance by the directors was as follows:

José Ignacio Sánchez Galán	Attended all meetings
Lord Kerr of Kinlochard GCMG	Attended all meetings
Keith Anderson	Attended all meetings
Wendy Jacqueline Barnes	Attended three meetings
Dame Nicola Brewer	Attended one meeting
Iñigo Fernández de Mesa Vargas	Attended all meetings
Suzanne Fox	Attended all meetings
Professor Sir James McDonald	Attended all meetings
Daniel Alcaín López	Attended four meetings
Gerardo Codes Calatrava	Attended all meetings
Juan Carlos Rebollo Liceaga	Attended no meetings
José Sainz Armada	Attended all meetings

Scottish Power Limited Audit and Compliance Committee ("SP ACC")

The SP ACC, a permanent internal body, has an informative and consultative role, without executive functions, with powers of information, assessment and presentation of proposals to the SPL Board within its scope of action, which is governed by the Articles of Association of SPL and by the terms of reference of the SP ACC.

The SP ACC's responsibilities include:

- monitoring the financial and non-financial reporting processes for ScottishPower;
- monitoring the effectiveness of ScottishPower's internal control, internal audit, compliance and risk management systems;
- monitoring the statutory audit of the Annual Report and Accounts of ScottishPower; and
- monitoring the independence of the external auditor and recommending to the SPL Board the appointment or reappointment of the auditor and the associated terms of engagement

The SP ACC's terms of reference are published on the Corporate website under 'Corporate Governance'/'Governance and Sustainability System'/'Corporate Governance'.

Membership and attendance

The SP ACC met five times during the year under review. The members of the SP ACC and their attendance record are shown below:

Professor Sir James McDonald, Chairman (external, independent director)	Attended all meetings
Dame Nicola Brewer (external, independent director) (resigned 16 March 2020)	Attended one meeting
Iñigo Fernández de Mesa Vargas (external, independent director)	Attended all meetings
Daniel Alcaín López (internal, non-independent director) (appointed 7 May 2020)	Attended three meetings
Juan Carlos Rebollo Liceaga (internal, non-independent director) (resigned 1 March 2020)	Attended no meetings
José Sainz Armada (internal, non-independent director) (appointed 18 February 2020, resigned 6 May 2020)	Attended one meeting

In addition to the attendance set out above, the ScottishPower Control and Administration Director, Head of Internal Audit, and the Compliance Director normally attend, by invitation, all meetings of the SP ACC. Other members of senior management are also invited to attend as appropriate. During the year under review, the external auditor attended (in part) four meetings of the SP ACC.

Matters considered by the SP ACC during 2020

The issues that the SP ACC specifically addressed are detailed in its report which is published on the Corporate website under 'Corporate Governance'/ 'Board of Directors'.

Significant financial statement reporting issues

In preparing the Annual Report and Accounts, there are a number of areas requiring management to apply judgement or a high degree of estimation. After discussion with management and the external auditor, the significant areas of judgement reviewed and considered by the SP ACC in relation to the 2020 Annual Report and Accounts, and how these were addressed, are set out in the table below.

Significant financial judgement for the year ended 31 December 2020	How the SP ACC addressed these significant financial judgements
<p>Accounting for group and parent company retirement benefit obligations</p> <p>The assumptions in relation to the cost to the Group of providing future post-retirement benefits are set after consultation with qualified actuaries and can have a material impact on the financial position of the Group. The costs, assets and liabilities of the Group's defined benefit schemes are regularly reviewed. Advice is taken from independent actuaries and other specialists within the Iberdrola Group on the IAS 19 valuation of the schemes including the complex assets. Further details are provided in Note 3K on page 72 and Note 17 on page 99.</p>	<p>The SP ACC were updated on the combined schemes' valuation and also considered the findings of the external auditor particularly in relation to the schemes' key assumptions and complexity of assets relative to current market practice and the impact of COVID-19 on level 3 asset valuations. Following this review, the SP ACC supported this judgement.</p>
<p>Recognition of Retail accrued ('unbilled') revenue</p> <p>Revenue from energy sales to retail customers includes estimates of the value of electricity and gas supplied between the most recent meter reading and the period end. This is based on estimates and assumptions in relation to the consumption and its valuation. Further details are provided in Note 3A on page 66.</p>	<p>The SP ACC reviewed the estimation and valuation processes and assumptions applied in determining the recognition of accrued ('unbilled') revenue and were updated on the impact on the financial statements. This was with particular reference to domestic electricity and gas and the impact of COVID-19. The SP ACC also considered the findings of the external auditor. Following this review, the SP ACC supported this judgement.</p>
<p>Expected credit loss ("ECL") on Retail receivables</p> <p>The recoverability of the Group's billed energy receivables in the Retail business function is a key judgement area given the risk of customer default. The level of the Group's aged debt is monitored with the allowance for ECL being based on assumptions derived from estimated future cash flows, the ageing profile of the debt, prior experience and an assessment of the current economic environment. Further details are provided in Note 3H1.2(c) on page 70 and Note 10(e)A2 on page 88.</p>	<p>The SP ACC considered the assumptions impacting the allowance for ECL and related charges and the processes for debt collection and calculating the ECL. In light of the current environment there was a particular focus on COVID-19 and the impact this had and will have in the future in relation to the recoverability of retail receivables. The SP ACC also considered the findings of the external auditor in this area. Following this review, the SP ACC supported this judgement.</p>

ScottishPower Management Committee ("SPMC")

The SPMC is a permanent internal body, without executive function, which was established by the SPL Board to provide an informative and coordinating role for the activities of ScottishPower. In accordance with the corporate governance arrangements of the Group and the separation of regulated activities, the SPMC does not exercise any executive function as a decision-making body. The SPMC meets weekly and receives regular information on the activities of ScottishPower in order to support the corporate functions and lines of business in understanding the local, legal, regulatory and market specifics in the UK and in order to assist the ScottishPower CEO in the performance of his duties. The SPMC comprises the following executives: the CEO; the directors of Control and Administration, Corporate Affairs, Human Resources, and UK Finance & Resources; the CEO of the regulated business division (Energy Networks); the CEO of the Renewables business division and the Global Managing Director of Renewables Offshore; the CEO of the Retail business division; and General Counsel and Secretary to the SPL Board.

Boards of the Head of Business Sub-holding Companies

The boards of directors of Scottish Power Energy Networks Holdings Limited ("the SPENH Board"), ScottishPower Renewable Energy Limited ("the SPREL Board") and Scottish Power Retail Holdings Limited ("the SPRH Board") are responsible for the effective management of the Energy Networks, Renewables and Energy Retail and Wholesale business divisions respectively, in accordance with the strategy of ScottishPower. These boards meet regularly and review strategy, operational performance and risk issues on behalf of the respective businesses.

SPENH Board

The SPENH Board comprised the Chairman Armando Martínez Martínez and five other directors as at 31 December 2020. The directors, and their attendance at SPENH Board meetings held during the period under review (seven meetings), are shown below:

Armando Martínez Martínez (Chairman, non-independent, non-executive director)	Attended six meetings
Frank Mitchell CEO	Attended all meetings
Wendy Barnes (independent, non-executive director)	Attended two meetings (resigned 6 May 2020)
Professor Dame Lesley Anne Glover (independent, non-executive director)	Attended all meetings
Alison McGregor (independent, non-executive director)	Attended all meetings
Antonio Espinosa de los Monteros (non-independent, non-executive director)	Attended all meetings (resigned 30 December 2020)
Mónica Grau Domene (non-independent, non-executive director)	Attended one meeting (appointed 18 November 2020)
José Izaguirre Nazar (non-independent, non-executive director)	Attended three meetings (resigned 10 July 2020)
Scott Mathieson (non-independent, executive director)	Attended six meetings (resigned 17 November 2020)
Marc Rossi (non-independent, executive director)	Attended four meetings (appointed 10 July 2020, resigned 23 November 2020)
José Ignacio Sánchez Galán García-Tabernero (non-independent, non-executive director)	Attended one meeting (appointed 12 October 2020)

The terms of reference of the SPENH Board are published on www.spenergynetworks.co.uk under 'Corporate Governance'.

SPENH ACC

The SPENH Audit and Compliance Committee ("SPENH ACC") undertakes the role and function of the SP ACC as they relate to the regulated Energy Networks business division. The relationship between the SP ACC and the SPENH ACC is governed in accordance with their respective terms of reference. The SPENH ACC's terms of reference are published on www.spenergynetworks.co.uk under 'Corporate Governance'.

The SPENH ACC met five times during the year under review. The members of the SPENH ACC and their attendance record are shown below:

Wendy Barnes, Chairperson (external, independent director)	Attended two meetings (resigned 6 May 2020)
Alison McGregor, Chairperson (external, independent director)	Attended all meetings (appointed Chairperson 11 May 2020)
Professor Dame Lesley Anne Glover (external, independent director)	Attended three meetings (appointed 11 May 2020)
Mónica Grau Domene (internal, non-independent director)	Attended one meeting (appointed 18 November 2020)
José Izaguirre Nazar (internal, non-independent director)	Attended three meetings (resigned 10 July 2020)
Marc Rossi (internal, executive director)	Attended one meeting (appointed 10 July 2020, resigned 23 November 2020)

SPREL Board

The SPREL Board comprised the Chairman Xabier Viteri Solaun and seven other directors as at 31 December 2020. The directors and their attendance at SPREL board meetings held during the period under review (five meetings) are shown below:

Xabier Viteri Solaun (Chairman, non-independent, non-executive director)	Attended all meetings
Lindsay McQuade CEO	Attended all meetings
Lena Wilson (independent, non-executive director)	Attended all meetings
Jonathan Cole (non-independent, executive director)	Attended all meetings
Charles Langan (non-independent, non-executive director)	Attended four meetings
David Mesonero Molina (non-independent, non-executive director)	Attended three meetings (appointed 23 June 2020)
Marion Shepherd Venman (non-independent, non-executive director)	Attended all meetings
David Wark (non-independent, non-executive director)	Attended all meetings

The terms of reference of the SPREL Board are published on www.scottishpowerrenewables.com under 'Corporate Governance'.

Directors' Report *continued*

CORPORATE GOVERNANCE *continued*

SPRH Board

The SPRH Board comprised the Chairman Aitor Moso Raigoso and four other directors as at 31 December 2020. The directors and their attendance at SPRH Board meetings held during the period under review (five meetings) are shown below:

Aitor Moso Raigoso (Chairman, non-independent, non-executive director)	Attended all meetings
Andrew Ward CEO	Attended all meetings
David Gracia Fabre (non-independent, non-executive director)	Attended all meetings
Marion Shepherd Venman (non-independent, non-executive director)	Attended all meetings
David Wark (non-independent, non-executive director)	Attended all meetings

The terms of reference of the SPRH Board are published on www.spretailholdings.com under 'Corporate Governance'.

Directors' indemnity

In terms of the Company's Articles of Association, a qualifying indemnity provision is in force for the benefit of all the directors of the Company and of associated companies and has been in force during the financial year.

Statement of directors' responsibilities in respect of the Annual Report and Accounts

The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the Group's profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group's and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that their financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and Directors' Report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of the financial statements differs from legislation in other jurisdictions.

Disclosure of information to auditor

Each of the directors in office as at the date of this Annual Report and Accounts confirms that:

- so far as he or she is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

KPMG LLP were re-appointed as the auditor of the Company for the period ended 31 December 2021.

BY ORDER OF THE BOARD



Marion S Venman

Secretary

29 April 2021

1. Our opinion is unmodified

We have audited the financial statements of Scottish Power UK plc ("the Company") for the year ended 31 December 2020 which comprise the consolidated and company balance sheets, consolidated income statement, consolidated and company statements of comprehensive income, consolidated and company statement of changes in equity, consolidated and company cash flow statements and the related notes, including the accounting policies in note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the ScottishPower Audit and Compliance Committee ("SP ACC").

We were first appointed as auditor by the directors on 11 January 2018. The period of total uninterrupted engagement is for the four financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality:	£30m (2019: £29m)
Group financial statements as a whole	3.6% (2019: 4.4%) of Group profit before tax from continuing operations
Coverage	100% (2019: 100%) of Group profit before tax from continuing operations
Key audit matters	
Recurring risks	
Valuation of IAS 19 provision for retirement benefit obligations	◀▶
Valuation of certain unquoted assets in the Group's defined benefit pension schemes	▲
Carrying value of Retail accrued ('unbilled') revenue	▲
Recoverability of Retail billed trade receivables	▲

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC *continued*

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
<p>Valuation of IAS 19 provision for retirement benefit obligations</p> <p>(Liability of £5,616.2 million; 2019: Liability of £5,176.8 million)</p> <p>Refer to page 46 (SP ACC statement), pages 72 and 73 (accounting policy) and pages 99-105 (financial disclosures).</p>	<p>Subjective valuation</p> <p>Relatively small changes in certain key actuarial assumptions underlying the valuation of the Group's defined benefit schemes, including the discount rate, inflation rate and mortality/life expectancy of members, could materially impact the valuation of the liability.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the retirement benefit obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Methodology choice: Assessing, with the support of our internal actuarial specialists, the methodology applied by the Group to derive the individual actuarial assumptions; — Benchmarking assumptions: Challenging, with the support of our internal actuarial specialists and considering whether there were any potential effects of COVID-19, the key assumptions applied, being the discount rate, RPI inflation and mortality/life expectancy against our independently derived assumptions for each pension scheme; — Assessing valuers' credentials: Evaluating the competence, capability and objectivity of the Group's external actuary; — Assessing transparency: Considering the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions. <p>We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our results</p> <ul style="list-style-type: none"> — We found the valuation of the IAS 19 provision for retirement benefit obligations to be acceptable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC *continued*

2. Key audit matters: our assessment of risks of material misstatement *continued*

	The risk	Our response
<p>Valuation of certain unquoted assets in the Group's defined benefit pension schemes</p> <p>(£856.4 million; 2019: £408.2 million)</p> <p>Refer to page 46 (SP ACC statement), page 73 (accounting policy) and pages 99-105 (financial disclosures).</p>	<p>Subjective estimate</p> <p>Certain of the combined defined benefit pension schemes' unquoted plan assets are more complex in nature, as a result of quoted prices being unavailable, such as: infrastructure, property, mezzanine/private debt, multi asset credit, and longevity insurance contracts ('longevity swaps').</p> <p>In addition, as a result of the global COVID-19 pandemic in the current year there is an increase in market volatility.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the asset valuations of certain unquoted investments have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Assessing valuers' credentials: Evaluating the competence, capability and objectivity of the Group's external experts engaged to independently value the complex scheme assets; — Our valuation expertise: Engaging our own valuation specialists to critically assess the valuation of the Group's longevity swaps by comparing against our independently derived valuation range; — Benchmarking assumptions: Challenging, with the support of our own valuation specialists, the key unobservable inputs, such as estimated rental value and market value, as well as assumptions related to the impact of COVID-19, used in determining the fair value of a sample of UK property assets; — Tests of detail: Obtaining direct confirmations from third parties to support the valuation of a sample of relevant unquoted investments and property investments. <p>We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our results</p> <ul style="list-style-type: none"> — We found the valuation of the unquoted assets in the Group's defined benefit pension schemes to be acceptable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC *continued*

2. Key audit matters: our assessment of risks of material misstatement *continued*

	The risk	Our response
<p>Carrying value of Retail accrued ('unbilled') revenue</p> <p>(Gross carrying amount of £563.9 million; 2019: £582.0)</p> <p>(Provision: £24.3 million provision relating to energy volumes which have still to reach final settlement; 2019: £18.0 million)</p> <p>Refer to page 46 (SP ACC statement), pages 66 and 67 (accounting policy) and page 88 (financial disclosures).</p>	<p>Subjective estimate</p> <p>The recognition of accrued ('unbilled') revenue is subject to a degree of estimation uncertainty as a result of the industry in which the Retail business operates. If actual meter readings are not available at the year-end, energy supplied to end customers is estimated based on standard external industry settlement data or internal information where settlement data is not yet available. The degree of estimation uncertainty diminishes over time as more accurate data becomes available and customers are billed. However, judgement is inherent in the valuation of accrued ('unbilled') revenue as at the year-end and estimation uncertainty is increased in the current year as a result of the impact of COVID-19 on the availability of meter readings.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of Retail accrued ('unbilled') revenue has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (Note 3A(d)) disclose the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Control design, observation and operation: Testing the design, implementation and operating effectiveness of the Group's internal controls over: the algorithmic logic of the internal billing systems used to derive estimates of customer consumption, changes to pricing data, the validation of meter readings, the identification of billing exceptions and interfaces with the General Ledger; — Our sector experience: Evaluating the Group's key assumptions, in particular those relating to units of energy supplied, price per unit and the provision in relation to energy volumes which are yet to reach final settlement by comparing the Group's assumptions to external data, actual billing data and our own expectations based on our knowledge of the entity and experience of the industry in which it operates; — Historical comparisons: Evaluating the effectiveness of the Group's prior period estimation process by comparing the historical estimate to the actual outcome; Assessing the consistency of the Group's assumptions to those adopted in prior periods; — Data comparisons: Using our internal Data and Analytics specialists to perform a comparison of volume data for the financial year to standard settlement data obtained directly from the external industry bodies; — Tests of detail: Comparing the Group's estimate as at the year-end to standard external industry settlement data and billing information available post year-end; — Tests of detail: Agreeing a sample of invoices issued to industrial and commercial customers to cash receipts; — Independent Reperformance: Independently setting an expectation as to the likely total Retail revenue (including unbilled revenue) in the year and comparing it to the actual amount recognised in the income statement; — Assessing transparency: Assessing the adequacy of the Group's disclosures about the degree of estimation uncertainty associated with the valuation of accrued ('unbilled') revenue. <p>Our results</p> <ul style="list-style-type: none"> — We found the carrying value of Retail accrued ('unbilled') revenue to be acceptable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC *continued*

2. Key audit matters: our assessment of risks of material misstatement *continued*

	The risk	Our response
<p>Recoverability of Retail billed trade receivables</p> <p>(Gross carrying amount: £721.9 million; 2019: £746.8million)</p> <p>(Loss allowance: £186.2 million; 2019: £126.7 million)</p> <p>Refer to page 46 (SP ACC statement), pages 70 and 71 (accounting policy) and pages 88 and 89 (financial disclosures).</p>	<p>Subjective estimate</p> <p>The Retail business carries significant exposure over the recoverability of billed customer receivables. This risk is heightened in the current year due to the circumstances created by the COVID-19 pandemic which increases the risk of default by Retail customers.</p> <p>An allowance for expected credit loss is recognised based on an estimate of future cash flows. In arriving at this estimate, the Group considers the current ageing profile of debt, historical collections experience by payment plan, external credit ratings for industrial and commercial customers and an assessment of current economic conditions.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of Retail billed receivables has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (Note 10 (e)A3) disclose the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Control design, observation and operation: Testing the design, implementation and operating effectiveness of the Group's internal controls over: the relevant data elements used in the estimation of the loss allowance and the process for reconciling cash receipts and the General Ledger; — Our sector experience: Benchmarking methodology, including how the current ageing profile of debt, historical collections experience by payment plan, external credit ratings for industrial and commercial customers and the assessment of current economic conditions are incorporated, to industry practice and our expectations based on our knowledge of the entity and experience of the industry in which it operates, including our experience and observations of the effects of COVID-19 on similar businesses and macro economic factors; — Historical comparisons: Evaluating the effectiveness of the Group's estimation process by comparing original estimates to the actual outcome over several periods; — Personnel interviews: Performing specific inquiries with financial and non-financial personnel to assess whether the Group's judgements and estimates reflect operational risk; — Reperformance: Assessing whether the loss allowance, recognised as at the year-end, was accurately and consistently calculated in accordance with the Group's methodology; — Tests of detail: Inquiring and inspecting, for a sample of trade receivables, the level of cash collected for industrial and commercial customers, subsequent to the year-end; — Assessing transparency: Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the allowance for expected credit loss. <p>Our results</p> <ul style="list-style-type: none"> — We found the recoverability for Retail billed trade receivables to be acceptable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC *continued*

3. Our application of Group materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £30 million (2019: £29 million), determined with reference to a benchmark of Group profit before tax, normalised by averaging over the last five years due to fluctuations in the business cycle, of £659.5 million (2019: £625.9 million) of which it represents 4.5% (2019: 4.6%).

Materiality for the parent company financial statements was set with reference to a benchmark of net assets but capped at £29.5 million (2019: £22 million) due to the level of Group materiality.

Performance materiality was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £22.5 million (2019: £21.75 million) for the group and £22.1 million (2019: £16.5 million) for the parent company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the SP ACC any corrected or uncorrected identified misstatements exceeding £1.5 million (2019: £1.4 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

All of the Group's 31 (2019: 29) components were subject to full scope audit procedures performed in the UK by the Group audit team, these components represented 100% (2019: 100%) of Group revenue, profit before tax and total assets.

Normalised Group profit before tax
£659.5 million
(2019: £625.9 million)



■ Normalised PBT
■ Group materiality

Group Materiality
£30m (2019: £29 million)

£30 million
Whole financial statements materiality (2019: £29 million)

£24 million
Range of materiality at 31 components (£0.1 million to £24 million) (2019: £0.1 million to £22 million)

£1.5 million
Misstatements reported to the audit committee (2019: £1.4 million)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC *continued*

4. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern from the date of approval of the financial statements through to 31 December 2022 ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group's and Company's available financial resources over this period was the impact of an increase in customer debt within the Retail business due to slower cash collections.

We also considered less predictable but realistic second order impacts, such as the impact of the Ofgem price cap on default tariffs on the Retail business, the adverse impact of milder weather and the further erosion of the Retail market share due to industry-wide sustained high levels of customer switching activity.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the directors' sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures also included critically assessing assumptions in the directors' downside scenarios relevant to liquidity, in particular in relation to the impact of an increase in customer debt due to the ongoing COVID-19 pandemic compared to recent past experience.

We considered whether the going concern disclosure in note 2A.2 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and dependencies.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 2A.2 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations –ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board/Audit Committee/ Group Disclosure Committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to component audit teams of relevant fraud risks identified at the Group level and a request to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets, recent revisions to guidance and our overall knowledge of the control environment, we performed procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the recognition of accrued revenue and defined benefit pension assumptions. On this audit we do not believe there is a fraud risk related to revenue recognition because, with the exception of the accrued revenue, the Group's revenues consist entirely of routine, non-complex transactions which are subject to systematic processing and do not require significant judgements.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC *continued*

5. Fraud and breaches of laws and regulations –ability to detect (continued)

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations (continued)

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pensions legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licences to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, environmental protection legislation, Ofgem regulations and distance selling regulations, recognising the regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the matters related to the Ofgem investigations into the Group's compliance with its obligations relating to the Western Link High Voltage Direct Current project and smart meter installation obligations discussed on pages 15 and 23 respectively, we assessed disclosures against our understanding from relevant correspondence and concluded that these are appropriate.

We discussed with the Audit Committee other matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 48, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC *continued*

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Andrew Williamson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

319 St. Vincent Street
Glasgow
G2 5AS
30 April 2021

SCOTTISH POWER UK PLC
CONSOLIDATED BALANCE SHEET
at 31 December 2020

	Notes	2020 £m	2019 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		599.3	621.3
Goodwill	6	364.6	364.6
Other intangible assets	6	234.7	256.7
Property, plant and equipment		14,719.9	14,039.1
Property, plant and equipment in use	7	13,615.4	11,880.1
Property, plant and equipment in the course of construction	7	1,104.5	2,159.0
Right-of-use assets	8	452.3	413.5
Financial assets		85.6	56.1
Investments in joint ventures	9	7.7	7.8
Other investments	10	0.2	0.3
Derivative financial instruments	10	77.7	48.0
Trade and other receivables	11	19.7	92.2
NON-CURRENT ASSETS		15,876.8	15,222.2
CURRENT ASSETS			
Inventories	12	949.7	963.3
Trade and other receivables	11	1,900.4	2,675.5
Financial assets		194.8	74.6
Derivative financial instruments	10	194.8	74.6
Cash and short-term deposits	10	140.1	73.9
CURRENT ASSETS		3,185.0	3,787.3
TOTAL ASSETS		19,061.8	19,009.5

SCOTTISH POWER UK PLC
CONSOLIDATED BALANCE SHEET *continued*
at 31 December 2020

	Notes	2020 £m	2019 £m
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent	13	6,742.2	7,478.5
Share capital	13, 14	3,551.7	3,551.7
Share premium	13	398.2	398.2
Hedge reserve	13	157.7	(165.7)
Other reserves	13	420.5	420.5
Retained earnings	13	2,214.1	3,273.8
Of non-controlling interests	15	1,091.0	866.3
TOTAL EQUITY		7,833.2	8,344.8
NON-CURRENT LIABILITIES			
Deferred income	16	1,331.5	1,266.6
Provisions		992.7	968.5
Provisions for retirement benefit obligations	17	558.6	651.7
Other provisions	18	434.1	316.8
Bank borrowings and other financial liabilities		3,320.9	3,838.2
Loans and other borrowings	19	3,320.9	3,823.1
Derivative financial instruments	10	–	15.1
Lease liabilities	8	471.6	416.5
Trade and other payables	20	5.2	6.9
Non-current income tax liabilities		9.0	–
Deferred tax liabilities	21	932.0	696.3
NON-CURRENT LIABILITIES		7,062.9	7,193.0
CURRENT LIABILITIES			
Provisions		302.0	331.5
Other provisions	18	302.0	331.5
Bank borrowings and other financial liabilities		2,563.2	1,512.6
Loans and other borrowings	19	2,524.6	1,241.8
Derivative financial instruments	10	38.6	270.8
Lease liabilities	8	26.1	34.5
Trade and other payables	20	1,265.3	1,525.0
Current income tax liabilities		9.1	68.1
CURRENT LIABILITIES		4,165.7	3,471.7
TOTAL LIABILITIES		11,228.6	10,664.7
TOTAL EQUITY AND LIABILITIES		19,061.8	19,009.5

Authorised for issue by the Board and signed on its behalf on 29 April 2021.



David Wark
Director

The accompanying Notes 1 to 34 and Appendix 1 are an integral part of the consolidated balance sheet at 31 December 2020.

SCOTTISH POWER UK PLC
CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
CONTINUING OPERATIONS			
Revenue	22	5,164.0	5,124.5
Procurements		(2,418.5)	(2,766.1)
GROSS MARGIN		2,745.5	2,358.4
NET OPERATING EXPENSES		(700.9)	(668.4)
Net personnel expenses	23	(238.8)	(223.3)
Staff costs	23	(390.3)	(378.0)
Capitalised staff costs	23	151.5	154.7
Net external services		(462.1)	(445.1)
External services		(520.2)	(494.1)
Other operating income		58.1	49.0
Taxes other than income tax	24	(220.8)	(201.8)
GROSS OPERATING PROFIT		1,823.8	1,488.2
Net expected credit losses on trade and other receivables		(120.4)	(70.5)
Depreciation and amortisation charge, allowances and provisions	25	(712.3)	(589.0)
OPERATING PROFIT		991.1	828.7
Result of companies accounted for using the equity method	9	1.4	0.9
Gains on disposal of non-current assets		0.7	1.2
Finance income	26	41.5	28.9
Finance costs	27	(192.7)	(197.7)
PROFIT BEFORE TAX		842.0	662.0
Income tax	28	(256.7)	(119.4)
NET PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		585.3	542.6
DISCONTINUED OPERATIONS			
Profit from discontinued operations, net of tax	29	–	10.3
NET PROFIT FOR THE YEAR		585.3	552.9
Non-controlling interests	15	(52.8)	(3.2)
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT		532.5	549.7

The accompanying Notes 1 to 34 and Appendix 1 are an integral part of the consolidated income statement for the year ended 31 December 2020.

SCOTTISH POWER UK PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2020

	Note	2020 £m	2019 £m
NET PROFIT FOR THE YEAR		585.3	552.9
OTHER COMPREHENSIVE INCOME			
Items that may be subsequently reclassified to the income statement:			
Cash flow hedges:			
Change in the value of cash flow hedges	13	405.6	(287.6)
Tax relating to cash flow hedges	13	(74.0)	52.1
		331.6	(235.5)
Items that will not be reclassified to the income statement:			
Actuarial losses on retirement benefits:			
Actuarial losses on retirement benefits	13	(8.4)	(252.7)
Tax relating to actuarial losses on retirement benefits	13	12.1	36.9
Cash flow hedges:			
Change in the value of cash flow hedges	13	(17.5)	(25.3)
Tax relating to cash flow hedges	13	3.0	4.5
		(10.8)	(236.6)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		320.8	(472.1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		906.1	80.8
Total comprehensive income for the year attributable to equity holder of the parent		859.6	84.0
Total comprehensive income for the year attributable to non-controlling interests		46.5	(3.2)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		906.1	80.8
Continuing operations		859.6	73.7
Discontinued operations		–	10.3
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDER OF THE PARENT		859.6	84.0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2020

	Attributable to equity holder of the parent						Non-controlling interests £m	Total equity £m
	Share capital £m	Share premium £m	Hedge reserve £m	Other reserves £m	Retained earnings £m	Total £m		
At 1 January 2019	2,192.0	398.2	98.9	420.5	2,842.6	5,952.2	1.0	5,953.2
Total comprehensive income for the year	–	–	(249.9)	–	333.9	84.0	(3.2)	80.8
Gain on partial disposal of subsidiary (refer to Note 15)	–	–	(14.7)	–	462.3	447.6	–	447.6
Movements in non-controlling interest (refer to Note 15)	–	–	–	–	–	–	868.5	868.5
Share capital issued (refer to Note 13)	1,359.7	–	–	–	–	1,359.7	–	1,359.7
Dividends	–	–	–	–	(365.0)	(365.0)	–	(365.0)
At 1 January 2020	3,551.7	398.2	(165.7)	420.5	3,273.8	7,478.5	866.3	8,344.8
Total comprehensive income for the year	–	–	323.4	–	536.2	859.6	46.5	906.1
Movements in non-controlling interest (refer to Note 15)	–	–	–	–	–	–	178.2	178.2
Dividends	–	–	–	–	(1,595.9)	(1,595.9)	–	(1,595.9)
At 31 December 2020	3,551.7	398.2	157.7	420.5	2,214.1	6,742.2	1,091.0	7,833.2

The accompanying Notes 1 to 34 and Appendix 1 are an integral part of the consolidated statement of comprehensive income and the consolidated statement of changes in equity for the year ended 31 December 2020.

SCOTTISH POWER UK PLC
CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2020

	2020 £m	2019 £m
Cash flows from operating activities		
Profit before tax – continuing operations	842.0	662.0
Profit before tax – discontinued operations	–	12.7
Total profit before tax	842.0	674.7
Adjustments for:		
Depreciation, amortisation and impairment	701.6	581.4
Research and development expenditure credit	–	(0.8)
Change in provisions	401.4	493.2
Result of companies accounted for using the equity method	(1.4)	(0.9)
Transfer of assets from customers	(42.6)	(41.5)
Finance income and costs	151.2	168.8
Net losses on disposal/write-off non-current assets	9.4	6.1
Movement in retirement benefits	(113.4)	(125.2)
Net fair value losses/(gains) on operating derivatives	13.0	(11.1)
Movement in deferred income	(0.1)	(0.3)
Changes in working capital:		
Change in trade and other receivables	143.6	(107.8)
Change in inventories	(447.8)	(657.0)
Change in trade and other payables	(8.8)	(28.1)
Provisions paid	(16.5)	(96.8)
Assets received from from customers (deferred income)	101.5	93.4
Income taxes paid	(129.5)	(95.6)
Net cash flows from operating activities (i)	1,603.6	852.5
Cash flows from investing activities		
Interest received	23.0	8.5
Dividends received	–	0.2
Investments in intangible assets	(88.5)	(103.2)
Investments in property, plant and equipment (net of capital grants)	(1,344.8)	(1,340.5)
Dividends received from joint ventures	1.5	–
Proceeds from disposal of property, plant and equipment	2.5	25.5
Proceeds from disposal of a subsidiary	–	4.8
Decrease/(increase) in amounts due from Iberdrola Group companies – current loans receivable	722.6	(1,102.0)
Net cash flows from investing activities (ii)	(683.7)	(2,506.7)
Cash flows from financing activities		
Increase/(decrease) in amounts due to Iberdrola Group companies – current loans payable	773.6	(2,183.0)
Increase in amounts due to Iberdrola Group companies – non-current loans payable	–	759.2
Cash inflows from borrowings (including loan with joint venture)	–	346.6
Share capital issued to parent company	–	1,359.7
Share capital of subsidiary issued to non-controlling interest	177.6	173.1
Dividends paid to the Company's equity holder	(1,595.9)	(365.0)
Proceeds from partial disposal of subsidiary	–	1,135.4
Transaction costs paid on partial disposal of subsidiary	–	(14.2)
Interest paid	(168.9)	(183.2)
Interest paid on lease liabilities	(12.0)	(11.3)
Repayments of borrowing	(1.3)	(3.4)
Payments of lease liabilities	(26.7)	(25.4)
Net cash flows from financing activities (iii)	(853.6)	988.5
Net increase/(decrease) in cash and cash equivalents (i)+(ii)+(iii)	66.3	(665.7)
Cash and cash equivalents at beginning of year	73.8	739.5
Cash and cash equivalents at end of year	140.1	73.8
Cash and cash equivalents at end of year comprises:		
Consolidated balance sheet cash and short-term deposits	140.1	73.9
Bank overdraft	–	(0.1)
Consolidated cash flow statement cash and cash equivalents	140.1	73.8

The accompanying Notes 1 to 34 and Appendix 1 are an integral part of the consolidated cash flow statement for the year ended 31 December 2020.

NOTES TO THE CONSOLIDATED ACCOUNTS

31 December 2020

1 GROUP ACTIVITIES

A. COMPANY AND GROUP INFORMATION

Scottish Power UK plc (registered company number SC117120), is a private company limited by shares. It is incorporated in Scotland and its registered address is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD. The Company's immediate parent company, SPL, is the holding company of the SPL Group, ScottishPower.

The consolidated financial statements for the year ended 31 December 2020 comprise those of the Company and its subsidiaries (together referred to as "the Group"). The company financial statements present information about the Company as a separate entity and not about the Group (refer to pages 114 to 127).

B. GROUP PRINCIPAL ACTIVITIES

The Group provides electricity transmission and distribution services in the UK and conducts renewable energy activities across the UK and Republic of Ireland. It also supplies gas and electricity to homes and businesses principally across the UK, operates gas storage facilities and undertakes associated energy management activities in the UK.

As described in Note 5, in line with IFRS 8 'Operating Segments' ("IFRS 8"), the Group defines its operating segments based on a combination of factors, principally differences in products and services and the regulatory environment in which the business operates. The Group reported three principal business divisions during the year: Energy Networks, Renewables and Energy Retail and Wholesale.

Energy Networks

The transmission and distribution businesses within the Group's authorised area in the south of Scotland, and the distribution business of Manweb operating in Cheshire, Merseyside, North Shropshire and North Wales.

Renewables

The origination, development, construction and operation of renewable energy generation assets, and the generation and sale of primarily electricity and ROCs from those assets.

Energy Retail and Wholesale

The sale of electricity to market participants in the UK and the sale of electricity and gas to industrial and domestic customers, together with related billing and collection activities. It also manages the Group's exposure to the UK wholesale electricity and gas markets for Energy Retail and Renewables, and the optimisation of gas storage.

2 BASIS OF PREPARATION

A. BASIS OF PREPARATION OF THE CONSOLIDATED ACCOUNTS

The Company is required by law to prepare consolidated accounts for the Group and deliver them to the Registrar of Companies. The consolidated accounts have been prepared in accordance with International Accounting Standards ("IAS") in conformity with the requirements of the Companies Act 2006 and also in accordance with International Financial Reporting Standards ("IFRS") adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU (refer to Note 2B1 below). The consolidated accounts are prepared in accordance with the accounting policies set out in Note 3. Monetary amounts are presented in pounds Sterling and rounded to the nearest hundred thousand unless otherwise indicated. The consolidated accounts are prepared on the historical cost basis apart from certain financial assets and liabilities measured at fair value.

A1. BASIS OF CONSOLIDATION

The consolidated Accounts incorporate the Accounts of the Company and its subsidiaries to 31 December each year.

Subsidiaries are those entities which the Group has the right to control, generally where a shareholding confers more than half of the voting rights.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The cost of an acquisition is measured at the fair value of any assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Any excess of that cost over the fair value of the identifiable net assets acquired is recognised as goodwill. If the fair value of the net assets acquired is in excess of that cost, the Group reassesses whether it has correctly identified all the assets acquired and all the liabilities assumed, and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If this still results in an excess of the fair value of the net assets acquired over the cost of acquisition, then the gain is recognised in the income statement.

The interest of non-controlling shareholders is initially stated at their proportion of the fair value of the assets and liabilities recognised. Changes in the Group's ownership interest in a subsidiary, not resulting in the Group losing control, are treated as equity transactions.

In accordance with the exemption permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards' ("IFRS 1"), business combinations accounted for prior to the Group's date of transition to International Financial Reporting Standards ("IFRS") on 1 April 2004 have not been restated to comply with IFRS 3 'Business Combinations'.

The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

For the consolidated group, intra-group transfers of subsidiaries within the Iberdrola Group, but outwith the Scottish Power UK plc Group, are deemed to be business combinations under common control. These transactions are accounted for using the pooling of interests method. The results for the subsidiaries transferred are included in the income statement from the effective date of acquisition. The net assets incorporated at the date of acquisition reflect the book value of each subsidiary included in the Iberdrola consolidated financial statements, the highest entity that has common control for which consolidated IFRS financial statements are prepared.

NOTES TO THE CONSOLIDATED ACCOUNTS

31 December 2020

2 BASIS OF PREPARATION *continued*

A2. GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 1 to 42.

Notwithstanding net current liabilities of £980.7 million at 31 December 2020 the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Scottish Power UK plc Group is a significant component of Iberdrola, one of the world's largest integrated utilities. The Scottish Power UK plc Group participates in a UK treasury function operated by the Group's immediate parent undertaking, Scottish Power Limited. The UK treasury function works closely with Iberdrola to manage the Group's funding requirements, which are reviewed and adjusted on a regular basis using a mixture of external funding and funding provided via Iberdrola through the global treasury function.

Since March 2020, the economic environment has been affected by the global COVID-19 pandemic. Prior to the outbreak, the Group's liquidity and trading projections were strong but will have been affected to an extent as a result of the government-mandated restrictions on movement and the longer-term impact on the UK economy as a consequence of COVID-19. Specific impacts have been set out in the Strategic Report on pages 4 and 5. In summary, the Group continues to trade at close to normal levels, providing vital services which underpin the national economy and all essential services, with Energy Networks and Renewables being particularly resilient to the current conditions. The most significant impact on the Group is in relation to the collectability of Retail customer debt, primarily in the domestic sector. Therefore, due to the nature of the Group's core activities, the direct effects on cash flows and liquidity are expected to be limited.

For the purposes of the directors' assessment of the Group's going concern position, and to satisfy them of the Group's ability to pay its liabilities as they fall due, the directors have prepared a Group cash flow forecast for the period to 31 December 2022. The cash flow forecasts indicate that, after taking account of severe but plausible downsides including the impact of the COVID-19 pandemic, the Group's existing resources and committed facilities, including £1.5 billion of undrawn committed credit at the date of approval of these financial statements (refer to Note 19(xii)) are sufficient to enable it to trade and pay its liabilities as they fall due for the forecast period.

Consequently, the directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for the period to 31 December 2022 and therefore have prepared the financial statements on a going concern basis.

B. ACCOUNTING STANDARDS

B1. IMPACT OF BREXIT

After the end of the Brexit transition period (31 December 2020) the UK ceased to be subject to EU law. Under the European Union (Withdrawal) Act 2018, all existing IFRSs adopted by the EU at that time have been 'frozen' into UK law thus were considered as in force in the UK at the end of the transition period. Adoptions, interpretations and amendments of IFRS adopted by the EU after the end of the transition period will no longer apply in the UK. For subsequent financial years, companies must use UK-adopted IFRS. At the end of the transition period, those standards will be identical to the EU-adopted IFRS in force on that date, but subsequently the UK has established its own endorsement process to adopt UK-adopted IFRS, interpretations and amendments of IFRS. For the year ended 31 December 2020, UK companies therefore have the option to use any standards which have been adopted for use within the UK in addition to the frozen EU-adopted IFRS.

In previous years, the consolidated accounts have been prepared in accordance with IFRS as adopted by the EU at the date of approval of the accounts and which were mandatory for each financial year. In line with the above, the consolidated accounts for the year ended 31 December 2020 have been prepared in accordance with the 'frozen' IFRS as adopted by the EU in accordance with the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019. The accounts for financial year beginning 1 January 2021, will be prepared in accordance with IFRS as adopted by the UK.

The changes in the way that IFRS are described as a result of the UK's exit from the EU, including the move to UK-adopted IFRS for accounting periods starting on or after 1 January 2021, do not represent a change in the basis of preparation which would necessitate a prior year restatement.

B2. IMPACT OF NEW IFRS

As noted above, these Accounts have been prepared in accordance with the frozen IFRS as adopted by the EU. In preparing these Accounts, the Group has applied all relevant IASs, IFRSs and International Financial Reporting Interpretations Committee interpretations ("IFRICs") (collectively referred to as "IFRS") that have been adopted by the EU/UK as of the date of approval of these Accounts and that are mandatory for the financial year ended 31 December 2020.

For the year ended 31 December 2020, the Group has applied the following amendments for the first time:

Standard	Notes
• Amendments to References to the Conceptual Framework in IFRS Standards	(a)
• Amendments to IFRS 3 'Business Combinations: Definition of a Business'	(a)
• Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors': 'Definition of Material'	(a)
• Amendments to IFRS 9 'Financial Instruments'; IAS 39 'Financial Instruments: Recognition and Measurement'; and IFRS 7 'Financial Instruments: Disclosures': 'Interest Rate Benchmark Reform'	(b)

(a) The application of these amendments has not had a material impact on the Group's accounting policies, financial position or performance.

(b) The Group has applied the requirements of the Interest Rate Benchmark Reform ("IBOR Reform") from 1 January 2020, including the reliefs which prevent the interruption of hedging relationships by uncertainties. Relevant uncertainties cover interest rate risks designated as hedged risks and cash flows from hedging instruments. For details of the specific relationships affected, refer to Note 10(e)C2.2(iii).

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

2 BASIS OF PREPARATION *continued*

B. ACCOUNTING STANDARDS *continued*

B2. IMPACT OF NEW IFRS *continued*

The following new standards and amendments to standards have been issued by the International Accounting Standards Board ("IASB") but have an effective date after the date of these financial statements or have not been endorsed by the EU/UK, and thus have not yet been implemented by the Group:

Standard	Notes	IASB effective date (for periods commencing on or after)	Planned date of application by the Group
• Amendments to IFRS 16 'Leases': 'Covid-19-Related Rent Concessions' and 'Covid-19-Related Rent Concessions beyond 30 June 2021'	(c), (d)	1 June 2020	1 January 2021
• Amendments to IFRS 9 'Financial Instruments'; IAS 39 'Financial Instruments: Recognition and Measurement'; IFRS 7 'Financial Instruments: Disclosures'; IFRS 4 'Insurance Contracts'; and IFRS 16 'Leases: Interest Rate Benchmark Reform – Phase 2'	(e)	1 January 2021	1 January 2021
• Amendments to IFRS 4 'Insurance Contracts: Extension of the Temporary Exemption from Applying IFRS 9'	(d)	1 January 2021	1 January 2021
• Amendments to IFRS 3 'Business Combinations'; IAS 16 'Property, Plant and Equipment'; and IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'	(d), (f)	1 January 2022	1 January 2022
• Annual Improvements to IFRS Standards 2018-2020 Cycle	(d), (f)	1 January 2022	1 January 2022
• Amendments to IAS 1 'Presentation of Financial Statements: Classification of Liabilities as Current or Non-current' and 'Deferral of Effective Date'	(d), (f)	1 January 2023	1 January 2023
• IFRS 17 'Insurance Contracts' including 'Amendments to IFRS 17'	(d), (f)	1 January 2023	1 January 2023
• Amendments to IAS 1 'Presentation of Financial Statements: Disclosure of Accounting Policies'	(d), (f)	1 January 2023	1 January 2023
• Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates'	(d), (f)	1 January 2023	1 January 2023
• IFRS 14 'Regulatory Deferral Accounts'	(d), (f), (g)	1 January 2016	To be decided
• Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures': 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	(d), (f), (h)	Deferred indefinitely	To be decided

(c) The first-noted amendment to IFRS 16, makes available a practical expedient around rent concessions affecting payments originally due on or before June 2021. The further amendment extends the time that practical expedient is available. The latter amendment is effective for periods commencing on or after 1 April 2021 and has not yet been endorsed by the UK.

(d) The future application of this pronouncement is not expected to have a material impact on the Group's accounting policies, financial position or performance.

(e) Phase 1 of the IBOR Reform has been applied by the Group effective 1 January 2020. Phase 2 of this reform will be effective for the Group as from 1 January 2021. The Group holds significant levels of debt and hedging instruments referencing LIBOR (London Inter-Bank Offer Rate) and EURIBOR (Euro Bank Offered Rate). Refer to Note 10(e). Following implementation of these amendments, these instruments will need to be revised to reference alternative benchmark rates. The modification accounting reliefs provided under the amendments to IFRS 9 are expected to be applicable for these changes, as are the additional disclosure requirements contained in the amendments to IFRS 7.

(f) This pronouncement had not been endorsed by the EU as at 31 December 2020 and has not yet been endorsed by the UK.

(g) The endorsement process of this interim standard has not been launched. On 29 January 2021, the IASB issued an exposure draft for a proposed replacement standard for this interim standard.

(h) The IASB set the effective date of this pronouncement as for periods commencing on or after 1 January 2016. However, in December 2015, the IASB postponed the effective date indefinitely pending the outcome of its research project on the equity method of accounting. The endorsement process for this pronouncement has not been launched. The effective date will be amended in due course.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES

In determining and applying accounting policies, judgement is often required in respect of items which have a significant effect on the reported amounts of assets, liabilities, income and expenses recognised in the financial statements. Other than those involving estimates, the Group has no such judgements. At 31 December 2020, assumptions made about the future and other major sources of estimation uncertainty which have significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year are detailed below:

- Retirement benefit obligation (including valuation of level 3 pension plan assets) Note 3K and Note 17E;
- Accrued 'unbilled' revenue – Note 3A(d);
- Expected credit losses ("ECLs") on Energy Retail trade receivables – Note 3H1.2(c) and Note 10(e); and
- Decommissioning costs – Note 3L and Note 18.

The principal accounting policies applied in preparing the Group's consolidated Accounts are set out below.

- A. REVENUE
- B. PROCUREMENTS
- C. GOODWILL
- D. OTHER INTANGIBLE ASSETS
- E. PROPERTY, PLANT AND EQUIPMENT
- F. LEASED ASSETS
- G. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, LEASED ASSETS AND INTANGIBLE ASSETS (EXCLUDING GOODWILL)
- H. FINANCIAL INSTRUMENTS
- I. INVENTORIES (EXCLUDING ROCs)
- J. ROCs
- K. RETIREMENT BENEFITS
- L. DECOMMISSIONING COSTS
- M. FOREIGN CURRENCIES
- N. TAXATION
- O. CASH AND CASH EQUIVALENTS
- P. DISCONTINUED OPERATIONS

A. REVENUE

The Group recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods and services.

(a) Electricity distribution

The Group provides the service of making its distribution network available to customers. This performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits of the Group's performance as it makes the distribution network available. The Group has a right to consideration in an amount that corresponds directly with the value to the customer of the Group's performance to date. Therefore, revenue is recognised in the amount to which the Group has a right to invoice based on the amount of allowed revenue for the year set by the regulatory price control. Due to the nature of the electricity settlements industry process, revenue includes unbilled income recognised as a receivable relating to units transferred over the network but not yet invoiced at the end of the year. Invoices are raised one month in arrears and are typically settled within one month.

(b) Electricity transmission

The Group provides the service of making its transmission network available to the Great Britain system operator. This performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits of the Group's performance as it makes the transmission network available. The customer benefits from the Group's service evenly throughout the year, therefore, time is used to measure progress towards complete satisfaction of the performance obligation. Revenue is recognised on a straight-line basis throughout the year based on the amount of allowed revenue for the year set by the regulatory price control. Invoices are typically raised and settled on a monthly basis and, therefore, there are no related IFRS 15 receivables, contract assets or contract liabilities at the end of the year.

(c) Transfers of assets from customers

Pursuant to the applicable industry regulations, the Group occasionally receives contributions from its customers for the construction of grid connection facilities, or is assigned assets used to connect those customers to a network. Both the cash and the fair value of the facilities received are credited to Deferred income in the balance sheet (this is a contract liability). Revenue is subsequently recognised in line with the period over which the facilities are depreciated. As the cash contributions received from customers relate to underlying business activities, they are recorded as cash flows from operating activities in the cash flow statement.

(d) Supply of electricity and gas

The Group's performance obligations are the supply of gas and/or electricity to customers. Both these performance obligations are satisfied over time as the customer simultaneously receives and consumes the benefits of the Group's performance as it supplies gas and electricity. The Group has a right to consideration in an amount that corresponds directly with the value to the customer of the Group's performance to date. Therefore, revenue is recognised in the amount to which the Group has a right to invoice based on the volume of units supplied during the year and the tariff agreed with the customer.

The Group operates in the UK energy industry, whose nature is such that revenue recognition is subject to a degree of estimation. Revenue includes an estimate of the units supplied to customers between the date of their last meter reading and the year end. This estimate is based on external data supplied by the electricity and gas market settlement process and internal data relating to energy purchases where settlement data is not yet available. Where volumes are yet to reach final settlement, a provision is made against unbilled revenue recognised in respect of those volumes. The provision is determined by considering the current unbilled position, historical trends, and any other known factors. The value assigned to these estimated volumes is based on a weighted average price per unit derived from the billing systems. This methodology is consistent with prior years and we deem this still to be appropriate, despite the impact of COVID-19, as it is believed to be the same method applied by the rest of the UK industry and the disruption to meter-reading activity experienced during the first half of 2020 recovered to a large extent towards the end of the year. The estimated value of energy delivered to customers is included within billed revenue (where an estimated reading is included within an issued invoice) and unbilled revenue (where no invoice has been invoiced). For further details on billed revenue, refer to Note 10(e) A3.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

A. REVENUE *continued*

(d) Supply of electricity and gas *continued*

Gross unbilled revenue included within the balance sheet at 31 December 2020 amounts to £563.9 million (2019 £582.0 million). This is before applying customer credit balances of £443.4 million (2019 £470.6 million), a £14.8 million (2019 £11.8 million) provision in respect of ECLs and a £24.3 million (2019 £18.0 million) provision in relation to energy volumes which have still to reach final settlement. This results in a net unbilled position at 31 December 2020 of £81.4 million (2019 £81.6 million), which relates primarily to energy delivered in the final months of the year. For further details on ECLs, refer to Note 10(e) A3.

Had actual consumption been 3% higher or lower than the estimate of units supplied (the average variance based on recent historical analysis), this would have resulted in revenue recognised for unbilled amounts being £23.7 million higher and lower respectively. The value assigned to this volume sensitivity is based on a weighted average price per unit derived from the billing systems. Approximately 92% of unbilled revenue relates to the most recent quarter where there is a higher level of estimation uncertainty.

Invoices are generally raised at monthly or quarterly intervals, which customers typically settle on the same basis respectively, except for prepayment customers who pay in advance. Billed and unbilled revenues are recorded in receivables. Amounts in contract liabilities consist of DD customer payments that are in excess of the associated units of energy delivered, and final customer credits.

(e) Contracts for Difference

CfDs are accounted for as revenue grants and are recognised as income on a systematic basis over the period in which they become receivable, which is at the point of generation.

(f) Other revenues

Other revenues, which includes revenue in relation to the Energy Retail and Wholesale Smart Solutions business, are recognised based on the consideration specified in the relevant contract with the customers, to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur in the future. The Group recognises revenue either at a specific point in time or over a period of time based on when control is transferred to the customer based on the performance obligations in the contract.

(g) Customer contract costs

The Group capitalises the incremental costs of obtaining certain customer contracts, principally sales commissions, if they are expected to be recovered. These are recorded as a separate asset class within Intangible assets and amortised on a systematic basis according to the average expected life of contracts with customers that are associated with such costs. The amortisation period is between two and four years.

The Group has elected to apply the amortisation period to a portfolio of contracts with similar characteristics as the Group expects that the effect on the financial statements is not materially different from applying it to the individual contracts.

B. PROCUREMENTS

Procurements principally comprises the cost of electricity and gas purchased during the year in relation to energy supply, and related direct costs and services of using the energy network. Costs are recorded on an accruals basis.

C. GOODWILL

Goodwill represents the excess of the fair value of the purchase consideration over the Group's share of the fair value of the identifiable assets and liabilities of an acquired subsidiary or business at the date of acquisition.

Goodwill is stated at cost less any accumulated impairment losses.

Goodwill is recognised as an asset and reviewed for impairment at least annually and whenever there is an indication of impairment. Any impairment is recognised in the income statement in the period in which it is identified. Any permanent impairment losses are not reversed.

On disposal (or partial disposal) of a subsidiary, associate, jointly controlled entity or business, the proportionate amount of allocated goodwill is included in the determination of the profit or loss arising.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the expected future cash flows of the relevant Cash Generating Unit ("CGU"), or disposal value if higher. The discount rate applied is based on ScottishPower's weighted average cost of capital with appropriate adjustments for the risks associated with the CGU. The discount rate used reflects lease liabilities under IFRS 16. Estimates of cash flows involve a significant degree of judgement and are consistent with management's plans and forecasts. Refer to Note 6(b) for further details on the impairment testing performed on goodwill.

D. OTHER INTANGIBLE ASSETS

The costs of acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software, and are amortised on a straight-line basis over their operational lives. Costs directly attributable to the development of computer software programmes, that are expected to generate economic benefits over a period in excess of one year, are capitalised and amortised on a straight-line basis over their estimated operational lives. Costs include employee costs relating to software development and an appropriate proportion of relevant overheads directly attributable to bringing the software into use. Amortisation of computer software costs is over periods of up to eight years.

Information about the Group's accounting policies and estimates in relation to the customer contract costs is provided in Note 3A(g).

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

E. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and depreciated on a straight-line basis over the estimated operational lives of the assets. Property, plant and equipment includes capitalised employee costs, interest, lease depreciation and other directly attributable costs. Borrowing costs directly attributable to the acquisition, construction or production of major qualifying assets (i.e. assets that necessarily take a substantial period of time to get ready for their intended use) are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Reviews of the estimated remaining lives and residual values of property, plant and equipment are undertaken annually. Residual values are assessed based on prices prevailing at each balance sheet date.

Land is not depreciated. The main depreciation periods used by the Group are as set out below:

	Years
Wind power plants	23-40
Gas storage facilities	10-35
Transmission facilities	40
Distribution facilities	24-40
Meters and measuring devices	2-23
Other facilities and other items of property, plant and equipment	2-50

F. LEASED ASSETS

A contract is, or contains a lease if, at inception, the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

An identified asset will be specified explicitly or implicitly in the contract, and will be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, the asset is not identified.

A contract conveys the right to control the use of an identified asset if the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use, and the customer has the right to direct the use of the asset. The customer has this right when they have the decision-making rights that are most relevant to changing how and for what purpose the asset is used. Where this is predetermined, the customer has the right to direct the use of the asset if either they have the right to operate the asset or they designed the asset in a way that predetermines how and for what purposes it will be used.

The Group has elected not to separate non-lease components and thus accounts for the lease and non-lease components in a contract as a single lease component.

F1. LESSEE

As a lessee, the Group recognises a right-of-use asset at the lease commencement date measured initially at cost. This comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset, or restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date over the shorter of the useful life of the underlying asset and the lease term. The right-of-use asset is reduced by any impairment losses and adjusted for certain remeasurements of the lease liability. The Group presents right-of-use assets within Non-current assets in the balance sheet and the depreciation charge is recorded within Depreciation, amortisation and provisions in the income statement.

The lease liability recognised at the commencement date is measured initially at the present value of the lease payments that are not paid at that date. As the rates implicit in the leases cannot be readily determined, the liabilities are discounted using the Group's incremental borrowing rate. This rate being the currency-specific interest rate that would be incurred on a loan, with similar terms, to purchase a similar asset. The incremental borrowing rates will be updated annually and applied to leases commencing in the subsequent year. Therefore, the lease liability is measured at amortised cost using the effective interest rate method. Lease payments included in the measurement of the lease liability comprise fixed payments (including in-substance fixed payments); variable lease payments that depend on an index or a rate initially measured using the index or rate at the commencement date; lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless the Group is reasonably certain not to do so.

The lease liability is remeasured when there is a change in the future lease payments arising from a change in the index or rate, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. This change in the lease liability will result in a corresponding adjustment to the carrying amount of the right-of-use asset, or in profit or loss if the carrying amount of the right-of-use asset is zero.

The Group presents lease liabilities separately in the balance sheet; the discount on the liabilities unwinds over the term of the lease and is charged to Finance costs in the income statement.

The Group has elected not to recognise right-of-use assets and lease liabilities for certain short-term leases that have a lease term of twelve months or less, and leases of intangible assets. The Group recognises any lease payments associated with such leases as an expense on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

F. LEASED ASSETS *continued*

F2. LESSOR

When the Group acts as a lessor, it determines at inception whether each lease is a finance or operating lease. The Group classifies leases as finance leases whenever the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the lessee. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately; classifying the sub-lease with reference to the right-of-use asset arising from the head lease, not the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

The Group recognises operating leases payments received as income on a straight-line basis over the lease term as part of Other operating income.

G. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, LEASED ASSETS AND INTANGIBLE ASSETS (EXCLUDING GOODWILL)

At each balance sheet date, the Group reviews the carrying amount of its property, plant and equipment, leased assets and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset (the greater of its value-in-use and its fair value less costs to sell) is estimated in order to determine the extent of the impairment loss (if any). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money, the risks specific to the asset and lease liabilities under IFRS 16.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. Any impairment is recognised in the income statement in the period in which it is identified. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been recognised, net of depreciation or amortisation, if no impairment loss had been recognised.

H. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

H1. FINANCIAL ASSETS

H1.1 RECOGNITION AND INITIAL MEASUREMENT

Financial assets are classified as measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL") both at initial recognition and subsequently. This categorisation determines whether, and where, any restatement for fair value is recognised.

Trade receivables are initially recognised when they originate. All other financial assets are initially recognised when the Group becomes party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price determined under IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15"). Other investments are valued at fair value at the balance sheet date, except where it is not possible to obtain a fair value for unquoted investments in which case they are valued at cost and assessed for impairment.

H1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

(a) Classification

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. Such reclassifications are expected to be infrequent; no other reclassifications are permitted.

The Group's business model for managing financial assets refers to how it manages them in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The business model of the Group does not depend on the intentions of management for an individual instrument. Therefore, it is not an instrument-by-instrument classification approach and determined from a higher level of aggregation.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the 'SPPI' test.

A financial asset is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI test) on the principal amount outstanding.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

H FINANCIAL INSTRUMENTS *continued*

H1. FINANCIAL ASSETS *continued*

H1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT *continued*

Trade receivables that do not contain a significant financing component, and for which the Group has applied the simplified ECL model (refer to Note 3H1.2(c)), are measured at the transaction price determined under IFRS 15 (refer to Note 3A). All other financial assets, not classified as measured at amortised cost or FVOCI, as described above, are measured at FVTPL.

(b) Subsequent measurement and gains and losses

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by net credit losses. Interest income, foreign exchange gains and losses and net credit losses are recognised in the income statement. Any gain or loss on derecognition is also recognised in the Group income statement.

Financial assets at FVTPL (other than derivatives designated as hedging instruments but including contingent consideration) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the income statement.

Equity instruments, and Other investments, are classified as FVTPL.

(i) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a Group of similar financial assets) is primarily derecognised (i.e. removed from the Group's balance sheet) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either the Group has transferred substantially all the risks and rewards of the asset, or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of it.

When the Group has transferred its rights to receive cash flows from an asset, or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations retained by the Group.

(c) Impairment of financial assets

Disclosures relating to impairment of financial assets are provided in Note 10. The Group recognises an allowance for ECLs for all debt instruments not held at FVTPL. The Group has adopted the simplified ECL model for its trade receivables and the general ECL model for all other financial assets measured at amortised cost.

In applying the simplified model, loss allowances for trade receivables are measured at an amount equal to lifetime ECL. The Group has segmented its trade receivables between those relating to Energy Retail customer debt and those within the rest of the Group. For each grouping, the Group has established a provision matrix that is based on its historical credit loss experience, adjusted for, where possible, forward-looking factors specific to the debtors and the economic environment.

ECLs for all other financial assets are recognised using the general model which works as follows:

- for credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses resulting from default events that are considered possible within the next twelve months (a twelve-month ECL); and
- for credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

As an exception to the general model, if the credit risk of a financial instrument is low at the reporting date, management can measure impairment using a twelve-month ECL and so it does not have to assess whether a significant increase in credit risk has occurred. In order for this operational simplification to apply, the financial instrument has to meet the following requirements:

- it has a low risk of default;
- the borrower is considered, in the short-term, to have a strong capacity to meet its obligations; and
- the lender expects, in the longer term, that adverse changes in economic and business conditions might, but will not necessarily, reduce the ability of the borrower to fulfil its obligations.

The Group considers financial assets to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment-grade'. The Group considers this to be BBB- or higher per rating agency Standard & Poor's. Therefore, all of the Group's other financial assets are considered to have low credit risk at both the beginning and end of the reporting period.

For retail debt, the Group does not consider that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. Debts for gas and electricity customers on secure payment plans (e.g. DD) can have debts in excess of 30 days, which would not be considered overdue. DD payments are based on an annual cycle, therefore, customers can be in either a debt or credit position at certain points in the year. The Group considers a financial asset to be in default when:

- internal or external information indicates that the Group is unlikely to receive the outstanding contractual amount in full (before taking into account any credit enhancements held by the Group); or
- the financial asset is more than 90 days past due.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

H FINANCIAL INSTRUMENTS *continued*

H1. FINANCIAL ASSETS *continued*

H1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT *continued*

(c) Impairment of financial assets *continued*

(i) Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Lifetime ECLs are the ECLs resulting from all possible default events over the expected life of a financial instrument. Twelve-month ECLs are the ECLs resulting from default events that are possible within the twelve months after the reporting date (or a shorter period if the expected life of the instrument is less than twelve months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and those the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

(ii) Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are 'credit-impaired'. This is the case when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

(iii) Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

H2. FINANCIAL LIABILITIES

H2.1 RECOGNITION AND INITIAL MEASUREMENT

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

H2.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

Financial liabilities are classified as measured at FVTPL or amortised cost.

A financial liability is classified as FVTPL if it is classified as held-for-trading, a derivative or designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in the income statement.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in the income statement. Any gain or loss on derecognition is also recognised in the income statement. This is the category most relevant to the Group as it includes interest-bearing loans and borrowings, and trade and other payables.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees, or costs that are an integral part of the effective interest rate. The effective interest charge is included as Finance costs in the income statement. This subsequent measurement technique does not apply where the loan or borrowing is a hedged item in an effective fair value hedging relationship (refer to Note 3H3.3).

(a) Derecognition

The Group derecognises a financial liability when the obligation under that liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the original liability is derecognised and a new liability recognised. The difference in their respective carrying amounts is recognised in the income statement.

H3. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

H3.1 DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments, such as forward foreign currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency, interest rate and commodity price risks. Such derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into, then subsequently remeasured at fair value. Derivatives are carried as financial assets and financial liabilities when their fair values are positive and negative respectively.

The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

At the inception of a hedge relationship, the Group formally designates and documents the relationship to which it wishes to apply hedge accounting, the risk management objective, and strategy for undertaking the hedge.

The hedge documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- the hedge ratio of the relationship is the same as that resulting from the quantity of the hedged item and the quantity of the hedging instrument that the Group uses to hedge that quantity of the hedged item.

Hedge accounting is applied when certain conditions required by IFRS 9 are met. Reliefs from certain requirements of hedge accounting have been taken where applicable, including the reliefs which prevent the interruption of hedging relationships by uncertainties (refer to Notes 2B2 and 10(e)C2.2(iii)). The accounting for cash flow and fair value hedges is set out at Notes 3H3.2 and 3H3.3 respectively.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

H FINANCIAL INSTRUMENTS *continued*

H3. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING *continued*

H3.2 CASH FLOW HEDGES

The Group designates only the spot element of treasury-related forward foreign currency contracts (hedging the value of currency denominated intercompany loans) as a hedging instrument. The forward element is recognised in Other comprehensive income and accumulated in a separate component of the hedge reserve under the cost of hedging reserve. For all other forward contracts, the Group designates all of the forward contract (both the spot and forward elements) as the hedging instrument.

The portion of gain or loss of the hedging instrument determined to be an effective hedge is recognised directly in equity and forms part of the hedge reserve. The ineffective portion of the change in fair value of the hedging instruments is recognised in the income statement within Procurements for hedges of underlying operations. For hedges of financing activities, any ineffectiveness is recognised within Finance income or Finance costs, as appropriate, in the income statement. If the cash flow hedge relates to an underlying transaction which results in the recognition of a non-financial asset, the associated gains or losses on the derivative (previously recognised in equity) are recognised in the initial measurement of the asset arising from the hedged transaction. For hedges that relate to an underlying transaction which results in recognition of a financial asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects it.

The Group discontinues hedge accounting when the hedge instrument expires or is sold, terminated or exercised, when the hedge relationship no longer qualifies for hedge accounting or when the designation is revoked. In the case of cash flow hedging, any gain or loss that has been recognised in equity until that time, remains separately recognised in equity until the forecast transaction occurs. If the transaction is no longer expected to occur, related cumulative gains and losses which have been previously deferred in equity are recognised in the income statement.

H3.3 FAIR VALUE HEDGES

The gain or loss from remeasuring the hedging instrument at fair value is recognised directly in the income statement in the same location as the gain or loss from remeasuring the hedged item. The gain or loss on the hedged item adjusts its carrying amount (when the item would otherwise have been measured at amortised cost) and is recognised in the income statement. The Group commences amortisation of any such adjustments to the carrying amount of the hedged item when the hedging relationship ends.

On the discontinuance of hedge accounting, any adjustment made to the carrying amount of the hedged item as a consequence of the fair value hedge relationship, is recognised in the income statement over its remaining life.

H3.4 VALUATION OF FINANCIAL INSTRUMENTS

In those circumstances where IFRS 9 requires financial instruments to be recognised in the balance sheet at fair value, the group's valuation strategies for derivative and other financial instruments utilise, as far as possible, quoted prices in an active trading market.

In the absence of quoted prices for identical or similar assets or liabilities, it is sometimes necessary to apply valuation techniques where contracts are marked using approved models. Models are used for developing both the forward curves and the valuation metrics of the instruments themselves where they are complex combinations of standard and non-standard products. All models are subject to rigorous testing prior to being approved for valuation, and subsequent continuous testing and approval procedures are designed to ensure the validity and accuracy of the model assumptions and inputs.

All assets and liabilities, for which fair value is measured or disclosed in the financial statements, are categorised within the fair value hierarchy, the details of which are described in Note 10.

H3.5 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL INSTRUMENTS

The Group offsets a financial asset and a financial liability, and reports the net amount, only when the Group has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

I. INVENTORIES (EXCLUDING ROCs)

Inventories are valued at the lower of cost and net realisable value. Cost includes all directly attributable costs incurred in bringing the inventories to their present location and condition.

J. ROCs

The Group participates in the Renewables Obligation ("RO") scheme administered by Ofgem. As there are no specific rules under IFRS dealing with their treatment, the Group classifies ROCs as inventories because they are consumed in the production process. ROCs are recognised at their acquisition cost and charged to the income statement as the obligations arise. Internally-generated ROCs are awarded by Ofgem and are recognised at their relevant buyout price and estimated recycle price at the balance sheet date.

The Group recognises liabilities in respect of its obligations to deliver ROCs at the value at which they were initially recorded on the balance sheet. Any estimated shortfall in the liability is calculated based on the relevant buyout price and estimated recycle price at the balance sheet date.

K. RETIREMENT BENEFITS

The Group provides pensions through two defined benefit schemes and one defined contribution retirement benefit scheme in the UK.

The cost of providing benefits under the defined benefit schemes is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Remeasurements of the net defined benefit liability are recognised, directly in retained earnings, in the period in which they occur and are shown in the statement of comprehensive income. The current service cost element of the pension charge is recognised within Staff costs in the income statement. Net interest on the net defined benefit liability or asset is included within Finance costs and Finance income, respectively, in the income statement. The retirement benefits asset and liability recognised in the balance sheet represent the net surpluses and deficits, respectively, in the Group's defined benefit pension schemes.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

K. RETIREMENT BENEFITS *continued*

Payments to the defined contribution scheme are charged as an expense as they fall due.

The expense and balance sheet items relating to the Group's accounting for pension schemes under IAS 19 are based on actuarial valuations.

Inherent in these valuations are key assumptions, including discount rates, earnings increases, increases in pension payments and mortality. These actuarial assumptions are reviewed annually in line with the requirements of IAS 19. The assumptions adopted are based on prior experience, market conditions and the advice of actuaries and other specialists within the Iberdrola Group.

Sensitivity disclosures relating to the Group's retirement benefit obligations and plan assets are set out in Note 17.

L. DECOMMISSIONING COSTS

Provision is made, on a discounted basis, for the estimated decommissioning costs of certain non-current assets. Capitalised decommissioning costs are depreciated over the useful lives of the related assets. The unwinding of the discount is included within Finance costs. The future estimated costs are based on the value of the costs at the balance sheet date, uplifted for inflation to the end of the useful economic life of the underlying asset, then discounted.

Decommissioning costs are subject to a degree of uncertainty as they are estimated at the balance sheet date and actual decommissioning will take place in the future. There is also uncertainty over when the actual decommissioning costs will be incurred. The key sources of estimation uncertainty relate to the estimated value of the costs at the balance sheet date and the discount rate. Sensitivity disclosures are set out in Note 18.

M. FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the spot rate at the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date, with exchange gains and losses recognised in the income statement.

N. TAXATION

Assets and liabilities for current tax are calculated using the tax rates that have been enacted, or substantively enacted, at the balance sheet date.

Deferred tax is the tax expected to be payable, or recoverable, on the difference between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profits (temporary differences), and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, unused tax losses or credits can be utilised.

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the period in which the liability is expected to be settled, or the asset realised based on tax rates and laws enacted, or substantively enacted, at the balance sheet date. Deferred tax is charged to the income statement, except where it relates to items charged or credited to equity (via the statement of comprehensive income), in which case the deferred tax is also recognised in equity and is shown in the statement of comprehensive income.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income. For income tax arising on dividends, the related tax is recognised in the income statement, statement of other comprehensive income, or in equity consistently with the transactions that generated the distributable profits.

O. CASH AND CASH EQUIVALENTS

Cash and short-term deposits in the balance sheet comprise cash on hand, and term deposits which are readily convertible into a known amount of cash without significant risk of changes in value and have a maturity of less than 90 days at the date of acquisition. In the cash flow statement, cash and cash equivalents include bank overdrafts repayable on demand the next business day.

P. DISCONTINUED OPERATIONS

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group, and which represents a separate major line of business or geographical area of operations; is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal and when it meets the criteria to be classified as held for sale. When an operation is classified as discontinued, the comparative consolidated income statement and consolidated statement of comprehensive income are restated as if the operation had been discontinued from the start of the comparative year.

Refer to Note 29 for details of the Group's discontinued operations.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

4 SCOPE OF CONSOLIDATION

(a) Significant judgements and assumptions used to determine the scope of the consolidation

The consolidated financial statements combine the financial statements of Scottish Power UK plc and its subsidiaries. A subsidiary is an entity over which the Company has control. This is the case when the Company has power over the relevant activities of the investee, for example through voting rights; exposure, or rights to, variable returns from its involvement with the investee; and the ability to affect those returns through its power over the investee. No significant judgements have been made in applying these principles during the year.

(b) Significant restrictions

As is typical for a group of its size and scope, there are restrictions on the ability of the Group to obtain distributions of capital, access the assets or repay the liabilities of members of its group due to the statutory, regulatory and contractual requirements of its subsidiaries, and due to the protective rights of non-controlling interests. After consideration of these factors, the resulting significant restrictions have been identified:

SP Distribution plc

SP Distribution plc is a regulated DNO whose activities are governed by a licence granted by Ofgem. For such licenced entities the main drivers facilitating distributions, including dividends, are holding an investment-grade credit rating and compliance with several other licence conditions. The total value of distributable reserves is restricted by the requirement to comply with several licence conditions including holding an investment-grade credit rating. In addition, standard condition 26 of the distribution licence conditions restricts the disposal of property, plant and equipment. The Group has policies and procedures in place to adhere to the licence conditions and restrictions arising from them.

Value restricted	2020 £m	2019 £m
Distributable reserves	619.5	626.5
Property, plant and equipment	3,013.2	2,920.9

SP Manweb plc

SP Manweb plc is a regulated DNO whose activities are governed by a licence granted by Ofgem. For such licenced entities the main drivers facilitating distributions, including dividends, are holding an investment-grade credit rating and compliance with several other licence conditions. The total value of distributable reserves is restricted by the requirement to comply with several licence conditions including holding an investment-grade credit rating. In addition, standard condition 26 of the distribution licence conditions restricts the disposal of property, plant and equipment. The Group has policies and procedures in place to adhere to the licence conditions and restrictions arising from them.

Value restricted	2020 £m	2019 £m
Distributable reserves	726.7	718.9
Property, plant and equipment	3,117.8	3,009.0

SP Transmission plc

SP Transmission plc is a regulated electricity transmission entity whose activities are governed by a licence granted by Ofgem. For such licenced entities the main drivers facilitating distributions, including dividends, are holding an investment-grade credit rating and compliance with several other licence conditions. The total value of distributable reserves is restricted by the requirement to comply with several licence conditions including holding an investment-grade credit rating. In addition, standard condition B3 of the transmission licence conditions restricts the disposal of property, plant and equipment. The Group has policies and procedures in place to adhere to the licence conditions and restrictions arising from them.

Value restricted	2020 £m	2019 £m
Distributable reserves	819.9	777.0
Property, plant and equipment	3,016.7	2,923.7

5 BUSINESS SEGMENT REPORTING

(a) Operating segments and business divisions

The Group classifies its operating segments based on a combination of factors, principally differences in products and services and the regulatory environment in which each business operates. The Group is organised into three reportable segments; Energy Networks, Renewables and Energy Retail and Wholesale. The Group identifies SPT, SPD and SPM as individual operating segments, but as management deem these operating segments to exhibit similar economic characteristics, they have been aggregated (together with other Energy Networks entities) into a single reported segment, Energy Networks. In line with IFRS 8, the Group reports its segments on this basis and the measure of profit used for the purpose of reporting to the Chief Operating Decision maker ("CODM") is operating profit as per the consolidated income statement. All revenue for the reported segments arise from operations within Great Britain and Ireland. Revenue arising from operations within the Republic of Ireland is not deemed material enough to disclose as a separate operating segment.

In accordance with the disclosure requirements of IFRS 8, the Annual Report and Accounts of the Group reports the relevant financial results of the reported segments as described above. In the interest of improved transparency, the Group has voluntarily disclosed revenue and operating profit for the year ended 31 December 2020 for the separate business divisions within the Renewables and Energy Retail and Wholesale reported segments, whilst also providing detail in relation to non-recurring items and certain remeasurements arising from IFRS 9, consistent with the Supply and Generation regulatory licence conditions. This information has been calculated, where appropriate, in accordance with Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

5 BUSINESS SEGMENT REPORTING *continued*

(a) Operating segments and business divisions *continued*

During the year ended 31 December 2020, the Group's reported segments and business divisions were as follows:

Reported segment	Status of operations	Business division	Business division description
Energy Networks	Continuing	Energy Networks	The transmission and distribution business within the Group.
Renewables	Continuing	Renewables – Licensed business ¹	The Great Britain licensed activity of the Renewables reported segment, which develops and operates renewable generation plant.
		Other	The non-licensed activity of the Renewables reported segment, (which includes generation activity outside Great Britain), the results of Coldham Windfarm Limited (which is exempt from holding a generation licence as it is classified as a small generator), and the impact of the amortisation of fair value attributed to the Renewables reported segment when purchased by Iberdrola during 2007.
Energy Retail and Wholesale	Continuing	Supply – Licensed business ¹	The licensed activity of the Energy Retail and Wholesale reported segment which is responsible for the supply of electricity and gas to domestic and non-domestic customers.
		Energy Management ¹	The non-licensed activities of the Energy Retail and Wholesale reported segment, responsible for wholesale market purchases for the Supply – Licensed business division. In addition, Energy Management manages limited proprietary trading and gas storage activities.
		Other	The non-licensed activity of the Energy Retail and Wholesale reported segment which includes the Group's Smart Solutions activities and non-licensed metering activities, including smart meter asset provision.

¹ Renewables – Licensed, Supply – Licensed and Energy Management businesses are consistent with those disclosed in the Consolidated Segmental Statements for the Supply and Generation licensed businesses presented in accordance with Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences. These statements can be found at: www.scottishpower.com/pages/company_reporting.aspx.

(b) Revenue by reported segment and business division for continuing operations

(i) Revenue by reported segment for continuing operations

The revenue by reported segment for continuing operations for the year ended 31 December 2020 is detailed below.

Reported segment	External revenue £m	Inter-segment revenue* £m	Revenue reported to the CODM £m
Energy Networks	1,115.3	139.1	1,254.4
Renewables	309.1	596.9	906.0
Energy Retail and Wholesale	3,739.6	11.0	3,750.6
Elimination of inter-segment revenue			(747.0)
			5,164.0

* Inter-segment revenue relating to Energy Networks is predominantly subject to regulation and is based on published tariffs set by Ofgem. Renewables inter-segment revenue primarily consists of the sale of electricity and ROCs from wind farms. Energy Retail and Wholesale inter-segment revenue largely consists of the supply of electricity and gas.

The revenue by reported segment for continuing operations for the year ended 31 December 2019 is detailed below.

Reported segment	External revenue £m	Inter-segment revenue* £m	Revenue reported to the CODM £m
Energy Networks	1,105.2	141.6	1,246.8
Renewables	67.5	570.8	638.3
Energy Retail and Wholesale	3,951.8	10.5	3,962.3
Elimination of inter-segment revenue			(722.9)
			5,124.5

* Inter-segment revenue relating to Energy Networks is predominantly subject to regulation and is based on published tariffs set by Ofgem. Renewables inter-segment revenue primarily consists of the sale of electricity and ROCs from wind farms. Energy Retail and Wholesale inter-segment revenue largely consists of the supply of electricity and gas.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

5 BUSINESS SEGMENT REPORTING *continued*

(b) Revenue by reported segment and business division for continuing operations *continued*

(ii) Additional information – Revenue by reported segment and business division for continuing operations

The revenue by reported segment and business division for continuing operations for the year ended 31 December 2020 is detailed below. No comparative information has been provided as this is a voluntary disclosure as described on page 74.

Reported segment	Business division	Revenue £m	Joint venture share of revenue (Note (iii)) £m	Revenue re-allocations as per regulatory licence requirements (Note (iv)) £m	Revenue as per regulatory licence requirements £m
Energy Networks		1,254.4	–	–	1,254.4
	Renewables – Licensed business	893.7	9.7	–	903.4
	Other	12.3	0.2	–	12.5
Renewables		906.0	9.9	–	915.9
	Supply – Licensed business	3,687.3	–	(29.6)	3,657.7
	Energy Management	2,406.2	–	–	2,406.2
	Other	80.5	–	–	80.5
	Elimination of intra-segment revenue	(1,407.4)	–	–	(1,407.4)
	Netting adjustment	(1,016.0)	–	–	(1,016.0)
Energy Retail and Wholesale		3,750.6	–	(29.6)	3,721.0
	Elimination of inter-segment revenue	(747.0)	–	–	(747.0)
Total		5,164.0	9.9	(29.6)	5,144.3

(iii) Joint venture share of revenue for continuing operations

All joint ventures within the Group are consolidated using the equity method. The results of the joint ventures are therefore presented within Results of companies accounted for using the equity method on the face of the consolidated income statement and so do not form part of Revenue.

As per the licence conditions, and the associated regulatory reporting, the Group is required to proportionally consolidate the results of the joint ventures and so present revenues and costs in the appropriate lines of the income statement.

(iv) Revenue re-allocations as per regulatory licence requirements for continuing operations

As disclosed in Note 24 of the financial statements, in line with Group accounting policy, Taxes other than income tax includes the costs of the WHD scheme. As per the licence conditions, these costs are required to be deducted from Revenue.

(c) Operating profit/(loss) by reported segment and business division for continuing operations

(i) Operating profit/(loss) by reported segment for continuing operations

The operating profit/(loss) by reported segment for continuing operations for the year ended 31 December 2020 is detailed below.

Reported segment	Operating profit/(loss) reported to the CODM £m
Energy Networks	582.9
Renewables	448.0
Energy Retail and Wholesale	(40.8)
Unallocated	1.0
Total	991.1

The operating profit/(loss) by reported segment for continuing operations for the year ended 31 December 2019 is detailed below.

Reported segment	Operating profit/(loss) reported to the CODM £m
Energy Networks	572.8
Renewables	318.9
Energy Retail and Wholesale	(81.3)
Unallocated	18.3
Total	828.7

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

5 BUSINESS SEGMENT REPORTING *continued*

(c) Operating profit/(loss) by reported segment and business division for continuing operations *continued*

(ii) Additional information – Operating profit/(loss) by reported segment and business division for continuing operations

The operating profit by reported segment and business division for continuing operations for the year ended 31 December 2020 is detailed below. No comparative information has been provided as this is a voluntary disclosure as described on page 74.

Reported segment	Business division	Operating profit/(loss) £m	Joint venture share of operating profit (Note (iii)) £m	Non-recurring items (Note (iv)) £m	Certain remeasurements (Note (v)) £m	Adjusted operating profit as per regulatory licence requirements £m
Energy Networks		582.9	–	(6.7)	–	576.2
	Renewables – Licensed business	477.4	1.2	(1.0)	–	477.6
	Other	(29.4)	0.2	0.1	–	(29.1)
Renewables		448.0	1.4	(0.9)	–	448.5
	Supply – Licensed business	(60.9)	–	(3.4)	–	(64.3)
	Energy Management	3.1	–	–	(2.1)	1.0
	Other	17.0	–	8.2	–	25.2
Energy Retail and Wholesale		(40.8)	–	4.8	(2.1)	(38.1)
Unallocated		1.0	–	0.2	–	1.2
Total		991.1	1.4	(2.6)	(2.1)	987.8

(iii) Joint venture share of operating profit for continuing operations

All joint ventures within the Group are consolidated using the equity method. The results of the joint ventures are therefore presented within Results of companies accounted for using the equity method on the face of the consolidated income statement and so do not form part of Operating profit.

As per the licence conditions, and the associated regulatory reporting, the Group is required to proportionally consolidate the results of the joint ventures and so presents revenues and costs in the appropriate lines of the income statement.

(iv) Non-recurring items for continuing operations

In the year ended 31 December 2020, (£2.6 million) of net non-recurring items were recorded.

Provisions for restructuring and other liabilities of (£7.9 million): On review of the Group's provisions as at 31 December 2020, there was a net release to restructuring provisions and associated pension costs of (£7.9 million). This was a net release to prior year provisions of (£9.5 million) offset by £1.6 million of new provisions in relation to expected restructuring costs and guaranteed minimum pension ("GMP") equalisation in 2021.

Impairment and non-current asset write-offs of £9.4 million: During the year ended 31 December 2020, the Group recognised a charge of £9.4 million which principally comprised the write-off of smart meter assets of £8.5 million.

Non-recurring costs of £4.6 million and income of (£8.7 million): During the year ended 31 December 2020, the Group recognised £4.6 million of non-recurring costs on the settlement of various contractual disputes within the Energy Retail and Wholesale segment. The Group also recognised £8.7 million of non-recurring income, principally on the favourable settlement of various contractual disputes included within the Energy Networks and Renewables segments.

(v) Certain remeasurements for continuing operations

Certain remeasurements are the fair value movements on energy contracts arising from the application of IFRS 9. These have been disclosed separately to aid the understanding of the underlying performance of the Group.

(d) Other financial data by reported segment for continuing operations

Other items by reported segment for the year ended 31 December 2020	Acquisition of property, plant and equipment and intangible assets reported to the CODM £m	Acquisition of right-of-use assets reported to the CODM £m	Depreciation, amortisation and impairment reported to the CODM £m	Net expected credit loss on trade and other receivables reported to the CODM £m
Energy Networks	551.0	16.7	319.7	1.6
Renewables	599.4	3.8	227.9	(0.1)
Energy Retail and Wholesale	138.4	0.2	131.3	118.8
Unallocated	19.7	0.5	29.9	0.1
Total	1,308.5	21.2	708.8	120.4
Other items by reported segment for the year ended 31 December 2019	Acquisition of property, plant and equipment and intangible assets reported to the CODM £m	Acquisition of right-of-use assets reported to the CODM £m	Depreciation, amortisation and impairment reported to the CODM £m	Net expected credit loss on trade and other receivables reported to the CODM £m
Energy Networks	586.6	14.9	306.6	1.9
Renewables	859.4	4.6	143.3	0.5
Energy Retail and Wholesale	190.1	0.9	109.6	68.5
Unallocated	24.8	7.7	28.5	(0.4)
Total	1,660.9	28.1	588.0	70.5

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

6 INTANGIBLE ASSETS

(a) Movements in intangible assets

Year ended 31 December 2019	Note	Goodwill (Note (b)) £m	Other intangible assets				Total £m	Total £m
			Computer software (Notes (i), (iii)) £m	Licences £m	Customer Contract Costs (Note (iii)) £m	Other £m		
Cost:								
At 1 January 2019		364.6	452.3	9.5	133.4	6.5	601.7	966.3
Additions	(iv)	–	30.5	–	72.7	–	103.2	103.2
Disposals		–	(22.5)	–	(37.4)	(1.1)	(61.0)	(61.0)
At 31 December 2019		364.6	460.3	9.5	168.7	5.4	643.9	1,008.5
Amortisation:								
At 1 January 2019		–	293.9	3.9	55.6	1.9	355.3	355.3
Amortisation for the year		–	51.3	0.4	39.4	1.8	92.9	92.9
Disposals		–	(22.5)	–	(37.4)	(1.1)	(61.0)	(61.0)
At 31 December 2019		–	322.7	4.3	57.6	2.6	387.2	387.2
Net book value:								
At 31 December 2019		364.6	137.6	5.2	111.1	2.8	256.7	621.3
At 1 January 2019		364.6	158.4	5.6	77.8	4.6	246.4	611.0

Year ended 31 December 2020	Note	Goodwill (Note (b)) £m	Other intangible assets				Total £m	Total £m
			Computer software (Notes (i), (iii)) £m	Licences £m	Customer Contract Costs (Note (iii)) £m	Other £m		
Cost:								
At 1 January 2020		364.6	460.3	9.5	168.7	5.4	643.9	1,008.5
Additions	(iv)	–	28.6	–	59.9	–	88.5	88.5
Disposals		–	(4.3)	–	(26.1)	–	(30.4)	(30.4)
At 31 December 2020		364.6	484.6	9.5	202.5	5.4	702.0	1,066.6
Amortisation:								
At 1 January 2020		–	322.7	4.3	57.6	2.6	387.2	387.2
Amortisation for the year		–	59.2	0.3	49.2	1.8	110.5	110.5
Disposals		–	(4.3)	–	(26.1)	–	(30.4)	(30.4)
At 31 December 2020		–	377.6	4.6	80.7	4.4	467.3	467.3
Net book value:								
At 31 December 2020		364.6	107.0	4.9	121.8	1.0	234.7	599.3
At 1 January 2020		364.6	137.6	5.2	111.1	2.8	256.7	621.3

- (i) The cost of fully amortised computer software still in use at 31 December 2020 was £94.8 million (2019 £83.9 million).
- (ii) Included in the net book value of computer software is £13.9 million (2019 £25.1 million) relating to the customer relationship management system which has two years of remaining amortisation and £29.3 million (2019 £42.3 million) relating to system upgrades for smart metering which has three years of remaining amortisation.
- (iii) Refer to Note 22(c) for details on customer contract costs.
- (iv) Included within additions is £1.3 million (2019 £0.5 million) from internal development.

(b) Impairment test for goodwill

The carrying amount of goodwill for the Renewables business at 31 December 2020 was £364.6 million (2019 £364.6 million).

The recoverable amount for the Renewables business has been determined based on a value-in-use calculation. The calculation uses cash flow projections which reflect past experience and which are based upon a management approved business plan ending in 2030. Cash flows beyond that period reflect asset estimated useful lives as well as management's forward view of prices and the business strategic objectives. It is considered appropriate to assess the cash flows over a period longer than five years as this better reflects the long-term nature of energy market operations and governance, and of wind farm development lead times.

The value-in-use calculation is based on anticipated generation output over the expected lives of individual wind farm projects.

Cash inflows for all projects are based on anticipated generation output. The output is valued at forward power prices based on: observable market information where available; assumed continuing government support through ROCs, CfDs and other mechanisms; and on internal model assumptions. Cash outflows are based on planned operating and capital expenditure.

Whilst there has been an impact from COVID-19 on renewable procurement costs in 2020, there is not considered to be any significant impact on future cash outflows.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

6 INTANGIBLE ASSETS *continued*

(b) Impairment test for goodwill *continued*

The main assumptions and basis for determining values assigned to the key assumptions are detailed below:

Main assumptions used for value-in-use calculations

Discount rate (pre-tax): onshore 4.89%; and offshore 5.56%

Forward price of power

Energy output

Inflation rate: 2%

Basis for determining values assigned to key assumptions

Discount rate is determined on the basis of market data and the divisional cost of capital

Market quotes/management future expectations

Theoretical maximum output less adjustments based on historical data (wind variability, outages and availability)

Growth rate is based on an inflation rate of 2% per annum and is applied to assumptions including operating costs.

The value-in-use calculation of the Renewables business exceeds the carrying amount.

The Group has also performed several sensitivity analyses of the impairment test result in relation to the key assumptions to which the value-in-use calculation is most sensitive. These tests included:

- a 100 basis point increase in the discount rate;
- a 10% decline in the power price per kilowatt hour reflecting adverse external market forces (only applicable to production for which no long-term sales agreements have been entered into); and
- a 5% decline in energy output from availability issues.

After applying each sensitivity, there was significant headroom between the value-in-use calculations and the underlying book value of the assets.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

7 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

	Notes	Total operating plant (Note (b)) £m	Other items of property, plant and equipment in use (Note (ii)) £m	Plant in the course of construction £m	Other items of property, plant and equipment in the course of construction £m	Total £m
Year ended 31 December 2019						
Cost:						
At 1 January 2019		14,718.5	274.5	1,978.0	24.2	16,995.2
Additions	(ii)	185.9	22.4	1,328.8	20.6	1,557.7
Transfers from inventories		–	–	20.9	19.1	40.0
Transfers from plant in the course of construction to plant in use		1,226.6	0.8	(1,185.6)	(41.8)	–
Disposals		(23.1)	(40.8)	(3.7)	(1.3)	(68.9)
Impairment	(iii)	–	–	–	(0.2)	(0.2)
At 31 December 2019		16,107.9	256.9	2,138.4	20.6	18,523.8
Depreciation:						
At 1 January 2019		3,965.6	92.0	–	–	4,057.6
Charge for the year		449.9	16.7	–	–	466.6
Disposals		(20.4)	(19.1)	–	–	(39.5)
At 31 December 2019		4,395.1	89.6	–	–	4,484.7
Net book value:						
At 31 December 2019		11,712.8	167.3	2,138.4	20.6	14,039.1
At 1 January 2019		10,752.9	182.5	1,978.0	24.2	12,937.6
The net book value of property, plant and equipment at 31 December 2019 is analysed as follows:						
Property, plant and equipment in use		11,712.8	167.3	–	–	11,880.1
Property, plant and equipment in the course of construction		–	–	2,138.4	20.6	2,159.0
		11,712.8	167.3	2,138.4	20.6	14,039.1

	Note	Total operating plant (Note (b)) £m	Other items of property, plant and equipment in use (Note (ii)) £m	Plant in the course of construction £m	Other items of property, plant and equipment under construction £m	Total £m
Year ended 31 December 2020						
Cost:						
At 1 January 2020		16,107.9	256.9	2,138.4	20.6	18,523.8
Additions	(ii)	172.4	17.4	1,016.6	13.6	1,220.0
Transfers from inventories		–	–	24.3	16.4	40.7
Transfers from plant in the course of construction to plant in use		2,123.5	–	(2,094.6)	(28.9)	–
Disposals		(76.7)	(2.6)	(0.3)	(1.6)	(81.2)
At 31 December 2020		18,327.1	271.7	1,084.4	20.1	19,703.3
Depreciation:						
At 1 January 2020		4,395.1	89.6	–	–	4,484.7
Charge for the year		550.1	17.5	–	–	567.6
Disposals		(66.1)	(2.8)	–	–	(68.9)
At 31 December 2020		4,879.1	104.3	–	–	4,983.4
Net book value:						
At 31 December 2020		13,448.0	167.4	1,084.4	20.1	14,719.9
At 1 January 2020		11,712.8	167.3	2,138.4	20.6	14,039.1
The net book value of property, plant and equipment at 31 December 2020 is analysed as follows:						
Property, plant and equipment in use		13,448.0	167.4	–	–	13,615.4
Property, plant and equipment in the course of construction		–	–	1,084.4	20.1	1,104.5
		13,448.0	167.4	1,084.4	20.1	14,719.9

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

7 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) Movements in total operating plant

	Wind power plants £m	Gas storage facilities £m	Transmission facilities £m	Distribution facilities £m	Smart meters and measuring devices £m	Other facilities (Note (iv)) £m	Total operating plant £m
Year ended 31 December 2019							
Cost:							
At 1 January 2019	3,807.1	35.5	2,987.8	7,190.6	458.6	238.9	14,718.5
Additions (Note (v))	78.6	0.1	25.4	1.7	54.0	26.1	185.9
Transfers from plant in the course of construction to plant in use	644.5	–	145.0	413.9	20.4	2.8	1,226.6
Disposals	(0.3)	–	–	(3.7)	(15.8)	(3.3)	(23.1)
At 31 December 2019	4,529.9	35.6	3,158.2	7,602.5	517.2	264.5	16,107.9
Depreciation:							
At 1 January 2019	1,038.4	18.8	576.6	2,002.3	237.1	92.4	3,965.6
Charge for the year	128.3	0.6	77.4	194.1	34.3	15.2	449.9
Disposals	(0.2)	–	–	(5.9)	(11.0)	(3.3)	(20.4)
At 31 December 2019	1,166.5	19.4	654.0	2,190.5	260.4	104.3	4,395.1
Net book value:							
At 31 December 2019	3,363.4	16.2	2,504.2	5,412.0	256.8	160.2	11,712.8
At 1 January 2019	2,768.7	16.7	2,411.2	5,188.3	221.5	146.5	10,752.9
Year ended 31 December 2020							
Cost:							
At 1 January 2020	4,529.9	35.6	3,158.2	7,602.5	517.2	264.5	16,107.9
Additions (Note (v))	113.7	0.1	4.8	6.0	36.4	11.4	172.4
Transfers from plant in the course of construction to plant in use	1,298.1	–	247.9	559.1	12.6	5.8	2,123.5
Disposals	(1.7)	–	(4.8)	(12.5)	(54.3)	(3.4)	(76.7)
At 31 December 2020	5,940.0	35.7	3,406.1	8,155.1	511.9	278.3	18,327.1
Depreciation:							
At 1 January 2020	1,166.5	19.4	654.0	2,190.5	260.4	104.3	4,395.1
Charge for the year	206.1	0.7	80.7	207.4	38.1	17.1	550.1
Disposals	(0.7)	–	(4.3)	(10.5)	(47.2)	(3.4)	(66.1)
At 31 December 2020	1,371.9	20.1	730.4	2,387.4	251.3	118.0	4,879.1
Net book value:							
At 31 December 2020	4,568.1	15.6	2,675.7	5,767.7	260.6	160.3	13,448.0
At 1 January 2020	3,363.4	16.2	2,504.2	5,412.0	256.8	160.2	11,712.8

- (i) Other items of property, plant and equipment in use comprises land and buildings, IT equipment and other assets. Included within this category is £6.4 million (2019 £6.2 million) relating to spend on non-operational sites which are not classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.
- (ii) Additions to plant in the course of construction during the year ended 31 December 2019 included £1.8 million in respect of wind power plant considered as asset acquisitions as part of the Group's acquisition of Douglas West Extension Limited. Additions in the year ended 31 December 2020 include £20.0 million in respect of wind power plant considered as asset acquisitions as part of the Group's acquisition of Hagshaw Hill Repowering Ltd and Cumberhead West Wind Farm Ltd.
- (iii) The impairment charge of £0.2 million made during the year ended 31 December 2019 comprised the write-off of other assets.
- (iv) The Other facilities category of operating plant largely comprises smart meter infrastructure assets and Energy Networks communications facilities.
- (v) Interest on the funding attributable to major capital projects was capitalised during the year at a rate of 1.1% (2019 1.8%).
- (vi) The cost of fully depreciated property, plant and equipment still in use at 31 December 2020 was £449.3 million (2019 £463.7 million).
- (vii) Included within Other operating income in the income statement for the year ended 31 December 2020 is £1.0 million (2019 £0.8 million) relating to compensation receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.
- (viii) Included within the cost of property, plant and equipment at 31 December 2020 are assets in use not subject to depreciation, being land and cushion gas, of £59.2 million (2019 £58.5 million).
- (ix) Included in Transmission facilities, Other items of property, plant and equipment in use and Plant in progress are assets with a carrying amount of £1.3 million (2019 £1.5 million), £0.5 million (2019 £0.4 million) and £nil (2019 £0.1 million) respectively which the Group leases to third parties via operating leases.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

7 PROPERTY, PLANT AND EQUIPMENT *continued*

(c) Capital commitments

	2020						Total £m
	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2026 and thereafter	
Contracted but not provided	373.0	62.8	7.5	0.8	0.1	0.2	444.4

	2019						Total £m
	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 and thereafter	
Contracted but not provided	565.5	55.5	3.8	0.1	0.2	–	625.1

(d) Research and development expenditure

The amount of research and development expenditure recognised as an expense during the year was £4.2 million (2019 £3.8 million).

8 LEASING

8A LESSEE

The Group leases many assets including land, buildings and vehicles. Information about leases for which the Group is a lessee is presented below.

(a) Nature of leases

Land

The Group holds agreements to lease land and for the assignment of rights to use land, primarily for operational assets, (mainly wind farms), with typical lease terms running up to 50 years. Certain leases contain the right to extend the lease term by up to 50 years and can be terminated with appropriate notice, generally up to twelve months.

Buildings

The Group leases buildings primarily for its office space, operational depots and retail space (which is sub-let). The leases typically have lease terms of up to 99 years. Certain leases have options to extend the term by up to 25 years at the end of the term and others have options to terminate subject to a notice period typically of up to six months.

The lease for the head office building has a 25 year term ending in 2041 at which point the Group has the right to extend the lease to 2046 (and to 2051 at 2046). It is currently not deemed reasonably certain that these extension options will be taken. However, should they be taken, the estimated increase in the lease liability would be £34.9 million and a further £18.3 million respectively.

The Group sub-leases some of its properties under operating leases (refer to Note 8B). Where the unavoidable costs of meeting the obligations under these contracts exceed the economic benefits expected to be received under them, the right-of-use assets have been appropriately impaired.

Vehicles

The Group leases vehicles with lease terms of between two and twelve years, primarily being pool vehicles to mobilise its operational staff and other specialist vehicles. Certain leases can be terminated without notice. Certain vehicle leases are considered short-term and the Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Other equipment

The Group leases operating plant and office equipment, with lease terms of up to 42 years. Certain leases have rights to extend the term or terminate the lease. Certain plant leases are considered short-term and the Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Variable lease payments

Some land leases, particularly those on which wind farms have been built, contain variable lease payments that are based on the output from the wind farm. Also certain building leases contain variable lease payments that are based on the building services supplied. These payment terms are common for both of these types of leases. The fixed annual payments for the year were £38.7 million compared to variable payments made of £18.3 million. Despite the future planned growth of the Renewables business, the Group expects the relative proportions of fixed and variable lease payments to remain broadly consistent in future years.

Extension options

Some leases, in particular of land and buildings, contain extension options exercisable by the Group at the end of the non-cancellable contract period or an agreed point before that date. Where practicable, the Group seeks to include extension options in leases to provide operational flexibility. Those options held are exercisable only by the Group and not by the lessors. At lease commencement, the Group will assess whether it is reasonably certain to exercise the extension options and reassesses this if there is a significant event or change in circumstances within its control.

Other information

The Group has not committed to any leases that have not yet commenced. The Group has no contracts containing residual value guarantee, no leases subject to significant restrictions or covenants, and no sale and leaseback transactions.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

8 LEASING *continued*

8A LESSEE *continued*

(b) Right-of-use assets

Year ended 31 December 2019	Note	Land £m	Buildings £m	Vehicles £m	Other equipment £m	Total £m
Cost:						
On transition to IFRS 16 at 1 January 2019		301.8	94.1	11.5	0.4	407.8
Additions		7.8	4.4	13.7	2.2	28.1
Adjustments for changes in liabilities	(i)	2.0	2.9	1.2	(0.1)	6.0
Disposals		–	–	(0.1)	–	(0.1)
Impairment		(0.4)	–	–	–	(0.4)
At 31 December 2019		311.2	101.4	26.3	2.5	441.4
Depreciation:						
On transition to IFRS 16 at 1 January 2019		–	–	–	–	–
Charge for the year		13.1	7.4	6.7	0.7	27.9
At 31 December 2019		13.1	7.4	6.7	0.7	27.9
Net book value:						
At 31 December 2019		298.1	94.0	19.6	1.8	413.5
On transition to IFRS 16 at 1 January 2019		301.8	94.1	11.5	0.4	407.8

Year ended 31 December 2020	Note	Land £m	Buildings £m	Vehicles £m	Other equipment £m	Total £m
Cost:						
At 1 January 2020		311.2	101.4	26.3	2.5	441.4
Additions		12.6	0.2	8.2	0.2	21.2
Adjustments for changes in liabilities	(i)	43.3	3.3	2.0	0.3	48.9
Disposals		(0.8)	–	(0.1)	–	(0.9)
At 31 December 2020		366.3	104.9	36.4	3.0	510.6
Depreciation:						
At 1 January 2020		13.1	7.4	6.7	0.7	27.9
Charge for the year		14.7	7.4	8.0	0.6	30.7
Disposals		(0.2)	–	(0.1)	–	(0.3)
At 31 December 2020		27.6	14.8	14.6	1.3	58.3
Net book value:						
At 31 December 2020		338.7	90.1	21.8	1.7	452.3
At 1 January 2020		298.1	94.0	19.6	1.8	413.5

(i) Adjustments for changes in liabilities are movements in the right-of-use asset resulting from remeasurement of the associated lease liability to reflect changes to the lease payments due to any reassessment or lease modifications.

(ii) There are no right-of-use assets measured at revalued amounts.

(c) Lease liabilities

The following table sets out a maturity analysis of non-derivative lease liabilities, showing the undiscounted payments to be made after the reporting date.

	2020 £m	2019 £m
Less than one year	38.8	37.9
One to five years	146.0	123.3
More than five years	541.7	521.1
Total undiscounted lease liabilities at 31 December	726.5	682.3
Finance cost	(228.8)	(231.3)
Total discounted lease liabilities	497.7	451.0
Analysis of total lease liabilities		
Non-current	471.6	416.5
Current	26.1	34.5
Total	497.7	451.0

Details of the Group's risk management strategy for liquidity risks inherent in its lease liability are described at Note 10.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

8 LEASING *continued*

8A LESSEE *continued*

(d) Amounts recognised in income statement

	Notes	2020 £m	2019 £m
Interest on lease liabilities		(16.6)	(16.7)
Variable lease payments not included in the measurement of lease liabilities	(i)	(18.3)	(9.7)
Income from sub-leasing right-of-use assets		0.7	1.1
Expenses relating to short-term leases	(ii)	(7.0)	(6.3)

- (i) The increase in variable payments not included in the measurement of lease liabilities in the year is driven by land lease payments relating to the EA1 wind farm, for which 2020 was the first full year of operation.
- (ii) This charge relates to leases for plant and equipment and vehicles. Future commitments relating to the portfolio of short-term leases are expected to be similar to the expense charged in the year.

(e) Amounts recognised in the cash flow statement

	2020 £m	2019 £m
Payments of lease liabilities	(26.7)	(25.4)
Interest paid on lease liabilities	(12.0)	(11.3)
Payments for variable lease components	(18.3)	(9.7)
Payments for short-term leases	(6.2)	(5.8)
Total cash outflow for leases	(63.2)	(52.2)

8B LESSOR

The Group has contracts to lease land and buildings which have been classified as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. These leases have terms of between 1 and 25 years, running to between 2021 and 2029.

Lease income recognised by the Group during 2020 was £2.9 million (2019 £3.4 million). No income has been recognised in either year relating to variable lease payments that do not depend on an index or rate.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted payments to be received after the reporting date:

	2020 £m	2019 £m
Less than one year	2.8	2.4
One to two years	1.9	1.9
Two to three years	0.2	0.2
Three to four years	0.2	0.2
Four to five years	0.2	0.2
More than five years	0.8	0.9
Total undiscounted lease payments	6.1	5.8

Details of the Group's risk management strategy for addressing and reducing the risks associated with the retained rights in the underlying assets are described in Note 10.

9 INVESTMENTS IN JOINT VENTURES

(a) Movements in investments in joint ventures are analysed as follows:

	Shares £m
At 1 January 2019	6.9
Share of result for year	0.9
At 1 January 2020	7.8
Share of result for year	1.4
Dividends	(1.5)
At 31 December 2020	7.7

- (i) Investments in joint ventures are accounted for using the equity method. Details of the Group's joint ventures are set out in Appendix 1.
- (ii) No quoted market prices exist for investments in joint ventures.
- (iii) No significant restrictions exist (e.g. resulting from borrowing arrangements, regulatory requirements or contractual arrangements between investors with joint control of, or significant influence over, a joint venture) that impact upon the ability of joint ventures to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group (2019 none).

(b) Interest in joint ventures

	2020 £m	2019 £m
Aggregate carrying amount of individually immaterial equity accounted interests	7.7	7.8
Aggregate profit from continuing operations attributable to the Group	1.4	0.9
Aggregate total comprehensive income attributable to the Group	1.4	0.9

The Group has no interests in associates.

(c) Commitments

The Group has commitments not recognised at 31 December 2020 relating to its interests in joint ventures of £0.4 million (2019 £nil).

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

10 FINANCIAL INSTRUMENTS

(a) Carrying amount of financial instruments

The table below sets out the carrying amount and fair value of the Group's financial instruments.

			2020		2019	
	Classification	Notes	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets						
Other investments	FVTPL		0.2	0.2	0.3	0.3
Derivative financial instruments	Fair value hedging instrument	(i)	272.5	272.5	122.6	122.6
Non-current receivables	Amortised cost	(ii)	10.1	10.1	83.2	83.2
Current receivables	Amortised cost	(ii)	1,813.7	1,813.7	2,608.4	2,608.4
Contingent consideration	FVTPL	(iii)	44.6	44.6	26.8	26.8
Cash	Amortised cost	(iv)	140.1	140.1	73.9	73.9
Financial liabilities						
Loans and other borrowings	Amortised cost	(v)	(5,845.5)	(6,377.9)	(5,064.9)	(5,584.9)
Derivative financial instruments	Fair value hedging instrument	(i)	(38.6)	(38.6)	(285.9)	(285.9)
Payables	Amortised cost/FVTPL	(ii), (vi)	(1,040.6)	(1,040.6)	(1,318.3)	(1,318.3)

The carrying amount of these financial instruments is calculated as set out in Note 3H. With the exception of Loans and other borrowings, the carrying amount of financial instruments is a reasonable approximation of fair value. The fair value of Loans and other borrowings is calculated as set out in footnote (v) below.

- (i) Further detail on Derivative financial instruments is disclosed in Note 10(c).
- (ii) Balances outwith the scope of IFRS 7 and IFRS 9 have been excluded, namely Prepayments, Other tax receivables, Payments received on account and Other taxes and social security. The contingent consideration of £44.6 million (2019 £26.8 million) has also been excluded as it is disclosed separately in the table above.
- (iii) The contingent consideration arose on the sale of 40% of the share capital of EA1L to Bilbao Offshore Holding Limited (refer to Note 10(e) A12 and Note 15).
- (iv) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits.
- (v) The fair value of listed debt is calculated using the most recently traded price to the year end date. The fair value of all other loans and borrowings is calculated using a discounted cash flow.
- (vi) Payables includes contingent consideration payable and measured at FVTPL of £1.1 million (2019 £0.2 million) associated with the asset acquisition of Douglas West Extension Limited and Cumberhead West Wind Farm Ltd.

(b) Measurement of financial instruments

The Group holds certain financial instruments which are measured in the balance sheet at fair value as detailed in Note 10(a) above. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

In both the current and prior year, all Other investments held by the Group are classified as Level 1 and all Derivative financial instruments held by the Group are classified as Level 2. The contingent consideration held by the Group is classified as Level 2.

Included in Level 2 liabilities of £38.6 million (2019 £285.9 million) are inseparable third-party credit enhancements. These have been reflected in the fair value measurement of the liability.

Level 2 commodity derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and their quoted prices in an active market.

Level 2 foreign exchange derivatives comprise cross currency swaps and forward foreign exchange contracts. Cross currency swaps and forward foreign exchange contracts are fair valued using the forward exchange rates quoted in an active market.

Level 2 contingent consideration receivable was fair valued using a Monte Carlo simulation method, which is a risk and probability based model. The main risks inherent in the model are the potential adverse impacts from delay and weather resulting in overspend.

Level 2 contingent consideration payable was fair valued using a weighted-average probability model.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. There were no transfers in the current or prior year.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

10 FINANCIAL INSTRUMENTS *continued*

(c) Analysis of derivative financial instruments – carrying amount

	Note	2020				2019			
		Assets		Liabilities		Assets		Liabilities	
		Current £m	Non- current £m	Current £m	Non- current £m	Current £m	Non- current £m	Current £m	Non- current £m
Hedging derivatives:									
Exchange rate hedges:									
Fair value hedge – Currency swap	1.1	43.5	–	–	–	1.0	45.3	–	–
Cash flow hedge – Foreign exchange rate	1.2	–	(0.3)	–	–	0.3	0.8	(4.7)	(0.7)
Commodity hedge – Cash flow hedge	229.5	38.7	(76.2)	(4.5)	–	62.2	7.2	(267.2)	(19.7)
Non-hedging derivatives:									
Commodity derivatives	85.8	–	(84.9)	–	–	192.0	–	(179.8)	–
Total gross derivatives		317.6	82.2	(161.4)	(4.5)	255.5	53.3	(451.7)	(20.4)
Impact of netting	(i)	(122.8)	(4.5)	122.8	4.5	(180.9)	(5.3)	180.9	5.3
Total net derivatives on balance sheet		194.8	77.7	(38.6)	–	74.6	48.0	(270.8)	(15.1)

(i) Certain derivative financial instruments are presented net on the balance sheet. A reconciliation between the gross and net position is provided in Note 10(d).

(d) Offsetting of financial assets and financial liabilities

The Group is eligible to present financial assets and financial liabilities net on the balance sheet as described in Note 3H3.5. The following table provides information on the impact of offsetting on the balance sheet as well as the financial impact of the netting of certain instruments in the event of default or similar agreements.

	2020					
	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial (liabilities)/assets offset in the balance sheet £m	Net amounts of financial assets/(liabilities) presented on the balance sheet £m	Related amounts not offset in balance sheet		Net amount £m
				Financial instruments (Note (ii)) £m	Cash collateral (held)/posted (Notes (ii) and (iii)) £m	
Financial assets						
Receivables	1,930.5	(106.7)	1,823.8	(2.1)	12.4	1,834.1
Derivative financial instruments	399.8	(127.3)	272.5	(9.1)	(43.5)	219.9
Financial liabilities						
Payables	(1,147.3)	106.7	(1,040.6)	2.1	(12.4)	(1,050.9)
Derivative financial instruments	(165.9)	127.3	(38.6)	9.1	–	(29.5)
	2019					
	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial (liabilities)/assets offset in the balance sheet £m	Net amounts of financial assets/(liabilities) presented on the balance sheet £m	Related amounts not offset in balance sheet		Net amount £m
				Financial instruments (Note (ii)) £m	Cash collateral (held)/posted (Notes (ii) and (iii)) £m	
Financial assets						
Receivables	2,836.2	(144.6)	2,691.6	(10.1)	(80.2)	2,601.3
Derivative financial instruments	308.8	(186.2)	122.6	(30.6)	(44.8)	47.2
Financial liabilities						
Payables	(1,462.9)	144.6	(1,318.3)	10.1	80.2	(1,228.0)
Derivative financial instruments	(472.1)	186.2	(285.9)	30.6	–	(255.3)

- (i) Certain contracts for derivatives, receivables and payables in relation to the purchase of gas do not currently meet the offsetting criteria within IAS 32 'Financial Instruments: Presentation' ('IAS 32'). However in the event of default these would be required to be offset per the requirements of the contract. The above balances show the effect on the Group if these contracts were also offset. Due to the nature of certain contracts, it is not possible to split accurately the effect of offsetting these balances across the these categories. For presentational purposes the impact has been allocated to these categories as appropriate.
- (ii) The Group enters into standard netting agreements with its commodity trading counterparties in order to mitigate the credit risk exposure of the Group. In addition, the Group utilises collateral support agreements with derivative counterparties to manage its credit exposure. All collateral is settled in cash. These forms of collateral include margining for trading with exchanges, cash collateral used for bilateral and brokering trading as well as letters of credit. At 31 December 2020, the value of letters of credit held amounted to £10.7 million (2019 £15.0 million) and letters of credit posted amounted to £214.2 million (2019 £201.3 million).
- (iii) At 31 December 2020, the Group held cash collateral of £35.6 million (2019 £9.4 million) in respect of receivables, of which £32.4 million (2019 £7.9 million) can be offset against financial assets. At 31 December 2020, the Group also posted cash collateral of £30.2 million (2019 £97.4 million) in respect of payables, of which £20.0 million (2019 £88.1 million) can be offset against financial liabilities.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

10 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings and trade and other payables. Their main purpose is to finance the Group's operations. The Group has trade and other receivables, and cash and short-term deposits that arise directly from its operations. The Group also holds other investments and enters into derivative contracts.

The Group has exposure to the following risks arising from the above financial instruments:

A. CREDIT RISK

B. ENERGY MARKET RISK

C. TREASURY RISK (COMPRISING BOTH LIQUIDITY AND MARKET RISK)

The Group's senior management oversee the management of these risks. Further details of the policies in place to manage exposure to the key risks are detailed below. References to ScottishPower below apply fully to the Group.

During the year under review, the ScottishPower governance structure was supported by group risk policies adopted by the SPL Board together with relevant risk guidelines that were approved by the SPL Board. The risk limits and indicators within the guidelines were subsequently approved by the Boards of the Group's businesses. ScottishPower's business risk assessment teams and the independent Group risk management function support the SPL Board in the execution of due diligence and risk management. In addition, the Boards of the Group's businesses are responsible for ensuring that their respective business risks are adequately assessed, monitored, mitigated and managed. The UK Risk Director reports on risks for ScottishPower to the ScottishPower Audit and Compliance Committee and such reports are then presented to the SPL Board. ScottishPower's internal audit function also objectively and independently supervises the effectiveness of the Group's internal control system, which is made up of a set of risk management and control mechanisms and systems. This is achieved through regular and adhoc audits, the results of which are reported to the Audit and Compliance Committee.

The governance structure, described above, ensures that the risk management policies established for each business to identify, assess, monitor, report, manage and mitigate each relevant risk is adequately designed, and implemented, and that an effective and efficient system of internal controls is maintained. The businesses adhered to their specific business risk limits and guidelines which were approved by the SPL Board.

The positions on risk and strategy for risk management were contained in the Risk Policy for Iberdrola's businesses in the UK (i.e. ScottishPower). The SPL Board adopted these policies and they were implemented through a rigid risk governance structure, whereby responsibilities were vested with groups, committees and individuals on a global as well as a business level. Generally, the risk management policy and control environment ensures that transactions undertaken, and instruments used, fall into the types of transactions approved by the SPL Board and are properly validated within the appropriate levels of authority. Transactions include instruments such as physically-settled instruments, financially-settled instruments, other contractual obligations, regulatory requirements and other obligations. The types of instruments which can be used are approved for each business. Subject to the limit requirements discussed above, no transaction was executed unless it was an approved instrument. Authorised personnel were permitted to engage only in those activities specified in the business operational policies and procedures.

A clear reporting structure was implemented within ScottishPower. It ensures that the portfolios are monitored on a timely basis and sufficient information is made available to management to enable quick response of the business to the dynamic characteristics of its market environment. Those reports include daily position, mark-to-market, Value at Risk ("VaR") reports as well as periodical fundamentals reports, credit watch, credit exposure, accounting and insurance reports.

A. CREDIT RISK

Credit risk is the risk that a counterparty will not meet its contractual obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The carrying amount of financial assets and contracts represent the maximum credit exposure to the Group.

A1 CREDIT RISK MANAGEMENT

The Group is exposed to both settlement risk (defined as the risk of a counterparty failing to pay for energy and/or services which have been delivered), as well as replacement risk (defined as the risk of incurring additional costs in order to replace a sale or purchase contract following a counterparty default).

Aggregate portfolio risk is monitored and reported by a Credit VaR Monte-Carlo based simulation model to quantify the total credit risk within the existing portfolio.

Further details on the credit risk management strategy adopted for significant types of financial asset are set out below.

- Exposure to credit risk in the supply of electricity and gas arises from the potential customer defaulting on their invoiced payables. The financial strength and credit-worthiness of business customers is assessed prior to commencing, and for the duration of, their contract of supply. Both domestic and business customers' credit worthiness is reviewed from a variety of internal and external information sources. Internal sources include customer payment history over the duration of the contract, and previous contracts. External information includes customer credit checks.
- Credit risk in respect of other customers is mitigated by contracting with multiple counterparties and limiting exposure to individual counterparties to clearly defined limits based upon the risk of counterparty default.
- Credit risk associated with energy-related derivatives is considered to be with counterparties in related energy industries, financial institutions operating in energy markets or fellow Iberdrola Group companies. At the counterparty level, the Group employs specific eligibility criteria in determining appropriate limits for each prospective counterparty and supplements this with netting and collateral agreements including margining, guarantees, letters of credit and cash deposits where appropriate.
- Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with Iberdrola's cash investment procedure. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty by Corporate Risk Management.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

10 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

A. CREDIT RISK *continued*

A1 CREDIT RISK MANAGEMENT *continued*

In both the current and prior year, the Group evaluated the concentration of risk with respect to financial assets as low, with no material concentration of credit risk in the Group arising from one particular counterparty.

A2 EXPECTED CREDIT LOSS ASSESSMENT

For trade receivables, the Group applies the simplified model for calculation of ECLs. For all other financial assets measured at amortised cost the Group applies the general approach for calculation of ECLs.

Given the varying risk characteristics of the population of trade receivables, this balance has been segmented for disclosure purposes into Energy Retail trade receivables and other trade receivables.

A3 ENERGY RETAIL TRADE RECEIVABLES

The Group applies the IFRS 9 simplified model to measure ECLs, which uses a lifetime expected loss allowance, for all Energy Retail trade receivables. The Group has adopted the practical expedient whereby it calculates the ECL on Energy Retail's trade receivables using a provision matrix. In line with previous years, the provision rates are based upon the customer's payment plan, historical credit loss experience and where possible, adjusted for forecast information. To establish levels of ECLs, the recoverability of equivalent balances from the previous three years have been reviewed.

During 2020, the economic impacts of COVID-19, and the associated government interventions in the UK, have impacted the ability of some of the Group's retail customers to pay amounts due, and have therefore increased the level of estimation uncertainty the Group makes in measuring the ECL provision, especially in the Energy Retail business.

Notwithstanding the impact of COVID-19, the matrix methodology for domestic and SME customers is still believed to be appropriate as the ECL provision is based on experience for the last three years which includes nine months of the COVID-19 impact. Consequently, where customers are experiencing difficulties in settling balances, the increased ageing of these amounts results in an increased ECL held in respect of them under the matrix approach. Recognising the current level of economic uncertainty and the forecast downturn in macro-economic indicators, in line with IFRS 9 a forward-looking loss allowance has also been included to ensure that external factors such as anticipated increased unemployment, the withdrawal of government support schemes and the risk of future lockdowns which impact the recoverability of trade receivables are appropriately mitigated. This has been estimated by increasing the underlying year-on-year increase in calculated ECL rates by a further 50% (equivalent to a 1% increase in the overall domestic/SME effective ECL provision).

For large business customers, the ECL is based on external credit scoring, which already reflects a portion of the increased recoverability risk given the impact of COVID-19. A large business customer COVID-19-specific provision has also been introduced in 2020 to cover any estimated additional risk for certain industry sectors that have been particularly affected by the pandemic. This has been estimated by applying an additional 20% ECL for sectors with higher-level risk, and an additional 10% ECL for sectors considered to have a medium-level risk. The Energy Retail Credit Risk and Corporate Risk teams remain vigilant in tracking any liquidity issues on existing customers to identify any pre-emptive actions required, include putting collateral or letters of credit in place. These receivables are included in the non-aged balances of the table below.

Set out below are the details of the credit risk exposure on Energy Retail's trade receivables:

	Current £m	More than 90 days past due £m	More than 180 days past due £m	More than 12 months past due £m	Non-aged balances Note (a) £m	Unbilled Note (b) £m	Total £m
At 31 December 2020							
Weighted average expected loss rate (%)	8.4%	31.6%	40.7%	48.9%	5.7%	15.4%	24.6%
Gross carrying amount: Trade Receivables	174.4	61.1	113.6	196.0	176.8	96.2	818.1
Loss allowance	(14.7)	(19.3)	(46.2)	(95.9)	(10.1)	(14.8)	(201.0)
Net carrying amount	159.7	41.8	67.4	100.1	166.7	81.4	617.1
At 31 December 2019							
Weighted average expected loss rate (%)	7.5%	26.6%	36.8%	35.7%	1.5%	12.6%	16.5%
Gross carrying amount: Trade Receivables	196.1	74.3	115.9	129.0	231.5	93.4	840.2
Loss allowance	(14.8)	(19.8)	(42.6)	(46.1)	(3.4)	(11.8)	(138.5)
Net carrying amount	181.3	54.5	73.3	82.9	228.1	81.6	701.7

(a) At 31 December 2020, £1.9 million (2019 £1.6 million) is neither past due nor impaired; no amounts are past due but not impaired in either year.

(b) The gross carrying amount includes unbilled receivables of £96.2 million (2019 £93.4 million) reflecting gross unbilled receivables of £563.9 million (2019 £582.0 million) less customer credit balances of £443.4 million (2019 £470.6 million) and a £24.3 million (2019 £18.0 million) provision in relation to energy volumes still to reach final settlement. The loss allowance in relation to unbilled receivables is £14.8 million (2019 £11.8 million). Further information on unbilled receivables, including sensitivity, is detailed in Note 3A(d).

With the exception of large business customers, management considers that where customers are final and have not paid their bills within the last 18 months and all debt collection procedures have been exhausted, collectability is not deemed to be reasonably assured and therefore, amounts billed to these customers are written off as uncollectable.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

10 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

A CREDIT RISK *continued*

A3.1 SENSITIVITY ANALYSIS ON ENERGY RETAIL'S LOSS ALLOWANCE – BILLED RECEIVABLES

The impacts of COVID-19 have affected some the Group's retail customers' ability to pay amounts due. The methodology and assumptions applied in estimating the ECL for the year ended 31 December 2020, and the provision held at that date in respect of the Energy Retail trade receivables, are deemed appropriate, as described on the previous page. Nevertheless, the level of estimation uncertainty in determining the provision has increased (refer to Note 3A(d)).

Included within the gross carrying amount of trade receivables, in the credit risk exposure table above, £721.9 million (2019 £746.8 million) relates to billed receivables. The loss allowance in relation to billed receivables is £186.2 million (2019 £126.7 million).

In relation to billed receivables, the actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating profit positively or negatively. At 31 December 2020, the loss allowance for billed receivables of £186.2 million (2019 £126.7 million) was supported by a projection based on a 36-month cash collection performance (nine months of which was during the period affected by COVID-19). Based on the weighted average loss rates in the table above, a 5% increase in the overall expected loss rate would increase the loss allowance by £36.1 million (2019 £37.3 million). A 5% decrease would decrease the loss allowance by £36.1 million (2019 £37.3 million).

A4 OTHER TRADE RECEIVABLES

The Group uses the simplified model to measure ECLs for all other trade receivables. The provision rates represent a lifetime ECL and are based on the Iberdrola Group's historical loss experience and default rates (adjusted for COVID-19 as appropriate).

The table below illustrates the ECL on other trade receivables:

	0-6 months £m	Greater than 6 months £m	Total £m
At 31 December 2020			
Weighted average expected loss rate (%)	0.8%	23.5%	2.0%
Gross carrying amount	240.8	13.2	254.0
Loss allowance	(2.0)	(3.1)	(5.1)
Net carrying amount	238.8	10.1	248.9
At 31 December 2019			
Weighted average expected loss rate (%)	0.4%	37.8%	2.0%
Gross carrying amount	316.2	13.5	329.7
Loss allowance	(1.4)	(5.1)	(6.5)
Net carrying amount	314.8	8.4	323.2

Other trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Refer to the table reconciling the movement in the opening to the closing loss allowance at 10(e)A11.

A5 SECURITY FOR TRADE RECEIVABLES

For some trade receivables the Group may obtain security in the form of guarantees, or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement (refer to Note 10(d)). The Group does not otherwise require collateral in respect of trade and other receivables.

A6 OTHER RECEIVABLES (EXCLUDING CONTINGENT CONSIDERATION) £93.7 MILLION (2019 £81.4 MILLION)

For other receivables the general ECL model is used. The loss allowance is measured at an amount equal to twelve-month ECL. However, if the credit risk on that financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to the lifetime ECL.

The Group allocates each exposure to a credit risk grade (probability of default grade) based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. Where external ratings are not available the Iberdrola Credit Risk department provides the risk ratings. These ratings reflect historical data, current conditions and the Group's view of economic conditions over the expected lives of the receivables. The loss allowance recognised on balance sheet is £0.2 million (2019 £2.5 million). The decrease from the prior year is due to a £2.3 million reversal in the provision relating to other receivables previously fully provided for following the receipt of the income.

A7 TRADE RECEIVABLES DUE FROM IBERDROLA GROUP COMPANIES AND JOINT VENTURES £15.4 MILLION (2019 £9.7 MILLION)

The loss allowance recognised on the balance sheet in both the current and prior year is less than £0.1million, as is the movement in the ECL in the year.

A8 RECEIVABLES DUE FROM IBERDROLA GROUP COMPANIES – LOANS AND INTEREST £848.7 MILLION (2019 £1,575.6 MILLION)

The group provides funding in the form of interest bearing on demand loans to other group companies. Credit risk from group companies is considered to be low as the company is part of the Iberdrola group's centralised treasury function and no group company has a credit rating lower than BBB+ (in line with Standards & Poors external credit ratings). ECL on loans due from other Iberdrola group companies is calculated using the general model and therefore a 12 month ECL is applied.

The exposure to credit risk of loans to other group companies (including interest) held at amortised cost by credit rating are set out in the table below:

Credit Rating	At 31 December 2020			At 31 December 2019		
	Gross carrying value £m	ECL £m	Amortised cost £m	Gross carrying value £m	ECL £m	Amortised cost £m
BBB+	848.8	(0.1)	848.7	1,575.9	(0.3)	1,575.6

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

10 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

A CREDIT RISK *continued*

A9 CASH £140.1 MILLION (2019 £73.9 MILLION)

The Group held cash and short-term deposits of £140.1 million (2019 £73.9 million). The cash and short-term deposits are held with banks, financial institutions and Iberdrola group companies, which are rated BBB- to AAA, based on Standard & Poor's ratings. Impairment on cash and short-term deposits has been measured on a three-month expected loss basis and reflects the short maturities of the exposures.

The Group considers that its cash and short-term deposits have low credit risk based on the external credit ratings of the counterparties. The loss allowance recognised on the balance sheet in both the current and prior year is less than £0.1 million.

A10 GUARANTEES

The Group's policy is to provide financial guarantees only for subsidiaries' liabilities.

A11 RECONCILIATION OF OPENING TO CLOSING LOSS ALLOWANCE

The closing loss allowances for all financial assets measured at amortised cost at 31 December 2020 reconciles to the opening loss allowances as follows:

Note	Trade receivables £m	Other receivables £m	Receivables due from group companies – loans and interest £m	Cash and short term deposits £m	Total £m
Balance as at 1 January 2019	129.4	2.6	0.2	0.1	132.3
Increase/(decrease) in loss allowance recognised in the income statement	(a) 75.0	–	0.1	(0.1)	75.0
Utilisation of provision	(59.4)	–	–	–	(59.4)
Reversal of provision	–	(0.1)	–	–	(0.1)
Balance as at 1 January 2020	145.0	2.5	0.3	–	147.8
Increase/(decrease) in loss allowance recognised in the income statement	(a) 120.4	(2.3)	(0.2)	–	117.9
Utilisation of provision	(59.3)	–	–	–	(59.3)
At 31 December 2020	206.1	0.2	0.1	–	206.4

(a) Net expected credit losses on trade and other receivables per the consolidated income statement of £120.4 million (2019 £70.5 million) also includes £nil (2019 £4.6 million) of associated credit balances and £nil (2019 £0.2 million) of additional bad debt write offs. The difference of £2.3 million in the current year relates to the reversal of a prior year provision following the receipt of income which has been recorded within Finance income and costs.

The overall increase from the prior year in the loss allowance of £58.6 million is primarily driven by the impact of COVID-19. For further details refer to page 12 of the Strategic Report. The movement in the loss allowances for Receivables due from Iberdrola group companies – loans and interest, and Cash and short term deposits are driven by the respective movements in their gross carrying value from 2019 to 2020.

A12 CONTINGENT CONSIDERATION RECEIVABLE

As part of the share purchase agreement in relation to the sale of a minority stake in EA1L, a contingent consideration was agreed. Payment of this consideration is principally based on savings made on the project's forecasted spend which was agreed as part of the share purchase agreement.

The contingent consideration was fair valued using a Credit VaR Monte Carlo-based simulation model which is a risk and probability based model. The main risks inherent in the model are the potential adverse impacts from delay and weather resulting in overspend. At the transaction date the fair value of the contingent consideration was estimated to be £26.1 million (refer to Note 15).

At 31 December 2020 the fair value of the contingent consideration was estimated to be £44.6 million (2019 £26.8 million) reflecting the ongoing mitigation of possible risks as the project moves forward towards completion.

The contingent consideration is due for the final measurement and payment when contracts supporting the construction of the EA1 wind farm conclude, which is expected to be during 2021.

A13 CONTINGENT CONSIDERATION PAYABLE

As part of the asset acquisitions of Douglas West Extension Limited and Cumberhead West Wind Farm Ltd., respective amounts of contingent consideration were agreed and calculated. Both contingent considerations were fair-valued using a weighted-average probability-based model.

At 31 December 2020, the fair value of contingent consideration payable was estimated to be £1.1 million (2019 £0.2 million).

B ENERGY MARKET RISK

Throughout 2020 and the prior year, the Group was exposed to market risk associated with fluctuations in the market price of electricity and generation fuel compounded by volumetric risk caused by unplanned changes in the load and output of the portfolio of generation assets.

B1 ENERGY MARKET RISK MANAGEMENT

The risk management policies are implemented at the business level with the oversight of the businesses' boards, management teams and the independent risk management function. The Group uses a number of risk measurement procedures and techniques to ensure that risk is kept within pre-approved limits. The key measures are stop-loss limits and volume exposure by tenor limits. All valuation models are reviewed and approved by the independent group Risk Management function on an ongoing basis, including changes to assumptions and model inputs. Changes that could have had significant impact on the Accounts required additional review and approval by the appropriate boards.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

10 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

B ENERGY MARKET RISK *continued*

B1 ENERGY MARKET RISK MANAGEMENT *continued*

During both the current and prior year, the Risk Management function employed additional techniques such as VaR, to assist in measuring risk within the volume exposure by tenor limits. VaR is a key measure of the potential financial loss on a price exposure position over a defined period to a given level of confidence. VaR computations for the Group's energy commodity portfolios were based on a historical simulation technique, which utilised historical energy market forward price curve changes to estimate the potential unfavourable impact of price changes in the portfolio positions. The quantification of market risk using VaR provided a consistent measure of risk and sensitivity across the Group's continually changing portfolio, however, VaR was not necessarily indicative of actual results that may occur. Future changes in markets inconsistent with historical data or assumptions used could cause variation in actual results to exceed predicted ranges. The Group's VaR computations for its energy commodity portfolio utilised several key assumptions, including a 99% confidence level for the resultant price changes and a holding period of five business days. VaR, while sensitive to changes in portfolio volume, does not account for commodity volume risk. Commodity volume risk is defined as the possibility that a change in the supply of, or demand for, the commodity will create an unexpected imbalance and change the requirements for the commodity.

The application of the VaR methodology evolved to include the total forecasted volumes for the generation assets and retail contracts to provide a more accurate measure of the risk associated with the volume exposure by tenor limits. The Group's VaR measures are shown in the table below.

	2020 £m	2019 £m
VaR	32.6	29.3
Average VaR over prior year	30.5	33.9
Maximum VaR over prior year	35.5	43.0
Minimum VaR over prior year	25.2	26.8

B2 HEDGING OF ENERGY MARKET RISK

Hedging activities associated with energy market risk are undertaken within the energy management function. The strategy of the business is to mitigate the economic risks associated with electricity generation, purchase of fuel and supply of electricity and natural gas to end users in both the wholesale and retail markets. From a reporting perspective the objective is to report earnings results that are consistent with its operational strategies and hence recognise the earnings effect of financial and non-financial derivative transactions executed to hedge economic business risks in the same period in which the hedged operational activity impacts earnings. The aim is to minimise earnings volatility, which would otherwise be present as a result of fair valuing all derivative contracts under IFRS 9. To achieve this objective, where effectiveness documentation and reporting requirements are met, cash flow hedge accounting is applied by designation of a series of derivative trades and deferring in equity the fair value changes of open derivative positions until the period in which the forecast transactions occur.

Cash flow hedging strategies are developed for each of the electricity, natural gas, and carbon allowances portfolios to hedge the variability in cash flows associated with changes in the market price of each commodity. Forward (fixed price/fixed volume) contracts are designated as hedging instruments for the electricity, gas, and carbon hedges.

B3 COMMODITY CASH FLOW HEDGES

Certain commodity derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in gross margin.

For an analysis of the split of the carrying amount of hedging and non-hedging commodity derivatives refer to Note 10(c).

The amounts relating to commodity derivatives designated as hedging instruments during the year are detailed in the table below:

	Notes	2020 Hedging derivatives £m	2019 Hedging derivatives £m
Notional amount		1,451.9	1,491.5
Carrying amount – asset	(a)	268.2	69.4
Carrying amount – liability	(a)	(80.7)	(286.9)
Changes in the value of the hedging instrument recognised in OCI	(b)	(405.0)	290.3
Amount reclassified from cash flow hedge reserve to income statement	(c)	287.5	246.6

(a) The carrying amount of derivative assets and liabilities are recorded within Derivative financial instruments on the balance sheet.

(b) This is consistent with the change in the fair value of the hedging instrument used to calculate ineffectiveness.

(c) The amount reclassified from the cash flow hedge reserve to the income statement of £287.5 million (2019 £246.6 million) is recorded within Gross margin.

The amounts at the reporting date relating to commodity items designated as hedged items were as follows:

Line item in the Accounts in which the hedged item is/will be included	Change in fair value used for calculating hedge ineffectiveness		Cash flow hedge reserve balance	
	2020 £m	2019 £m	2020 £m	2019 £m
Gross margin	405.0	(290.3)	183.3	(223.3)

The assessment of effectiveness of all hedging relationships currently in place is carried out on a monthly basis as part of the financial reporting cycle. Prospective assessment is carried out at inception of the hedge and on an ongoing basis to verify that the hedge remains effective.

The Group determines that the economic relationship between the hedging instrument (the commodity derivative) and the hedged item (the commodity purchases) will virtually always achieve 100% effectiveness.

Ineffectiveness will arise if the trade has been cancelled, in which case there would be no future transaction. In such circumstances, the trade and the hedge would be eliminated from the accounts. Ineffectiveness will also arise if the Group receive notification that the business have been unable to obtain a reliable price forecast from market sources or if there is a change to the Group Risk Management Strategy.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

10 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

B ENERGY MARKET RISK *continued*

B3 COMMODITY CASH FLOW HEDGES *continued*

B3.1 SENSITIVITY ANALYSIS ON COMMODITY PRICES

The sensitivity on the consolidated results to changes in the market prices of the main commodities are as follows:

Commodity	2020			2019		
	Variation in price	Impact on profit before taxes £m	Impact on equity before taxes £m	Variation in price	Impact on profit before taxes £m	Impact on equity before taxes £m
Gas	+5%	–	16.8	+5%	–	10.9
	-5%	–	(16.8)	-5%	–	(10.9)
Electricity	+5%	0.1	35.1	+5%	–	21.5
	-5%	(0.1)	(35.1)	-5%	–	(21.5)

C TREASURY RISK

Treasury risk is comprised of liquidity risk and market risk. The Group's cash management and short-term financing activity is integrated with Iberdrola's. The Group's financing structure is determined by its position in the wider Iberdrola Group. The Group produces short-term rolling cash flow requirements and, if necessary, any required funding is obtained via the Group credit facilities already in place. The Group holds investment-grade ratings with Moody's Investor Services (Baa1), Standard & Poor's rating services (BBB+) and Fitch Ratings (BBB+).

C1 TREASURY LIQUIDITY RISK MANAGEMENT

The Group's liquidity position and short-term financing activities are integrated and aligned with Iberdrola's. Liquidity risk, the risk that the Group will have insufficient funds to meet its liabilities, is managed by Iberdrola Group Treasury, who are responsible for arranging banking facilities on behalf of the Group. For the purposes of the Group, Iberdrola is the principal counterparty for the loan balances due to and from the subsidiaries of Scottish Power Limited.

The tables below summarise the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments.

C1.1 FINANCIAL LIABILITIES (EXCLUDING COMMODITY DERIVATIVES)

	2020						Total £m
	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2026 and thereafter £m	
Cash outflows							
Derivative financial instruments (excluding commodity derivatives)*	30.8	0.2	–	–	–	–	31.0
Loans and other borrowings	2,660.1	127.1	558.1	438.2	278.6	2,677.6	6,739.7
Payables**	981.6	3.9	0.6	0.4	0.3	–	986.8
	3,672.5	131.2	558.7	438.6	278.9	2,677.6	7,757.5
	2019						Total £m
	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 and thereafter £m	
Cash outflows							
Derivative financial instruments (excluding commodity derivatives)*	132.3	8.7	–	–	–	–	141.0
Loans and other borrowings	1,415.8	642.5	131.7	562.7	448.3	2,953.9	6,154.9
Payables**	1,242.1	4.3	2.6	–	–	–	1,249.0
	2,790.2	655.5	134.3	562.7	448.3	2,953.9	7,544.9

* The above liquidity analysis is stated after the impact of counterparty netting (refer to Note 10(d)).

** Contractual cash flows exclude accrued interest as these cash flows are included within Loans and other borrowings.

The interest payments on variable interest rate loans and bond issues in the table above reflect market forward interest rates at the reporting date and these amounts may change as market interest rates change.

The future cash flows on derivative instruments (including commodity derivatives below) may differ from the amounts in the table as interest and exchange rates or the relevant conditions underlying the calculation change. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

10 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

C TREASURY RISK *continued*

C1 TREASURY LIQUIDITY RISK MANAGEMENT *continued*

C1.2 COMMODITY DERIVATIVES

The Group believes the liquidity risk associated with commodity derivatives needs to be considered in conjunction with the profile of payments in relation to all derivative contracts rather than only those in a liability position. It should be noted that cash flows associated with future energy sales and commodity contracts which are not IFRS 9 financial instruments are not included in this analysis, which is prepared in accordance with IFRS 7 'Financial Instruments: Disclosures' ('IFRS 7').

	2020						Total £m
	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2026 and thereafter £m	
Net cash outflows/(inflows)	560.9	193.8	65.4	7.6	(0.5)	(38.2)	789.0

	2019						Total £m
	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 and thereafter £m	
Net cash outflows/(inflows)	680.4	141.5	19.5	(6.3)	(8.7)	(34.7)	791.7

Details of the Group's contractual commitments are given in Note 32.

C2 TREASURY MARKET RISK MANAGEMENT

Market risk is the risk of loss resulting from changes in market rates (interest rates and foreign currency). Within the Treasury function the Group utilises a number of financial instruments to manage interest rate and foreign currency exposures.

C2.1 INTEREST RATE RISK

In order to adequately manage and limit this risk, the Iberdrola Group annually determines the desired structure of the debt between fixed and floating interest rates, taking into account the indexing of income either interest rate or price index. ScottishPower Treasury then take actions over the course of the year to work towards these desired Iberdrola Group ratios. Actions to be carried out over the course of a year may include obtaining new sources of financing (at a fixed, floating or indexed rate) and/or utilising interest rate derivatives. The table below shows the debt structure of the Group after taking hedging derivatives into account.

(i) Interest rate analysis of debt

	2020 £m	2019 £m
Fixed rate	2,642.6	2,640.8
Variable rate	3,202.9	2,424.1
	5,845.5	5,064.9

The Group's borrowings are held at amortised cost. The reference interest rates for the floating rate borrowings are London Inter-Bank Offer Rate ("LIBOR"), Euro Bank Offered Rate ("EURIBOR"), Bank of England Base Rate ("Base") and Retail Prices Index ("RPI").

The variable rate debt consists of a £91.7 million (2019 £92.2 million) Japanese Yen ("JPY") loan, £305.7 million (2019 £300.8 million) inflation-linked bonds, £803.5 million (2019 £804.8 million) LIBOR debt, £29.3 million (2019 £45.8 million) EURIBOR debt and a £1,972.7 million (2019 £1,180.5 million) loan linked to Base.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

10 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

C TREASURY RISK *continued*

C2 TREASURY MARKET RISK MANAGEMENT *continued*

(ii) Sensitivity analysis on interest rate changes

The table below illustrates the impact on the annual interest rate charge considering various rate changes. The analysis assumes all other factors remain constant.

Debt Category	Interest Rate	Change in rate	Impact on interest rate charge in 2020 £m	Impact on interest rate charge in 2019 £m
Loans Payable	JPY Debt	(a)		
		+0.25%	0.1	0.1
		+0.50%	0.3	0.3
		-0.25%	(0.1)	(0.1)
Loans Payable	Inflation linked bonds	-0.50%	(0.3)	(0.3)
		RPI		
		+0.25%	0.8	0.8
		+0.50%	1.5	1.5
Loans Payable	LIBOR/EURIBOR debt (excluding JPY debt)	-0.25%	(0.8)	(0.8)
		-0.50%	(1.5)	(1.5)
		LIBOR/EURIBOR		
		+0.25%	2.1	2.1
Loans Payable	Short-term variable rate debt	+0.50%	4.2	4.3
		-0.25%	(2.1)	(2.1)
		-0.50%	(4.2)	(4.3)
		Base		
Loans Payable	Short-term variable rate debt	+0.25%	4.9	3.0
		+0.50%	9.8	5.9
		-0.25%	(4.9)	(3.0)
		-0.50%	(9.8)	(5.9)
Loans Receivable	Short-term variable rate debt	Base		
		+0.25%	(2.1)	(3.9)
		+0.50%	(4.2)	(7.8)
		-0.25%	2.1	3.9
		-0.50%	4.2	7.8

(a) The interest on the JPY debt is fixed, however this is changed to variable by a cross currency swap. Interest is based on the Sterling LIBOR curve.

C2.2 FOREIGN CURRENCY RISK

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which purchases and borrowings are denominated. The currencies in which these transactions are primarily denominated are Euro, US dollars and Japanese Yen. ScottishPower board policy stipulates that there should be no significant exposure to foreign currency balances and therefore Treasury will hedge all foreign currency payments and contracts which have a (cumulative) value greater than a sterling equivalent of a quarter of a million pounds.

(i) Hedging of foreign currency risk

The Group uses a combination of foreign currency swaps and forwards to hedge its exposure to foreign currency risk. Under the Group's policy, the critical terms of the forwards and options must align with the hedged items.

For Treasury related items (hedging the value of currency denominated intercompany loans) the Group only designates the spot component of foreign currency forwards in hedge relationships. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward points.

The changes in the forward element of the foreign currency forwards that relate to hedged items are deferred in the costs of hedging reserve.

The Group also enters into foreign currency forwards in relation to commodity and asset purchases and other small items of general expenditure. For such items the Group designates the entire value of the foreign currency forward in the hedge relationship.

Some foreign currency forwards do not satisfy the requirements for hedge accounting (economic hedges) under IFRS 9. These foreign currency forwards are subject to the same risk management policies as all other derivative contracts. However, they are accounted for as held for trading with gains (and losses) recognised in the income statement.

The table below illustrates the timing of the notional amount of the hedging instrument and the average forward price of the hedging instrument.

At 31 December 2020	Notional amount of hedging instrument (maturity profile)					Total
	1 year	2 years	3 years	4 years	5 years+	
USD	14.2	—	—	—	51.4	65.6
EUR	78.3	11.0	—	—	—	89.3
DKK	3.2	—	—	—	—	3.2
	95.7	11.0	—	—	51.4	158.1

At 31 December 2020	Average forward price (exchange rate)				
	1 year	2 years	3 years	4 years	5 years+
USD (GBP:USD)	1.39	—	—	—	1.59
EUR (GBP:EUR)	1.10	1.10	—	—	—
DKK (GBP:DKK)	8.44	—	—	—	—

Further details on the Group's foreign currency cash flow hedges and fair value hedges are set out below and on the following page.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

10 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

C TREASURY RISK *continued*

C2 TREASURY MARKET RISK MANAGEMENT *continued*

C2.2 FOREIGN CURRENCY RISK *continued*

(ii) Foreign exchange rate cash flow hedges

Hedging of commodity purchases: Where commodities are priced in a currency other than Sterling, the foreign exchange risk may be hedged using forward foreign exchange contracts. These are designated as cash flow hedges where they comply with the requirements of IFRS 9.

Hedging of asset purchases: the Group is subject to cash flow risk resulting from the purchase of various assets which are denominated in foreign currencies. The risk being hedged relates to the fluctuation in the functional currency terms of value of these foreign currency denominated purchases. The Group enters into forward foreign exchange rate contracts to hedge those risks.

Hedging the value of foreign currency denominated intercompany loans: the Group has provided funding to, or received funding from, other Iberdrola companies denominated in currencies other than Sterling. The value of the Group's assets or liabilities in relation to this funding is subject to foreign exchange risk. As a result, the Group enters into foreign exchange rate contracts and has designated them within a cash flow hedging relationship where they meet required hedging criteria.

For an analysis of the split of the carrying amount of forward foreign exchange contracts refer to Note 10(c).

The amounts relating to foreign exchange rate derivatives designated as cash flow hedges during the year are detailed in the table below.

	Notes	2020 Hedging derivatives £m	2019 Hedging derivatives £m
Notional amount		106.7	155.3
Carrying amount – asset	(a)	1.2	1.1
Carrying amount – liability	(a)	(0.3)	(5.4)
Changes in the value of the hedging instrument recognised in OCI	(b)	(3.5)	6.4
Hedge ineffectiveness (cost)/income recognised in the income statement	(c)	(0.1)	0.1
Amount reclassified from cash flow hedge reserve to income statement	(d)	0.4	0.2
Amount reclassified from cash flow hedge reserve to balance sheet	(e)	(21.2)	(18.4)

(a) The carrying amount of derivative assets and liabilities are recorded within Derivative financial instruments on the balance sheet.

(b) This is consistent with the change in the fair value of the hedging instrument used to calculate ineffectiveness for hedging of asset purchases and hedging of commodity purchases.

(c) The hedge ineffectiveness (cost)/income recognised through the income statement is £(0.1) million (2019 £0.1 million); Enil is included within Finance income (2019 £0.2 million) and £(0.1) million is included within Finance costs (2019 (£0.1) million).

(d) The amount reclassified from the cash flow hedge reserve to the income statement recorded within External services is Enil (2019 £0.1 million) and Finance costs is £(0.1) million (2019 Enil). £0.5 million is released from the cost of hedging reserve (2019 £0.1 million).

(e) The amount reclassified from the cash flow hedge to balance sheet included within Property, plant and equipment in the course of construction is £21.2 million (2019 £18.3 million) and Intangibles Enil (2019 £0.1 million).

The amounts at the reporting date relating to foreign exchange items designated as hedged items were as follows:

Line item In the Accounts in which the hedged item is/will be included	Note	Change in fair value used for calculating hedge ineffectiveness		Cash flow hedge reserve balance	
		2020 £m	2019 £m	2020 £m	2019 £m
Property, plant and equipment in the course of construction		3.6	(5.3)	2.4	27.3
Property, plant and equipment in use		0.1	(0.2)	–	(0.1)
External services		(0.2)	(0.9)	(1.4)	1.3
		3.5	(6.4)	1.0	28.5
Less non-controlling interest share of cash flow hedge reserve	(a)	–	–	7.6	8.0
Less impact of partial disposal of subsidiary	(a)	–	–	–	(18.2)
Total		3.5	(6.4)	8.6	18.3

(a) Refer to Note 13(f).

The Group determines that the economic relationship between the hedging instrument (the foreign exchange rate forward contract) and the hedged item (the commodity purchases/asset purchase) will virtually always achieve 100% effectiveness. This is because the Group compares movements in the fair value of the expected highly probable forecast foreign currency cash flows, with movements in the fair value of the expected changes in cash flows from the hedging instrument. Forecast future foreign currency cash flows are largely based upon contractual obligations.

Ineffectiveness will arise if the trade has been cancelled, in which case there would be no future transaction. Ineffectiveness will also arise if the Group receives notification that the business has been unable to obtain a reliable price forecast from market sources or if there is a change in the Group's Risk Management Strategy.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

10 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

C TREASURY RISK *continued*

C2 TREASURY MARKET RISK MANAGEMENT *continued*

C2.2 FOREIGN CURRENCY RISK *continued*

(iii) Fair value hedges

Hedging the value of cross currency debt: the Group's has issued debt instruments denominated in JPY. The value of the Group's liability with respect to those instruments is subject to foreign exchange risk and interest rate risk. As a result, the Group has entered into cross-currency swaps and has designated these within a fair value hedging relationship where they meet the required hedging criteria to mitigate this risk. The carrying amount of the associated 10 billion JPY loan is £91.7 million (2019 £92.2 million).

	Notes	At 31 December 2020	At 31 December 2019
Notional amount (£m)		51.4	51.4
Carrying amount – asset (£m)	(a)	44.6	46.3
Change in fair value of the hedging instrument used in calculating hedge ineffectiveness (£m)		3.3	4.4
Change in fair value of hedged item used to calculate ineffectiveness (£m)	(b)	(3.3)	(4.4)
Hedge ratio		1:1	1:1
Average hedge rate for the year (£:JPY)		1:194.55	1:194.55

(a) The carrying amount of the fair value currency swap is included within Derivative financial instruments on the balance sheet.

(b) In both the current and prior year the change in value of hedged items used to calculate hedge ineffectiveness is included within Loans and other borrowings.

(c) The cross-currency swaps reference LIBOR and the hedging relationship is therefore impacted by Interest Rate Benchmark Reform. Reliefs to specific requirements of hedge accounting which took effect on 1 January 2020 have been taken. The cross-currency swaps, and associated hedge documentation will be amended to reference the Sterling Overnight Index Average ("SONIA"). This is expected to happen in line with the International Swaps and Derivatives Association's ("ISDA") IBOR Fallbacks Protocol which came into effect in January 2021 and is not expected to cause a significant variance to the interest rate paid under the cross-currency swaps.

(iv) Hedge assessment on foreign currency derivatives

Hedge assessment on foreign currency derivatives is done prospectively to verify that the forecast transactions are still highly probable of occurring (for cash flow hedges) as well as retrospectively, to assess the effectiveness in the period under review. Prospective assessment is performed using sensitivity analysis and critical terms matching.

(v) Sensitivity analysis on foreign currency cash flows

No sensitivity analysis has been performed in relation to changes in foreign exchange rates because almost all foreign currency purchases and loans are hedged. Therefore, there is immaterial financial exposure. Any movement in the value of the hedged item would be compensated for by movement in the value of the hedging instrument.

Foreign currency cash balances held are so small any movement in foreign exchange rates would result in an insignificant movement in the income statement in both the current and prior year (less than £0.1 million before tax).

11 TRADE AND OTHER RECEIVABLES

	Notes	2020 £m	2019 £m
Current receivables:			
Receivables due from Iberdrola Group companies – trade		11.6	6.1
Receivables due from Iberdrola Group companies – loans	(a)	831.5	1,553.9
Receivables due from Iberdrola Group companies – interest		17.2	21.7
Receivables due from joint ventures – trade		0.8	1.0
Receivables due from joint ventures – other		1.4	0.8
Trade receivables (including accrued income)	(b)	864.2	1,024.9
Prepayments		23.5	21.8
Other tax receivables		18.6	18.5
Other receivables	(c)	131.6	26.8
	(d)	1,900.4	2,675.5
Non-current receivables:			
Trade receivables (including accrued income)	(b)	1.8	–
Receivables due from joint ventures – trade		1.6	1.8
Prepayments		9.6	9.0
Other receivables	(c)	6.7	81.4
		19.7	92.2

(a) Current loans due from Iberdrola Group Companies are receivable on demand with interest linked to Bank of England base rate.

(b) Certain trade receivables and payables are presented net on the balance sheet when the offsetting criteria under IAS 32 are met (refer to Note 3H3.5). A reconciliation between the gross and net position is provided in Note 10(d).

(c) Other receivables includes £44.6 million (2019 £26.8 million) in relation to the contingent consideration on the sale of 40% of the share capital of EA1L (refer to Note 10(e) A11) and £76.7 million recognised as part of a contractual renegotiation (which was classified as a non-current receivable in 2019).

(d) Trade and other receivables includes £785.8 million (2019 £851.0 million) of IFRS 15 receivables (refer to Note 22(b)).

(e) Information about the Group's exposure to credit and market risks, and net credit losses for trade and other receivables, are included in Note 10(e).

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

12 INVENTORIES

	Notes	2020 £m	2019 £m
Fuel stocks		3.3	8.8
ROCs		190.5	241.2
Other inventories	(a)	755.9	713.3
	(b)	949.7	963.3

(a) Other inventories primarily comprise a transmission asset which will be sold to an offshore transmission operator upon completion.

(b) Inventories with a value of £397.9 million (2019 £452.5 million) were recognised as an expense during the year.

13 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY

	Share capital (Note (a)) £m	Share premium (Note (b)) £m	Hedge reserve (Note (c)) £m	Other reserves (Note (d)) £m	Retained earnings (Note (e)) £m	Total £m
At 1 January 2019	2,192.0	398.2	98.9	420.5	2,842.6	5,952.2
Profit for the year attributable to the equity holder of the Company	–	–	–	–	549.7	549.7
Changes in the value of cash flow hedges	–	–	(304.9)	–	–	(304.9)
Actuarial losses on retirement benefits	–	–	–	–	(252.7)	(252.7)
Tax on items relating to cash flow hedges	–	–	55.0	–	–	55.0
Tax on items relating to actuarial losses on retirement benefits	–	–	–	–	36.9	36.9
Gain on partial disposal of subsidiary (refer to Note 15)	–	–	(18.2)	–	466.9	448.7
Tax on gain on partial disposal of subsidiary (refer to Note 15)	–	–	3.5	–	(4.6)	(1.1)
Share capital issued	1,359.7	–	–	–	–	1,359.7
Dividends	–	–	–	–	(365.0)	(365.0)
At 1 January 2020	3,551.7	398.2	(165.7)	420.5	3,273.8	7,478.5
Profit for the year attributable to the equity holder of the Company	–	–	–	–	532.5	532.5
Changes in the value of cash flow hedges	–	–	395.7	–	–	395.7
Actuarial losses on retirement benefits	–	–	–	–	(8.4)	(8.4)
Tax on items relating to cash flow hedges	–	–	(72.3)	–	–	(72.3)
Tax on items relating to actuarial losses on retirement benefits	–	–	–	–	12.1	12.1
Dividends	–	–	–	–	(1,595.9)	(1,595.9)
At 31 December 2020	3,551.7	398.2	157.7	420.5	2,214.1	6,742.2

(a) On 30 August 2019 the company issued 2,719,444,440 ordinary shares at 50p each, to its immediate parent, Scottish Power Limited, for a total consideration of £1,359.7 million.

(b) The share premium account represents consideration received for shares issued in excess of their nominal amount.

(c) The hedge reserve represents the balance of gains and losses on cash flow hedges (net of taxation) not yet transferred to income or the carrying amount of a non-financial asset.

(d) Other reserves at 31 December 2020 comprises a capital contribution reserve of £412.2 million (2019 £412.2 million), and a capital redemption reserve of £8.3 million (2019 £8.3 million). The capital redemption reserve represents the cumulative nominal value of shares repurchased and cancelled by the Company.

(e) Retained earnings comprise the cumulative balance of profits and losses recognised in the financial statements as adjusted for transactions with shareholders, principally dividends.

(f) The changes in the hedge reserve arising from valuation adjustments to hedging derivatives is set out below:

	Cost of hedging reserve £m	Commodity hedges £m	Foreign exchange rate hedges £m	Gross value of hedges £m	Tax effect £m	Total £m
Analysis of cash flow hedge reserve						
At 1 January 2019	–	67.5	54.4	121.9	(23.0)	98.9
Effective cash flow hedges recognised	–	(537.4)	(7.5)	(544.9)	95.4	(449.5)
De-designated cash flow hedges	–	–	(0.1)	(0.1)	–	(0.1)
Removed from equity and recognised in income statement	–	246.6	0.1	246.7	(43.2)	203.5
Removed from equity and recognised in carrying amount of hedged items	–	–	(18.4)	(18.4)	3.2	(15.2)
Cost of hedging reserve – change in fair value	3.7	–	–	3.7	(0.6)	3.1
Cost of hedging reserve – reclassified to Income Statement	0.1	–	–	0.1	–	0.1
Gain on partial disposal of subsidiary (refer to Note 15)	–	–	(18.2)	(18.2)	3.5	(14.7)
Non-controlling interests share of cash flow hedges	–	–	8.0	8.0	(1.6)	6.4
Change in tax rate	–	–	–	–	1.8	1.8
At 1 January 2020	3.8	(223.3)	18.3	(201.2)	35.5	(165.7)
Effective cash flow hedges recognised	–	119.1	3.9	123.0	(23.6)	99.4
De-designated cash flow hedges	–	–	0.1	0.1	–	0.1
Removed from equity and recognised in income statement	–	287.5	(0.1)	287.4	(54.6)	232.8
Removed from equity and recognised in carrying amount of hedged items	–	–	(21.2)	(21.2)	4.0	(17.2)
Cost of hedging reserve – change in fair value	(1.7)	–	–	(1.7)	0.3	(1.4)
Cost of hedging reserve – reclassified to Income Statement	0.5	–	–	0.5	(0.2)	0.3
Non-controlling interests share of cash flow hedges	–	–	7.6	7.6	(1.3)	6.3
Change in tax rate	–	–	–	–	3.1	3.1
At 31 December 2020	2.6	183.3	8.6	194.5	(36.8)	157.7

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

13 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY *continued*

(i) The maturity analysis of amounts included in the hedge reserve is as follows:

	2020 £m	2019 £m
Less than 1 year	127.9	(158.8)
1-2 years	19.7	(10.3)
2-3 years	3.0	0.3
3-4 years	0.9	0.1
4-5 years	4.1	(0.1)
Over 5 years	2.1	3.1
	157.7	(165.7)

14 SHARE CAPITAL

	2020 £m	2019 £m
Allotted, called up and fully paid shares:		
7,103,427,542 ordinary shares of 50p each (2019 7,103,427,542)	3,551.7	3,551.7

(a) Holders of these ordinary shares are entitled to dividends as declared from time to time; amounts on the capitalisation of profits and reserves; and notice and attendance at general meetings of the Company, with every member entitled to one vote on a show of hands and on a poll one vote for every share held.

15 NON-CONTROLLING INTERESTS

	Notes	East Anglia One Limited £m	Other £m	Total £m
At 1 January 2019		–	1.0	1.0
Acquisition	(a)	–	0.3	0.3
Net profit for the year		3.0	0.2	3.2
Partial disposal of subsidiary	(b)	151.2	–	151.2
Share capital issued	(c)	717.0	–	717.0
Changes in the values of cash flow hedges		(6.4)	–	(6.4)
At 1 January 2020		864.8	1.5	866.3
Acquisition	(a)	–	0.6	0.6
Net profit for the year		52.7	0.1	52.8
Share capital issued	(c)	177.6	–	177.6
Changes in the values of cash flow hedges		(6.3)	–	(6.3)
At 31 December 2020		1,088.8	2.2	1,091.0

(a) On 20 May 2019, the Group acquired 72% of the share capital of Douglas West Extension Limited and on 28 August 2020 the Group acquired 72% of the share capital of Cumberhead West Wind Farm Ltd.

(b) On 30 August 2019, the Group sold 40% of the total share capital and loan notes of EA1L to Bilbao Offshore Holding Limited ("BOHL") for a total consideration of £1,161.5 million.

The total consideration was made up as follows:

	£m
Cash consideration received for share capital	591.5
Cash consideration received for outstanding loan notes	543.9
Contingent consideration at the transaction date	26.1
Total consideration	1,161.5

The above transaction had no impact on the consolidated results of the Group as it consisted of the sale of a minority interest, with the Group retaining control over EA1L (refer to Note 2A1). The impact on the consolidated statement of changes in equity is an increase in net equity attributable to minority interest of £151.2 million, an increase in retained earnings amounting to £466.9 million (including transaction costs of £14.2 million) and a decrease in the cash flow hedge reserve of £14.7 million. Further detail in relation to the contingent consideration can be found in Note 10(e) A12.

(c) Immediately following completion of the transaction noted at (b) above, EA1L issued a total of 13,597,222,204,500 ordinary shares of £0.0001 to its immediate parent SPRUKL and BOHL in exchange for the repayment and cancellation of the outstanding loan notes for a total value of £1,359.7 million. During subsequent months of 2019, a further 4,328,000,000,000 ordinary shares of £0.0001 were issued to EA1L's immediate parent companies SPRUKL and BOHL for a total consideration of £432.8 million. BOHL purchased 40% of the total share capital issued on these dates thus maintaining its 40% ownership share of EA1L. During the current year, EA1L issued an additional 4,441,000,000,000 ordinary shares of £0.0001 for a total consideration of £444.1 million to SPRUKL and BOHL, with BOHL again maintaining its 40% ownership of EA1L.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

15 NON-CONTROLLING INTERESTS *continued*

(d) The following table summarises financial information relating to EA1L for the year ending 31 December 2020, before any intra-group eliminations. None of the Group's other subsidiaries that have a non-controlling interest are considered to be material to the Group.

	2020 £m	2019 £m
Non-current assets	1,867.3	1,494.5
Current assets	901.4	739.0
Non-current liabilities	(267.8)	(86.4)
Current liabilities	(105.7)	(325.5)
Net assets	2,395.2	1,821.6
Net assets attributable to non-controlling interest	958.1	728.6
Revenue	287.1	18.3
Net profit for the year	145.3	1.6
Other comprehensive income	(15.8)	(17.6)
Total comprehensive income	129.5	(16.0)
Profit allocated to non-controlling interest	58.1	0.6
Other comprehensive income allocated to non-controlling interest	(6.3)	(7.0)
Cash flows from operating activities	204.5	(195.0)
Cash flows from investing activities	(562.6)	(565.5)
Cash flows from financing activities	442.3	777.5
Net increase in cash and cash equivalents	84.2	17.0

16 DEFERRED INCOME

Year ended 31 December 2019	Note	At 1 January 2019 £m	Receivable during year £m	Released to income statement £m	At 31 December 2019 £m
Transfer of assets from customers	(a)	1,213.0	95.1	(41.5)	1,266.6
Emissions allowances allocated		–	0.3	(0.3)	–
Total deferred income		1,213.0	95.4	(41.8)	1,266.6

Year ended 31 December 2020	Note	At 1 January 2020 £m	Disposals £m	Receivable during year £m	Released to income statement £m	At 31 December 2020 £m
Transfer of assets from customers	(a)	1,266.6	(0.8)	108.3	(42.6)	1,331.5
Emissions allowances allocated		–	–	0.1	(0.1)	–
Total deferred income		1,266.6	(0.8)	108.4	(42.7)	1,331.5

(a) Transfer of assets from customers is an IFRS 15 contract liability (refer to Note 22(b)).

17 RETIREMENT BENEFIT OBLIGATIONS

A ANALYSIS OF BALANCE

The amounts recognised in the balance sheet in respect of retirement benefit obligations are detailed below:

	2020 £m	2019 £m
Non-current liabilities	558.6	651.7

B GROUP PENSION ARRANGEMENTS

The Group operates the following pension schemes for staff:

Scheme	Scottish Power Pension Scheme ("SPPS")	Manweb Group of Electricity Supply Pension Scheme ("Manweb")	Stakeholder Pension Plan
Type of benefit	Final salary	Final salary	Defined contribution
New entrants	No*	No	Yes
Funded separately from Group assets	Yes	Yes	Yes
Administration method	Trustee board	Trustee board	Insurance contract
Member contributions	5% of salary	5.5% of salary	5% of salary
How Group contributions are determined	Agreement of Trustee and Group following actuarial valuation (last valuation: 31 March 2018)	Agreement of Trustee and Group following actuarial valuation (last valuation: 31 March 2018)	Defined
Current actual Group contributions	51% of salary	47.9% of salary	Service-related, 6% to 14% of salary
Special contributions during year ended 31 December 2020	£84.4 million	£24.0 million	None
Special contributions planned for year ending 31 December 2021	£55.0 million	£42.9 million	None
Pension charge	Based on advice of independent qualified actuary	Based on advice of independent qualified actuary	Equal to actual Group contributions in the year (2020 £13.6 million, 2019 £12.4 million)

* A number of members of the Stakeholder Pension Plan were entitled to defined benefits for future service upon achieving ten years of membership. The Company has withdrawn this option and therefore there is no benefit accrual for Stakeholder members.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

17 RETIREMENT BENEFIT OBLIGATIONS *continued*

B GROUP PENSION ARRANGEMENTS *continued*

The age profile of the two final salary schemes is expected to rise over time, due to the reduction in new entrants. This will in turn result in increasing service costs for these two schemes due to the actuarial valuation method used (the projected unit method). The Group believes that the projected unit method continues to be appropriate at present, and provides a reasonable basis for assessing the Group's final salary pension costs.

The Group also operates an Unfunded Unapproved Retirement Benefit Scheme ("UURBS") for former senior executives' benefit promises in excess of limits set by the UK taxation authorities. The UURBS has no invested assets, and the Group has provided £5.4 million as at 31 December 2020 (2019 £5.5 million) for the benefit promises which will ultimately be paid by the Group.

On 31 December 2018, the Group completed the sale of ScottishPower Generation Limited and its subsidiary, SMW Limited, to Drax Smart Generation HoldCo Limited ("Drax"). From this date, Drax have taken responsibility for 109 active members of SPPS who were employees of the companies that were transferred. It was agreed that as soon as reasonably practicable, Drax would establish or nominate a suitable pension scheme capable of accepting a bulk transfer of liabilities for these active members. The transferring subsidiaries participated in SPPS on a temporary basis during 2019 whilst Drax finalised their pension arrangements for these active members. It was assumed that the liabilities for these active members and an associated share of assets on a share of fund basis would be transferred on 31 December 2018. It was subsequently agreed that the active members would continue to participate in SPPS until 31 December 2019 and were offered a 'with consent' transfer to the Drax pension scheme. 80 active members agreed to transfer their benefits accrued to 31 December 2019 to the Drax pension scheme. Those active members not transferring remain in SPPS and became deferred members when Drax ceased participation in SPPS on 31 December 2019. As not all members transferred their benefits to the Drax scheme as was previously assumed, this has resulted in a net true-up loss of £0.9 million recognised in 2019 (measured at 12 July 2019, the deadline for members to respond to the offer). SPPS ceased to be a multi-employer scheme on 31 December 2019.

On cessation of participation in SPPS on 31 December 2019, a debt under section 75 of the Pensions Act 1995 would have become payable by the transferring subsidiaries. However, a Flexible Apportionment Arrangement ("FAA") was agreed with the SPPS Trustee which caused liabilities to be apportioned to the principal employer, the Company. In line with the agreed FAA, a payment of £50.0 million was paid to the SPPS scheme in April 2020 and has been recorded as a contribution in 2020.

C GROUP PENSION SCHEME GOVERNANCE

As described in the table on the previous page, the Group operates two defined benefit pension schemes. Active members continue to accrue benefits in the schemes, which are based on final pensionable salary. The two schemes are closed to new entrants. The schemes provide benefits which are based on final pensionable salary.

The schemes are approved by HMRC and subject to standard UK pensions and tax law. The defined benefit schemes are subject to the scheme funding requirements as set out in section 224 of the Pensions Act 2004. In accordance with the scheme funding requirements, an actuarial funding valuation is carried out at least triennially to determine the appropriate level of ongoing contributions for both future service and a recovery plan in respect of any deficit at the valuation date. These actuarial valuations will be based on assumptions agreed between the Trustees and the Group. The assumptions used to calculate liabilities (or technical provisions) in a triennial funding valuation may differ from those used in IAS 19 accounting. The Trustees are required to set assumptions prudently, whereas IAS 19 assumptions are set with regard to the Group's best estimates. Additionally, the discount rate used to value technical provisions in a triennial valuation will take into account the scheme investment strategy, rather than being based on the yield on AA corporate bonds as required under IAS 19. The most recent completed actuarial valuation was as at the effective date of 31 March 2018.

In accordance with UK trust and pensions law, the defined benefit pension schemes are governed by their respective Board of Trustees. Although the Group meets the financial cost of running the schemes, the Trustees are responsible for the management and governance of the schemes and have a duty to act in the best interests of the members.

The strategic management of the assets is the responsibility of the Trustees acting on expert advice. The Trustees take advice from the schemes' actuaries and investment advisers with a view to investing the schemes' assets in a manner that is appropriate to the nature and duration of the expected future retirement and death benefits payable from the schemes. In consultation with the group, the Trustees have set out a target investment strategy for the schemes of 40% matching and 60% growth assets. In terms of the matching portfolio, the schemes utilise a Liability Driven Investment ("LDI") strategy. The aim of the LDI portfolio is to invest in a range of assets (mostly bonds) which broadly match the expected future benefit payments from the schemes.

In addition, the Trustee of SPPS and the Trustee of Manweb have implemented longevity swaps in December 2014 and July 2016 respectively. For further details, please see the Mortality risk section that follows.

Since the outbreak of the COVID-19 pandemic in March 2020, the Trustees have monitored the impact on the pension schemes from an operational and investment perspective. The Company has continued to operate effectively and the employer covenant remains strong. Although market risk increased following the pandemic, there has not been a significant issue from a net asset valuation perspective. Hence, contributions to the schemes continue to be received in line with the previously agreed schedule of contributions. The next triennial scheme valuations are due on 31 March 2021 in line with normal regulatory deadlines, at which point the Trustees will review the contribution requirements to the schemes based on the latest updated valuation position and agree new payment schedules with the Company.

The UK left the EU on 31 January 2020. A transition period applied until 31 December 2020 while the EU and the UK negotiated additional arrangements. The current rules for trade, travel and business for the UK and EU continued to apply during the transition period. New rules came into effect from 1 January 2021. The Trustees will continue to monitor how these rules and decisions impact on the schemes from an investment and legal perspective based on expert advice.

D RISK MANAGEMENT

The defined benefit schemes expose the Group to actuarial risks and details of the specific risks and how they are managed are described below:

D1 INVESTMENT (MARKET) RISK

There is a risk relating to changes in the value of the portfolio due to movements in the market value of the assets. To the extent that there is a mismatch between the investment strategy and the overall level and profile of the liabilities this can lead to volatility in the funding level and as the portfolio matures there is a risk of not being able to reinvest assets at the assumed rates. The Trustees utilise an LDI strategy which aims to invest 40% of the assets in matching LDIs such as bonds, which broadly match the nature and profile of the future expected benefit payments from the scheme.

The underlying LDI strategy utilises investment in fixed interest and index-linked government securities, cash and derivative instruments such as interest and inflation rate swaps. The objective of the LDI strategy is to manage the schemes' interest and inflation rate exposure relative to the interest and inflation rate exposure of the liability cashflows. Hence, the strategy provides a hedge against changes in scheme liabilities resulting from interest and inflation rate movements (see further detail below). LDI assets are valued in accordance with fair market value principles. For instance, valuations will be based on quoted prices where available (e.g. fixed interest securities) and pricing models using observable market inputs (e.g. in relation to swaps and other derivative instruments). The Trustees have further diversified the market risk in the growth portfolio across multiple asset types, such as equities, property, diversified growth funds, infrastructure, private and mezzanine debt and multi-asset credit. As with LDI, growth assets are valued based on quoted prices where available (e.g. quoted equities, corporate bonds). Where investments do not have a market quotable price available, such as level 3 assets, the fair values are derived in accordance with IFRS 13 and provided by the fund manager. Through diversification, the specific risk associated with individual investments is mostly mitigated and expected volatility of returns is reduced. In addition, the Trustees review the investment strategy on a regular basis to ensure that it remains appropriate and in particular in response to legislative changes, a material change in the schemes' funding levels or changes in the attitude to risk of the Trustees or Group.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

17 RETIREMENT BENEFIT OBLIGATIONS *continued*

D RISK MANAGEMENT *continued*

D1 INVESTMENT (MARKET) RISK *continued*

Each of the pension schemes is invested in an appropriately diversified range of assets. The broad proportion of each asset class in which the schemes aim to be invested are as follows, however it is important to note that this may vary from time to time as markets change and as cash may be held for strategic reasons.

	2020	2019
Equities	16%	16%
Infrastructure	2%	3%
Liability driven investment	40%	41%
Property	8%	7%
Mezzanine debt	14%	12%
Diversified growth funds	10%	11%
Multi-asset credit	10%	10%
Total	100%	100%

D2 MORTALITY RISK

The assumptions adopted by the Group make allowance for future improvements in life expectancy. There is a risk that life expectancy improves faster than assumed and that benefits are paid for longer than expected, thereby increasing the cost of the schemes. The Group and the Trustees regularly review the actual scheme mortality experience to minimise the risk of using an inappropriate assumption. In general, the Trustees will also use prudent assumptions when deriving the triennial actuarial valuation basis used for funding requirements and this will help to manage the risk.

In December 2014, the Trustee of SPPS implemented a longevity swap in respect of the current pensioners. The swap removes the previously unhedged longevity risk for the current pensioners (who constitute approximately 50% of the total liability of the scheme) and their contingent spouses by hedging the risk of members covered by the contract living longer than expected. The swap is an insurance contract between SPPS and the counterparty insurer. Counterparty risk is mitigated by both SPPS and the counterparty posting collateral to the other party on a daily basis to account for market movements in the value of the derivatives held.

In July 2016, the Trustee of Manweb also implemented a longevity swap in respect of the current pensioners. The swap removes the previously unhedged longevity risk for the current pensioners (who constitute approximately 45% of the total liability of the scheme) and their contingent spouses by hedging the risk of members covered by the contract living longer than expected. The swap is an insurance contract between Manweb and the counterparty insurer. Counterparty risk is mitigated by both Manweb and the counterparty posting collateral to the other party on a daily basis to account for market movements in the value of the derivatives held.

D3 CURRENCY RISK

The Trustees have appointed Blackrock to manage the currency hedging mandates for SPPS and Manweb. Through the use of currency forwards, approximately 75% of the currency exposure inherent in the overseas equity, euro-denominated infrastructure and private debt instruments and US-denominated mezzanine and private debt instruments is hedged.

D4 INTEREST RATE RISK

A fall in the yield on government bonds increases both the liabilities and assets of the schemes. To the extent that the assets do not fully match the nature and duration of the liabilities, this could lead to a worsening in the funding position of the schemes. The Trustees currently target 40% of the schemes' investments in LDI which include matching assets such as fixed interest bonds. The interest rate hedging strategy adopted within the LDI portfolio provides partial protection against the impact of changes in yields.

Around 82% of the interest rate risk is currently hedged on a technical provisions basis. Under the de-risking framework agreed between the group and the Trustees, the level of interest rate hedging will be increased when market conditions are deemed favourable. As the level of hedging increases, funding level volatility will be further reduced.

D5 INFLATION RATE RISK

The majority of the schemes' liabilities increase in line with inflation, subject to relevant caps and collars. To the extent that inflation is higher than expected, this will increase the liabilities of the schemes. The schemes' target investment strategy is to invest 40% of the portfolio in LDI investments which will include bonds which are also linked to inflation. The inflation hedging strategy adopted within the LDI portfolio provides partial protection against the impact of changes in inflation. Around 78% of the inflation rate risk is currently hedged on a technical provisions basis. Under the de-risking framework agreed between the group and the Trustees, the level of inflation rate hedging will be increased when market conditions are deemed favourable. As the level of hedging increases, funding level volatility will be further reduced.

E ACTUARIAL ASSUMPTIONS

E1 PENSION SCHEMES ASSUMPTIONS

The assumptions used by the independent actuary for the pension arrangements, for all schemes, were developed by management with the assistance of the independent actuary. During 2020, management updated the RPI inflation assumption methodology to calculate a single equivalent rate using scheme cash flows based on the Bank of England inflation yield curve. An inflation risk premium deduction of 0.16% has been applied in line with the prior year. Management believe this to be a more appropriate methodology which is in line with mainstream industry practice. Previously, the RPI inflation assumption was derived from the yields available on a single fixed and index-linked government bond. The impact of both this change and the update to the Consumer Price Index ("CPI") methodology in 2020, is a combined decrease of £90.0 million on the closing retirement benefit obligation, the majority of which relates to the change in the RPI methodology.

(i) The table below details the assumptions used by the independent actuary for the pension scheme arrangements and are expressed as weighted averages:

	2020	2019
Rate of increase in salaries*	2.9% p.a.	3.1% p.a.
Rate of increase in deferred pensions	2.9% p.a.	3.1% p.a.
Rate of increase to pensions in payment	2.9% p.a.	3.0% p.a.
Discount rate	1.4% p.a.	2.1% p.a.
Inflation assumption – RPI	2.9% p.a.	3.1% p.a.
Inflation assumption – CPI	2.3% p.a.	2.1% p.a.

* For members of the Final Salary Life Plan section of the SPPS scheme, the 2020 salary assumption is 3.2% p.a. (2019 3.3%).

On 4 September 2019, the UK Government announced that it would consult on the UK Statistics Authority's proposals to align RPI with CPIH by 2030. On 25 November 2020, HM Treasury and the UK Statistics Authority released their joint response in relation to the consultation on the reform of the RPI methodology. This confirmed that the RPI index will be aligned with the CPIH index from February 2030, which is similar in construction and calculation to the CPI index. To reflect this, the Group has changed the derivation of the CPI inflation assumption to be 1% p.a. lower than RPI inflation for the period up to 2030 and 0.1% p.a. lower than RPI inflation for the period from 2030. This leads to a single equivalent deduction of 0.6% p.a. from the RPI inflation assumption to derive the CPI inflation assumption.

Most benefits in the schemes increase in deferment or in retirement, with the rate and index of increase determined by when the benefit was accrued by the member and in which section. As stated in scheme rules the vast majority of benefits increase in line with RPI inflation subject to various floors and caps. A very small proportion of benefits, namely GMP benefits accrued between April 1988 and April 1997, increase in retirement in line with CPI inflation with a 0% floor and a 3% cap applied on an annual basis.

(ii) The weighted average life expectancies for mortality used to determine the benefit obligations were as follows:

	2020		2019	
	Male Years	Female Years	Male Years	Female Years
At 31 December				
Member age 63 (current life expectancy)	24.5	25.7	24.4	25.5
Member age 45 (life expectancy at age 63)	25.8	27.1	25.8	27.1

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

17 RETIREMENT BENEFIT OBLIGATIONS *continued*

E ACTUARIAL ASSUMPTIONS *continued*

E1 PENSION SCHEMES ASSUMPTIONS *continued*

(iii) The post-retirement mortality assumptions are as follows:

Post-retirement mortality assumptions

Base tables – 90% S2PMA/100% S2PFA (ill health members have a +6 year age rating) (2019 same)

Allowance for future improvements – CMI 2019 with a 7.0 smoothing parameter, 0.25% initial addition parameter and a 1.25% long-term improvement rate (2019 CMI 2018 with a 7.5 smoothing parameter and a 1.25% improvement rate).

E2 IMPACT OF CHANGING MATERIAL ASSUMPTIONS ON THE DEFINED BENEFIT OBLIGATION

The sensitivity analysis below has been calculated by varying the critical actuarial assumption whilst keeping all other assumptions constant. Liabilities are calculated using the same method and membership data as that used to derive the defined benefit obligation. As well as impacting on salary growth, a change in inflation also impacts on other inflation linked assumptions such as increases to deferred pensions and pensions in payment. This sensitivity applies to the defined benefit obligation only and not to the net defined benefit pension liability in its entirety, the measurement of which is driven by a number of factors including, in addition to the assumptions below, the fair value of scheme assets. There has been no change to the method year on year to assess the sensitivity of the results to changes in the critical actuarial assumptions.

Reasonably possible changes as at 31 December to one of the actuarial assumptions would have affected the defined benefit obligation as follows:

Sensitivity analysis of critical actuarial assumptions	Increase/(decrease) in defined benefit obligation	
	2020 £m	2019 £m
Rate of increase in inflation		
Increase by 0.1%	97.9	87.5
Decrease by 0.1%	(95.3)	(85.3)
Discount rate		
Increase by 0.25%	(256.1)	(227.8)
Decrease by 0.25%	275.5	244.6
Assumed life expectancy		
Increase mortality by one additional year	225.0	199.7

E3 ANALYSIS OF SCHEME ASSETS

E3.1 FAIR VALUE OF PLAN ASSETS

The following table provides information on the composition and fair value of plan assets of the SPPS and Manweb pension schemes.

	2020				2019			
	SPPS £m	Manweb £m	Total £m	Plan asset allocation %	SPPS £m	Manweb £m	Total £m	Plan asset allocation %
Equities	609.0	171.0	780.0	15.4%	567.8	167.3	735.1	16.2%
Infrastructure	87.5	26.2	113.7	2.2%	118.9	35.7	154.6	3.4%
Liability driven instrument	1,249.0	393.1	1,642.1	32.5%	1,073.3	435.9	1,509.2	33.4%
Property	188.8	65.2	254.0	5.0%	191.9	44.2	236.1	5.2%
Cash/Gilts*	172.7	73.9	246.6	4.9%	127.6	71.8	199.4	4.4%
Mezzanine/private debt	499.0	166.8	665.8	13.2%	372.4	115.8	488.2	10.8%
Diversified growth funds	398.9	126.0	524.9	10.4%	364.1	178.7	542.8	12.0%
Multi-asset credit	421.4	40.2	461.6	9.1%	490.5	36.7	527.2	11.7%
Longevity swap buffer account*	564.9	226.8	791.7	15.7%	509.9	103.0	612.9	13.5%
Longevity swap fair value	(260.2)	(162.6)	(422.8)	(8.4)%	(394.4)	(86.0)	(480.4)	(10.6)%
Fair value of scheme assets	3,931.0	1,126.6	5,057.6	100.0%	3,422.0	1,103.1	4,525.1	100.0%

*At 31 December 2020 this category comprised cash and gilts. In 2019 this category comprised cash only.

SPPS and Manweb investment strategies are similar and there is no significant difference in risk profiles due to either geography or industry type. The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group. Neither of the schemes held ScottishPower or Iberdrola shares in 2020 or 2019.

As at 31 December 2020, 10.2% (2019 78.5%) of plan assets have quoted prices in active markets. Markets are considered active if transactions for the asset take place with sufficient frequency and volume to provide pricing information at the measurement date and on an ongoing basis. The remaining plan assets do not have quoted prices in active markets. Of these plan assets, £856.4 million (2019 £408.2 million) are level 3 assets, and these are discussed below.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

17 RETIREMENT BENEFIT OBLIGATIONS *continued*

E ACTUARIAL ASSUMPTIONS *continued*

E3 ANALYSIS OF SCHEME ASSETS *continued*

E3.2 VALUATION OF LEVEL 3 PLAN ASSETS

Level 3 assets are investments where a market quotable price is not available. The fair values of these assets are derived in accordance with IFRS 13 and provided by the relevant fund manager. Despite the market volatility created by the COVID-19 pandemic during 2020, the directors still consider these valuations to be the best estimate of the valuation of these assets as at 31 December 2020, but recognise that there is a higher degree of uncertainty compared to previous years.

(i) Infrastructure

Fair values at 31 December 2020 are estimated based on the most recently available 30 September 2020 quarterly valuations adjusted where relevant for cash flows to year-end. The manager carried out internal valuations of the investments to assess the fair values at 30 September 2020. In respect of equity investments, cash flows forecasted over the life of the asset were discounted to derive a valuation at the relevant balance sheet date, or where available, valuations were based on contractual sales values. Hence significant assumptions will relate to the expected cash flows and discount rates. The manager has taken into consideration the potential impact of the COVID-19 pandemic on the valuation of the assets at 30 September 2020. As at the relevant valuation date, the fund valuation was not subject to a material adjustment in relation to these impacts.

(ii) Property

An independent market valuation of the direct property investments as at 31 December 2020 is provided by BNP Paribas with reference to comparable market transactions. For instance, a key assumption is the market rent and hence yields available. The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date some property markets have started to function again, with transaction volumes and other relevant evidence returning to levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, the direct property valuation is not reported as being subject to 'material valuation uncertainty'. The fair value of the indirect property assets is based on the most recent available fund valuation at 30 September 2020 adjusted for cash flows to year end.

(iii) Private/Mezzanine Debt

Fair values are based on the most recent available 30 September 2020 quarterly valuations adjusted where relevant for cash flows to year end. Various different valuation methods are utilised by the private/mezzanine debt managers as appropriate for the underlying investment including discounted cash flows, enterprise value, cost plus accrued interest and external pricing. For instance, where internal cash flow modelling has been performed, significant assumptions will include discount rate and expected cash flows. Managers continue to assess the impact of COVID-19 on portfolio valuations. No material adjustments to the relevant quarterly valuations have been noted by managers.

(iv) Longevity Swap

In 2019 the Group used the value of the variation collateral posted as the fair value of the longevity swaps for SPPS and Manweb.

During 2020, an independent assessment of the fair values of the swaps was carried out on behalf of the Trustees by the Scheme Actuary for the purposes of updating the reported values in the scheme accounts as at 31 March 2020. Following a review by the Group of this valuation methodology, it was determined that this methodology and consequently the fair values reported at 31 March 2020 were suitable for reporting under IAS19 in accordance with IFRS 13. The fair value assessment carried out by the scheme actuary allows for the difference between the present value of the known cash flows under the original fixed leg of the swap using longevity assumptions agreed at inception and the present value of the projected cash flows under the floating leg. The projections underlying the floating leg of the swap allow for the schemes actual mortality experience since inception, more up to date data on current swap population and more up to date industry expectations of future longevity experience.

Therefore, for the purposes of the 31 December 2020 valuation, the Group has reset the 31 March 2020 fair value in line with this figure and adjusted to the year end in line with movements in the fixed and floating legs of the swaps as calculated under the existing collateral model valuations. Hence the valuation takes into consideration current market conditions at the balance sheet date. At 31 December 2020, this change in valuation approach led to a change in the fair value of £148.6 million for SPPS and £7.8 million for Manweb relative to the 2019 year end approach.

As at 31 December 2020, the fair value of the longevity swap for SPPS was £(260.2) million (2019 £(394.4) million) and the value for Manweb was £(162.6) million (2019 £(86.0) million).

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

17 RETIREMENT BENEFIT OBLIGATIONS *continued*

F MOVEMENTS IN THE DEFINED BENEFIT OBLIGATION AND SCHEME ASSETS DURING THE YEAR

(i) Movements in the present value of the defined benefit obligation and scheme assets are as follows:

	2020			2019		
	Defined benefit obligation £m	Scheme assets £m	Total £m	Defined benefit obligation £m	Scheme assets £m	Total £m
At 1 January	(5,176.8)	4,525.1	(651.7)	(4,921.2)	4,408.5	(512.7)
Items recognised in the consolidated income statement:						
Current service cost	(50.8)	–	(50.8)	(50.7)	–	(50.7)
Past service costs**	7.7	–	7.7	(16.2)	–	(16.2)
Past service costs – Pension increase exchange***	–	–	–	28.1	–	28.1
Disposal of subsidiaries	–	–	–	(15.9)	15.0	(0.9)
Interest (expense)/income****	(105.6)	93.7	(11.9)	(133.6)	122.1	(11.5)
Administration expenses	–	(3.1)	(3.1)	–	(3.8)	(3.8)
	(148.7)	90.6	(58.1)	(188.3)	133.3	(55.0)
Items recognised in the consolidated statement of comprehensive income						
Actuarial (losses)/gains arising from changes in demographic assumptions	(48.5)	–	(48.5)	68.2	–	68.2
Actuarial losses arising from changes in financial assumptions	(560.0)	–	(560.0)	(459.1)	–	(459.1)
Actuarial gains arising from changes of the scheme experience different to that assumed	37.3	–	37.3	11.8	–	11.8
Return on assets in excess of interest income****	–	562.8	562.8	–	126.4	126.4
	(571.2)	562.8	(8.4)	(379.1)	126.4	(252.7)
Other movements						
Employer contributions	–	159.6	159.6	–	168.7	168.7
Benefits paid	285.9	(285.9)	–	317.7	(317.7)	–
Scheme members' contributions	(5.4)	5.4	–	(5.9)	5.9	–
	280.5	(120.9)	159.6	311.8	(143.1)	168.7
At 31 December	(5,616.2)	5,057.6	(558.6)	(5,176.8)	4,525.1	(651.7)

(ii) Analysis of the defined benefit obligation and scheme assets at 31 December:

	2020			2019		
	£m	£m	£m	£m	£m	£m
Present value of funded obligations/fair value of scheme assets	(5,610.8)	5,057.6	(553.2)	(5,171.3)	4,525.1	(646.2)
Present value of unfunded obligations	(5.4)	–	(5.4)	(5.5)	–	(5.5)
Total net liability			(558.6)			(651.7)

** The past service costs of £7.7 million (2019 credit of £(16.2) million) comprises new provisions of £1.5 million for expected restructuring costs in 2021 (2019 a credit of £17.9 million for expected costs in 2020) and a true-up of £(9.2) million (2019 £1.7 million) in relation to the prior year provisions for restructuring costs. Further to the original GMP equalisation ruling in 2018, the High Court ruled on 20 November 2020 that schemes will also need to equalise past transfers out with GMP inequalities. This has been allowed for as a past service cost via the income statement.

*** A bulk pension increase exchange ("PIE") exercise was completed during 2019 for the pensioner members of SPPS. Overall, the net impact of the PIE exercise was a past service credit of £28.1 million.

**** The actual return on scheme assets amounted to £656.5 million (2019 £248.5 million).

G ADDITIONAL INFORMATION

G1 FUTURE CONTRIBUTIONS

The Group expects to contribute £152.2 million to the pension schemes in the year ending 31 December 2021, based on the agreement with scheme Trustees following the valuation at March 2018. Based on the valuation at 31 March 2018, similar levels of contributions are expected in future years.

G2 MATURITY PROFILE OF THE DEFINED BENEFIT OBLIGATION

The following table provides expected future cash flow projections for both pension schemes based on current member data. These cash flows reflect expected benefit payment amounts based on the underlying demographic assumptions adopted at 31 December 2020. Cash flows are expected to peak in 2034 for Manweb and 2035 for SPPS with benefits payments extending to approximately 2080 for Manweb and 2090 for SPPS.

Year	Expected future cash flows (£m)				
	2021	2022	2023	2024	2025
SPPS	113.6	118.3	121.6	126.1	128.4
Manweb	43.7	44.3	45.1	45.7	46.4

G3 ANALYSIS OF THE DEFINED BENEFIT OBLIGATION BY MEMBER STATUS

	2020		2019	
	SPPS %	Manweb %	SPPS %	Manweb %
At 31 December				
Active members	31	29	30	29
Deferred members	18	9	17	10
Pensioners	51	62	53	61
The weighted average duration of the defined benefit obligation as at 31 December	20 years	18 years	21 years	18 years

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

17 RETIREMENT BENEFIT OBLIGATIONS *continued*

G ADDITIONAL INFORMATION *continued*

G4 MINIMUM FUNDING REQUIREMENT

Under the rules of each scheme, the Trustees cannot unilaterally wind-up the schemes and the Group would be able to assume gradual settlement of the liabilities over time until all members have left. Having then triggered a wind-up, any remaining surplus would revert to the Group. Furthermore, the power to amend the rules of each scheme lies with the Group, and the Trustees cannot unilaterally improve benefits under the schemes. Therefore, the Group has an unconditional right to a refund under IFRIC 14 'IAS 19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' and thus there is no requirement to restrict any IAS 19 surplus, should it arise, nor to recognise any additional liabilities in respect of minimum funding requirements.

18 OTHER PROVISIONS

Year ended 31 December 2019	Notes	At 1 January 2019 £m	New provisions £m	Unwinding of discount £m	Transfers £m	Utilised during year £m	Released during year £m	At 31 December 2019 £m
Reorganisation and restructuring	(a)	4.7	4.4	–	–	(3.2)	(0.7)	5.2
Decommissioning	(b)	200.9	113.1	3.2	–	(2.1)	(3.2)	311.9
Renewables Obligation	(c)	320.8	422.4	–	–	(428.4)	–	314.8
Onerous contracts	(d)	1.8	–	–	–	(0.4)	–	1.4
Insurance	(e)	4.3	3.2	–	–	(0.3)	(2.3)	4.9
Capacity Market	(f)	–	63.7	–	19.8	(83.5)	–	–
Other	(g)	16.5	11.5	–	–	(7.3)	(10.6)	10.1
		549.0	618.3	3.2	19.8	(525.2)	(16.8)	648.3

Year ended 31 December 2020	Notes	At 1 January 2020 £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	At 31 December 2020 £m
Reorganisation and restructuring	(a)	5.2	0.1	–	(3.6)	(0.3)	1.4
Decommissioning	(b)	311.9	124.1	4.2	(2.3)	(0.6)	437.3
Renewables Obligation	(c)	314.8	397.9	–	(420.8)	–	291.9
Onerous contracts	(d)	1.4	–	–	(0.2)	(0.5)	0.7
Insurance	(e)	4.9	1.4	–	(0.8)	(1.8)	3.7
Other	(g)	10.1	0.7	–	(9.6)	(0.1)	1.1
		648.3	524.2	4.2	(437.3)	(3.3)	736.1

Analysis of total provisions	2020 £m	2019 £m
Non-current	434.1	316.8
Current	302.0	331.5
	736.1	648.3

- (a) The opening 2019 provision related to group-wide restructuring programmes launched during 2017 and 2018 which was fully utilised during 2019. The new provision for reorganisation and restructuring in 2019 largely related to an Energy Retail restructuring programme launched during 2019. The remaining provision at 31 December 2020 is expected to be utilised in 2021.
- (b) The provision for decommissioning costs is the discounted future estimated costs of decommissioning certain non-current assets. The increase in the provision in both 2020 and 2019 resulted from a reassessment of future estimated costs. The decommissioning is expected to occur over the period between 2021 and 2067. Had the estimated value of the costs at the balance sheet date been 10.0% higher or lower this would have resulted in the decommissioning provision being about £43.7 million higher and lower respectively. Had the discount rates applied been 0.25% higher or lower this would have resulted in the decommissioning provision being around £27.8 million higher and lower respectively.
- (c) The provision for the Renewables Obligation principally represents the value of ROCs for 2020 expected to be delivered in 2021 and 2022.
- (d) The provision for onerous contracts relates to various property contracts and is expected to be utilised between 2021 and 2041.
- (e) The provision for insurance principally represents the value of claims reserves. The claims are expected to be settled between 2021 and 2022.
- (f) The provision related to unpaid UK Capacity Market payments during the suspension of the 2018/19 UK Capacity Market. The provision was fully utilised during 2019.
- (g) The Other category at 1 January 2019 included a provision in respect of an ongoing legal dispute regarding the alleged use of unlicensed software for which no amount was disclosed on the grounds it may be seriously prejudicial, and a contractual dispute for £5.0 million. Both disputes were settled during 2019. The balance at 31 December 2019 included a provision for costs associated with the early termination of an IT contract. This matter was settled in 2020. The remaining provisions at 31 December 2020 are not individually sufficiently material to warrant separate disclosure.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

19 LOANS AND OTHER BORROWINGS

(a) Analysis by instrument and maturity

	Notes	Interest rate ^a	Maturity	2020 £m	2019 £m
Bank overdraft		Base + 1%	On demand	–	0.1
Loans with Iberdrola Group companies		Base + 1%	On demand	1,969.7	1,177.4
£300 million medium-term note	(i)	5.9%	22 February 2021	299.9	299.2
Collateral		LIBOR	17 June 2021	43.5	44.8
Loan with joint venture		Base + 1%	11 December 2021	3.0	3.0
Loans with Iberdrola Group companies	(ii)	EURIBOR + 1.025%	28 March 2022	29.3	45.8
£250 million euro-sterling bond	(iii), (iv)	6.75%	29 May 2023	249.6	249.4
£175 million inflation-linked bond	(i), (v)	3.494% x RPI	13 October 2024	305.7	300.8
£350 million euro-sterling bond	(iii), (v), (vi)	5.875%	17 July 2026	348.4	348.1
£350 million euro-sterling bond	(iii), (v), (vii)	4.875%	20 September 2027	347.8	347.5
Loans with Iberdrola Group companies	(viii)	LIBOR + 0.78%	20 December 2027	760.0	760.0
Loans with Iberdrola Group companies		3.05%	20 December 2027	900.0	900.0
10 billion JPY loan	(ix)	4.6%	27 July 2029	91.7	92.2
£350 million euro-sterling bond	(iii), (v), (x)	2.0%	13 November 2031	346.9	346.6
£50 million medium-term note	(i)	5.75%	9 December 2039	50.0	50.0
£100 million medium-term note	(i)	6.375%	31 May 2041	100.0	100.0
				5,845.5	5,064.9

^a Base - Bank of England Base Rate; LIBOR - London Inter-Bank Offer Rate; EURIBOR - Euro Bank Offered Rate; RPI - Retail Price Index; JPY - Japanese Yen.

Analysis of total loans and other borrowings

	Note	2020 £m	2019 £m
Non-current		3,320.9	3,823.1
Current	(xi)	2,524.6	1,241.8
		5,845.5	5,064.9

- (i) The Company and SPL have an established joint US\$7 billion euro medium-term note programme. SPL has not issued under the programme. The Company has in issue various notes in Sterling which can be redeemed by the Company with 30 to 90 days' notice in case of unfavourable and unavoidable changes in the UK tax laws impacting on the note payments.
- (ii) The EURIBOR loan with Iberdrola that is due to mature in March 2022 has a schedule of repayments which commenced in 2014. The repayment of £19.6 million due in 2021 (2019 £18.2 million due in 2020) is classified as current in the above analysis.
- (iii) These bonds contain a 'Loss of licences' covenant that will require repayment of the outstanding amount should the Group lose all of their electricity licences (distribution, transmission and supply licences).
- (iv) The £250 million euro-sterling bond due in 2023 can be redeemed at any time by the Group at the higher of principal amount or redemption price (as determined by HSBC Bank plc) giving 30 to 45 days' notice to the lender.
- (v) The Group has external debt that contains loan covenants. A future breach of covenants may require the Group to repay the loans earlier than indicated in the above table. Under the agreements, the covenants are monitored on a regular basis by the Group Treasury department and regularly reported to management to ensure compliance with the agreements.
- (vi) The £350 million euro-sterling bond will be redeemed at its principal amount in July 2026 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the Group at a higher redemption price (as determined by a financial advisor appointed by the Group and Guarantor) giving 30 to 60 days' notice.
- (vii) The £350 million euro-sterling bond will be redeemed at its principal amount in September 2027 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the Group at a higher redemption price (as determined by a financial advisor appointed by the Group and Guarantor) giving 30 to 60 days' notice.
- (viii) These loans have the interest rates reset at pre-determined dates. The repayments of £190.0 million due in 2021 (2019 £nil due in 2020) are classified as current in the above analysis.
- (ix) The interest rate quoted above on the 10 billion JPY loan is fixed. This is changed to a variable rate by a cross currency swap.
- (x) The £350 million euro-sterling bond will be redeemed at its principal amount in November 2031 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the Group at a higher redemption price (as determined by a financial advisor appointed by the Group and Guarantor) giving 30 to 60 days' notice.
- (xi) Current borrowings comprise loans with Iberdrola Group companies repayable on demand or within the next year, the short-term element of the EURIBOR 2022 loan with Iberdrola (refer to footnote (ii) above), the short-term element of the LIBOR 2027 loan with Iberdrola (refer to footnote (viii) above) and collateral together with finance costs due to be amortised within one year, the short-term element of fair value hedge adjustments and the adjustments on discontinued fair value hedges due to be amortised within one year, which totalled £(1.1) million (2019 £(1.7) million).
- (xii) In May 2020 the Company entered into an intra-group committed revolving credit facility arrangement with Scottish Power Limited for £1.0 billion, with an expiry date of February 2025. The facility has never been drawn. During March 2021 an additional £500.0 million of committed revolving credit facility was agreed, with Scottish Power Limited, which has an expiry date of March 2025. Therefore, at the date of signing these Accounts, the Company, and therefore the Group, has £1.5 billion of undrawn committed facilities available.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

19 LOANS AND OTHER BORROWINGS *continued*

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Note	Liabilities				Total £m
		Lease liabilities £m	Loans and other borrowings (Current) £m	Loans and other borrowings (Non-current) £m	Interest payable (Current) (Note (i)) £m	
At 1 January 2019		441.3	3,409.7	2,737.7	80.8	6,669.5
(Decrease)/increase in amounts due to Iberdrola Group companies		–	(2,183.0)	759.2	–	(1,423.8)
(Repayments of)/cash inflows from borrowings		–	(3.4)	346.6	–	343.2
Payments of lease liabilities		(25.4)	–	–	–	(25.4)
Interest paid		(11.3)	–	–	(183.2)	(194.5)
Total movements from financing cash flows		(36.7)	(2,186.4)	1,105.8	(183.2)	(1,300.5)
Other movements	(ii)	46.4	18.5	(20.4)	171.6	216.1
Total liability-related other movements		46.4	18.5	(20.4)	171.6	216.1
At 31 December 2019		451.0	1,241.8	3,823.1	69.2	5,585.1

	Note	Liabilities				Total £m
		Lease liabilities £m	Loans and other borrowings (Current) £m	Loans and other borrowings (Non-current) £m	Interest payable (Current) (Note (i)) £m	
At 1 January 2020		451.0	1,241.8	3,823.1	69.2	5,585.1
Increase in amounts due to Iberdrola Group companies		–	773.6	–	–	773.6
Repayments of borrowings		–	(1.3)	–	–	(1.3)
Payments of lease liabilities		(26.7)	–	–	–	(26.7)
Interest paid		(12.0)	–	–	(168.9)	(180.9)
Total movements from financing cash flows		(38.7)	772.3	–	(168.9)	564.7
Other movements	(ii)	85.4	510.5	(502.2)	153.5	247.2
Total liability-related other movements		85.4	510.5	(502.2)	153.5	247.2
At 31 December 2020		497.7	2,524.6	3,320.9	53.8	6,397.0

(i) External interest payable of £39.1 million (2019 £38.8 million) and internal interest payable of £14.7 million (2019 £30.4 million) are included within Trade and other payables (refer to Note 20).

(ii) Other movements includes non-cash movements including accrued interest expense and the acquisition of lease liabilities.

20 TRADE AND OTHER PAYABLES

	Notes	2020 £m	2019 £m
Current trade and other payables:			
Payables due to Iberdrola Group companies – trade		2.4	7.6
Payables due to Iberdrola Group companies – capital		–	225.9
Payables due to Iberdrola Group companies – interest		14.7	30.4
Payables due to joint ventures – trade		2.3	0.8
Trade payables	(a), (b)	522.3	537.8
Other taxes and social security	(c)	98.8	65.9
Payments received on account		131.1	147.7
Capital payables and accruals	(b)	309.5	321.3
Other payables		184.2	187.6
	(d)	1,265.3	1,525.0
Non-current other payables:			
Other payables		5.2	6.9
		5.2	6.9

(a) Certain trade payables and receivables are presented net on the balance sheet when offsetting criteria under IAS 32 are met (refer to Note 3H3.5. A reconciliation between the gross and net position is provided at Note 10(d).

(b) The Group operates a number of supplier financing arrangements under which certain suppliers can obtain accelerated settlement on invoices from the banking provider. These arrangements are a form of reverse factoring which the Group believes offers a benefit to its suppliers by giving them early access to funding. The supplier financing program allows participating suppliers the ability to voluntarily elect to sell the Group's payment obligations to a designated third-party financial institution. The Group's obligations to its suppliers, including amounts due and scheduled payment terms, are not impacted by suppliers' decisions to sell amounts under these arrangements.

During 2020, the Group has agreed the extension of payment terms with some suppliers, which the Group deems to be commercially reasonable and within the legal payment terms required. The payment period for those suppliers has been extended to an average of 81 days. These suppliers could elect to be paid by a financial institution earlier than maturity under supplier financing arrangements.

On an ongoing basis, the supplier financing arrangements are reviewed to determine the appropriate accounting treatment. For the supplier financing arrangements in place as at 31 December 2020, management has determined that the original liabilities to which the arrangements apply have not been extinguished or substantially modified on entering into the arrangements. Therefore, the balances continue to be classed as Trade and other payables on the Balance sheet and the associated cash flows are included in Cash flows from operating activities. At 31 December 2020, the amount of Trade and other payables under supplier financing arrangements is £61.4 million, of which £53.2 million is within Capital payables and accruals and £8.2 million within Trade payables.

(c) Due to the impact on companies of the COVID-19 pandemic, HMRC announced in March 2020 that companies could defer their VAT payments due between March 2020 and June 2020 until March 2021. The Group, as at 31 December 2020, has deferred £49.1 million (2019 £Nil) of VAT. This deferred VAT was paid in full on 31 March 2021.

(d) Trade and other payables includes £209.1 million (2019 £258.0 million) of IFRS 15 contract liabilities (refer to Note 22(b)). These balances consist of DD customer payments that are in excess of the associated units of energy delivered (final customer credits) and payments on account for Networks projects.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

21 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Notes	Property, plant and equipment £m	Derivative financial instruments £m	Retirement benefits £m	Other temporary differences £m	Total £m
At 1 January 2019		809.7	24.9	(88.4)	0.2	746.4
Charge/(credit) to income statement		34.7	(0.6)	14.2	(9.8)	38.5
Partial disposal of a subsidiary		–	–	–	4.6	4.6
Acquisition of subsidiary	(a)	0.3	–	–	–	0.3
Recorded in the statement of comprehensive income		–	(56.6)	(36.9)	–	(93.5)
At 1 January 2020		844.7	(32.3)	(111.1)	(5.0)	696.3
Charge/(credit) to income statement		178.6	0.2	(2.2)	(18.6)	158.0
Acquisition of subsidiaries	(b)	(0.5)	–	–	–	(0.5)
Recorded in the statement of comprehensive income		–	71.0	7.2	–	78.2
At 31 December 2020		1,022.8	38.9	(106.1)	(23.6)	932.0

- (a) On 20 May 2019, the Group acquired 72% of the share capital of Douglas West Extension Limited.
- (b) On 5 June 2020, the Group acquired the entire share capital of Hagshaw Hill Repowering Ltd. On 28 August 2020, the Group acquired 72% of the share capital of Cumberhead West Wind Farm Ltd.
- (c) At 31 December 2020, the Group had unutilised capital losses of £34.5 million (2019 £40.8 million); no deferred tax asset has been recognised due to the unpredictability of suitable future profit streams against which these losses may be utilised.
- (d) Legislation was previously enacted to reduce the UK rate of Corporation Tax to 17% on 1 April 2020. Accordingly deferred tax balances were measured at the 17% rate, this being the tax rate enacted at the balance sheet date 31 December 2019, and the rate temporary differences were expected to reverse. Further legislation was enacted on 22 July 2020 under the Finance Act 2020 that maintains the 19% UK Corporation Tax rate. The 19% rate applies from 1 April 2020. This rate change has increased the 31 December 2020 deferred tax liability by £82.3 million.
- (e) In the 3 March 2021 Budget, the Chancellor of the Exchequer announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the Group's future tax charge. If this rate change had been substantively enacted at the current balance sheet date, the deferred tax liability would have been £282.0 million higher.

22 REVENUE FROM CONTINUING OPERATIONS

(a) Disaggregation of revenue

	Note	2020			Total £m
		Energy Networks £m	Renewables £m	Energy Retail and Wholesale £m	
Segment revenue		1,254.4	906.0	3,750.6	5,911.0
Inter-segment revenue	(i)	(139.1)	(596.9)	(11.0)	(747.0)
External revenue		1,115.3	309.1	3,739.6	5,164.0
Electricity distribution		674.9	–	–	674.9
Electricity transmission		397.8	–	–	397.8
Transfers of assets from customers		42.6	–	–	42.6
Supply of electricity		–	–	2,711.4	2,711.4
Supply of gas		–	–	967.6	967.6
CfD income		–	212.8	–	212.8
Other		–	96.3	60.6	156.9
		1,115.3	309.1	3,739.6	5,164.0

	Note	2019			Total £m
		Energy Networks £m	Renewables £m	Energy Retail and Wholesale £m	
Segment revenue		1,246.8	638.3	3,962.3	5,847.4
Inter-segment revenue	(i)	(141.6)	(570.8)	(10.5)	(722.9)
External revenue		1,105.2	67.5	3,951.8	5,124.5
Electricity distribution		667.0	–	–	667.0
Electricity transmission		396.7	–	–	396.7
Transfers of assets from customers		41.5	–	–	41.5
Supply of electricity		–	–	2,796.5	2,796.5
Supply of gas		–	–	1,062.6	1,062.6
CfD income		–	11.2	–	11.2
Other		–	56.3	92.7	149.0
		1,105.2	67.5	3,951.8	5,124.5

- (i) Energy Networks inter-segment revenue is predominantly subject to regulation and is based on published tariffs set by Ofgem. Renewables inter-segment revenue primarily consists of the sale of electricity and ROCs from wind farms. Energy Retail and Wholesale inter-segment revenue largely consists of the supply of electricity and gas.

All revenue is recognised over time and arises from operations within the UK and Republic of Ireland. Revenue arising outside the UK is not deemed material enough to warrant separate disclosure.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

22 REVENUE FROM CONTINUING OPERATIONS

(b) Contract balances from continuing and discontinued operations

	Notes	31 December 2020 £m	31 December 2019 £m	1 January 2019 £m
Receivables	(i), (ii)	785.8	851.0	746.0
Contract liabilities	(iii), (iv)	(1,540.6)	(1,524.6)	(1,430.0)

- (i) Included within Trade and other receivables (refer to Note 11).
- (ii) £119.9 million (2019 £73.7 million) of net expected credit losses were recognised during the year on receivables arising from the Group's contracts with customers.
- (iii) £1,331.5 million (2019 £1,266.6 million) of contract liabilities relates to the transfer of assets from customers which is recorded within Deferred income (refer to Note 16). The remainder is included within Trade and other payables (refer to Note 20).
- (iv) The amount of contract liabilities recognised as income in the year is £135.1 million (2019 £89.3 million). The remaining movement in contract liabilities relates to new liabilities recognised in the year.

(c) Customer contract costs from continuing and discontinued operations

During the year, £59.9 million (2019 £72.7 million) of incremental costs of obtaining a contract (customer contract costs) were capitalised and the amortisation charge was £49.2 million (2019 £39.4 million). Refer to Note 6(a).

23 EMPLOYEE INFORMATION FOR CONTINUING OPERATIONS

(a) Staff costs

	Note	2020 £m	2019 £m
Wages and salaries		290.5	279.9
Social security costs		30.8	29.5
Pension and other costs	(i)	69.0	68.6
Total staff costs		390.3	378.0
Less: capitalised staff costs		(151.5)	(154.7)
Charged to the income statement		238.8	223.3

- (i) Pension and other costs include a credit of £7.9 million for group-wide restructuring programmes (2019 costs of £19.9 million offset by a £28.1 million credit following a Pension increase exchange programme during 2019).

(b) Employee numbers

The average numbers of employees (full and part-time) employed by the Group, including UK-based directors, were:

	2020	2019
Energy Networks	3,020	3,029
Renewables	494	432
Energy Retail and Wholesale	1,579	1,667
Corporate	507	488
Total	5,600	5,616

24 TAXES OTHER THAN INCOME TAX ON CONTINUING OPERATIONS

	Note	2020 £m	2019 £m
Property taxes		119.4	120.1
Other taxes	(a)	101.4	81.7
		220.8	201.8

- (a) Other taxes mainly comprises obligations specific to the energy industry, principally ECO and WHD.

25 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS ON CONTINUING OPERATIONS

	2020 £m	2019 £m
Property, plant and equipment depreciation charge	567.6	466.6
Right-of-use asset depreciation charge	30.7	27.9
Intangible asset amortisation charge	110.5	92.9
Charges and provisions, allowances and impairment of assets	10.7	8.2
	719.5	595.6
Capitalised right-of-use asset depreciation	(7.2)	(6.6)
	712.3	589.0

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

26 FINANCE INCOME FROM CONTINUING OPERATIONS

	2020 £m	2019 £m
Interest on bank and other deposits	1.3	0.3
Interest receivable from Iberdrola Group companies	17.2	21.8
Dividends received	–	0.2
Foreign exchange gains	5.0	5.5
Fair value and other gains on financing derivatives	–	0.4
Fair value movement on contingent consideration	18.0	0.7
	41.5	28.9

27 FINANCE COSTS FROM CONTINUING OPERATIONS

	Note	2020 £m	2019 £m
Interest on bank loans and overdrafts		0.2	0.3
Interest on amounts due to Iberdrola Group companies		53.2	77.8
Interest on amounts due to joint ventures		–	0.1
Interest on other borrowings		106.7	102.5
Net impairment of financial investments/debt instruments		(0.4)	0.6
Unwinding of discount on provisions		4.2	3.2
Interest on lease liabilities		16.6	16.7
Foreign exchange losses		5.9	4.8
Net interest on retirement benefit obligations		11.9	11.5
Fair value and other losses on financing derivatives		0.6	1.0
Interest on taxes		0.7	–
		199.6	218.5
Capitalised interest	(a)	(6.9)	(20.8)
		192.7	197.7

(a) The tax relief on the capitalised interest for the year ended 31 December 2020 was £1.3 million (2019 £3.9 million).

28 INCOME TAX ON CONTINUING OPERATIONS

	2020 £m	2019 £m
Current tax:		
UK Corporation Tax charge on profits for the year	106.2	81.2
Adjustments in respect of prior years	(7.5)	(0.3)
Current tax for the year	98.7	80.9
Deferred tax:		
Origination and reversal of temporary differences	60.7	47.3
Adjustments in respect of prior years	(0.6)	1.8
Impact of tax rate change	97.9	(10.6)
Deferred tax for the year	158.0	38.5
Income tax expense for the year	256.7	119.4

The tax charge on profit on ordinary activities for the year varied from the standard rate of UK Corporation Tax applicable to Group companies as follows:

	2020 £m	2019 £m
Corporation Tax at 19% (2019 19%)	160.0	125.8
Adjustments in respect of prior years	(8.1)	1.5
Impact of tax rate change	97.9	(10.6)
Non-deductible expenses and other permanent differences	6.9	2.7
Income tax expense for the year	256.7	119.4

Legislation was previously enacted to reduce the UK rate of Corporation Tax to 17% on 1 April 2020. Accordingly deferred tax balances were measured at the 17% rate, this being the tax rate enacted at the balance sheet date of 31 December 2019, and the rate temporary differences were expected to reverse. Further legislation was enacted on 2 July 2020 under the Finance Act 2020 that maintains the 19% UK Corporation Tax rate. The 19% rate applies from 1 April 2020. This rate has increased the deferred tax liability at 31 December 2020 by £97.9 million. Refer to Note 21(e) for details of future tax rate changes.

Comparison of UK Corporation Tax charge and payments

	2020 £m	2019 £m
UK Corporation Tax charge on profits for the year from continuing and discontinued operations	106.2	83.6
UK Corporation Tax in the cash flow statement from continuing and discontinued operations	129.5	95.6

The amount of Corporation Tax paid in the year, shown in the cash flow statement, and the amount of the Corporation Tax charge for the year are not the same. The main reason for this is the timing of the payments.

For accounting periods beginning on or after 1 April 2019, HMRC amended the rules relating to quarterly Corporation Tax instalment payments and introduced new payment dates for companies categorised as being 'very large'. The amended rules affect companies with annual taxable profits exceeding £20 million and will result in companies being required to pay their Corporation Tax instalments earlier than what was required compared to the previous regime. The new instalment dates for each chargeable accounting period under assessment are now the 14th day of each calendar quarter. The interaction between the old and new Corporation Tax payment regimes has resulted in six Corporation Tax instalment payments being settled with the UK Collector of Taxes relating to the year ended 31 December 2020 (2019: four instalment payments). The six payments relate to the obligation to settle the third and fourth instalment payments with respect to the year ended 31 December 2019 and all four instalment payments that are required under the new regime. Going forward there will be a requirement to make four Corporation Tax instalment payments in each year all relating to the current year's tax charge. In addition, the amount in the cash flow statement also includes any refunds received or payments made relating to Corporation Tax liabilities of prior years.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

29 DISCONTINUED OPERATIONS

On 16 October 2018, the Group agreed to sell ScottishPower Generation Limited and its wholly owned subsidiary, SMW Limited, to Drax Smart Generation HoldCo Limited which included the sale of four combined cycle gas turbine power stations as well as pumped storage, hydro assets and water treatment facilities. The sale completed on 31 December 2018.

All intra-group transactions have been fully eliminated in the consolidated financial results. The group has elected to attribute the elimination of transactions between the continuing operations and the discontinued operation before the disposal in a way that reflects the continuance of these transactions subsequent to the disposal, because the Group believes this is useful to the users of the financial statements.

(a) Results from discontinued operations

	2020 £m	2019 £m
Revenue	–	12.6
Procurements	–	–
GROSS MARGIN	–	12.6
NET OPERATING EXPENSES	–	0.1
Net personnel expenses	–	(0.2)
Staff costs	–	(0.2)
Net external expenses	–	0.3
External services	–	(1.7)
Other operating income	–	2.0
PROFIT BEFORE TAX	–	12.7
Income tax	–	(2.4)
PROFIT FROM DISCONTINUED OPERATIONS, NET OF TAX	–	10.3

(i) The profit from the discontinued operations is attributable entirely to the owners of the Company.

(b) Cash flows from discontinued operations

	2020 £m	2019 £m
Net cash flows from operating activities	–	(1.0)
Net cash flows from investing activities	–	4.8
Net cash flows for the year	–	(3.8)

30 DIVIDENDS

	2020 pence per ordinary share	2019 pence per ordinary share	2020 £m	2019 £m
Interim dividend paid	22.5	5.1	1,595.9	365.0

31 CONTINGENT ASSET AND CONTINGENT LIABILITIES

Legal proceedings

The Group's businesses are party to various other legal claims, actions and complaints, certain of which may involve material amounts. The Group is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be. The Group currently believes that resolution of these matters will not have a materially adverse effect on the consolidated Accounts.

32 FINANCIAL COMMITMENTS

Contractual commitments

The Group manages its energy resource requirements by integrating long-term firm, short-term and spot market purchases with its own generating resources to manage volume and price volatility and maximise value across the energy value chain. As part of its energy resource portfolio, the Group is committed under long-term purchase contracts summarised in the tables below.

	2020						Total £m
	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2026 and thereafter £m	
Long-term energy purchase contract commitments	1,239.3	242.8	77.8	16.3	–	–	1,576.2
Other contractual commitments	190.9	74.5	43.9	40.6	24.2	78.2	452.3

	2019						Total £m
	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 and thereafter £m	
Long-term energy purchase contract commitments	1,651.0	297.2	30.8	3.1	–	–	1,982.1
Other contractual commitments	188.6	47.8	37.7	15.6	10.8	46.3	346.8

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

33 RELATED PARTY TRANSACTIONS

(a) Transactions and balances arising in the normal course of business

	2020				2019			
	Ultimate parent (Iberdrola, S.A.) £m	Immediate parent (Scottish Power Limited) £m	Other Iberdrola Group companies £m	Joint ventures £m	Ultimate parent (Iberdrola, S.A.) £m	Immediate parent (Scottish Power Limited) £m	Other Iberdrola Group companies £m	Joint ventures £m
Types of transaction								
Sales and rendering of services	0.1	0.7	17.7	2.3	0.1	1.3	29.1	1.3
Purchases and receipt of services	(35.5)	(0.6)	(23.5)	(14.1)	(45.8)	(0.7)	(63.0)	(12.6)
Interest income	–	17.2	–	–	–	21.8	–	–
Interest costs (excluding ECLs)	(0.4)	(42.6)	(10.2)	–	(0.7)	(70.7)	(6.4)	(0.1)
Net (losses)/gains on foreign exchange	(3.3)	3.2	–	–	3.3	(3.3)	0.1	–
Net losses on financing derivatives	–	(0.7)	–	–	–	(0.9)	–	–
Dividends paid	–	(1,595.9)	–	–	–	(365.0)	–	–
Changes in the value of cashflow hedges	–	7.3	–	–	–	(19.3)	–	–
Movements in ECLs in respect of								
Loans and interest receivable	–	0.2	–	–	–	–	–	–
Balances outstanding								
Loans receivable	–	831.5	–	–	–	1,553.9	–	–
Trade and other receivables	–	2.2	9.4	3.8	–	1.1	5.0	3.6
Interest receivable	–	17.2	–	–	–	21.7	–	–
Derivative financial assets	–	1.3	0.4	–	–	1.1	0.2	–
Loans payable	(29.3)	(2,869.7)	(760.0)	(3.0)	(45.8)	(2,077.4)	(760.0)	(3.0)
Trade and other payables	–	(1.2)	(1.2)	(2.3)	–	(0.8)	(6.8)	(0.8)
Capital payables	–	–	–	–	–	–	(225.9)	–
Interest payable	–	(14.5)	(0.2)	–	(0.1)	(29.9)	(0.4)	–
Derivative financial liabilities	–	(0.3)	–	–	–	(5.3)	(1.6)	–
ECL on								
Loans and interest receivable	–	0.1	–	–	–	0.3	–	–

(i) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received in relation to inter-group transactions.

(b) Remuneration of key management personnel

The remuneration of the key management personnel of the Group is set out below. The remuneration of all 13 (2019 16) key management personnel who served during the year is included within staff costs at Note 23(a).

	2020 £m	2019 £m
Short-term employee benefits	4.9	4.4
Post-employment benefits	0.5	1.8
Termination benefits	–	1.2
Share-based payments	3.8	2.6
	9.2	10.0

(c) Directors' remuneration

The remuneration of the directors who provided qualifying services to the Group is set out below. All of the directors were remunerated by the Group during both years. All three of the directors (2019 three) were remunerated directly by the Company.

	2020 £000	2019 £000
Aggregate remuneration in respect of qualifying services	937	957
Number of directors who exercised share options	3	3
Number of directors who received shares under a long-term incentive scheme	2	2
Number of directors accruing retirement benefits under a defined benefit scheme	3	3
Highest paid director		
Aggregate remuneration	383	385
Accrued pension benefit	65	60

(i) The highest paid director received a benefit under a long-term share incentive scheme in both years.

(ii) The highest paid director exercised share options in both years.

(d) Immediate and ultimate parent company

The immediate parent company is Scottish Power Limited, which is also the parent company of the smallest group in which the results of the Company are consolidated. The registered office of Scottish Power Limited is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD.

The directors regard Iberdrola, S.A. as the ultimate parent company, which is also the parent company of the largest group in which the results of the Company are consolidated. Copies of the consolidated Accounts of Iberdrola, S.A. may be obtained from its registered office at Iberdrola, S.A., Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain.

In addition to the Company's parent undertakings disclosed above, the Group's other related undertakings are disclosed in Appendix 1.

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2020

34 AUDITOR REMUNERATION

	2020 £m	2019 £m
Audit of the Company and consolidated annual Accounts	0.5	0.2
Audit of the Company's subsidiaries pursuant to legislation	1.8	1.0
Audit of the Group's pension schemes pursuant to legislation	0.1	0.1
Audit fees	2.4	1.3
Audit-related assurance services	0.2	0.2
Total	2.6	1.5

(a) For the year ended 31 December 2020, all fees paid to the Group's auditor of £2.5 million (2019 £1.4 million) were charged to the income statement. The Group's pension scheme paid the fees of £0.1 million (2019 £0.1 million) relating to the schemes audit.

SCOTTISH POWER UK PLC

COMPANY BALANCE SHEET

at 31 December 2020

	Notes	2020 £m	2019 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	36	19.2	20.8
Property, plant and equipment	37	50.4	55.3
Right-of-use-assets	38	85.9	89.3
Trade and other receivables	39	2,082.4	1,874.4
Financial assets		5,167.3	5,169.0
Investments in subsidiaries	40	5,123.5	5,123.5
Other investments	40, 41	0.2	0.2
Derivative financial instruments	41	43.6	45.3
Deferred tax asset	42	109.2	115.5
NON-CURRENT ASSETS		7,514.4	7,324.3
CURRENT ASSETS			
Trade and other receivables	39	337.6	299.6
Current tax assets		26.8	19.7
Financial assets		1.2	1.0
Derivative financial instruments	41	1.2	1.0
CURRENT ASSETS		365.6	320.3
TOTAL ASSETS		7,880.0	7,644.6
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		4,513.7	5,135.1
Share capital	43, 44	3,551.7	3,551.7
Share premium	44	398.2	398.2
Hedge reserve	44	2.2	3.0
Other reserve	44	420.4	420.4
Retained earnings – opening balance	44	761.8	854.0
Retained earnings – profit for the year	44	971.6	488.6
Retained earnings – other movements	44	(1,592.2)	(580.8)
Retained earnings – closing balance	44	141.2	761.8
TOTAL EQUITY		4,513.7	5,135.1
NON-CURRENT LIABILITIES			
Provisions		562.1	657.0
Provision for retirement benefit obligations	45	558.6	651.7
Other provisions	46	3.5	5.3
Bank borrowings and other financial liabilities		797.2	1,092.5
Loans and other borrowings	47	797.2	1,092.5
Lease liabilities	38	106.5	108.3
Trade and other payables	48	2.0	83.7
Non-current tax liabilities		4.0	–
NON-CURRENT LIABILITIES		1,471.8	1,941.5
CURRENT LIABILITIES			
Provisions		2.3	10.4
Other provisions	46	2.3	10.4
Bank borrowings and other financial liabilities		1,703.3	477.3
Loans and other borrowings	47	1,703.3	477.1
Derivative financial instruments	41	–	0.2
Lease liabilities	38	6.9	9.8
Trade and other payables	48	182.0	70.5
CURRENT LIABILITIES		1,894.5	568.0
TOTAL LIABILITIES		3,366.3	2,509.5
TOTAL EQUITY AND LIABILITIES		7,880.0	7,644.6

Authorised for issue by the Board and signed on its behalf on 29 April 2021.



David Wark
Director

The accompanying Notes 35 to 54 and Appendix 1 are an integral part of the Company balance sheet at 31 December 2020.

SCOTTISH POWER UK PLC
COMPANY STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2020

	Note	2020 £m	2019 £m
NET PROFIT FOR THE YEAR		971.6	488.6
OTHER COMPREHENSIVE INCOME			
Items that may be subsequently released to the income statement:			
Cash flow hedges:			
Changes in the value of cash flow hedges	44	(0.9)	3.5
Tax relating to cash flow hedges	44	–	(0.6)
		(0.9)	2.9
Items that will not be reclassified to the income statement:			
Actuarial losses on retirement benefits:			
Actuarial losses on retirement benefits	44	(8.4)	(252.7)
Tax relating to actuarial losses on retirement benefits	44	12.1	36.9
Cash flow hedges:			
Change in the value of cash flow hedges	44	0.1	(0.1)
Tax relating to cash flow hedges	44	–	–
		3.8	(215.9)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		2.9	(213.0)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		974.5	275.6

Total comprehensive income for both years is wholly attributable to the equity holder of Scottish Power UK plc.

SCOTTISH POWER UK PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2020

	Share capital £m	Share premium £m	Hedge reserve £m	Other reserve £m	Retained earnings £m	Total £m
At 1 January 2019	2,192.0	398.2	0.2	420.4	854.0	3,864.8
Total comprehensive income for the year	–	–	2.8	–	272.8	275.6
Share capital issued	1,359.7	–	–	–	–	1,359.7
Dividends	–	–	–	–	(365.0)	(365.0)
At 1 January 2020	3,551.7	398.2	3.0	420.4	761.8	5,135.1
Total comprehensive income for the year	–	–	(0.8)	–	975.3	974.5
Dividends	–	–	–	–	(1,595.9)	(1,595.9)
At 31 December 2020	3,551.7	398.2	2.2	420.4	141.2	4,513.7

The accompanying Notes 35 to 54 and Appendix 1 are an integral part of the Company statement of comprehensive income and the Company statement of changes in equity for the year ended 31 December 2020.

SCOTTISH POWER UK PLC
COMPANY CASH FLOW STATEMENT
for the year ended 31 December 2020

	2020 £m	2019 £m
Cash flow from operating activities		
Profit before tax	962.4	478.6
Adjustments for:		
Depreciation, amortisation and impairment	31.3	29.7
Change in provisions	(0.4)	9.1
Finance income and costs	28.2	30.0
Shareholding income	(990.6)	(489.9)
Net gain on disposal/write-off of non-current assets	–	(0.5)
Movement in retirement benefits	(113.4)	(125.2)
Changes in working capital:		
Change in trade and other receivables	(4.4)	(5.2)
Change in trade and other payables	45.1	(1.3)
Provisions paid	(10.1)	(1.0)
Income taxes received	24.5	22.8
Interest received	60.3	69.5
Dividends received	990.6	489.9
Net cash flows from operating activities (i)	1,023.5	506.5
Cash flows from investing activities		
Investments in intangible assets	(10.2)	(10.0)
Investments in property, plant and equipment	(10.1)	(13.1)
Proceeds from disposal of property, plant and equipment	–	0.5
Net investment in non-current assets	–	(1,359.7)
Decrease in amounts due from Iberdrola Group companies – current loans receivable	44.9	755.2
(Increase)/decrease in amounts due from Iberdrola Group companies – non-current loans receivable	(289.0)	60.0
Net cash flows from investing activities (ii)	(264.4)	(567.1)
Cash flows from financing activities		
Increase/(decrease) in amounts due to Iberdrola Group companies – current loans payable	926.9	(847.2)
Dividends paid to equity holder	(1,595.9)	(365.0)
Share capital issued	–	1,359.7
Interest paid	(76.9)	(71.4)
Interest paid on lease liabilities	(3.7)	(3.8)
Repayments of borrowings	(1.3)	(3.4)
Payment of lease liabilities	(8.2)	(8.3)
Net cash flow from financing activities (iii)	(759.1)	60.6
Net movement in cash and cash equivalents (i) + (ii) + (iii)	–	–
Cash and cash equivalents at beginning of year	–	–
Cash and cash equivalents at end of the year	–	–

The accompanying Notes 35 to 54 and Appendix 1 are an integral part of the Company cash flow statement for the year ended 31 December 2020.

NOTES TO THE COMPANY ACCOUNTS

31 December 2020

35 COMPANY INFORMATION AND PRINCIPAL ACCOUNTING POLICIES

A. COMPANY INFORMATION AND ACTIVITIES

Scottish Power UK plc (registered company number SC117120) is a private company limited by shares. It is incorporated in Scotland and its registered address is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD. The Company financial statements present information about the Company as a separate entity, and not about the Group.

The principal activity of the Company is the centralised provision of common corporate services to its subsidiary businesses.

B. BASIS OF PREPARATION

B.1 BASIS OF PREPARATION OF THE COMPANY ACCOUNTS

The Company is required by law to prepare Accounts and to deliver them to the Registrar of Companies. The Company accounts are prepared in accordance with the Accounting Policies set out in Note 35C. Monetary amounts are presented in pounds Sterling and are rounded to the nearest hundred thousand unless otherwise indicated. The Company accounts are prepared on the historical cost basis apart from certain financial assets and liabilities which are measured at fair value.

The Company Accounts have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the Company has applied the recognition, measurement and disclosure requirements of IAS in conformity with the requirements of the Companies Act 2006 (refer to Note 2B1) and also in accordance with International Financial Reporting Standards ("IFRS") adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU (refer to Note 2B2). The Company has made amendments where necessary in order to comply with the Companies Act 2006 and has set out below where FRS 101 disclosure exemptions have been taken. In the transition to FRS 101 from IFRS, the Company has made no measurement and recognition adjustments.

In these Company Accounts, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- reconciliation of movements of liabilities to cash flows arising from financing activities;
- disclosures in respect of transactions with wholly owned subsidiaries of Iberdrola, S.A.;
- comparative period reconciliations for property, plant and equipment and intangible assets;
- disclosures in respect of capital management;
- the effects of new, but not yet effective, IFRS pronouncements; and
- disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of Iberdrola, S.A. include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of certain disclosures required by IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instruments: Disclosures'.

B.2 GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 1 to 42.

Notwithstanding net current liabilities of £1,528.9 million at 31 December 2020, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Company is part of the Scottish Power UK plc Group which, is a significant component of Iberdrola, one of the world's largest integrated utilities. The Company participates in a UK treasury function operated by the Company's immediate parent undertaking, Scottish Power Limited. The UK treasury function works closely with Iberdrola to manage the Company's funding requirements, which are reviewed and adjusted on a regular basis using a mixture of external funding and funding provided via Iberdrola through the global treasury function.

Throughout the year, and up to date of signing, the economic environment has been affected by the global COVID-19 pandemic. However, due to the nature of the Company's core activities, the direct effects on cash flows as a result of COVID-19 are expected to be limited.

For the purposes of the directors' assessment of the Company's going concern position and to satisfy them of the Company's ability to pay its liabilities as they fall due, the directors have prepared a Company cash flow forecast for the period to 31 December 2022. Whilst the Company has net current liabilities of £1,528.9 million as at 31 December 2020, this principally reflects the Company's net short-term inter-company loan position of £1,487.3 million at the balance sheet date. On 1 March 2021, the Company entered into two long-term loan arrangements totalling £1,150.0 million with Scottish Power Limited. The cash proceeds from these arrangements were used to repay £1,150.0 million of the short-term inter-company loans outstanding at the balance sheet date therefore reducing the Company's net current liability position subsequent to year end. As stated in Note 47(g), at the date of signing the Accounts the Company also has £1,500.0 million of undrawn committed facilities available. However, the directors have taken into consideration three inter-group committed revolving credit facilities that have been put in place by the Company for subsidiary entities totalling £750.0 million. Whilst these facilities have never been drawn, for the purpose of the preparation of forecasts, the directors consider that the Company has £750.0 million of committed facilities available.

The forecasts prepared for the period to 31 December 2022 indicate that, after taking account of severe but plausible downsides including the impact of the COVID-19 pandemic, the Company's existing resources, committed facilities and the loan restructuring arrangements that took place on 1 March 2021, are sufficient to enable it to trade and pay its liabilities as they fall due for the forecast period.

NOTES TO THE COMPANY ACCOUNTS

31 December 2020

35 COMPANY INFORMATION AND PRINCIPAL ACCOUNTING POLICIES *continued*

C. JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES

In determining and applying the Company's accounting policies, judgement is often required in respect of items which have a significant effect on the reported amounts of assets, liabilities, income and expenses recognised in the financial statements, other than those involving estimates; the Company has no such judgements. At 31 December 2020, assumptions made about the future and other major sources of estimation uncertainty which have significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year are detailed below:

- Retirement benefit obligation (including valuation of level 3 pension plan assets) – Note 3K and Note 45

The principal accounting policies applied in preparing the Company's financial statements are set out below:

INVESTMENTS

The Company's investments in subsidiaries are stated in the balance sheet at cost, or fair value of shares issued as consideration where applicable. Dividends from subsidiaries are recognised when the right to receive the dividend is established.

Applicable Group accounting policies

The following significant accounting policies are consistent with those applied for the Group consolidated financial statements:

- Other intangible assets (refer to Note 3D);
- Property, plant and equipment (refer to Note 3E);
- Leased assets (refer to Note 3F);
- Impairment of property, plant and equipment, leased assets and intangible assets (refer to Note 3G);
- Financial instruments (refer to Note 3H);
- Retirement benefits (refer to Note 3K);
- Decommissioning costs (refer to Note 3L); and
- Taxation (refer to Note 3N)

36 INTANGIBLE ASSETS

Year ended 31 December 2020	Note	Computer software (Note (a)) £m	Licences £m	Total £m
Cost:				
At 1 January 2020		92.1	5.4	97.5
Additions	(b)	10.2	–	10.2
Disposals		(1.0)	–	(1.0)
At 31 December 2020		101.3	5.4	106.7
Amortisation:				
At 1 January 2020		74.1	2.6	76.7
Amortisation for the year		10.0	1.8	11.8
Disposals		(1.0)	–	(1.0)
At 31 December 2020		83.1	4.4	87.5
Net book value:				
At 31 December 2020		18.2	1.0	19.2
At 1 January 2020		18.0	2.8	20.8

(a) The cost of fully amortised computer software still in use at 31 December 2020 was £61.7 million (2019 £40.6 million).

(b) Included within additions is £0.3 million (2019 £0.2 million) from internal development.

37 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment in use

Year ended 31 December 2020	Property, plant and equipment in use (Note (i)) £m
Cost:	
At 1 January 2020	98.3
Additions	7.2
Disposals	(0.9)
At 31 December 2020	104.6
Depreciation:	
At 1 January 2020	43.0
Charge for the year	12.1
Disposals	(0.9)
At 31 December 2020	54.2
Net book value:	
At 31 December 2020	50.4
At 1 January 2020	55.3

(i) Property, plant and equipment in use principally comprises fixtures and fittings and IT equipment.

(ii) The cost of fully depreciated property, plant and equipment at 31 December 2020 was £20.2 million (2019 £2.3 million).

NOTES TO THE COMPANY ACCOUNTS *continued*

31 December 2020

37 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) Capital commitments

	2020 £m	2019 £m
Contracted but not provided	0.3	0.4

(i) Capital commitments in both the current and prior year are due within one year.

(c) Research and development expenditure

The amount of research and development expenditure recognised as an expense during the year was £0.1 million (2019 £0.2 million).

38 LEASING

38A LESSEE

The Company leases many assets including buildings, vehicles and other equipment. Information about leases for which the Company is a lessee is presented below.

(a) Nature of leases

Buildings

The Company leases buildings primarily for its office space, and retail space (which is sub-let). The leases typically have lease terms of up to 25 years but some extend up to 99 years. Certain leases have options to extend the term by up to ten years at the end of the term. A number of leases have options to terminate subject to a notice period of up to six months, whilst certain contracts have specific break options exercisable five or ten years before the contract end date.

The lease for the head office building has a 25 year term ending in 2041 at which point the Company has the right to extend the lease to 2046 (and to 2051 at 2046). It is not deemed reasonably certain that these options will be taken. However, should these extension options be taken, the estimated increase in the lease liability would be £34.9 million and a further £18.3 million respectively.

The Company sub-leases some of its properties under operating leases (refer to Note 38B). Where the unavoidable costs of meeting the obligations under these contracts exceeds the economic benefits expected to be received under it, the right-of-use asset has been appropriately impaired.

Vehicles

The Company leases vehicles with lease terms of between two and six years, primarily being pool vehicles to mobilise its operational staff. Certain vehicle leases are considered short-term and the Company has elected not to recognise right-of-use assets and lease liabilities for these leases.

Other equipment

The Company leases office equipment with lease terms of typically between five and six years.

Variable lease payments

Certain building leases contain variable lease payments that are based on the building services supplied; a common term for this type of lease. The fixed annual payments for the year were £11.9 million compared to variable payments made of £0.6 million. The Company expects the relative proportion of fixed and variable lease payments to remain broadly consistent in future years.

Extension options

Some building leases contain extension options exercisable by the Company at the end of the non-cancellable contract period or an agreed point before that date. Where practicable, the Company seeks to include extension options in leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. At lease commencement, the Company will assess whether it is reasonably certain to exercise the extension options and reassesses this if there is a significant event or change in circumstances within its control.

Other information

The Company has not committed to any leases that have not yet commenced. The Company has no contracts containing residual value guarantee, no leases subject to significant restrictions or covenants and no sale and leaseback transactions.

NOTES TO THE COMPANY ACCOUNTS *continued*

31 December 2020

38 LEASING *continued*

38A LESSEE *continued*

(b) Right-of-use assets

Year ended 31 December 2019	Note	Buildings £m	Vehicles £m	Other equipment £m	Total £m
Cost					
On transition to IFRS16 at 1 January 2019		85.4	0.2	0.1	85.7
Additions		3.5	1.9	2.2	7.6
Adjustments for changes in liabilities	(i)	3.0	0.1	(0.1)	3.0
At 31 December 2019		91.9	2.2	2.2	96.3
Depreciation					
On transition to IFRS16 at 1 January 2019		–	–	–	–
Charge for the year		6.0	0.5	0.5	7.0
At 31 December 2019		6.0	0.5	0.5	7.0
Net book value					
At 31 December 2019		85.9	1.7	1.7	89.3
On transition to IFRS16 at 1 January 2019		85.4	0.2	0.1	85.7

Year ended 31 December 2020	Note	Buildings £m	Vehicles £m	Other equipment £m	Total £m
Cost					
At 1 January 2020		91.9	2.2	2.2	96.3
Additions		0.1	0.4	–	0.5
Adjustments for changes in liabilities	(i)	3.2	0.1	0.2	3.5
At 31 December 2020		95.2	2.7	2.4	100.3
Depreciation					
At 1 January 2020		6.0	0.5	0.5	7.0
Charge for the year		6.3	0.6	0.5	7.4
At 31 December 2020		12.3	1.1	1.0	14.4
Net book value					
At 31 December 2020		82.9	1.6	1.4	85.9
At 1 January 2020		85.9	1.7	1.7	89.3

(i) Adjustments for changes in liabilities are movements in the right-of-use asset resulting from remeasurement of the associated lease liability to reflect changes to the lease payments due to any reassessment or lease modifications.

(ii) There are no right-of-use assets measured at revalued amounts.

(c) Lease liabilities

The following table sets out a maturity analysis of non-derivative lease liabilities, showing the undiscounted payments to be made after the reporting date.

	2020 £m	2019 £m
Less than one year	10.8	12.4
One to five years	33.8	31.4
More than five years	106.2	107.1
Total undiscounted lease liabilities at 31 December	150.8	150.9
Finance cost	(37.4)	(32.8)
Total discounted lease liabilities	113.4	118.1

Analysis of total lease liabilities

Non-current	106.5	108.3
Current	6.9	9.8
Total	113.4	118.1

Details of the Company's risk management strategy for liquidity risks inherent in the Company's lease liability are described at Note 10.

(d) Amounts recognised in income statement

	Note	2020 £m	2019 £m
Interest on lease liabilities		(3.7)	(3.8)
Variable lease payment not included in the measurement of lease liabilities		(0.6)	(0.3)
Income from sub-leasing right-of-use assets		0.7	1.1
Expenses relating to short-term leases	(i)	(0.2)	–

(i) This charge relates to leases for vehicles. Future commitments relating to the portfolio of short-term leases are expected to be similar to the expense charged in the year.

NOTES TO THE COMPANY ACCOUNTS *continued*

31 December 2020

38 LEASING *continued*

38A LESSEE *continued*

(e) Amounts recognised in the cash flow statement

	2020 £m	2019 £m
Payments of lease liabilities	(8.2)	(8.3)
Interest paid on lease liabilities	(3.7)	(3.8)
Payments for variable lease components	(0.6)	(0.3)
Payments for short-term leases	(0.1)	–
Total cash outflow for leases	(12.6)	(12.4)

38B LESSOR

The Company has contracts to lease buildings which have been classified as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. These leases have terms of between 16 and 27 years, and are due to end between 2020 and 2022.

Lease income recognised by the Company during 2020 was £0.7 million (2019 £1.1 million). No income has been recognised in either year relating to variable lease payments that do not depend on an index or rate.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted payments to be received after the reporting date:

	2020 £m	2019 £m
Less than one year	0.6	0.2
One to two years	0.1	–
Total undiscounted lease payments	0.7	0.2

Details of the Company's risk management strategy for addressing and reducing the risks associated with the retained rights in the underlying assets are described in Note 10.

39 TRADE AND OTHER RECEIVABLES

	Notes	2020 £m	2019 £m
Current receivables:			
Receivables due from Iberdrola Group companies – trade		7.9	8.0
Receivables due from Iberdrola Group companies – loans	(a)	216.0	260.9
Receivables due from Iberdrola Group companies – interest		23.1	25.6
Other receivables	(b)	76.7	–
Trade receivables		1.4	1.1
Prepayments		4.2	4.0
Other tax receivables		8.3	–
		337.6	299.6
Non-current receivables:			
Receivables due from ScottishPower Renewables (UK) Limited – loans	(a)	2,082.3	1,792.9
Prepayments		–	0.1
Other receivables		0.1	81.4
		2,082.4	1,874.4

(a) Current loans due from Iberdrola group companies included £nil (£68.9 million) repayable on demand with interest payable at 1% above the Bank of England base rate. The non-current loans with Iberdrola Group companies due to mature in 2022, 2023 and 2025 are repayable in equal instalments on a bi-annual basis. The non-current loans with Iberdrola Group companies due to mature in 2029 and 2030 are repayable, in full, at maturity. The instalments of £192.0 million due in 2020 on the loans with a final maturity date of 2022 were classified as current at 31 December 2019 and the instalments of £216.0 million due in 2021 on the loans with final maturity 2023 and 2025 is classified as current at 31 December 2020.

(b) This balance represents other receivables of £76.7 million 2019 (£81.4 million) recognised as part of a contractual renegotiation (which was classified as a non-current receivable in 2019).

(c) Information about the Company's exposure to credit and market risks and net credit losses for Trade and other receivables are included in Note 10(e).

40 INVESTMENTS

	Notes	Investment in subsidiaries £m	Other investments £m	Total £m
At 1 January 2019		3,763.8	0.6	3,764.4
Additions	(a)	1,359.7	–	1,359.7
Impairment	(b)	–	(0.4)	(0.4)
At 1 January and 31 December 2020		5,123.5	0.2	5,123.7

(a) Prior to the completion of the EA1L transaction, SPL approved the transfer of its loan receivable from EA1L totalling £1,359.7 million to the Company in return for 2,719,444,440 ordinary shares of 50p each. The loan was subsequently transferred through the ownership chain to ScottishPower Renewables (UK) Limited, the immediate parent of EA1L.

(b) At 31 December 2019 and 2020 the Company held investments of £0.2 million for which no quoted market price is available and whose fair value could not be reliably measured. During the year ended 31 December 2019 an impairment charge of £0.4 million was made against these investments.

(c) The company's subsidiaries and joint ventures are listed in Appendix 1.

NOTES TO THE COMPANY ACCOUNTS *continued*

31 December 2020

41 FINANCIAL INSTRUMENTS

The Company holds certain financial instruments which are measured in the balance sheet at fair value as detailed below.

	Other investments £m	Derivative financial instruments £m
At 1 January 2019	0.6	52.2
Recorded in income statement	(0.4)	(5.7)
Recorded in cash flow hedge reserve	–	(0.4)
At 1 January 2020	0.2	46.1
Recorded in income statement	–	(1.6)
Recorded in cash flow hedge reserve	–	0.3
At 31 December 2020	0.2	44.8

The Company's derivatives comprise forward foreign exchange contracts and cross currency swaps.

The Company uses foreign currency forwards in relation to asset purchases and other small items of general expenditure. For such items, the Company designates the entire value of the foreign currency forward in the hedge relationship. The tables below illustrate the timing of the notional amount of the foreign currency forwards and the average forward price of the foreign currency forwards.

	£m 1 year	Notional amount of hedging instrument (maturity profile) £m 2 years
At 31 December 2020		
EUR	2.8	1.1

	1 year	Average forward price (exchange rate) 2 years
At 31 December 2020		
EUR (GBP:EUR)	1.13	1.13

The Company has issued debt instruments denominated in JPY. As a result, the Company has entered into cross currency swaps and has designated these within a fair value hedging relationship where they meet the required hedging criteria to mitigate this risk. The carrying amount of the associated 10 billion JPY loan is £91.7 million (2019 £92.2 million). The notional amount of the cross currency swaps is £51.4 million and the average hedge rate for the year (£:JPY) is 1:194.55.

42 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m	Derivative financial instruments £m	Retirement benefits £m	Other temporary differences £m	Total £m
At 1 January 2019	2.5	–	88.4	2.1	93.0
(Credit)/charge to income statement	(0.2)	–	(14.2)	0.6	(13.8)
Recorded in the statement of comprehensive income	–	(0.6)	36.9	–	36.3
At 1 January 2020	2.3	(0.6)	111.1	2.7	115.5
Charge/(credit) to income statement	0.2	–	2.2	(1.5)	0.9
Recorded in the statement of comprehensive income	–	–	(7.2)	–	(7.2)
At 31 December 2020	2.5	(0.6)	106.1	1.2	109.2

- (a) At 31 December 2020, the Company had unutilised capital losses of £5.4 million (2019 £5.4 million). No deferred tax has been recognised in the Accounts due to the unpredictability of suitable future profit streams against which these losses may be utilised.
- (b) Legislation was previously enacted to reduce the UK rate of Corporation Tax to 17% on 1 April 2020. Accordingly, deferred tax balances were measured at the 17% rate, this being the tax rate enacted at the balance sheet date 31 December 2019, and the rate temporary differences were expected to reverse. Further legislation was enacted on 22 July 2020 under the Finance Act 2020 that maintains the 19% UK Corporation Tax rate. The 19% rate applies from 1 April 2020. This rate change has increased the 31 December 2020 deferred tax asset by £13.3 million.
- (c) In the 3 March 2021 Budget, the Chancellor of the Exchequer announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the Company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax asset would have been £21.8 million higher.

43 SHARE CAPITAL

	2020 £m	2019 £m
Allotted, called up and fully paid shares:		
7,103,427,542 ordinary shares of 50p each (2019 7,103,427,542)	3,551.7	3,551.7

- (a) Holders of these ordinary shares are entitled to dividends as declared from time to time; amounts on the capitalisation of profits and reserves; and notice and attendance at general meetings of the Company, with every member entitled to one vote on a show of hands and on a poll one vote for every share held.

NOTES TO THE COMPANY ACCOUNTS *continued*

31 December 2020

44 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY

	Share capital (Note (a)) £m	Share premium (Note (b)) £m	Hedge reserve (Note (c)) £m	Other reserves (Note (d)) £m	Retained earnings (Note (e)) £m	Total £m
At 1 January 2019	2,192.0	398.2	0.2	420.4	854.0	3,864.8
Profit for the year attributable to equity holder of the Company	–	–	–	–	488.6	488.6
Changes in the value of cash flow hedges	–	–	3.4	–	–	3.4
Actuarial losses on retirement benefits	–	–	–	–	(252.7)	(252.7)
Tax relating to cash flow hedges	–	–	(0.6)	–	–	(0.6)
Tax relating to actuarial losses on retirement benefits	–	–	–	–	36.9	36.9
Share capital issued	1,359.7	–	–	–	–	1,359.7
Dividends	–	–	–	–	(365.0)	(365.0)
At 1 January 2020	3,551.7	398.2	3.0	420.4	761.8	5,135.1
Profit for the year attributable to equity holder of the Company	–	–	–	–	971.6	971.6
Changes in the value of cash flow hedges	–	–	(0.8)	–	–	(0.8)
Actuarial losses on retirement benefits	–	–	–	–	(8.4)	(8.4)
Tax relating to actuarial losses on retirement benefits	–	–	–	–	12.1	12.1
Dividends	–	–	–	–	(1,595.9)	(1,595.9)
At 31 December 2020	3,551.7	398.2	2.2	420.4	141.2	4,513.7

(a) On 30 August 2019 the Company issued 2,719,444,440 ordinary shares at 50p each, to its immediate parent, SPL, for a total consideration of £1,359.7 million.

(b) The share premium account represents consideration received for shares issued in excess of their nominal amount.

(c) The hedge reserve represents the balance of gains and losses on cash flow hedges (net of taxation) not yet transferred to income or the carrying value of a non-financial asset.

(d) Other reserves as at 31 December 2020 comprises a capital redemption reserve of £8.2 million (2019 £8.2 million) and a capital contribution reserve of £412.2 million (2019 £412.2 million). The capital redemption reserve comprises the nominal value of the Company's ordinary share capital purchased by the Company in previous years.

(e) Retained earnings comprise the cumulative balance of profits and losses recognised in the financial statements as adjusted for transactions with shareholders, principally dividends.

45 RETIREMENT BENEFIT OBLIGATIONS

The amounts recognised in the balance sheet in respect of retirement benefit obligations are detailed below:

	2020 £m	2019 £m
Non-current liabilities	558.6	651.7

(a) The Company recognises the pension scheme deficit in the balance sheet for the schemes for which it is the sponsoring employer as there is no appropriate contractual agreement or group policy to allocate the deficit on a legal entity basis. Detailed disclosures are provided in Note 17 of the Group financial statements.

46 PROVISIONS

	Notes	At 1 January 2019 £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	At 31 December 2019 £m
Year ended 31 December 2019							
Onerous contracts	(a)	1.5	9.3	–	(0.4)	–	10.4
Reorganisation and restructuring	(b)	1.3	0.1	–	(0.6)	(0.3)	0.5
Decommissioning	(c)	1.2	3.5	0.1	–	–	4.8
		4.0	12.9	0.1	(1.0)	(0.3)	15.7

	Notes	At 1 January 2020 £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	At 31 December 2020 £m
Year ended 31 December 2020							
Onerous contracts	(a)	10.4	–	–	(9.3)	(0.6)	0.5
Reorganisation and restructuring	(b)	0.5	–	–	(0.4)	(0.1)	–
Decommissioning	(c)	4.8	0.8	0.1	(0.4)	–	5.3
		15.7	0.8	0.1	(10.1)	(0.7)	5.8

	2020 £m	2019 £m
Analysis of total other provisions		
Non-current	3.5	5.3
Current	2.3	10.4
	5.8	15.7

(a) The new provision for 'Onerous contracts' in 2019 relates to costs associated with the early termination of an IT contract. This provision was settled during 2020. The balance of the onerous contracts provision is expected to be utilised between 2021 and 2025.

(b) The provision for 'Reorganisation and restructuring' relates to group-wide restructuring programmes with the balance of these programmes being fully utilised in 2020.

(c) The provision for decommissioning costs is the discounted future estimated costs of decommissioning certain non-current assets. The decommissioning is expected to occur over the period between 2021 and 2041. Had the estimated value of the costs at the balance sheet date been 10.0% higher or lower, this would have resulted in the decommissioning provision being £0.5 million higher and lower respectively. Had the discount rate been 0.25% higher or lower, this would have resulted in the decommissioning provision being £0.3 million lower and higher respectively.

NOTES TO THE COMPANY ACCOUNTS *continued*

31 December 2020

47 LOANS AND OTHER BORROWINGS

Analysis by instrument and maturity	Notes	Interest rate*	Maturity	2020 £m	2019 £m
Loans with Iberdrola group companies		Base +1%	On demand	1,360.1	433.2
Collateral		LIBOR	17 June 2021	43.5	44.8
£300 million medium-term note	(a)	5.9%	22 February 2021	299.9	299.2
£250 million euro-sterling bond	(b), (c)	6.75%	29 May 2023	249.6	249.4
£175 million inflation linked bond	(a), (d)	3.494% x RPI	13 October 2024	305.7	300.8
10 billion JPY loan	(e)	4.6%	27 July 2029	91.7	92.2
£50 million medium-term note	(a)	5.75%	9 December 2039	50.0	50.0
£100 million medium-term note	(a)	6.375%	31 May 2041	100.0	100.0
				2,500.5	1,569.6

* Base – Bank of England Base Rate; LIBOR – London Inter-Bank Offer Rate; RPI – Retail Price Index

Analysis of loans and other borrowings	Note	2020 £m	2019 £m
Non-current		797.2	1,092.5
Current	(f)	1,703.3	477.1
		2,500.5	1,569.6

- (a) SPL and the Company have an established joint US\$7 billion euro medium-term note programme. The Company has not issued under the programme. Any future issuance under the programme will require the relevant programme documentation to be updated. The Company has in issue various notes in Sterling, which can be redeemed by the Company with 30 to 90 days' notice in case of unfavourable and unavoidable changes in the UK tax laws impacting on the note payments.
- (b) This bond contains a "Loss of licences" covenant that will require repayment of the outstanding amount should ScottishPower lose all its electricity licences (distribution, transmission and supply licences).
- (c) The euro-sterling bond due 2023 can be redeemed at any time by the Company at the higher of the principal amount or redemption price (as determined by HSBC Bank plc) giving 30 to 45 days' notice to the lender.
- (d) The £175 million inflation linked bond contains non-financial loan covenants. A future breach of covenants may require the Company to repay the loans earlier than indicated in the above table. Under the agreements, the covenants are monitored on a regular basis by the ScottishPower Treasury department and regularly reported to management to ensure compliance with the agreements.
- (e) The interest rate quoted above on the 10 billion JPY loan is fixed. This is changed to a variable rate by a cross currency swap.
- (f) Current borrowings comprise loans with Iberdrola Group companies repayable on demand, the £300 million medium-term note due in 2021 and collateral together with finance costs due to be amortised within one year, the short-term element of fair value hedge adjustments and the adjustments on discontinued fair value hedges due to be amortised within one year. This totalled £(0.2) million (2019 £(0.9) million).
- (g) In May 2020 the Company entered into an intra-group committed revolving credit facility arrangement with Scottish Power Limited for £1.0 billion, with an expiry date of February 2025. The facility has never been drawn. During March 2021, an additional £500.0 million of committed revolving credit facility was agreed with Scottish Power Limited, which has an expiry date of March 2025. Therefore, at the date of signing these Accounts, the Company, and therefore the Group, has £1.5 billion of undrawn committed facilities available.

48 TRADE AND OTHER PAYABLES

	Notes	2020 £m	2019 £m
Current trade and other payables:			
Payables due to Iberdrola group companies – trade		0.3	0.4
Payables due to Iberdrola group companies – other	(a)	76.7	–
Payables due to Iberdrola group companies – interest		7.4	20.0
Trade payables	(b)	10.9	10.2
Other taxes and social security	(c)	49.3	0.8
Payables received on account		0.1	0.1
Capital payables		5.1	8.0
Other payables		32.2	31.0
		182.0	70.5
Non-current other payables:			
Payables due to Iberdrola group companies – other	(a)	–	81.4
Other payables		2.0	2.3
		2.0	83.7

- (a) This balance represents other payables of £76.7 million (2019 £81.4 million) recognised as part of a contractual renegotiation (which was classified as a non-current payable in 2019).
- (b) The Company operates a number of supplier financing arrangements under which certain suppliers can obtain accelerated settlement on invoices from the banking provider. These arrangements are a form of reverse factoring which the Company believes offers a benefit to its suppliers by giving them early access to funding. The supplier financing program allows participating suppliers the ability to voluntarily elect to sell the Company's payment obligations to a designated third-party financial institution. The Company's obligations to its suppliers, including amounts due and scheduled payment terms, are not impacted by suppliers' decisions to sell amounts under these arrangements.
- During 2020, the Company has agreed the extension of payment terms with some suppliers, which the Company deems to be commercially reasonable and within the legal payment terms required. The payment period for those suppliers has been extended to an average of 80 days. These suppliers could elect to be paid by a financial institution earlier than maturity under supplier financing arrangements.
- On an ongoing basis, the supplier financing arrangements are reviewed to determine the appropriate accounting treatment. For the supplier financing arrangements in place at 31 December 2020, management has determined that the original liabilities to which the arrangements apply have not been extinguished or substantially modified on entering into the arrangements. Therefore, the balances continue to be classed as Trade and other payables on the Balance sheet and the associated cash flows are included in Cash flows from operating activities. At 31 December 2020, the amount of Trade and other payables under supplier financing arrangements is £0.4 million, which is within Trade payables.
- (c) Due to the impact on companies of the COVID-19 pandemic, HMRC announced in March 2020 that companies could defer their VAT payments due between March 2020 and June 2020 until March 2021. The Company, at 31 December 2020, has deferred £49.1 million (2019 £nil) of VAT. This deferred VAT was paid in full on 31 March 2021.

NOTES TO THE COMPANY ACCOUNTS *continued*

31 December 2020

49 COMPANY INCOME STATEMENT

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own income statement. The Company's income statement was authorised for issue by the Board on 29 April 2021. The profit for the financial year per the Accounts of the Company was £971.6 million (2019 £488.6 million).

50 EMPLOYEE INFORMATION

(a) Staff costs

	Note	2020 £m	2019 £m
Wages and salaries		35.7	33.8
Social security costs		4.0	3.8
Pension and other costs	(i)	12.6	(14.4)
Total staff costs		52.3	23.2
Less: capitalised staff costs		(0.7)	(0.6)
Charged to the income statement		51.6	22.6

(i) Pension and other costs includes costs of £0.7 million for group-wide restructuring programmes (2019 costs of £1.6 million offset by a £28.1 million credit following a Pension increase exchange programme during 2019).

(b) Employee numbers

Details of the year end and average number of employees (full and part time) employed by the Company, including UK-based directors, can be found within the Corporate category of Note 23(b).

(c) Pensions

The Company's contributions in the year were £7.2 million (2019 £7.2 million). The Company contributes to the Group's defined benefit and defined contribution schemes in the UK. Full details of these schemes can be found in Note 17.

51 AUDITOR REMUNERATION

Auditor remuneration is billed on a group basis and not recharged to the Company. Of the total Group audit fee for the year ended 31 December 2020, £140,000 (2019 £52,000) related to the audit of the company Accounts. The total auditor remuneration for the Group is disclosed in Note 34 to the Consolidated Accounts.

52 DIVIDENDS

	2020 pence per ordinary share	2019 pence per ordinary share	2020 £m	2019 £m
Interim dividend paid	22.5	5.1	1,595.9	365.0

53 FINANCIAL COMMITMENTS

	2020						Total £m
	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2026 and thereafter £m	
Contractual commitments	8.2	1.0	0.6	0.1	0.1	–	10.0

	2019						Total £m
	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 and thereafter £m	
Contractual commitments	7.9	2.5	0.3	–	–	–	10.7

54 RELATED PARTY TRANSACTIONS

(a) Transactions and balances arising in the normal course of business (excluding wholly owned subsidiaries of Iberdrola, S.A.)

	Note	2020		2019
		Other Iberdrola Group companies £m	Subsidiary companies £m	Subsidiary companies £m
Types of transaction				
Sales and rendering of services		0.3	1.3	2.1
Net losses on foreign exchange		–	(0.1)	–
ECLs recognised in respect of				
Loans and interest receivable	(i)	–	–	2.0
Balances outstanding				
Trade and other receivables		0.3	–	–

(i) Movements in ECLs in respect of Loans and other receivables for 2020 was less than £0.1 million.

(ii) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

(b) Directors' remuneration

Details of directors' remuneration are set out at Note 33(c) to the Consolidated Accounts.

NOTES TO THE COMPANY ACCOUNTS *continued*

31 December 2020

APPENDIX 1: SUBSIDIARIES AND JOINT VENTURES

SCOPE OF CONSOLIDATION

Subsidiaries and joint ventures

The table below sets out details of the subsidiaries and joint ventures of the Group and the Company at 31 December. These are all included in the consolidated Accounts of the Group. All entities are indirect holdings unless specified. Shares owned by the Group are all ordinary shares.

Name	Principal activities	Registered office and country of incorporation	Equity interest		
		(Note (ix))	2020	2019	
Energy Networks					
Subsidiaries					
Scottish Power Energy Networks Holdings Limited	Holding company	(A)	100%	(i)	100%
SP Distribution plc	Ownership and operation of distribution network within the ScottishPower area	(A)	100%		100%
SP Manweb plc	Ownership and operation of distribution network within the Mersey and North Wales area	(B)	100%		100%
SP Network Connections Limited	Design and construction of utility connections	(B)	100%		100%
SP Power Systems Limited	Provision of asset management services	(A)	100%		100%
SP Transmission plc	Ownership and operation of transmission network within the ScottishPower area	(A)	100%		100%
Manweb Services Limited	Operation of a private electricity distribution network	(B)	100%		100%
Joint ventures					
NGET/SPT Upgrades Limited	Operation of offshore HVDC West Coast transmission link	(C)	50%	(ii), (iii)	50%
Renewables					
Subsidiaries					
ScottishPower Renewable Energy Limited	Holding company	(A)	100%	(i)	100%
Coldham Windfarm Limited	Operation of an onshore wind farm	(B)	80%		80%
Cumberhead West Wind Farm Ltd.	Development of an onshore wind farm	(A)	72%	(iv)	–
Douglas West Extension Limited	Development of an onshore wind farm	(A)	72%	(v)	72%
East Anglia One Limited	Construction and operation of an offshore wind farm	(D)	60%	(vi)	60%
East Anglia One North Limited	Development of an offshore wind farm	(D)	100%		100%
East Anglia Three Limited	Development of an offshore wind farm	(D)	100%		100%
East Anglia Two Limited	Development of an offshore wind farm	(D)	100%		100%
Hagshaw Hill Repowering Ltd	Development of an onshore wind farm	(A)	100%	(iv)	–
ScottishPower Renewables (UK) Limited	Development, construction and operation of onshore wind farms	(E)	100%		100%
ScottishPower Renewables (WODS) Limited	Operation of an offshore wind farm	(A)	100%		100%
ScottishPower Renewables (UK Assets) Limited	Dormant	(A)	100%		100%
Joint ventures					
CeltPower Limited	Operation of an onshore wind farm	(B)	50%	(ii)	50%
East Anglia Offshore Wind Limited	Commercial operation of offshore meteorological mast	(D)	50%	(iii)	50%
Morecambe Wind Limited	Provision of operational services	(F)	50%	(ii)	50%

NOTES TO THE COMPANY ACCOUNTS *continued*

31 December 2020

APPENDIX 1: SUBSIDIARIES AND JOINT VENTURES *continued*

SCOPE OF CONSOLIDATION *continued*

Subsidiaries and joint ventures

Name	Principal activities	Registered office and country of incorporation (Note (ix))	Equity interest	
			2020	2019
Energy Retail and Wholesale				
Subsidiaries				
Scottish Power Retail Holdings Limited	Holding company	(A)	100% (i)	100%
ScottishPower (DCL) Limited	Holding company	(B)	100%	100%
ScottishPower Energy Management Limited	Wholesale energy management company engaged in purchase and sale of electricity and gas	(A)	100%	100%
ScottishPower Energy Management (Agency) Limited	Agent for energy management activity of ScottishPower Energy Management Limited and Scottish Power UK plc	(A)	100%	100%
ScottishPower Generation (Assets) Limited	Asset owning company	(A)	100%	100%
ScottishPower (SCPL) Limited	Holding company	(B)	100%	100%
SP Gas Transportation Hatfield Limited	Holder of Gas Transporter Licence	(A)	100%	100%
ScottishPower Energy Retail Limited	Supply of electricity and gas to domestic and business customers	(A)	100%	100%
SP Dataserve Limited	Data collection, data aggregation, meter operation and revenue protection	(A)	100%	100%
SP Smart Meter Assets Limited	Provider of smart meter assets and services	(A)	100%	100%
Other				
Subsidiaries				
ScottishPower Investments Limited	Holding company	(A)	100% (i)	100%
Dormant subsidiaries in liquidation				
SP Gas Transportation Cockenzie Limited	In liquidation	(G)	100% (vii)	100%
Dormant subsidiaries now dissolved				
SP Gas Limited	Dissolved	(G)	– (viii)	100%

(i) The investment in this company is a direct holding of Scottish Power UK plc.

(ii) All joint ventures are accounted for using the equity method.

(iii) NGET/SPT Upgrades Limited has a non-conterminous year end date of 31 March. This is a contractual obligation as agreed in the joint operating agreement.

(iv) On 5 June 2020, ScottishPower Renewables (UK) Limited ("SPRUKL") acquired the entire share capital of Hagshaw Hill Repowering Ltd. On 28 August 2020, SPRUKL acquired 72% of the share capital of Cumberhead West Wind Farm Ltd.

(v) On 20 May 2019, SPRUKL acquired 72% of the share capital of Douglas West Extension Limited.

(vi) On 30 August 2019, SPRUKL sold 40% of the share capital of EA1L to Bilbao Offshore Holding Limited (refer to Note 15 for further details).

(vii) SP Gas Transportation Cockenzie Limited was placed into member's voluntary liquidation on 10 December 2020.

(viii) SP Gas Limited was dissolved on 3 June 2020.

(ix) The registered offices of the subsidiaries and joint ventures are as listed below, along with their countries of incorporation. Where a company's registered office is in England, it is registered in England and Wales.

(A) 320 St. Vincent Street, Glasgow, G2 5AD, Scotland

(B) 3 Prenton Way, Prenton, CH43 3ET, England

(C) 1–3 Strand, London, WC2N 5EH, England

(D) 3rd Floor, 1 Tudor Street, London, EC4Y 0AH, England

(E) The Soloist, 1 Lanyon Place, Belfast, BT1 3LP, Northern Ireland

(F) 5 Howick Place, London, SW1P 1WG, England

(G) Johnston Carmichael, 227 West George Street, Glasgow, G2 2ND, Scotland

For those entities incorporated in Scotland, Northern Ireland and England and Wales, the principal place of business is considered to be the UK; for all other entities, the country of incorporation is the principal place of business.

Scottish Power UK plc

Registered office: 320 St. Vincent Street, Glasgow, Scotland, G2 5AD

Registered in Scotland: No. SC117120