

ScottishPower Consolidated Segmental Statement

for the year ended 31 December 2018

Required under Standard Condition 16B of Electricity
Generation Licences and Standard Condition 19A of
Electricity and Gas Supply Licences



SCOTTISHPOWER

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Independent auditor's report to Scottish Power UK plc

We have audited the accompanying statement (the "Consolidated Segmental Statement" or "CSS") of Scottish Power UK plc and its Licensees (as listed in footnote⁽ⁱ⁾) for the year ended 31 December 2018 in accordance with the terms of our agreement dated 23 April 2018. The CSS has been prepared by the directors of Scottish Power UK plc based on the requirements of The Office of Gas and Electricity Markets' ("Ofgem") Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences (together the "Licences") and the basis of preparation on pages 5 to 8.

Directors' responsibility

The directors are responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 5 to 8 and for maintaining the underlying accounting records and such internal control as the directors determine is necessary to enable the preparation of the CSS that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the CSS based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the CSS is free from material misstatement. The materiality level that we used in planning and performing our audit is set at £20 million for each of the segments.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the CSS. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the CSS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the CSS in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the CSS.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the attached CSS of Scottish Power UK plc for the year ended 31 December 2018 is prepared, in all material respects, in accordance with;

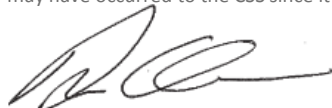
- (i) the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by Ofgem; and
- (ii) the basis of preparation on pages 5 to 8.

Basis of accounting and restriction on distribution and use

Without modifying our opinion, we draw attention to pages 5 to 8 of the CSS, which describes the basis of preparation. The CSS is prepared in order for Scottish Power UK plc and its Licensees to meet the Licence requirements of Ofgem rather than in accordance with a generally accepted accounting framework. The CSS should therefore be read in conjunction with both the Licences and the basis of preparation on pages 5 to 8. This basis of preparation is not the same as segmental reporting under IFRS and/or statutory reporting under UK GAAP or IFRS as relevant. As a result, the schedule may not be suitable for another purpose.

This report, including our conclusions, has been prepared solely for the directors of Scottish Power UK plc, in accordance with the agreement between us, to assist the directors in reporting on the CSS to Ofgem. We permit this report to be disclosed on the Company's website to enable the directors to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors as a body and Scottish Power UK plc and its Licensees for our work or this report except where terms are expressly agreed between us in writing.

The maintenance and integrity of the Scottish Power UK plc website is the responsibility of Scottish Power UK plc; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the CSS since it was initially presented on the website.



Philip Charles (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor

319 St. Vincent Street
Glasgow
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29 April 2019

(i) ScottishPower Energy Retail Limited, ScottishPower Renewables (UK) Limited, Morecambe Wind Limited, Celtpower Limited, East Anglia One Limited, East Anglia Three Limited, ScottishPower Renewables (UK) Assets Limited and Drax Generation Enterprise Limited (formerly known as ScottishPower Generation Limited).

Introduction

This CSS and associated regulatory information is presented in accordance with Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences (“the Conditions”).

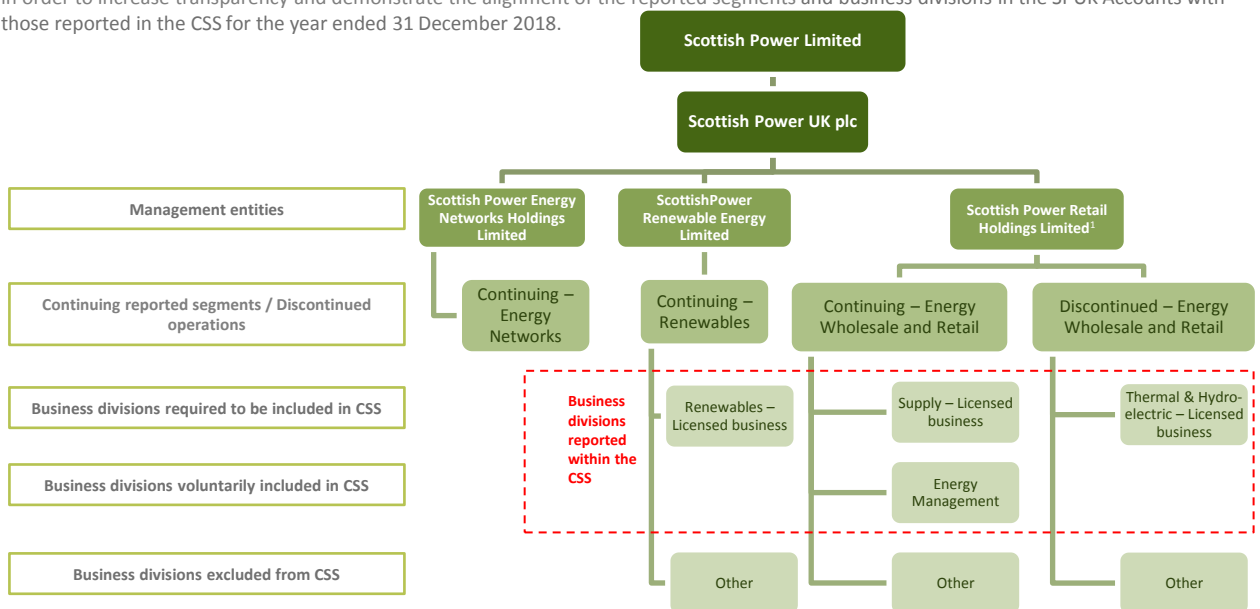
The CSS and supporting information has been prepared by the directors of Scottish Power UK plc (“SPUK”) in accordance with the Conditions stated above and the associated guidelines issued by Ofgem. The CSS has been derived from, and reconciled to, the Annual Report and Accounts of SPUK for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

ScottishPower Operational and Management Reporting Structure

The diagram below outlines the operational and management reporting structure of ScottishPower during the year ended 31 December 2018. ScottishPower is defined as Scottish Power Limited (“SPL”) and its subsidiaries. SPL is the United Kingdom (“UK”) parent company of both the Great Britain (“GB”) and Ireland operations of Iberdrola, S.A. (“Iberdrola”). The intermediate UK parent company, SPUK, acts principally as the immediate holding company for the ScottishPower operations. For the purpose of the CSS, “the group” is defined as SPUK and its subsidiaries.

On 31 December 2018, the group sold its thermal and hydro-electric Generation Licensed business (along with certain non-licensed activities) to Drax Smart Generation Holdco Limited and therefore as at 31 December 2018 the group did not own that business. The diagram below reflects the reporting structure during the year and therefore prior to the sale. The results of the thermal and hydro-electric Generation Licensed business, prior to its sale, are included in this CSS. These results are presented within discontinued operations in the Annual Report and Accounts of SPUK (“SPUK Accounts”).

In accordance with the disclosure requirements of IFRS, the SPUK Accounts reports the financial results of the continuing reported segments and discontinued operations outlined below. The SPUK Accounts also disclose the financial results of the business divisions on a voluntary basis in order to increase transparency and demonstrate the alignment of the reported segments and business divisions in the SPUK Accounts with those reported in the CSS for the year ended 31 December 2018.



During 2018 the group’s continuing reported segments and discontinued operations, 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	The Great Britain licensed activity of the Renewables reported segment, which develops and operates renewable generation plant, other than hydro-electric generation plant.
		Other	The non-licensed activity of the Renewables reported segment, which includes generation activity outside Great Britain.
Energy Wholesale and Retail	Continuing	Supply – Licensed business	The licensed continuing activity of the Energy Wholesale and Retail reported segment which is responsible for the supply of electricity and gas to domestic and non-domestic customers.
		Energy Management	The non-licensed continuing activity of the Energy Wholesale and Retail reported segment which is responsible for wholesale market purchases for the Supply licensed business division and, up to 31 December 2018, for wholesale market sales and purchases for the Thermal and Hydro-electric licensed business. This is further defined on page 5.
		Other	The other non-licensed continuing activity of the Energy Wholesale and Retail reported segment, which includes the group’s Energy Services activities and non-licensed metering activities, including smart meter asset provision.
Energy Wholesale and Retail	Discontinued	Thermal & Hydro-electric– Licensed business	The licensed discontinued activity of Energy Wholesale and Retail which owned and operated thermal and hydro-electric generation plant until its sale on 31 December 2018.
		Other	The non-licensed discontinued activity of Energy Wholesale and Retail which included the group’s waste water treatment facility until its sale on 31 December 2018.

1. Formerly known as Scottish Power Generation Holdings Limited.

Introduction *continued*

ScottishPower Operational and Management Reporting Structure *continued*

SPUK is the intermediate holding company of all Licensees within ScottishPower. The individual supply and generation licences are held in legal entities reported within the Annual Report and Accounts of SPUK for the year ended 31 December 2018. The individual supply and generation licences held within SPUK during the year ended 31 December 2018 were as follows:

Licensee	Licence	Business Division	Ownership
ScottishPower Energy Retail Limited	Supply	Supply – Licensed business	100%
ScottishPower Renewables (UK) Limited	Generation	Renewables – Licensed business	100%
Morecambe Wind Limited	Generation	Renewables – Licensed business	50%
Celtpower Limited	Generation	Renewables – Licensed business	50%
East Anglia One Limited ²	Generation	Renewables – Licensed business	100%
East Anglia Three Limited ²	Generation	Renewables – Licensed business	100%
ScottishPower Renewables (UK) Assets Limited ^{2,3}	Generation	Renewables – Licensed business	100%
Drax Generation Enterprise Limited ⁴	Generation	Thermal & Hydro-electric – Licensed business	100% ⁴

The segmental results of the continuing reported segments and discontinued operations of SPUK for the year ended 31 December 2018 and those of the business divisions defined above are disclosed in the Annual Report and Accounts for SPUK for the year ended 31 December 2018 and can be found at http://www.scottishpower.com/pages/company_reporting.aspx.

For information purposes the segmental results for 2018 reported within the Annual Report and Accounts of SPUK for the year ended 31 December 2018 have been included within Appendix B of this document.

2. East Anglia One Limited, East Anglia Three Limited and ScottishPower Renewables (UK) Assets Limited are licensees. However none of these companies generated electricity in the year to 31 December 2018.

3. ScottishPower Renewables (UK) Assets Limited obtained a generation licence on 30 April 2018.

4. Drax Generation Enterprise Limited (formerly known as ScottishPower Generation Limited) held the group's Thermal & Hydro-electric Generation Licensed business during the year and was sold to Drax Smart Generation Holdco Limited on 31 December 2018.

Consolidated Segmental Statement for the year ended 31 December 2018

		GENERATION			SUPPLY					ENERGY MANAGEMENT
		Thermal & Hydro-electric	ScottishPower Renewables	Aggregate Generation	Electricity Domestic	Electricity Non-domestic	Gas Domestic	Gas Non-domestic	Aggregate Supply	ScottishPower Energy Management
Total revenue	£m	526.5	533.5	1,060.0	1,628.1	1,146.0	1,048.6	15.1	3,837.8	4,837.3
Revenue from sales of electricity and gas	£m	526.5	533.5	1,060.0	1,628.1	1,146.0	1,048.6	15.1	3,837.8	4,837.3
Other revenue	£m	-	-	-	-	-	-	-	-	-
Total operating costs	£m	(470.2)	(169.5)	(639.7)	(1,538.6)	(1,131.0)	(979.0)	(12.2)	(3,660.8)	(4,847.6)
Direct fuel costs	£m	(220.9)	-	(220.9)	(553.6)	(490.4)	(507.8)	(5.7)	(1,557.5)	(4,846.7)
Transportation costs	£m	(21.1)	(50.4)	(71.5)	(395.8)	(281.3)	(274.2)	(3.4)	(954.7)	-
Environmental and social obligation costs	£m	(64.2)	-	(64.2)	(355.0)	(314.4)	(14.2)	-	(683.6)	-
Other direct costs	£m	(110.4)	(66.7)	(177.1)	(0.3)	(6.7)	(0.3)	-	(7.3)	-
Indirect costs	£m	(53.6)	(52.4)	(106.0)	(233.9)	(38.2)	(182.5)	(3.1)	(457.7)	(0.9)
EBITDA	£m	56.3	364.0	420.3	89.5	15.0	69.6	2.9	177.0	(10.3)
DA	£m	(42.5)	(104.5)	(147.0)	(26.7)	(5.4)	(21.1)	(0.8)	(54.0)	(1.3)
EBIT	£m	13.8	259.5	273.3	62.8	9.6	48.5	2.1	123.0	(11.6)
Volume	TWh	5.8	4.4	10.2	10.4	9.6	N/A	N/A	N/A	N/A
	Mtherms	N/A	N/A	N/A	N/A	N/A	935.8	11.8	N/A	N/A
WACO F/E/G (calculated)	£/MWh	49.2	N/A	N/A	53.2	51.1	N/A	N/A	N/A	N/A
	p/th	N/A	N/A	N/A	N/A	N/A	54.3	48.3	N/A	N/A
Customer Numbers	000s	N/A	N/A	N/A	2,774	177	1,941	15	4,907	N/A
Supply EBIT margin					3.9%	0.8%	4.6%	13.9%	3.2%	

Glossary of Terms

EBITDA	EBITDA represents earnings before interest, tax, depreciation and amortisation. It is calculated by subtracting total operating costs from total revenue. As per paragraph 1.6 of the Ofgem guidelines this excludes exceptional items (refer to definition below).
DA	Depreciation and amortisation.
EBIT	EBIT represents earnings before interest and tax and is calculated by subtracting depreciation and amortisation from EBITDA. As per paragraph 1.6 of the Ofgem guidelines this excludes exceptional items (refer to definition below).
Volume	Volume for Aggregate Generation is the volume of electricity produced, that can actually be sold on the wholesale market, i.e. after losses up to the point where electricity is received under the Balancing and Settlement Code, but before subsequent losses. For Thermal & Hydro-electric Generation's pumped storage station, the production volume is net of volumes purchased for pumping. Volume for Aggregate Supply is supplier volumes at the meter point, i.e. net of losses.
WACOF/E/G	For Thermal & Hydro-electric Generation, the WACOF represents the weighted average input cost of gas and emissions, shown as £/MWh. This is calculated by adding the cost of the Carbon Price Floor tax and the EU Emissions Trading System (EU ETS) totalling £64.2 million (refer to Appendix A) to direct fuel costs before dividing by volume. For Aggregate Supply, the WACOE/G represents the weighted average cost of procuring electricity and gas, shown as £/MWh (electricity) and p/therm (gas), and comprises the costs of wholesale gas and electricity, from 1 July 2018 the cost of renewable electricity purchased under Renewable Power Purchase Agreements (PPAs), transmission and distribution losses, the energy component of Reconciliation by Difference ("RBD") costs, Unidentified Gas ("UIG") costs and the costs associated with balancing and shaping. This is calculated by dividing direct fuel costs by volume.
Customer numbers	Customer numbers are based on the average monthly number of Meter Point Administration Numbers for electricity customers and Meter Point Reference Numbers for gas customers during the year to 31 December 2018.
Supply EBIT margin	EBIT profit margin for Aggregate Supply expressed as a percentage, calculated by dividing EBIT by total revenue and multiplying by 100.
Exceptional items	As per Ofgem's guidelines, exceptional items are defined as revenues, costs and profits that do not reflect a company's normal year of operations (e.g. profit or loss on disposal, restructuring costs and impairment charges). Certain remeasurements (e.g. mark to market) are also classed as exceptional items per Ofgem's guidelines. Exceptional items have been excluded from the CSS. Further details on exceptional items can be found on page 8.

Basis of Preparation

The CSS presents a segmental analysis of ScottishPower's continuing and discontinued Aggregate Generation and Aggregate Supply licensed activities within GB. It provides information relating to the revenues, costs and profits of these activities in order to enhance the transparency within the energy market for both consumers and other stakeholders.

These statements have been prepared, by the directors of SPUK and its Licensees, in accordance with Standard Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences ("the Conditions") and the associated guidelines issued by Ofgem and the basis of preparation contained herein.

The financial data provided has been taken from the Relevant Licensees' and Affiliates' (as defined in the Conditions) financial information for the year ended 31 December 2018, included within the Annual Report and Accounts of SPUK for the year ended 31 December 2018, which has been prepared under IFRS.

For clarity, the following should be noted:

Aggregate Generation

- The financial results have been included for all GB activities which require a generation licence. ScottishPower Renewables includes all revenues and costs in relation to the group's renewable energy generation assets with the exception of the hydro-electric assets which have been included within Thermal & Hydro-electric Generation.
- ScottishPower Renewables holds an equity investment in an 80% subsidiary, Coldham Windfarm Limited. This company generates electricity, however, it is exempt from holding a generation licence as it is classed as a 'Small Generator'. Therefore the financial results of this company have been excluded from the CSS. ScottishPower's share of EBIT for this company for 2018 is £1.8 million.
- ScottishPower Renewables owns operational wind farms located in Northern Ireland and the Republic of Ireland. However, the financial results of these wind farms have been excluded from the CSS because they do not constitute licensed activities within GB. The EBIT of these wind farms for 2018 is £6.3 million.

Aggregate Supply

- The financial results have been included for all GB activities which require a supply licence.
- The domestic supply segments represent the revenues and associated costs in supplying gas and electricity to premises in GB which are supplied on a domestic tariff and whose meter is not registered as non-domestic in central industry systems. The non-domestic supply segments represent the revenue and associated costs in supplying gas and electricity to premises in GB which are not in the domestic supply segments.
- The financial results relating to Energy Services and non-licensed metering activities, including smart meter asset provision, have been excluded from Aggregate Supply as this does not constitute a licensed activity.

Energy Management

- Energy Management is a non-licensed business division. However, information has been provided on a voluntary basis in order to enhance transparency within the CSS.
- Energy Management performs all trading with external markets for electricity and gas and emission allowances on behalf of Aggregate Supply and, up to 31 December 2018, Thermal & Hydro-electric Generation. All trading for Aggregate Supply and, up to 31 December 2018, Thermal & Hydro-electric Generation was undertaken to hedge or meet their physical requirements. Prior to the sale of Thermal & Hydro-electric Generation, the trading was ring-fenced in separate trading books. In addition, Energy Management undertakes limited proprietary trading, gas storage activities and fulfils the mandatory 'Secure and Promote' obligations⁵. These activities are ring-fenced in separate trading books and are held separately from Aggregate Supply and, until 31 December 2018, Thermal and Hydro-electric Generation. The losses of Energy Management are the result of all proprietary activities undertaken by Energy Management on its own behalf, gas storage activities and costs of fulfilling the mandatory 'Secure and Promote' obligations.

Pricing for electricity and gas

The pricing relationship between Energy Management, Aggregate Supply and, up to 31 December 2018, Thermal & Hydro-electric Generation is that of market prices and contract specific prices under a long term gas contract as described on page 7. No transfer pricing is therefore required between Energy Management, Aggregate Supply, and up to 31 December 2018, Thermal & Hydro-electric Generation as all prices are reflective of actual prices transacted.

Up to 31 December 2018 internal transactions were undertaken by Energy Management between Aggregate Supply and Thermal & Hydro-electric Generation. The majority of these internal transactions were sales of electricity from Thermal & Hydro-electric Generation to Aggregate Supply. Where there was a corresponding equal and opposite position in Thermal and Hydro-electric Generation and Aggregate Supply then an automated internal transaction took place overnight and was priced at the prior day's closing market price for the relevant period. This allowed internal demand and supply to be met, at market prices for the relevant period, before trading in the market. All other internal transactions are priced at the prevailing market price for the relevant period at the point the transaction is made.

All external transactions with the market are at the price transacted with the market. The market prices at the time of procurement may differ from the price prevailing at the time of supply.

The pricing relationship between Aggregate Supply and Renewable Generation is that of contract specific prices under Renewable Power Purchase Agreements which are annually indexed to forward market prices with an appropriate market benchmarked discount to reflect the costs of managing variable wind volumes on delivery.

Within the group, internal agreements are in place for all transfers between group companies and are subject to bi-annual review to ensure that they are appropriate and up to date. In addition there are measures in place to notify Ofgem should there be any material changes to the transfer pricing methodology.

5. Aggregate Generation's 'Secure and Promote' obligations (fulfilled by Energy Management) ceased on 31 January 2019.

Basis of Preparation *continued*

Revenues

Renewable Generation

'Revenue from sales of electricity and gas' comprises the sales value of electricity, Renewables Obligation Certificates ("ROCs") and other related services supplied to Aggregate Supply and external customers during the year. Revenue from the sale of electricity is recognised based on the number of units supplied at the unit rate specified in the contract. Units are based on energy volumes that can be sold in the wholesale market and are recorded on wind farm meters and industry-wide trading and settlements systems. Revenue from the supply of ROCs is recognised at the point the customer obtains control of the ROC, which is when the associated electricity is generated, at the unit rate specified in the contract.

The majority of Renewable Generation revenues arise from internal transactions with Aggregate Supply. These transactions are priced as described on page 5. Revenues, including those in respect of constraint management, balancing activities and ancillary services are recognised based on the consideration specified in the contract.

Thermal & Hydro-electric Generation

'Revenue from sales of electricity and gas' comprised the sales value of electricity and other related services supplied to external customers and Iberdrola group companies during the year. Revenue from the sale of electricity was recognised based on the number of units supplied. Units were based on energy volumes that could actually be sold on the wholesale market and were recorded on industry-wide trading and settlement systems. All revenue was earned wholly within GB.

Thermal & Hydro-electric Generation revenue comprised six key components, which were priced as follows:

- the sale of energy, both to the market and to other Iberdrola group companies priced as described on page 5;
- until 30 June 2018, the sale of energy generated by Renewable Generation, both to the market and other Iberdrola group companies, which had been purchased via Aggregate Supply priced as described on page 7;
- revenue in respect of balancing activities, ancillary services and constraint management, each of which were allocated in full directly to Thermal & Hydro-electric Generation and were priced at the agreed contract price;
- sales of ROCs from Thermal & Hydro-electric Generation to Aggregate Supply. ROCs were priced at the buy-out price plus the associated recycle payment;
- revenue received by embedded generating sites from Aggregate Supply, which was at the published rate for the relevant periods; and
- until 30 September 2018, Capacity Market income, which was at the auction clearing price per the awarded Capacity Agreements. No Capacity Market income has been recognised for the period 1 October 2018 to 31 December 2018 following the Court of Justice of the European Union ruling suspending state aid approval for the scheme in relation to Capacity Year 2018/19.

Aggregate Supply

'Revenue from sales of electricity and gas' comprises the amount to which the company has a right to invoice based on the value of units supplied during the year and the tariff agreed with the customer. The nature of the energy industry in the UK, in which the company operates, is such that revenue recognition is subject to a degree of estimation. The assessment of energy sales to customers utilises 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. At the end of each year, amounts of energy delivered to customers are estimated and the corresponding billed and unbilled revenue is estimated and recorded in Revenue. Revenue for domestic supply is stated after deducting dual fuel discounts where applicable. The discount is allocated equally between electricity and gas. All revenue is earned wholly within GB and revenue for domestic supply is stated after deducting the impact of the Government mandated discount given to customers under the Warm Home Discount programme. This deduction is charged specifically to each fuel.

Energy Management

'Revenue from sales of electricity and gas' comprises the sales value of energy supplied to (a) Aggregate Supply, (b) the external market during the year and (c) until 31 December 2018 Thermal & Hydro-electric Generation. It also includes revenues relating to Energy Management's limited proprietary trading, gas storage activities and fulfilling the mandatory 'Secure and Promote' obligations⁵.

Direct fuel costs

Thermal & Hydro-electric Generation

'Direct fuel costs' comprised the delivered input cost of gas consumed in the production of electricity. The pricing for electricity and gas is outlined on page 5.

Aggregate Supply

'Direct fuel costs' comprise the cost of wholesale electricity and gas procured for Aggregate Supply by Energy Management (including volume losses), the cost of wholesale electricity purchased directly from Renewable Generation and external parties via PPAs, the energy component of Reconciliation by Difference ("RBD") costs, Unidentified Gas ("UIG") costs and imbalance costs. Direct fuel costs secured on any given day, for any delivery period, are allocated to the domestic and non-domestic supply segments based on their requirements for that delivery period.

Basis of Preparation *continued*

Direct fuel costs *continued*

Aggregate Supply *continued*

The pricing for wholesale electricity and gas is outlined on page 5.

In the case of gas, there are volumes purchased through a long term contract. These volumes are used by Aggregate Supply gas customers and are at the contract price with the counterparty.

Aggregate Supply purchases electricity, together with the associated ROCs under internal and external Renewable Power Purchase Agreements. Until 30 June 2018, the electricity element was sold by Aggregate Supply to Thermal & Hydro-electric Generation at the price paid, resulting in a neutral financial impact for Aggregate Supply. From 1 July 2018, the electricity element forms part of the Aggregate Supply direct fuel cost.

Balancing costs and the energy element of RBD costs and UIG costs are incurred by Energy Management and recharged to Aggregate Supply at the actual cost incurred. All other costs are directly allocated to Aggregate Supply as incurred by ScottishPower.

Energy Management

'Direct fuel costs' comprise the value of energy purchased from the external market for Aggregate Supply and, until 31 December 2018, Thermal & Hydro-electric Generation. It also includes trading in respect of gas storage activities and fulfilling mandatory 'Secure and Promote' obligations.

Transportation costs

Aggregate Generation

'Transportation costs' comprise Balancing Services Use of System charges ("BSUoS") from National Grid, and electricity transmission and distribution network charges. Thermal & Hydro-electric Generation also included gas transportation recharges.

Aggregate Supply

'Transportation costs' comprise BSUoS costs (recharged from Energy Management at the actual cost incurred), gas transportation charges, electricity transmission and distribution network charges and the transport element of RBD costs and UIG costs. These costs are allocated to the segment to which they relate based on volume, consumption band or settlement profile class as appropriate.

Environmental and social obligation costs

Thermal & Hydro-electric Generation

'Environmental and social obligation costs' comprised the costs associated with the Carbon Price Floor tax, the EU Emissions Trading System (EU ETS) and the CRC Energy Efficiency scheme.

Aggregate Supply

'Environmental and social obligation costs' comprise the costs associated with the following and are allocated across the supply segments as described in the table below.

Environmental and Social Obligation Costs	Allocation Methodology
Renewable Obligations	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes; this obligation only applies to the electricity supply segment.
Feed-in Tariffs	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes; this obligation only applies to the electricity supply segment.
Contracts for Difference under EMR	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes; this obligation only applies to the electricity supply segment.
Capacity Market under EMR	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes; this obligation only applies to the electricity supply segment. It includes an accrual for the standstill period following suspension of the Capacity Market in November 2018.
Energy Company Obligation (ECO)	Allocated to the domestic electricity and gas supply segments based on their GB market share of (non-exempt) domestic volumes (TWh) for electricity and gas; this obligation only applies to domestic customers.
Administering the Warm Home Discount (WHD)	Allocated to the domestic electricity and gas supply segments based on customer numbers; this obligation only applies to domestic customers.
Levy Exemption ⁶	Allocated to the non-domestic electricity supply segment.
Assistance for Areas with High Electricity Distribution Costs (AAHEDC)	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes.
Carbon Reduction Commitment (CRC) Energy Efficiency Scheme	Allocated to the domestic and non-domestic electricity and gas segments based on customer numbers.

6. Levy Exemption reflects costs incurred by Aggregate Supply under the HMRC transitional arrangements in respect of the Climate Change Levy, which expired on 31 March 2018.

Basis of Preparation *continued*

Other direct costs

Renewable Generation

'Other direct costs' comprise operational and maintenance costs, land rentals and insurance costs.

Thermal & Hydro-electric Generation

'Other direct costs' comprised operational and maintenance costs, imbalance costs, Elexon market participation costs and, until 30 June 2018, costs in relation to renewable output purchased directly from Aggregate Supply (who had purchased electricity from Renewable Generation).

Aggregate Supply

'Other direct costs' include brokers' costs and the non-capital elements of intermediaries' sales commissions when the costs have given rise directly to revenue i.e. producing a sale.

Indirect costs

Aggregate Generation

'Indirect costs' are head office costs, staff costs, rates and the costs of centralised services⁷ provided by Iberdrola group companies. Thermal & Hydro-electric Generation also included operating costs recharged from Energy Management.

Aggregate Supply

'Indirect costs' are the costs of billing, metering (including smart meter roll out costs), customer service, bad debt and debt collection, support services, sales and marketing, staff costs, the costs of centralised services⁷ provided by Iberdrola group companies and operating costs recharged from Energy Management. Where it is not possible to allocate these costs directly to a particular customer segment (domestic/non-domestic) or fuel category (gas/electricity), they are allocated using a costing model based on customer numbers, transactional volumes and employee activity.

Energy Management

'Indirect costs' are head office costs, staff costs and the costs of centralised services⁷ provided by Iberdrola group companies. A proportion of these costs are recharged to Aggregate Supply and, until 31 December 2018, to Thermal & Hydro-electric Generation.

Depreciation and amortisation

Aggregate Supply

'Depreciation and amortisation costs' are allocated to the segments based on customer numbers. Items that have been capitalised include Data Communications Company (DCC) development costs in relation to smart metering and the incremental costs of obtaining certain customer contracts.

Exceptional items

In line with Ofgem's guidelines, mark to market adjustments, restructuring costs, impairment charges and non-current asset write-offs that have been disclosed in the Annual Report and Accounts of SPUK have been excluded from the CSS. Additional exceptional items such as costs and income from the settlement of contractual disputes have also been excluded in line with Ofgem's guidelines, as the directors believe that these items do not reflect the company's activities relating to its operations in 2018.

Refer to Appendix B on pages 12 to 16 for further information.

Reconciliation to audited Group accounts

A reconciliation of the Revenue and EBIT in the CSS to the Annual Report and Accounts of SPUK has been provided on page 9.

7. Centralised services are HR, IT, finance and legal costs and other head office costs. Where these costs can be identified as being directly attributable to Renewable Generation, Aggregate Supply, Energy Management or, up to 31 December 2018, to Thermal & Hydro-electric Generation, those costs are recharged directly to that business division. Non-directly attributable costs are allocated across ScottishPower's business divisions using costing models based on employee numbers, personnel costs, gross margin and fixed assets.

Reconciliation of CSS Revenue and EBIT
to the Annual Report and Accounts of Scottish Power UK plc
for the year ended 31 December 2018

		GENERATION			SUPPLY	ENERGY MANAGEMENT
		Thermal & Hydro-electric	ScottishPower Renewables	Aggregate Generation	Aggregate Supply	ScottishPower Energy Management
Revenue per CSS	£m	526.5	533.5	1,060.0	3,837.8	4,837.3
Revenue per SPUK Annual Report and Accounts (as per regulatory licence requirements)	£m	526.5	533.5	1,060.0	3,837.8	4,837.3
EBIT per CSS	£m	13.8	259.5	273.3	123.0	(11.6)
EBIT per SPUK Annual Report and Accounts (as per regulatory licence requirements)	£m	13.8	259.5	273.3	123.0	(11.6)

See Appendix B and Note 4 of the Annual Report and Accounts of SPUK for further details.

Questionnaire on business functions

The table below outlines where the responsibility for each business function resided during the year ended 31 December 2018:

Business function	Renewable Generation	Thermal & Hydro-electric Generation	Aggregate Supply	Energy Management
Operates and maintains generation assets	✓	✓		
Responsible for scheduling decisions	✓	P/L		F
Responsible for interactions with the Balancing Market	✓	P/L		F
Responsible for determining hedging policy		P/L ⁸	P/L ⁸	F ⁸
Responsible for implementing hedging policy / makes decisions to buy/sell energy		P/L ⁸	P/L ⁸	F ⁸
Interacts with wider market participants to buy/sell energy	✓ ⁹	P/L ^{8,9}	P/L ^{8,9}	F ^{8,9}
Holds unhedged positions (either short or long)		P/L ⁸	P/L ⁸	F ⁸
Procures fuel for generation		P/L		F
Procures allowances for generation		P/L		F
Holds volume risk on positions sold (either internal or external)		P/L ⁸	P/L ⁸	F ⁸
Matches own generation with own supply	P/L ⁹	P/L ^{8,10}	P/L ^{8,10}	F ^{8,10}
Forecasts total system demand				F
Forecasts wholesale price				F
Forecasts customer demand				F
Determines retail pricing and marketing strategies			✓	
Bears shape risk after initial hedge until market allows full hedge		P/L ⁸	P/L ⁸	F ⁸
Bears short term risk for variance between demand and forecast			P/L	F

Key: ✓ Function resided and profits/losses recorded
 F Function resided
 P/L Profits/losses recorded

8. For each of these business functions, Energy Management undertook actions for both the Thermal & Hydro-electric Generation and Aggregate Supply segments. The profit/loss consequences of each action accrues to the relevant segment or segments for which the action was performed.
9. The majority of Renewable Generation revenues arise from internal transactions with Aggregate Supply. These transactions are charged under Renewable Power Purchase Agreements, which are annually indexed to forward market prices with an appropriate market benchmarked discount to reflect the costs of managing variable wind volumes on delivery.
10. Thermal & Hydro-electric Generation was not scheduled to meet retail demand. Internal transactions were performed between Thermal & Hydro-electric Generation and Aggregate Supply where the trading positions offset and this is explained further on page 5.

Appendix A - Analysis of Environmental and Social Obligation Costs for the year ended 31 December 2018

The table below provides an analysis of the environmental and social obligations for both Aggregate Generation and Aggregate Supply for the year ended 31 December 2018.

	ELECTRICITY GENERATION			SUPPLY				Aggregate Supply Business
	Thermal & Hydro-electric	ScottishPower Renewables	Aggregate Generation	Electricity Domestic	Non-domestic	Gas Domestic	Non-domestic	
EU Emissions Trading System (EU ETS)	£m	(25.3)	-	(25.3)	-	-	-	-
Carbon Price Floor	£m	(38.9)	-	(38.9)	-	-	-	-
Renewable Obligations*	£m	-	-	-	(220.0)	(203.2)	-	(423.2)
Feed-in Tariffs	£m	-	-	-	(57.9)	(55.5)	-	(113.4)
Contracts for Difference under EMR	£m	-	-	-	(34.3)	(31.7)	-	(66.0)
Capacity Market under EMR**	£m	-	-	-	(23.7)	(21.4)	-	(45.1)
Energy Company Obligation (ECO)	£m	-	-	-	(14.1)	-	(12.5)	(26.6)
Administering the WHD	£m	-	-	-	(2.3)	-	(1.6)	(3.9)
Levy Exemption	£m	-	-	-	-	(0.2)	-	(0.2)
Assistance for Areas with High Electricity Distribution Costs	£m	-	-	-	(2.6)	(2.4)	-	(5.0)
Carbon Reduction Commitment (CRC) Energy Efficiency Scheme	£m	-	-	-	(0.1)	-	(0.1)	(0.2)
Environmental and social obligation costs per CSS	£m	(64.2)	-	(64.2)	(355.0)	(314.4)	(14.2)	(683.6)
WHD*** (included as a deduction from Revenue in the CSS)	£m	-	-	-	(16.3)	-	(11.8)	(28.1)
Total environmental and social obligations	£m	(64.2)	-	(64.2)	(371.3)	(314.4)	(26.0)	(711.7)

*Renewable Obligations includes £7.0 million in respect of ROC mutualisation costs.

** Capacity Market costs include costs accrued for the stand-still period following suspension of the Capacity Market in November 2018.

*** The WHD provides some households who are living in, or at risk of fuel poverty, a rebate on their fuel bill. It is a Government mandated scheme administered by Aggregate Supply.

4 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 Wholesale and Retail. 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 2018 for the separate business divisions within the Renewables and Energy Wholesale and Retail reported segments, whilst also providing detail in relation to non-recurring items and certain rerevaluations arising from IFRS 9 (IAS 39 in 2017), 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.

During the year ended 31 December 2018, 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 than hydro-electric generation plant.
		Other	The non-licensed activity of the Renewables reported segment, which includes generation activity outside Great Britain and the impact of the amortisation of fair value attributed to the Renewables operating segment when purchased by Iberdrola during 2007.
Energy Wholesale and Retail	Continuing	Supply – Licensed business ¹	The licensed continuing activity of the Energy Wholesale and Retail reported segment responsible for the supply of electricity and gas to domestic and non-domestic customers.
		Energy Management ¹	The non-licensed continuing activities of the Energy Wholesale and Retail reported segment, responsible for wholesale market purchases for the Supply – Licensed business division, and up to 31 December 2018, for wholesale market sales and purchases for the Thermal and Hydro-electric – Licensed business division.
		Other	The non-licensed continuing activity of the Energy Wholesale and Retail reported segment which includes the group's Energy Services activities and non-licensed metering activities, including smart meter asset provision.
	Discontinued	Thermal and Hydro-electric – Licensed business ¹	The licensed discontinued activity of the Energy Wholesale and Retail reported, segment which owned and operated gas and hydro-electric generation plant.
		Other	The non-licensed discontinued activity of the Energy Wholesale and Retail reported segment which included the results of the group's waste water treatment facility.

¹ Renewables – Licensed, Supply – Licensed, Energy Management and Thermal and Hydro-electric – Licensed 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.

4 BUSINESS SEGMENT REPORTING *continued*

(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 2018 is detailed below.

Reported segment	External revenue £m	Inter-segment revenue £m	Revenue reported to the CODM £m
Energy Networks	1,024.2	143.2*	1,167.4
Renewables	56.2	484.1	540.3
Energy Wholesale and Retail	3,913.3	6.6	3,919.9
Elimination of inter-segment revenue			(633.9)
			4,993.7

* Inter-segment revenue relating to Energy Networks is predominantly subject to regulation and is based on published tariffs set by Ofgem.

The revenue by reported segment for continuing operations for the year ended 31 December 2017 is detailed below.

Reported segment	External revenue** £m	Inter-segment revenue £m	Revenue reported to the CODM** £m
Energy Networks	955.9	150.4*	1,106.3
Renewables	52.6	420.6	473.2
Energy Wholesale and Retail	3,872.8	6.9	3,879.7
Elimination of inter-segment revenue			(577.9)
			4,881.3

* Inter-segment revenue relating to Energy Networks is predominantly subject to regulation and is based on published tariffs set by Ofgem.

** Comparative figures have been restated (refer to Notes 2 and 28).

(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 2018 is detailed below. No comparative information has been provided as this is a voluntary disclosure as described on page 51.

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		1,167.4	–	–	1,167.4
	Renewables – Licensed business	525.0	8.5	–	533.5
	Other	15.3	1.0	–	16.3
Renewables		540.3	9.5	–	549.8
	Supply – Licensed business	3,865.9	–	(28.1)	3,837.8
	Energy Management	4,837.3	–	–	4,837.3
	Other	62.3	–	–	62.3
	Elimination of intra-segment revenue*	(2,269.9)	–	–	(2,269.9)
	Netting adjustment	(2,575.7)	–	–	(2,575.7)
Energy Wholesale and Retail		3,919.9	–	(28.1)	3,891.8
Elimination of inter-segment revenue		(633.9)	–	–	(633.9)
Total		4,993.7	9.5	(28.1)	4,975.1

* Inter-segment revenue includes adjustments to reflect the continuance of certain transactions following the disposal of the Generation group (refer to Note 28).

(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.

4 BUSINESS SEGMENT REPORTING *continued*

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

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

As disclosed in Note 23 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 2018 is detailed below.

Reported segment	Operating profit/(loss) reported to the CODM* £m
Energy Networks	545.9
Renewables	271.7
Energy Wholesale and Retail	124.8
Unallocated	(0.6)
Total	941.8

The operating profit/(loss) by reported segment for continuing operations for the year ended 31 December 2017 is detailed below.

Reported segment	Operating profit/(loss) reported to the CODM* £m
Energy Networks	538.9
Renewables	190.5
Energy Wholesale and Retail	(62.5)
Unallocated	(14.3)
Total	652.6

* Comparative figures have been restated to reflect continuing operations only (refer to Note 28).

(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 2018 is detailed below. No comparative information has been provided as this is a voluntary disclosure as described on page 51.

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		545.9	–	(1.5)	–	544.4
	Renewables – Licensed business	286.9	1.6	(29.0)	–	259.5
	Other	(15.2)	0.4	(0.6)	–	(15.4)
Renewables		271.7	2.0	(29.6)	–	244.1
	Supply – Licensed business	142.3	–	(19.3)	–	123.0
	Energy Management	(15.1)	–	15.0	(11.5)	(11.6)
	Other	(2.4)	–	(5.4)	–	(7.8)
Energy Wholesale and Retail		124.8	–	(9.7)	(11.5)	103.6
Unallocated		(0.6)	–	2.5	–	1.9
Total		941.8	2.0	(38.3)	(11.5)	894.0

(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.

4 BUSINESS SEGMENT REPORTING *continued*

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

(iv) Non-recurring items for continuing operations

In the year ended 31 December 2018 the following non-recurring items were recorded:

Provisions for restructuring and other liabilities: On review of the group's provisions as at 31 December 2018, net restructuring provisions and associated pension costs of £1.0 million were recognised principally in relation to a group-wide restructuring programme.

Impairment and non-current asset write-offs: During the year ended 31 December 2018 the group recognised an impairment charge of £5.6 million which comprised write-offs of gas storage assets of £3.2 million, operational wind farm assets of £1.2 million and other assets of £1.2 million. Non-current asset write-offs of £0.8 million were also recognised.

Non-recurring costs/income: During the year ended 31 December 2018 the group recognised £10.1 million of non-recurring costs and £55.8 million of non-recurring income, principally on the settlement of various contractual disputes.

(v) Certain remeasurements for continuing operations

Certain remeasurements are the fair value movements on energy contracts arising from the application of IFRS 9 (IAS 39 in 2017). 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 2018	Acquisition of property, plant and equipment and intangible assets reported to the CODM £m	Depreciation, amortisation and impairment reported to the CODM £m	Expected credit loss on trade and other receivables reported to the CODM £m
Energy Networks	594.3	283.3	0.8
Renewables	346.3	132.3	–
Energy Wholesale and Retail	165.4	76.3	58.6
Unallocated	26.8	19.3	0.1
Total	1,132.8	511.2	59.5

Other items by reported segment for the year ended 31 December 2017	Acquisition of property, plant and equipment and intangible assets reported to the CODM* £m	Depreciation, amortisation and impairment reported to the CODM* £m	Impairment of trade and other receivables reported to the CODM £m
Energy Networks	732.6	249.8	0.6
Renewables	737.7	125.5	–
Energy Wholesale and Retail	184.3	62.0	67.3
Unallocated	21.9	18.5	0.1
Total	1,676.5	455.8	68.0

* Comparative figures have been restated to reflect continuing operations only (refer to Note 28).

4 BUSINESS SEGMENT REPORTING *continued*

(e) Revenue and operating profit as per regulatory licence requirements for discontinued operations

The revenue and operating profit for discontinued operations for the year ended 31 December 2018 has been reconciled to the revenue and operating profit as per regulatory licence requirements in the tables below.

	Revenue £m	Non-recurring items (Note (i)) £m	Certain remeasurements (Note (ii)) £m	Revenue as per regulatory licence requirements £m
Thermal and Hydro-electric – Licensed business	526.5	–	–	526.5
Elimination of intra-segment revenue	(1.8)	–	–	(1.8)
Total discontinued operations	524.7	–	–	524.7

	Operating profit £m	Non-recurring items (Note (i)) £m	Certain remeasurements (Note (ii)) £m	Adjusted operating profit/loss as per regulatory licence requirements £m
Thermal and Hydro-electric – Licensed business	15.2	(1.1)	(0.3)	13.8
Other*	19.9	0.1	–	20.0
Total discontinued operations	35.1	(1.0)	(0.3)	33.8

* Other includes adjustments to reflect the continuance of certain transactions following the disposal of the Generation group (refer to Note 28).

(i) Non-recurring items for discontinued operations

In the year ended 31 December 2018 the following non-recurring items were recorded:

Provisions for restructuring and other liabilities: On review of the group's provisions as at 31 December 2018 £0.4 million was released in relation to net restructuring provisions in relation to a group-wide restructuring programme.

Impairment and non-current asset write-offs: During the year ended 31 December 2018, non-current asset write offs of £0.5 million were recognised.

Non-recurring costs/income: During the year ended 31 December 2018 the group recognised £0.1 million of non-recurring costs and £1.2 million of non-recurring income on the settlement of various contractual disputes.

(ii) Certain remeasurements for discontinued operations

Certain remeasurements are the fair value movements on energy contracts arising from the application of IFRS 9 (IAS 39 in 2017). These have been disclosed separately to aid the understanding of the underlying performance of the group.