East Anglia ONE North Offshore Windfarm

Funding Statement

Annex 2 Accounts for ScottishPower Renewables Limited 2019

Applicant: East Anglia ONE North Limited
Document Reference: 4.2
SPR Reference: EA1N-DWF-ENV-REP-IBR-000408_002 Rev 03
Pursuant to APFP Regulation: 5(2)(h)

Date: 4th March 2021
Revision: Version 03
Author: Shepherd and Wedderburn LLP

Applicable to
East Anglia ONE North

SCOTTISHPOWER RENEWABLES (UK) LIMITED
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2019

Registered No. NI028425

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SCOTTISHPOWER RENEWABLES (UK) LIMITED
STRATEGIC REPORT

The directors present an overview of ScottishPower Renewables (UK) Limited's business structure, 2019 performance and strategic outlook including principal risks and uncertainties.

STRATEGIC OUTLOOK

Introduction

The principal activity of ScottishPower Renewables (UK) Limited ("the company"), registered company number NI028425, is the construction and operation of wind powered electricity generation. During the year the company continued to operate wind farm sites in the United Kingdom ("UK") and Republic of Ireland. This activity will continue for the foreseeable future.

The ultimate parent of the company is Iberdrola, S.A. ("Iberdrola") which is listed on the Madrid stock exchange. The immediate parent of the company is ScottishPower Renewable Energy Limited ("SPREL"). Scottish Power Limited ("SPL") is the United Kingdom ("UK") holding company of the Scottish Power Limited group ("ScottishPower") of which the company is a member.

The company is part of ScottishPower's Renewables business ("Renewables" or "the SPREL group") 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.

Operating review

On 30 August 2019, the company entered into an agreement with Bilbao Offshore Holding Limited, a Green Investment Group company (part of the Macquarie Group) to sell 40% of the share capital of East Anglia One Limited ("EA1L") and outstanding loan notes of EA1L for a total consideration of £1.2 billion. The company continues to be the majority shareholder and retains control. Refer to Note 6 of the Accounts.

The onshore operational wind farms continue to deliver production and availability in line with expectations. The portfolio is operated centrally 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 centrally in the delivery of engineering support, commercial services and maintenance planning and logistics.

The onshore business has grown its pipeline of projects to approximately 3 gigawatts ("GW") (from approximately 1 GW in 2018). The company is targeting significant growth in its operating fleet by 2030 and this will include seeking opportunities in the Irish market in addition to the repowering of the Barnesmore wind farm. During the year, construction commenced on the Beinn an Tuirc extension ("BAT III") and Halsary onshore wind farms and procurement for the Gorman and Whitelee battery storage systems is underway. The Gorman project is also supported by a six year contract awarded in Ireland's first DS3 System Services Volume Capped auction. BAT III and Halsary onshore wind farms are supported by corporate offtake agreements with Amazon and Tesco respectively, and the battery systems are amongst the first of their kind and scale in the UK and Ireland. The onshore business has also been successful in securing six enhanced reactive power contracts in response to the National Grid tender (this is the first time that wind has competed for these contracts). The company will continue to assess further opportunities to invest more widely in renewable generation, including solar and further battery projects, as well as exploring opportunities for the development of hybrid sites.

2019 performance

	Revenue*		Operating profit*		Capital investment**	
	2019	2018	**2019**	2018	**2019**	2018
Financial key performance indicators	**£m**	£m	**£m**	£m	**£m**	£m
ScottishPower Renewables (UK) Limited	**493.8**	423.6	**264.5**	232.0	**80.4**	44.0

* Revenue and operating profit as presented on page 22.
** Capital investment for 2019 as presented in Notes 3 and 4 on page 33.

Revenue increased by £70.2 million to £493.8 million in 2019 reflecting the impact of higher energy prices.

Operating profit increased by £32.5 million to £264.5 million in 2019 mainly as a result of increased revenues partly offset by decreased other operating income due to the receipt of various insurance and liquidated damage claims in 2018.

STRATEGIC OUTLOOK *continued*

Capital investment increased by £36.4 million to £80.4 million in 2019. This movement is principally the result of a reassessment of the future estimated costs of decommissioning the company's wind farms, as well as the costs associated with the development and construction of the BAT III and Halsary onshore wind farms.

Non-financial key performance indicators	Notes	2019	2018
Plant output (GWh)	(a)	**3,661**	3,756
Generating capacity (MW)	(b)	**1,875**	1,875
Availability	(c)	**96%**	95%

(a) Plant output is a measure of the electrical output generated in the year, which in turn drives the revenues of the business measured in gigawatt hours ("GWh").

(b) Generating capacity represents the total number of megawatt ("MW") fully 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.

Outlook for 2020 and beyond

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

ScottishPower, the Renewables business division and therefore the company, has a successful track record as a developer of onshore and offshore wind, with a current installed capacity of over 2,500 MW of wind capacity. Its portfolio also now includes battery storage (including a consented 50 MW battery at Whitelee wind farm), solar developments, and a focus on new technologies, innovation and the hybridisation of sites. For example, a renewable energy park at Sheirdrim which is currently in planning, includes 114 MW of onshore wind, 20 MW solar and up to 38 MW battery energy storage; a highly significant development of its kind in the UK. As at 25 March 2020, the onshore business had 184 MW in construction, a further 110 MW consented and 885 MW in planning, consisting of 560 MW wind, 177 MW solar and 148 MW battery energy storage. These advanced stage development projects are part of a 3 GW pipeline which also includes earlier pre-planning projects. Of these pre-planning projects, approximately 0.8 GW is expected to be submitted into planning during 2020.

The UK Government has committed to run Contracts for Difference ("CfD") auctions every two years with the next auction (Allocation Round 4) due to take place in 2021. The UK Government has confirmed that the next auction will be open to both established technologies, including onshore wind and solar, and less-established technologies such as offshore wind, 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. The Committee on Climate Change 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 established and less-established technology groups. 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 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 passing of the Planning (Scotland) Act in 2019, the Scottish Government is beginning to prepare the new National Planning Framework 4, which offers the opportunity to put in place policies which will ensure that the planning process acts as a tool to 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 ScottishPower will continue to engage with the Scottish Government to advocate for improvements in planning performance to support the delivery of new and repowered renewable energy projects.

Financial instruments

Treasury services are provided by SPL. ScottishPower has a risk policy within treasury and financing which is designed to ensure that the company's exposure to variability of cash flows and asset values due to fluctuations in market interest rates and exchange rates are minimised and managed at acceptable risk levels. Further details of the treasury and interest policy for ScottishPower and how it manages them is included in the most recent Annual Report and Accounts of SPL.

PRINCIPAL RISKS AND UNCERTAINTIES

In order to deliver its strategy, ScottishPower, and therefore the company, are required to conduct business in a manner benefiting customers through balancing cost and risk while delivering shareholder value and protecting ScottishPower's performance and reputation by prudently managing the risks inherent in the business. To maintain this strategic direction ScottishPower develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation. Further details of ScottishPower's risk management practices can be found in the most recent Annual Report and Accounts of SPL.

The principal risks and uncertainties of ScottishPower, and therefore those of the company, other than those specific to the emergence and spread of Coronavirus (COVID-19) and Brexit, that may impact current and future operational and financial performance and the management of these risks are described below:

SCOTTISHPOWER	
RISK	**RESPONSE**
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.
A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.	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.
Breach in cyber security and unwanted infiltration of ScottishPower's IT infrastructure by internal and external parties.	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.

The principal risks and uncertainties of the Renewables business, and so that of the company, that may impact current and future operational and financial performance and the management of these risks are described below:

RENEWABLES	
RISK	**RESPONSE**
Allocation risk in competitive CfD auction.	Engagement with the UK Government regarding access and parameters of the CfD framework. Working to optimise Renewables' portfolio of assets and approach to development to ensure high performing and competitive assets will be able to participate in future auctions.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

RENEWABLES *continued*	
RISK	**RESPONSE**
The potential for plant performance issues reducing availability.	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.
Failure to deliver large and complex projects on time and within budget.	ScottishPower and Iberdrola have a strong track record in delivering large scale engineering projects and have gained significant experience from developing onshore wind farms, and the West of Duddon Sands, Wikinger and East Anglia One offshore wind farms. Use of established and experienced suppliers and advisors along with robust financial management including appropriate foreign exchange hedging.

Emergence and spread of Coronavirus (COVID-19)
On 11 March 2020, the World Health Organization declared the outbreak of Coronavirus COVID-19 a pandemic, due to its rapid spread throughout the world, having affected more than 110 countries at that time. Most global governments are taking restrictive measures to contain the spread of the virus, including: isolation, quarantine, restricting the free movement of people, closure of public and private premises (except those of basic necessity and health), closure of borders and a significant reduction in air, sea, rail and land transport.

In the UK, the UK and devolved Governments have put in various measures culminating on 23 March 2020 when a 'lockdown' was announced, requiring all citizens to stay at home (with a few specific exceptions) for a number of weeks. Following the slow release of the full lockdown, some level of restriction is expected to be in place for a significant part of 2020. Also, temporary emergency legislation, the Coronavirus Act 2020 ("The Act") received Royal Assent on 25 March 2020. The Act (and similar acts enacted by the devolved governments) provides powers needed to respond to the current coronavirus pandemic, including containing and slowing the virus and enhancing capacity and the flexible deployment of staff.

ScottishPower's structural response to the issues arising from the pandemic and the associated lockdown was to invoke the existing Business Continuity command structure to provide strategic direction and make key policy decisions during the affected period. This team is referred to as "Gold Command" and consists of the ScottishPower Management Committee. This is supported by teams consisting of senior management pertinent to each business division to make decisions at an operational level. These teams are referred to as the "Silver Groups".

The COVID-19 principal risks considered relevant for ScottishPower, and therefore the company, are set out on the following page.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

SCOTTISHPOWER - CORONAVIRUS (COVID-19) RISKS	
RISK	**RESPONSE**
The impact of the pandemic increases the risk of the Renewables business not being able to meet its operational obligations as a renewable generator.	Business continuity plans enacted with "Gold Command"; making strategic decisions and determining priorities across ScottishPower. 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. This will make sure key issues are prioritised to facilitate a focus on those issues which might impact the obligations of ScottishPower.
Impacts arising from the pandemic following market reactions to the events. These impacts could include movements in the value of Sterling and other financial instruments. The pandemic is likely to have longer term economic impacts on ScottishPower and on the political and regulatory environments in which it operates.	In addition to monitoring ongoing developments related to the pandemic, a treasury risk management policy is in place to hedge financial risks which are the most prevalent in the short-term. Any longer term impact on the UK economy, and its impact on ScottishPower and specific business units, will be managed in line with developments. Risks arising from the pandemic are being monitored and managed across ScottishPower with oversight from the ScottishPower Management Committee.
The UK Government response to minimising the impact of the pandemic on the population, has restricted the flow of physical goods and equipment in addition to restricting the mobility of labour. This is likely to result in a degree of supply chain interruption due to a lack of appropriate labour levels and delays to the receipt of products and equipment. This may affect different areas of ScottishPower in a number of ways. In the case of Renewables, the operational maintenance of existing assets and the construction of new assets may be impeded.	Supply chain monitoring groups have been established across all business divisions to identify early shortages and gaps in the supply chain in terms of products, equipment and labour. This has been supplemented by emergency procurement procedures to expedite orders for replacements, utilising the framework agreements ScottishPower already has in place. 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. Contractual protection has also been utilised e.g force majeure notices, such that ScottishPower is not penalised for the late delivery of projects.

Notwithstanding the above, the principal activity of the company (the generation of energy), is providing essential services to the UK; therefore the company's business will continue and is expected to operate throughout this crisis period without significant disruption.

Whilst acknowledging the risks faced by ScottishPower, the Renewables business and so the company, COVID-19 is not deemed to impact the conclusions that the company will continue as a going concern. In respect of the impact on these Accounts, the Financial Reporting Council ("FRC") confirmed that COVID-19 is a non-adjusting post balance sheet event and any potential impacts on accounts, balances or assumptions are disclosed within Note 26.

PRINCIPAL RISKS AND UNCERTAINTIES ***continued***

UK decision to leave the EU (Brexit)

On 31 January 2020 the UK left the European Union ("EU"). However, all EU laws will remain in force in the UK until 31 December 2020 when the transition period is scheduled to expire. A cross-business working group will continue to co-ordinate ScottishPower's preparations to mitigate the impact on ScottishPower, and therefore the company, of any pre and post-Brexit outcomes as they become clearer. The key risks considered relevant to ScottishPower, and therefore the company, are detailed in the latest version of the Annual Report and Accounts of SPL. The directors of the company confirm that there has been no material change to these risks as at the date of approval of these Accounts.

ENGAGING WITH STAKEHOLDERS

References to "ScottishPower" apply fully to the Renewables business, and therefore to the company.

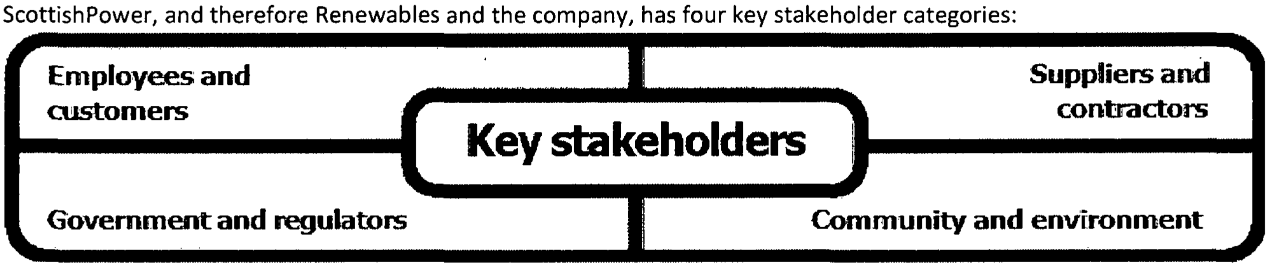
The importance of engaging with stakeholders

As part of the Iberdrola group, ScottishPower is 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 ScottishPower operates. ScottishPower strongly believes that effective and meaningful engagement with stakeholders and employees is key to promoting its success.

Meaningful engagement with these 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 Renewables business, and so the company, engage with these stakeholders, and how these activities influence the company's operations, are set out below.

Key stakeholders

ScottishPower, and therefore Renewables and the company, has 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 ScottishPower, the Renewables business, and so the company, and they are also affected by ScottishPower's activities. In addition, these stakeholders interact with each other, creating a universe of relationships that ScottishPower needs to manage in order to achieve a better understanding of its operating environment and to deliver a more sustainable performance across its activities.

Shareholders also remain important to the company and ScottishPower. All shareholder management activities are carried out on its behalf by its 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.

EMPLOYEES AND CUSTOMERS

Employees

ScottishPower employs approximately 5,600 employees, working across a range of roles. The employees make a real difference in determining how successfully ScottishPower operates. The creativity, innovation and individuality of ScottishPower's employees enables ScottishPower to build on its future capability to operate effectively in a competitive market and continue to have aspirations which are challenging and rewarding. ScottishPower respects and recognises the importance of individuality as part of its ongoing commitment to promoting a culture where individuality is celebrated. ScottishPower also understands 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.

ENGAGING WITH STAKEHOLDERS *continued*

Employment regulation

ScottishPower has well-defined policies in place throughout its 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

ScottishPower has a continuing commitment to training and personal development for its employees and provided 3,190 training events in 2019 (3,061 in 2018). The priorities across ScottishPower remain compliance related training; health and safety critical and engineering-based training ensuring field staff, both onshore and offshore, are safe and competent. In addition, training is focused around new requirements such as data analytics and agile project management. ScottishPower recruits over 100 craft and engineering trainees annually who undertake a structured training programme leading towards a recognised apprenticeship or formal engineering qualification. Team leaders and managers also participate in core management skills training and there are management development programmes and modules aimed at increasing ScottishPower's leadership capability.

Employee feedback and consultation

In 2019 as part of the global group engagement survey framework, ScottishPower carried out its annual employee engagement survey, the 'LOOP'. The LOOP provides an opportunity for all employees across the organisation to share their views on the employee experience at ScottishPower. This year, the level of response rate remained high, with all employees including field staff, having the opportunity to answer the survey online. Overall, the positive insights from the LOOP feedback showed an increase in employee engagement and employee enablement across ScottishPower. The opportunities highlighted from the survey included ensuring a focus on cross-company collaboration.

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

Inclusion and diversity

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

ScottishPower wants to attract and inspire the best talent regardless of gender, age, sexual orientation, disability, ethnicity or any other factor. ScottishPower values every individual's differences and the insights they bring to how ScottishPower thinks, what it believes and who it is, as an organisation.

ScottishPower published its third Gender Pay Report in April 2020 and reiterated its commitment to pay for performance equally and fairly. This continued ScottishPower's focus on breaking down barriers across the employee lifecycle, as over time this will improve ScottishPower's gender pay gap position whilst widening the inclusion of other under-represented groups. E-learning and training on unconscious bias has been designed and rolled out to over 600 recruiting managers and new people managers to date. In addition, 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 2018/19 programme celebrated the scheme's fourth year with one of the participants securing a permanent job with ScottishPower as a direct result of taking part in the programme. The 2019/20 programme has commenced with a record number of placements across the business with six females and three males participating this year.

For more information go to: https://www.scottishpower.com/pages/gender_pay.aspx

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

- increase in the number of women in ScottishPower's senior leadership population to exceed 30%; and
- increase in the number of women in ScottishPower's middle management population to exceed 40%.

The 2019 Gender Pay Report published on 9 April 2020 highlighted positive improvements against these targets. Females now make up 24% of ScottishPower's senior management population (2018 21%) and 33% of ScottishPower's middle management population (2018 30%).

ENGAGING WITH STAKEHOLDERS *continued*

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 external recruitment campaigns.
- Implementation of gender de-coding (i.e. highlighting masculine and feminine language for all external job adverts).
- STEM engagement – throughout 2019 the team have delivered the message to over 22,000 school age girls and boys; ScottishPower works with a range of partners and events to communicate early careers programmes to school children and their families.
- ScottishPower became a founding partner of the Energy Leaders Coalition which comprises eight of the leading Chief Executive Officers from the UK's energy sector who are making a public declaration to improve gender diversity in their groups and in the sector as a whole.
- ScottishPower is 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.
- ScottishPower receives continuing accreditation from Tommy's Healthy Pregnancy Charity.

ScottishPower continues to work with a number of recognised organisations as part of its 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.

ScottishPower expects all its employees to be treated with respect and have supporting policy guidance to help ensure equality of employment opportunity for people with disabilities. ScottishPower has renewed the Disability Confident standard and increased its accredited level from 'engaged' to 'established' with Carers Scotland.

In 2019 ScottishPower welcomed its second cohort of the inspirational Breaking Barriers programme. The programme aims to support aspirations for young people with learning disabilities and provide equal opportunities to access university courses. Between January and June 2019, 15 learners aged 18 to 24 studied for a Certificate in Applied Business Skills at the University of Strathclyde Business School. As part of this experience, seven of those learners gained valuable skills and work experience as part of an eight-week placement with ScottishPower, two of whom have gone on to secure paid employment within ScottishPower. To date, 40 ScottishPower employees have been involved in supporting the Breaking Barriers programme and planning has commenced for the 2020 programme.

Over the past 18 months, ScottishPower has continued to support the growth of its employee-led networks; Future Connections, Connected Women, Carers and In-Fuse. In September 2019 ScottishPower celebrated the launch of its first multi-ethnic employee network, VIBE. Employee-led networks now 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 its external careers website, 'Inclusion at ScottishPower'. This is a dedicated space on ScottishPower's website to share some of the important initiatives that go on internally such as ScottishPower's employee networks, involvement with community programmes, partnerships with external organisations and ScottishPower's transition to flexible working.

Rewards and benefits

As ScottishPower continues to change and evolve, it is important that the benefits that ScottishPower provides to its people also develop to meet these challenges. ScottishPower recognises that the benefit needs of employees are unique to the individual and it wants employees to be able to tailor benefits to their own circumstances. ScottishPower provides a benefits programme 'Your ScottishPower Benefits' which offers employees the flexibility to choose from a vast range of benefits such as participation in the ScottishPower Share Incentive Plan ("SIP") or cycle to work scheme, dental insurance, private medical insurance, payroll giving and purchasing additional holidays. Employees also participate in one of ScottishPower's various pension schemes. ScottishPower has both a defined contribution and three defined benefit schemes which allow employees to save for their retirement. All employees who joined the organisation on or after 1 April 2006 are offered membership of the Iberdrola Group (UK) Stakeholder Pension Plan.

Health and safety

The company has a clear strategy to continue to improve health and safety performance using ScottishPower's Health and Safety standards. A more extensive description of how ScottishPower, and therefore the company, addresses health and safety requirements can be found in the most recent Annual Report and Accounts of SPL.

ENGAGING WITH STAKEHOLDERS *continued*

Employee health and wellbeing

ScottishPower promotes and supports the physical and mental health and wellbeing of all employees through a programme of health promotion and information run by an internal Occupational Health department. This includes statutory and voluntary health surveillance for employees. As part of ScottishPower's 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. Over 257 employees have volunteered to be a mental health first aider, with 144 employees trained during 2019.

Employee volunteering

ScottishPower prides itself in being a good corporate neighbour, providing support to the communities it serves in each of its businesses. Volunteering is central to community involvement and ScottishPower has an excellent track record in this area. The ScottishPower Volunteering Policy has been actively utilised by employees during 2019, giving all registered volunteers, on an annual basis, an opportunity to take one additional day's paid leave as a volunteering day.

Modern Slavery Statement

ScottishPower is committed to human and labour rights and to eliminating modern slavery that could in any way be connected to its business. ScottishPower welcomed the introduction of the Modern Slavery Act 2015 and ScottishPower published its own Modern Slavery Statement, which was approved by the board of SPL. This statement is published on the ScottishPower website at: www.scottishpower.com/pages/scottishpowers_modern_slavery_statement.aspx.

Customers

As a group, ScottishPower provides energy and related services to millions of domestic and business customers. The group's success depends on its ability to understand the needs of customers and engagement is key to success in meeting customer needs in this rapidly changing environment. ScottishPower seeks feedback in several ways including forums, market research and product testing as well as via complaints channels and surveys.

More specifically the company engages with its customers in many different ways to ensure these business relationships are fostered in a manner which benefits and promotes the success of the company examples of successful engagement with customers in relation to the company are described within the operating review on page 1.

GOVERNMENT AND REGULATORS

Governments and regulators play a central role in shaping the energy sector. ScottishPower engages with them directly and through trade associations, responding to issues of concern and providing expertise to support policy development around topics such as decarbonisation, market competition, price controls and protection of vulnerable consumers. Through this engagement ScottishPower aims 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 long-term carbon targets.

SUPPLIERS AND CONTRACTORS

As part of ScottishPower's mission for a better future, quicker ScottishPower is always looking for new suppliers and contractors and also for ways it can improve working relationships with ScottishPower's existing suppliers and contractors. ScottishPower has a broad and diverse supply chain with over 3,000 suppliers and during 2019 was awarded contracts with a cumulative value of around £1.5 billion. Suppliers have a key role to play in the delivery of ScottishPower projects and services that ScottishPower is undertaking to deliver a low carbon future for the UK. ScottishPower aims to develop and maintain strong relationships across the supply base with a focus on health and safety, quality and cost. ScottishPower expect suppliers to operate to a high standard including working in an ethical and sustainable manner and has a range of policies that all suppliers must adhere to including ScottishPower's Code of Ethics.

Engaging proactively with ScottishPower's supply chain is key in ensuring positive outcomes for both ScottishPower and its suppliers, and ScottishPower seeks to engage specifically with suppliers through a variety of methods including business update sessions focused on the supply chain, participation at trade fairs and the ScottishPower 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.

ENGAGING WITH STAKEHOLDERS *continued*

COMMUNITY AND ENVIRONMENT

The community

Building the trust of communities has been at the heart of ScottishPower's activities for many years. ScottishPower has a significant presence in many communities and it aims to conduct activities responsibly, in ways that are considerate to local communities and make a positive contribution to society. Engaging with these communities, as key stakeholders, is therefore an essential aspect to delivering its objectives, and underpins its core values of collaborating through sharing knowledge and information to help ScottishPower make informed decisions.

Community consultation

ScottishPower engages with communities across all operations, where both new and modernisation developments are planned, or where ScottishPower is decommissioning redundant or non-operational assets. The key areas where the Renewables business interacts with the community include the siting of new facilities such as wind farms, decommissioning older plant and routine maintenance and upkeep work. ScottishPower takes a proactive approach to providing good and accurate information, from pre-planning through to completion.

ScottishPower maintains strong relationships with local communities by working with community groups, elected representatives, interest groups and individuals, in order to ensure that those who may be affected by its work are aware of what is happening in their area in advance, and thus allowing communities to have their say. This is of particular importance to ScottishPower's businesses as developer, owner and operator, with longstanding relationships in many of the communities in which it works.

A variety of methods of consultation are used to keep in touch with the needs and concerns of communities potentially affected. ScottishPower's community consultation processes include representation at community meetings, presentations and forums such as public information days and the publication of information on the ScottishPower website and social media outlets. ScottishPower's facilities host visits from community groups, maintain a number of visitor centres and run Local Liaison Committees which provide a forum for discussion between local management teams and community representatives.

As many of ScottishPower's assets, such as wind farms, are situated on land that ScottishPower does not own, it is important that effective 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.

Renewables focuses activities on the communities near to new wind farm developments, with specialist teams who deal with planning and community liaison. Relationships are established with a variety of local stakeholders including local authorities, local councillors, local Members of Parliament, industry groups and other interested parties in the area. This ensures that they are kept up to date with development plans and progress throughout all stages of the project and that they have every opportunity to engage in the consultation process. ScottishPower is mindful that it will be operating in the area for many years and its aim is to ensure that ScottishPower is a trusted neighbour working alongside the communities in which its assets are situated.

Investing in the community

ScottishPower has a long track record of supporting communities not only financially, but also by sharing its resources and the skills of employees. ScottishPower promotes payroll giving and encourage employee development through volunteering and community-based programmes. ScottishPower aims, 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 ScottishPower facilities. ScottishPower works closely with the UK Government and devolved administrations to develop policy on community engagement and benefit, and to ensure that ScottishPower adheres to all voluntary codes of good practice.

As part of the Iberdrola group, ScottishPower use the London Benchmarking Group ("LBG") Framework to evaluate its 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. Further detail is provided in the most recent Annual Report and Accounts of SPL.

ENGAGING WITH STAKEHOLDERS *continued*

Community engagement – Whitelee Windfarm Visitor Centre

Within Renewables, Whitelee Visitor Centre continues with its public activities and community engagement events. Located at Whitelee wind farm, the Visitor Centre has welcomed over 800,000 visitors since it opened in September 2009. Managed by the Glasgow Science Centre, it is a free facility offering a hands-on, 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 right through to further education with over 46,000 school pupils attending educational programmes since it opened. There is also a programme of craft activities delivered at weekends and during school holidays.

2019 marked the tenth anniversary of Whitelee wind farm which provides significant economic, social and environmental benefits. Whitelee wind farm represents a total lifetime investment of £1.5 billion and is supported by a wide range of supply chain expertise, supporting 600 jobs every year through operating and maintenance. Whitelee has provided an average of almost 5% of all renewable electricity generated in Scotland. ScottishPower hosted a 'Family Fun Day' at Whitelee to celebrate its tenth birthday, which was attended by over 7,000 people.

The environment

Environment

ScottishPower is working to minimise its carbon footprint through environmental management systems, which align with the UN Sustainable Development Goals ("SDGs"). ScottishPower has formal Environmental Management Systems ("EMS"), certified to International Standard 14001:2015, and managed by its operational businesses. At a corporate level, ScottishPower has an Integrated EMS ("IEMS") which was subject to a successful external surveillance audit in June 2019. ScottishPower is committed to reducing its 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 the Renewables business, ScottishPower recognises the importance of biological diversity and cultural heritage, and respecting natural resources in order to enhance the environment. For example, Renewables has 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, ScottishPower is supporting and implementing research in partnership with a wide range of bodies such as collaboration with Royal Society for Protection of Birds to support nationally important bird species including black grouse and the short eared owl.

Sustainability

The fight against climate change and respect for the environment lie at the heart of both Iberdrola's and ScottishPower's Sustainable Energy Business Model. This focuses upon working to achieve sustainable development by integrating the Sustainable Development Goals 2030 Agenda into strategy and operations. Across the Iberdrola group, the General Sustainable Development Policy states the strategic pillars which align ScottishPower's sustainability values with the UN SDGs. Therefore, ScottishPower's focus is on working in partnerships and collaborations to deliver:

- more and smarter networks;
- more and smarter clean electricity generation;
- more and smarter energy storage; and
- more and smarter customer solutions.

ScottishPower's 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) and climate action (SDG 13). This is evidenced by ScottishPower's commitment to renewable generation, low carbon technologies such as electric transport, and a smarter electricity infrastructure to enable a low carbon future.

ENGAGING WITH STAKEHOLDERS ***continued***

Furthermore, ScottishPower's achievements in successfully influencing employee engagement and behaviour change were recognised in winning EDIE's Sustainability Leaders Award in February 2019.

In 2020 and beyond, ScottishPower will continue to build upon Iberdrola's commitment to become carbon neutral by 2050 alongside objectives approved by the independent experts in the Science Based Target Initiative (March 2019). ScottishPower's focus in 2020 will be to establish associated targets and actions specifically aimed at ScottishPower's ambitions in environmental leadership and tackling climate change.

INNOVATION

ScottishPower's future and strategic success relies on an innovative and dynamic culture in both internal initiatives and external collaborations. ScottishPower's diverse range of stakeholders help it to deliver innovation activities across technical and commercial challenges. Collaboration features strongly in ScottishPower's open invitation model which allows close working relationships with academics, supply chain, public agencies and customers, amongst others.

For example, in 2019 ScottishPower invested more than £150,000 in continuing collaborative research in the University of Strathclyde's Technology Innovation Centre. A three year agreement was signed in August 2018 which focuses on innovative projects in a Low Carbon Power and Energy Programme. In the past year, innovation projects have included research in the use of smart meters for analysis of impacts in the distributed electricity network, scenario planning for the future of EVs in the UK, and engineering analysis of long-term operations of onshore wind turbines.

This collaborative programme was shortlisted in November 2019 at The Engineer – Collaborate to Innovate Awards, in recognition of the consortium's multi-party approach to innovation in the Energy and Environment category.

2019 has also seen further investment in support of low carbon, local energy system projects such as the HALO Project in Kilmarnock. This project looks to build a net zero carbon campus for homes, offices, education and leisure facilities in South West Scotland. Through low carbon transport, smart home technology and electricity provided by renewables, this energy system aims to serve as an example of an affordable, 100% electric local energy framework for communities across the UK.

In the drive for an innovative culture in ScottishPower's new talent, October 2019 also saw an inaugural Talent Hackathon. This innovative event aimed to engage with entrepreneurial talent from leading universities in the challenge of creating zero carbon business models, services, products and communities.

In progressing innovations in energy storage, in June 2019 the Scottish Government approved plans for battery storage at Whitelee wind farm. Charged with clean green renewable power from the site's 215 turbines, the planned battery storage centre will support the National Grid in maintaining the resilience and stability of the electricity grid, even at times when the wind may not be blowing; a first for a wind farm in the UK at this scale.

ScottishPower has used commercial innovations in the structuring of new support frameworks for new onshore wind farms. Two onshore wind farms will be built in order to provide clean, sustainable energy for corporate giants Amazon and Tesco. For example, the project with Amazon will see 50 MW of green energy capacity constructed which will provide enough energy each year to power the equivalent of 46,000 homes.

The future of renewable generators providing substantial ancillary services to the energy system such as frequency response and black start, are being explored as part of a government-backed 'Virtual Synchronous Machine' project. The project consortium is looking to demonstrate the operational systems and technological capability which will ensure large-scale renewables generators will play a key role in a secure and reliable future energy system.

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 introduced a new statutory reporting requirement for financial reporting years beginning on or after 1 January 2019. As a result, the directors of the company are required 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.

SECTION 172 STATEMENT *continued*

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 Renewables business (headed by SPREL), of which the company is a member, requires the Renewables business to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting the performance and reputation of the Renewables business 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 the key stakeholders of the Renewables business, and therefore the company, and how they engage with them are as follows:

- **Customers:** details of how the Renewables business engages with its customers are explained in the 'Customers' sub-section of the Strategic Report, on page 9.
- **Employees**: details of how the Renewables business engages with its employees are set out in the 'Employees' sub-section of the Strategic Report, on page 6.
- **Communities and the environment:** details of how the Renewables business engages with communities are set out in the 'Community and environment' sub-section of the Strategic Report, on page 10.
- **Suppliers:** details of how the Renewables business engages with its suppliers are set out in the 'Suppliers and contractors' sub-section of the Strategic Report, on page 9.
- **Government and regulators**: details of how the Renewables business engages with governments and regulators are set out in the 'Government and regulators' sub-section of the Strategic Report, on page 9.

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 6.

The directors, both individually and together as the board of ScottishPower Renewables (UK) Limited ("the Board"), consider that the decisions taken during the year ended 31 December 2019 in discharging the function of the Board were in conformance with their duty under section 172 of the Companies Act 2006.

The Board is 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.

ON BEHALF OF THE BOARD

[redacted]

[redacted]
Director
23 June 2020

SCOTTISHPOWER RENEWABLES (UK) LIMITED
DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2019.

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 13:

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

RESULTS AND DIVIDEND

The net profit for the year amounted to £867.5 million (2018 £197.8 million). A dividend of £284.1 million was paid during the year (2018 £150.0 million).

CORPORATE GOVERNANCE

Statement regarding the corporate governance arrangements of the Renewables Business

The Companies (Miscellaneous) Reporting Regulations 2018 introduced new reporting requirements for financial reporting years beginning on or after 1 January 2019 in relation to the corporate governance arrangements of certain companies. 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 part of the Renewables business (headed by SPREL), does not apply a corporate governance code on the basis that it, as part of the Renewables business, has adopted the rules and principles of the SPREL group as they have been set by the board of directors of SPREL (the "SPREL Board"), in accordance with the terms of reference of the SPREL Board and the Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation (the "Group Governance Framework"), all of which are based on widely recognised good governance recommendations (the "SPREL group corporate governance system"). Those rules and principles of the SPREL group corporate governance system that applied to the company as part of the Renewables business during 2019 are set out as follows:

The SPREL Board's terms of reference are published at https://www.scottishpower.com/userfiles/file/Renewables-ToRs-Board-Directors-130603.pdf.

The Group Governance Framework is published at https://www.iberdrola.com/corporate-governance/corporate-governance-system/corporate-policies/definition-coordination-policy.

Corporate governance system

The company is governed by the Board, which consists of three 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.

In discharging its responsibilities and in the exercise of its decision-making powers, and in accordance with the company's Articles of Association, the Board has, in accordance with the 'Group Governance Framework', adhered to the SPREL group corporate governance system which applies to the company as part of the SPREL group. The SPREL group 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 ScottishPower and, ultimately, of the Iberdrola group.

Board Composition

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

Jonathan Cole	
Lindsay McQuade	
Roy Scott	(resigned 31 January 2019)
Heather Chalmers White	(appointed 15 February 2019)

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

There is no separate appointments committee within the SPREL group. Instead, appointment matters relevant to the SPREL group 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.

CORPORATE GOVERNANCE ***continued***

Purpose and values

The structure of the company is set out in the Strategic Report.

During 2019, the Board has taken into account the Purpose and Values of the Iberdrola Group and the Code of Ethics (published at https://www.scottishpowerrenewables.com/pages/corporate_governance.aspx). These documents define and promote the purpose, values and culture of the company and the SPREL group.

Director responsibilities

The directors are fully aware on their duties under the Companies Act 2006, including as set out in section 172 of the same. The primary responsibility of the Board is to supervise and make decisions as required in relation to the activities of the company's business and its group, all as part of the Renewables business, in accordance at all times with the Renewables business corporate governance system and the provisions of all applicable legislation and regulations.

The SPREL Board has the responsibility of carrying out the day-to-day management and effective administration, and for the ordinary control, of the Renewables business overall.

Further relevant information on the administrative, management and supervisory bodies of the boards of the company's parents, as they are pertinent to the Renewables business and the company, are described in the section below.

Opportunity and risk

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

To maintain this strategic direction, the Renewables business 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 polices are published at https://www.scottishpowerrenewables.com/pages/risk_policies.aspx.

During 2019, the governance structure was supported by the risk policies of the Renewables business. The 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 '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 the Renewables business.

There is no separate Remuneration Committee within the Renewables business. Instead, remuneration matters relevant to the Renewables business 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 key stakeholders, why they are important to the company, and how the Renewables business engages with its stakeholders are an integral part of its strategic goals and are described in the Strategic Report.

Administrative, management and supervisory bodies

SPL Board

The primary responsibilities of the board of Scottish Power Limited (the "SPL Board"), which has its own management team, include disclosing, implementing, and ensuring compliance with the policies, strategies and general guidelines of ScottishPower overall, in accordance at all times with the provisions of all applicable legislation and regulations.

The SPL Board comprised the Chairman José Ignacio Sánchez Galán and nine other directors as at 31 December 2019. José Ignacio Sánchez Galán is also the Chairman and Chief Executive Officer of Iberdrola.

CORPORATE GOVERNANCE ***continued***

The directors of the SPL Board who held office during the year 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
Juan Carlos Rebollo Liceaga	Non-independent, non-executive director
José Sainz Armada	Non-independent, non-executive director
Gerardo Codes Calatrava	Non-independent, non-executive director (appointed 11 December 2019)
Suzanne Fox	Independent, non-executive director
Iñigo Fernández de Mesa Vargas	Independent, non-executive director
Professor Sir James McDonald	Independent, non-executive director
Dame Nicola Brewer	Independent, non-executive director

Juan Carlos Rebollo Liceaga resigned on 1 March 2020 and Dame Nicola Brewer resigned on 16 March 2020. Subsequently, Daniel Alcaín López was appointed on 26 March 2020 as a non-independent non-executive director. Wendy Barnes was appointed as an independent, non-executive director on 12 May 2020.

Meetings of the SPL 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
Juan Carlos Rebollo Liceaga	Attended all meetings
José Sainz Armada	Attended four meetings
Gerardo Codes Calatrava	Attended one meeting
Suzanne Fox	Attended all meetings
Iñigo Fernández de Mesa Vargas	Attended all meetings
Professor Sir James McDonald	Attended four meetings
Dame Nicola Brewer	Attended all meetings

The terms of reference of the SPL Board are published at:
https://www.scottishpower.com/userfiles/file/Terms_of_Reference_of_the_Scottish_Power_Limited_Board_of_Directors.pdf

SPL 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 reporting process 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 at:
https://www.scottishpower.com/pages/audit_and_compliance_committee.aspx

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)	Attended all meetings
Juan Carlos Rebollo Liceaga (internal non-independent director)	Attended four meetings
Iñigo Fernández de Mesa Vargas (external independent director)	Attended all meetings.

CORPORATE GOVERNANCE ***continued***
Juan Carlos Rebollo Liceaga resigned as a member of the SP ACC on 1 March 2020 and Dame Nicola Brewer resigned on 16 March 2020. José Sainz Armada (internal non-independent director) was appointed to the SP ACC on 18 February 2020. José Sainz Armada resigned from the SP ACC on 6 May 2020. Daniel Alcaín López was appointed on 7 May 2020.

In addition to the attendance set out on the previous page, 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 four meetings of the SP ACC.

Matters considered by the SP ACC during 2019
The issues that the SP ACC specifically addressed are detailed in its report which is published at: www.scottishpower.com/pages/activities_report_of_the_audit_and_compliance_committee.aspx.

SPL 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 ScottishPower 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 Chief Executive Officer ("CEO") in the performance of his duties. The SPMC comprises the following executives: the ScottishPower CEO; the directors of Control and Administration, Corporate Affairs, Human Resources, and UK Purchasing; 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.

SPREL Board
The SPREL Board is responsible for the effective management of the Renewables business division, in accordance with the strategy of the Renewables business. The SPREL Board meets regularly and reviews strategy, operational performance and risk issues on behalf of the Renewables business.

The SPREL Board comprised the Chairman Xabier Viteri Solaun and six other directors as at 31 December 2019. 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 (Chief Executive Officer)	Attended all meetings
Jonathan Cole (non-independent, executive director)	Attended all meetings
Javier García de Fuentes Churruca (non-independent, non-executive director)	Attended four meetings (resigned 2 December 2019)
Rafael de Icaza de la Sota (non-independent, non-executive director)	Attended four meetings (resigned 2 December 2019)
David Wark (non-independent, non-executive director)	Attended one meeting (appointed 2 December 2019)
Marion Shepherd Venman (non-independent, non-executive director)	Attended one meeting (appointed 2 December 2019)
Charles Langan (non-independent, non-executive director)	Attended one meeting (appointed 2 December 2019)
Lena Wilson (independent, non-executive director)	Attended all meetings

The terms of reference of the SPREL Board are published at: www.scottishpower.com/userfiles/file/Renewables-ToRs-Board-Directors-130603.pdf

DIRECTORS' INDEMNITY
In terms of the company's Articles of Association, a qualifying third party indemnity provision is in force for the benefit of all the directors of the company 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 Reports and Accounts including a Strategic Report and Directors' Report, in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101").

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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- *select suitable accounting policies and then apply them consistently;*
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the 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 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information relating to the company that is included on the ScottishPower website. Legislation in the UK governing the preparation and dissemination of the financial statements differ 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 year ended 31 December 2019.

ON BEHALF OF THE BOARD

[redacted]

[redacted]
Director
23 June 2020

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SCOTTISHPOWER RENEWABLES (UK) LIMITED

Opinion

We have audited the financial statements of ScottishPower Renewables (UK) Limited ("the company") for the year ended 31 December 2019 which comprise the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, and related notes, including the accounting policies in Note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- 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 have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going Concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that 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 its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and 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 the strategic report and the directors' report;
- in our opinion the information given in those reports 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.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SCOTTISHPOWER RENEWABLES (UK) LIMITED *continued*

Directors' responsibilities

As explained more fully in their statement set out on page 18, the directors are responsible for: the preparation of the financial statements and for 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 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 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.

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.

[redacted]

[redacted] **(Senior Statutory Auditor)**
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St. Vincent Street
Glasgow
G2 5AS

24 June 2020

SCOTTISHPOWER RENEWABLES (UK) LIMITED
BALANCE SHEET
at 31 December 2019

	Notes	2019 £m	2018 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	3	**2.3**	0.7
Property, plant and equipment		**1,842.7**	1,843.5
Property, plant and equipment in use	4	1,796.1	1,828.1
Property, plant and equipment in the course of construction	4	46.6	15.4
Right-of-use assets	5	**154.8**	-
Financial assets		**1,252.2**	170.9
Investments in subsidiaries	6	1,241.1	160.9
Investments in jointly controlled entities and associates	6	9.5	9.5
Other investments	6	-	0.5
Derivative financial instruments	7	1.6	-
Trade and other receivables	8	**3.5**	1.9
NON-CURRENT ASSETS		**3,255.5**	2,017.0
CURRENT ASSETS			
Trade and other receivables	8	**808.4**	199.9
CURRENT ASSETS		**808.4**	199.9
TOTAL ASSETS		**4,063.9**	2,216.9
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**2,746.5**	804.6
Share capital	9, 10	2,033.3	673.6
Hedge reserve	10	(1.2)	-
Retained earnings	10	714.4	131.0
TOTAL EQUITY		**2,746.5**	804.6
NON-CURRENT LIABILITIES			
Provisions	11	**170.6**	133.0
Bank borrowings and other financial liabilities		**700.6**	700.0
Loans and other borrowings	12	700.0	700.0
Derivative financial instruments	7	0.6	-
Lease liabilities	5	**148.9**	-
Trade and other payables	13	**1.3**	1.0
Deferred tax liabilities	14	**176.2**	167.0
NON-CURRENT LIABILITIES		**1,197.6**	1,001.0
CURRENT LIABILITIES			
Provisions	11	**0.1**	0.1
Bank borrowings and other financial liabilities		**5.5**	323.7
Loans and other borrowings	12	3.0	323.7
Derivative financial instruments	7	2.5	-
Lease liabilities	5	**9.7**	-
Trade and other payables	13	**60.5**	52.2
Current tax liabilities		**44.0**	35.3
CURRENT LIABILITIES		**119.8**	411.3
TOTAL LIABILITIES		**1,317.4**	1,412.3
TOTAL EQUITY AND LIABILITIES		**4,063.9**	2,216.9

Approved by the Board and signed on its behalf on 23 June 2020.

[redacted]

Director

The accompanying Notes 1 to 26 are an integral part of the balance sheet at 31 December 2019.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
INCOME STATEMENT
for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Revenue		493.8	423.6
Procurements		(30.6)	(36.8)
GROSS MARGIN		**463.2**	386.8
NET OPERATING EXPENSES		**(93.2)**	(55.6)
Net personnel expenses		**(36.8)**	(31.8)
Staff costs	15	(38.2)	(33.0)
Capitalised staff costs	15	1.4	1.2
Net external expenses		**(56.4)**	(23.8)
External services		(96.3)	(92.9)
Other operating income		39.9	69.1
Taxes other than income tax	16	**(19.1)**	(17.5)
GROSS OPERATING PROFIT		**350.9**	313.7
Impairment losses on trade and other receivables		(0.3)	-
Depreciation and amortisation charge, allowances and provisions	17	(86.1)	(81.7)
OPERATING PROFIT		**264.5**	232.0
Gain on partial disposal of subsidiary		613.7	-
Dividends received		69.3	35.8
Finance income	18	4.4	-
Finance costs	19	(31.1)	(28.3)
PROFIT BEFORE TAX		**920.8**	239.5
Income tax	20	(53.3)	(41.7)
NET PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**867.5**	197.8

Net profit for both years is wholly attributable to the equity holder of ScottishPower Renewables (UK) Limited.

All results relate to continuing operations.

The accompanying Notes 1 to 26 are an integral part of the income statement for the year ended 31 December 2019.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Note	2019 £m	2018 £m
NET PROFIT FOR THE YEAR		**867.5**	197.8
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the income statement:			
Cash flow hedges:			
Change in the value of cash flow hedges	10	**(1.5)**	(3.2)
Tax relating to cash flow hedges	10	**0.3**	0.6
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(1.2)**	(2.6)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**866.3**	195.2

Total comprehensive income for both years is wholly attributable to the equity holder of ScottishPower Renewables (UK) Limited.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Share capital £m	Hedge reserve £m	Retained earnings £m	Total equity £m
At 1 January 2018	673.6	2.6	83.2	759.4
Total comprehensive income for the year	-	(2.6)	197.8	195.2
Dividends	-	-	(150.0)	(150.0)
At 1 January 2019	673.6	-	131.0	804.6
Total comprehensive income for the year	-	(1.2)	867.5	866.3
Share capital issued	1,359.7	-	-	1,359.7
Dividends	-	-	(284.1)	(284.1)
At 31 December 2019	**2,033.3**	**(1.2)**	**714.4**	**2,746.5**

The accompanying Notes 1 to 26 are an integral part of the statement of comprehensive income and the statement of changes in equity for the year ended 31 December 2019.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
CASH FLOW STATEMENT
for the year ended 31 December 2019

	2019 £m	2018 £m
Cash flows from operating activities		
Profit before tax	**920.8**	239.5
Adjustments for:		
Depreciation, amortisation and impairment	**86.1**	80.7
Change in provisions	**0.4**	0.1
Finance income and costs	**26.7**	28.3
Shareholding income	**(69.3)**	(35.8)
Gain on partial disposal of subsidiary	**(613.7)**	-
Changes in working capital:		
Change in trade and other receivables	**4.4**	(52.0)
Change in trade and other payables	**4.0**	6.9
Provisions paid	**(0.1)**	-
Income taxes paid	**(35.1)**	(21.3)
Net cash flows from operating activities (i)	**324.2**	246.4
Cash flows from investing activities		
Dividends received	**69.3**	35.8
Investments in intangible assets	**(1.9)**	(0.5)
Investments in property, plant and equipment	**(34.0)**	(64.9)
Investments in subsidiaries	**(1,082.8)**	-
Proceeds from disposal of property, plant and equipment	**0.4**	17.0
Proceeds from partial disposal of subsidiary (including transaction costs)	**1,127.6**	-
Increase in amounts due from Iberdrola group companies - current loans receivable	**(1,121.6)**	-
Net cash flows from investing activities (ii)	**(1,043.0)**	(12.6)
Cash flows from financing activities		
Decrease in amounts due to Iberdrola group companies - current loans payable	**(320.7)**	(51.5)
Cash inflows from borrowings (including loan with joint venture)	**-**	3.0
Share capital issued	**1,359.7**	-
Dividends paid to company's equity holder	**(284.1)**	(150.0)
Interest paid	**(31.3)**	(35.3)
Payments of lease liabilities	**(4.8)**	-
Net cash flows from financing activities (iii)	**718.8**	(233.8)
Net increase in cash and cash equivalents (i)+(ii)+(iii)	**-**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**-**	-

The accompanying Notes 1 to 26 are an integral part of the cash flow statement for the year ended 31 December 2019.

1 BASIS OF PREPARATION

A. COMPANY INFORMATION

ScottishPower Renewables (UK) Limited, registered company number NI028425, is a private company limited by shares, incorporated in Northern Ireland and its registered office is The Soloist, 1 Lanyon Place, Belfast, BT1 3LP, Northern Ireland.

B. BASIS OF PREPARATION OF THE ACCOUNTS

The company is required by law to prepare Accounts and to deliver them to the Registrar of Companies. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2. Monetary amounts are presented in pounds Sterling and are rounded to the nearest hundred thousand unless otherwise indicated. The Accounts are prepared on the historical cost basis apart from certain financial instruments which are measured at fair value.

The Accounts contain information about ScottishPower Renewables (UK) Limited as an individual company and do not contain consolidated financial information as the parent of subsidiary companies or an investor in a joint venture. The company is exempt under Section 400 of the Companies Act 2006 from the requirements to prepare consolidated Accounts as it and its subsidiary undertakings are included by full consolidation in the consolidated Accounts of Iberdrola, S.A.

The Accounts have been prepared in accordance with FRS 101. In preparing these financial statements, the company has applied the recognition, measurement and disclosure requirements of International Financial Reporting Standards ("IFRS"), as adopted by the EU as at the date of approval of these Accounts for the year ended 31 December 2019 ("IFRS as adopted by the EU") but has made amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantages of the FRS 101 disclosure exemptions have been taken.

In the transition to FRS 101 from IFRS as adopted by the EU, the company has made no measurement and recognition adjustments.

In these financial statements, 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;
- certain disclosures regarding revenue;
- comparative period reconciliations for property, plant and equipment and intangible assets;
- disclosures in respect of transactions with wholly owned subsidiaries of Iberdrola, S.A.;
- 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'.

C. IMPACT OF NEW IFRS

In preparing these Accounts, the company has applied all relevant International Accounting Standards ("IAS"), IFRS and International Financial Reporting Interpretations Committee ("IFRIC") (collectively referred to as IFRS) that have been adopted by the EU as of the date of approval of these Accounts and that are mandatory for the financial year ended 31 December 2019.

For the year ended 31 December 2019, the company has applied the following standards and amendments for the first time:

Standard	Notes
• IFRS 16 'Leases'	(a)
• IFRIC 23 'Uncertainty over Income Tax Treatments'	(b)
• Amendments to IFRS 9 'Financial Instruments: Prepayment Features with Negative Compensation'	(b)
• Amendments to IAS 28 'Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures'	(b)
• Annual Improvements to IFRS Standards 2015-2017 Cycle	(b)
• Amendments to IAS 19 'Employee Benefits: Plan Amendment, Curtailment or Settlement'	(b)

(a) Refer to Note 1C1 for further information.
(b) The application of these pronouncements has not had a material impact on the company's accounting policies, financial position or performance.

1 BASIS OF PREPARATION *continued*

C. IMPACT OF NEW IFRS *continued*

C1. EFFECT OF INITIAL APPLICATION OF IFRS 16

The company applied IFRS 16 'Leases' ("IFRS 16") with a date of initial application of 1 January 2019. The company applied IFRS 16 using the modified retrospective approach; under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17 'Leases' ("IAS 17") and IFRIC 4 'Determining Whether an Arrangement Contains a Lease' ("IFRIC 4"). The details of the resultant changes in the company's accounting policy for lease contracts are disclosed below.

Previously the company determined at contract inception whether an arrangement was, or contained, a lease under IFRIC 4. Under IFRS 16, the company assesses whether a contract is, or contains, a lease based on the definition of a lease, as explained in Note 2E1. On transition to IFRS 16, the company reassessed all of its existing contracts to determine whether each contract is, or contains, a lease applying the requirements of IFRS 16.

Lessee

As a lessee, the company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the company. Under IFRS 16, the company recognises right-of-use assets and lease liabilities for leases i.e. these leases are on-balance sheet.

The company decided to apply the recognition exemption to certain short-term leases. For leases of all assets which were classified as operating under IAS 17, the company has recognised right-of-use assets and lease liabilities. On initial application of IFRS 16, lease liabilities have been measured at the present value of the remaining lease payments and discounted at the company's incremental borrowing rate as at 1 January 2019.

Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet immediately before the date of initial application.

When applying IFRS 16 to leases previously classified as operating leases under IAS 17, the company did not apply any practical expedients at the date of initial application.

On transition to IFRS 16, the company recognised £155.3 million of right-of-use assets and £155.1 million of lease liabilities. The difference relates to prepaid and accrued lease payments recognised immediately prior to transition. When measuring lease liabilities, the company discounted lease payments using its incremental borrowing rate at 1 January 2019. The discount rates used to calculate the below pertaining to Sterling was in the range of 2.50% to 4.94%.

Estimated total lease liability as at 1 January 2019	**£m**
Operating lease commitment at 31 December 2018 (discounted using interest rate at lease commencement) (as disclosed in Note 5(c))	159.9
Operating lease commitment at 31 December 2018 (discounted using the incremental borrowing rate at 1 January 2019)	136.7
Agreements deemed newly in scope of IFRS 16 at 1 January 2019	18.4
Lease liabilities recognised at 1 January 2019	**155.1**

Lessor

For leases in which the company acts as a lessor, the company is not required to make any adjustments on transition to IFRS 16. The company accounted for its leases in accordance with IFRS 16 from the date of initial application.

2 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 company has no such judgements. At 31 December 2019, 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 relate to decommissioning costs (refer to Note 2I and Note 11).

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

The principal accounting policies applied in preparing the company's Accounts are set out below:

A. REVENUE

The company recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. All revenue is earned wholly within the UK and Republic of Ireland and is wholly attributable to the principal activity of the company.

The supply of electricity is a performance obligation satisfied over time because the customer consumes the benefits of the electricity at the same time as it is supplied. Volume is used to measure progress towards complete satisfaction of the performance obligation as this represents the transfer of electricity to the customer. Revenue is therefore 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 on the wholesale market and are recorded on wind farm meters and industry-wide trading and settlement systems.

The supply of ROCs is a performance obligation satisfied at a point in time. Revenue 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.

Other revenues are recognised based on the consideration specified in a contract with a customer, 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 company 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.

B. PROCUREMENTS

Procurements principally comprise the cost of electricity purchased during the year in relation to energy generation and related direct costs and services.

C. INTANGIBLE ASSETS (COMPUTER SOFTWARE)

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 associated with 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 is over periods of up to four years.

D. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and is generally depreciated on a straight-line basis over the estimated operational lives of the assets once commissioned. 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, which are 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.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

D. PROPERTY, PLANT AND EQUIPMENT *continued*

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

	Years
Wind power plants	24 - 40
Distribution facilities	24 - 40
Other items of property, plant and equipment	4 - 50

E. LEASED ASSETS

The company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately at Note 2E2 if they are different from those under IFRS 16 and the impact of the change in policy disclosed in Note 1C1.

E1 POLICY APPLICABLE FROM 1 JANUARY 2019

A contract is, or contains a lease if, at its 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 company 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, then 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 it has 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 the customer has the right to operate the asset or the customer designed the asset in a way that predetermines how and for what purposes it will be used.

The company has elected not to separate non-lease components and account for the lease and non-lease components in a contract as a single lease component

E1.1 LESSEE

As a lessee, the company recognises a right-of-use asset at the lease commencement date measured initially at cost, which 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 to 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 or the lease term. The right-of-use asset is reduced by any impairment losses and adjusted for certain remeasurements of the lease liability. The company presents right-of-use assets within Non-current assets in the balance sheet and the deprecation charge is recorded within Depreciation, amortisation and provisions in the income statement.

The lease liability recognised at the lease commencement date is measured initially at the present value of the lease payments that are not paid at the commencement date. As the rates implicit in the leases cannot be readily determined, the liabilities are discounted using the company's incremental borrowing rate. 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 as at the commencement date; lease payments in an optional renewal period if the company is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless the company is reasonably certain not to terminate early.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

E LEASED ASSETS *continued*

E1.1 LESSEE *continued*

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 company 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 company 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 company 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 company recognises any lease payments associated with such leases as an expense on a straight-line basis over the lease term.

E1.2 LESSOR

When the company acts as a lessor, it determines at lease inception whether each lease is a finance or operating lease. The company 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.

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

E2 POLICY APPLICABLE BEFORE 1 JANUARY 2019

For contracts entered into before 1 January 2019, the company determined whether the arrangement was, or contained a lease, based on an assessment of the substance of the arrangement at inception date and whether:

- fulfilment of the arrangement was dependent on the use of a specific asset(s); and
- the arrangement conveyed a right to use the asset(s) even if that right was not explicitly specified in the arrangement.

For arrangements entered into prior to 1 April 2004, the date of inception was deemed to be 1 April 2004 in accordance with the transitional requirements of IFRIC 4.

The accounting policies applicable by the company as a lessor in the comparative period were in line with the lessor policy for leases entered into from 1 January 2019 as noted in Note 2E1.2. However, when the company was an intermediate lessor, sub-leases were classified with reference to the underlying asset.

F. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

At each balance sheet date, the company reviews the carrying amount of its property, plant and equipment 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 is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

G. 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.

G1. FINANCIAL ASSETS

G1.1. RECOGNITION AND INITIAL MEASUREMENT

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost or fair value through profit and loss ("FVTPL"). 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 company becomes a 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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

G. FINANCIAL INSTRUMENTS *continued*

G1. FINANCIAL ASSETS *continued*

G1.2. CLASSIFICATION AND SUBSEQUENT MEASUREMENT

(a) Classification

Financial assets are not reclassified subsequent to their initial recognition unless the company changes its business model for managing financial assets 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. These are expected to be infrequent and no other reclassifications are permitted.

The company's business model for managing financial assets refers to how it manages its financial assets 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 company does not depend on the intentions of management for an individual instrument. Therefore, it is not an instrument-by-instrument classification approach and should be 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.

Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15. All other financial assets not classified as measured at amortised cost 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 impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognised in the income statement. Any gain or loss on derecognition is recognised in the 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. The company's financial assets held at FVTPL therefore include Other investments. Equity instruments are classified as FVTPL

(i) Derecognition

A financial asset (or, where applicable, a part of a financial asset) is primarily derecognised (i.e. removed from the company's balance sheet) when the rights to receive cash flows from the asset have expired.

G2. FINANCIAL LIABILITIES

G2.1. 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.

G2.2. 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, it is a derivative or it is 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.

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 method is included as Finance costs in the income statement.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

G. FINANCIAL INSTRUMENTS *continued*

G2. FINANCIAL LIABILITIES *continued*

G2.2. CLASSIFICATION AND SUBSEQUENT MEASUREMENT *continued*

(a) Derecognition

The company derecognises a financial liability when the obligation under the liability is discharged or 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, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

G3. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

G3.1. DERIVITIVE FINANCIAL INSTRUMENTS

The company uses derivative financial instruments, such as forward foreign currency contracts and forward commodity contracts, to hedge its foreign currency risks and commodity price risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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 company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and 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 company 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 hedging 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.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the company actually hedges and the quantity of the hedging instrument that the company actually uses to hedge that quantity of hedged item.

Hedge accounting is applied when certain conditions required by IFRS 9 'Financial Instruments' ("IFRS 9") are met. The accounting for cash flow hedges is discussed at Note G3.2.

G3.2. CASH FLOW HEDGES

For all forward contracts the company designates all of the forward contract (spot and forward element) as the hedging instrument.

The portion of gain or loss of the hedging instrument that was 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. 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 that had previously been recognised in equity are recognised in the initial measurement of the asset arising from the hedged transaction.

The company 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.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

G. FINANCIAL INSTRUMENTS *continued*

G3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING *continued*

G3.3. VALUATION OF FINANCIAL INSTRUMENTS

In those circumstances where IFRS 9 requires financial instruments to be recognised in the balance sheet at fair value, the company'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 the instruments are complex combinations of standard or 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.

H. TAXATION

The company's liability for current tax is 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 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 dealt with in equity and is shown in the statement of comprehensive income.

I. DECOMMISSIONING COSTS

Provision is made on a discounted basis for the estimated decommissioning costs of the company's wind farms. 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 and discounted.

Decommissioning costs are subject to a degree of estimation uncertainty as the costs of decommissioning are estimated at the balance sheet date and actual decommissioning will take place in the future. There is also uncertainty over the timing of 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 11.

J. INVESTMENTS

The company's investments in subsidiaries and joint ventures 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.

K. RETIREMENT BENEFITS

ScottishPower operates two defined benefit schemes and one defined contribution retirement benefit scheme in the UK. ScottishPower Renewables (UK) Limited is a participating company in these group arrangements, and the contributions for the defined benefit schemes are based on pension costs across all the participating companies. The company is unable to identify its share of the underlying assets and liabilities in the defined benefit schemes, as the scheme administrators do not calculate these separately for each of the various companies participating in the schemes and therefore treats these schemes as if they were defined contribution schemes. The amount charged to the income statement in respect of pension costs is the contributions payable in the year.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

L. 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.

3 INTANGIBLE ASSETS

Year ended 31 December 2019	Computer software £m
Cost:	
At 1 January 2019	3.9
Additions	1.9
At 31 December 2019	**5.8**
Amortisation:	
At 1 January 2019	3.2
Amortisation for the year	0.3
At 31 December 2019	**3.5**
Net book value:	
At 31 December 2019	**2.3**
At 1 January 2019	0.7

(a) The cost of fully amortised intangible assets still in use at 31 December 2019 was £3.0 million (2018 £2.7 million).

4 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 December 2019	Wind power plants £m	Distribution facilities £m	Other items of property, plant and equipment in use (Note (i)) £m	Plant in progress (Note (ii)) £m	Total £m
Cost:					
At 1 January 2019	2,275.9	196.6	10.3	15.4	2,498.2
Additions	35.0	-	1.4	42.1	78.5
Transfers from in progress to plant in use	10.8	(0.2)	-	(10.6)	-
Disposals	(0.3)	-	-	(0.3)	(0.6)
At 31 December 2019	**2,321.4**	**196.4**	**11.7**	**46.6**	**2,576.1**
Depreciation:					
At 1 January 2019	604.3	48.4	2.0	-	654.7
Depreciation for the year	73.8	4.7	0.4	-	78.9
Disposals	(0.2)	-	-	-	(0.2)
At 31 December 2019	**677.9**	**53.1**	**2.4**	**-**	**733.4**
Net book value:					
At 31 December 2019	**1,643.5**	**143.3**	**9.3**	**46.6**	**1,842.7**
At 1 January 2019	1,671.6	148.2	8.3	15.4	1,843.5

The net book value of property, plant and equipment at 31 December 2019 is analysed as follows:

	£m	£m	£m	£m	£m
Property, plant and equipment in use	1,643.5	143.3	9.3	-	1,796.1
Property, plant and equipment in the course of construction	-	-	-	46.6	46.6
	1,643.5	**143.3**	**9.3**	**46.6**	**1,842.7**

(i) The category 'Other items of property, plant and equipment in use' principally comprises land and IT equipment.
(ii) The category 'Plant in progress' principally comprises wind power plants in the course of construction.
(iii) Interest on the funding attributable to major capital projects was capitalised during the year at a rate of 1.8% (2018 No amounts capitalised).
(iv) *The cost of fully depreciated property, plant and equipment still in use at 31 December 2019 was £17.6 million (2018 £3.2 million).*

4 PROPERTY, PLANT AND EQUIPMENT *continued*

(a) Movements in property, plant and equipment *continued*

(v) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land of £6.1 million (2018 £6.1 million).

(vi) Included within Other operating income in the income statement for the year ended 31 December 2019 is £0.8 million (2018 £nil) relating to compensation receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.

(vii) Included within the cost of property, plant and equipment is capitalised interest of £13.0 million (2018 £12.8 million).

(viii) Included in Other items of property, plant and equipment in use is assets with a carrying value of £1.4 million which the company leases via operating leases.

(b) Capital commitments

	2019		
	2020	**2021**	**Total**
	£m	**£m**	**£m**
Contracted but not provided	37.1	37.7	**74.8**

	2018		
	2019	2020	Total
	£m	£m	£m
Contracted but not provided	7.4	-	7.4

(c) Research and development expenditure

The amount of research and development expenditure recognised as an expense during the year was £0.3 million (2018 £nil).

5 LEASING

(a) Lessee

The company leases land and vehicles. Information about leases for which the company is a lessee is presented below.

(i) Nature of leases

Land

The company 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 40 years. Certain agreements contain the right to extend the terms by up to 50 years and can be terminated with appropriate notice, generally up to 24 months.

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. These payment terms are common for these types of leases. The fixed annual payments for the year were £10.0 million compared to variable payments made of £9.0 million. Despite the future planned growth of the Renewables business, the company expects the relative proportions of fixed and variable lease payments to remain broadly consistent in future years.

Vehicles

The company leases vehicles with lease terms of between four to five years, primarily being pool vehicles to mobilise its operational staff and other specialist vehicles. Certain agreements can be terminated without notice. 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.

Extension options

Some leases, in particular of land, 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 also leases other equipment; the leases are considered short term and the company has elected not to recognise right-of-use assets and lease liabilities for these leases. 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.

5 LEASING *continued*

(a) Lessee *continued*

(ii) Right-of-use-assets

	Note	Land £m	Vehicles £m	Total £m
On transition to IFRS 16 at 1 January 2019		154.8	0.5	155.3
Additions		3.3	1.2	4.5
Depreciation charge		(6.7)	(0.3)	(7.0)
Adjustments for changes in liabilities	(a)	2.0	-	2.0
At 31 December 2019		**153.4**	**1.4**	**154.8**

(a) 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.

(b) There are no right-of-use assets measured at revalued amounts.

(iii) 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.

	2019 £m
Less than one year	9.7
One to five years	39.7
More than five years	225.1
Total undiscounted lease liabilities at 31 December	**274.5**
Finance cost	(115.9)
Total discounted lease liabilities	**158.6**

Analysis of total lease liabilities	
Non-current	148.9
Current	9.7
Total	**158.6**

Details of ScottishPower's, and therefore the company's, management strategy for liquidity risks inherent in the company's lease liability can be found in the most recent Annual Report and Accounts of SPL.

(iv) Amounts recognised in the income statement

	2019 £m
Interest on lease liabilities	(7.0)
Variable lease payment not included in the measurement of lease liabilities	(9.0)
Expenses relating to short-term leases*	(0.1)

* This charge relates to leases for vehicles and other equipment. Future commitments relating to the portfolio of short-term leases are expected to be similar to the expense charged in the year.

(v) Amounts recognised in the cash flow

	2019 £m
Total cash outflow for leases	**(19.1)**

Included in this amount is £4.8 million relating to payments of lease liabilities.

5 LEASING *continued*

(b) Lessor

The company has a contract to lease land which is classified as an operating lease, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the asset. This lease has a term of three years, ending in 2021. The lessor retains no significant rights in relation to the underlying assets.

Lease income recognised by the company during 2019 was £0.1 million. No income relating to variable lease payments that do not depend on an index or rate have been recognised.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted payments to be received after the reporting date:

	2019 £m
Less than one year	0.1
One to two years	0.1
Total undiscounted lease payments	**0.2**

Full details of the risk management strategy for addressing and reducing the risks associated with the retained rights in the underlying assets are described in the most recent Annual Report and Accounts of SPL.

(c) Operating lease disclosures under IAS 17

(i) Operating lease payments	2018 £m
Minimum lease payments under operating leases recognised as an expense in the year	7.6
Contingent based operating lease rents recognised as an expense in the year	7.8
	15.4

(ii) Operating lease commitments	2018 £m
The future minimum discounted lease payments under non-cancellable operating leases were as follows:	
Within one year	8.4
Between one and five years	31.5
More than five years	120.0
	159.9

6 INVESTMENTS

(a) Movements in investments

	Notes	Subsidiary undertakings shares £m	Jointly controlled entities £m	Other investments £m	Total £m
At 1 January 2018 and 1 January 2019		160.9	9.5	0.5	170.9
Additions	(i), (ii)	1,082.8	-	-	1,082.8
Disposals	(ii)	(2.6)	-	-	(2.6)
Impairment		-	-	(0.5)	(0.5)
At 31 December 2019		**1,241.1**	**9.5**	**-**	**1,250.6**

(i) On 20 May 2019, the company acquired 72% of the share capital of Douglas West Extension Limited for a total consideration of £0.9 million. On 22 August 2019, the company made a capital contribution of £6.4 million to EA1L.

(ii) On 30 August 2019, the company entered into an agreement with Bilbao Offshore Holding Limited, a Green Investment Group Company (part of the Macquarie Group) to sell 40% of the share capital of EA1L and outstanding loan notes of EA1L for a total consideration of £1.2 billion. The total consideration for the sale of the share capital was £624.1 million, including contingent consideration of £32.6 million. A gain of £613.7 million (after transaction costs of £7.8 million) was recorded in the income statement. Further detail in relation to the contingent consideration can be found in Note 7(b). Subsequent to this transaction, on 30 August 2019 the company subscribed for, and was allotted, an additional 8,158,333,322,700 ordinary shares of £0.0001 each in EA1L for a consideration of £815.8 million. In subsequent months, the company subscribed for, and was allotted, a further 2,596,800,000,000 ordinary shares of £0.0001 each in EA1L for a total consideration of £259.7 million.

6 INVESTMENTS *continued*

(b) Subsidiaries and joint ventures

The table below sets out details of the subsidiaries and joint ventures of the company as at 31 December. All entities are direct holdings unless specified.

Name	Principal activities	Registered office and country of incorporation (see Note (i))	Equity interest in ordinary shares 2019	2018	Notes
Subsidiaries					
Coldham Windfarm Limited	Operation of an onshore wind farm	(A)	80%	80%	
Douglas West Extension Limited	Development of an onshore wind farm	(B)	72%	-	(ii)
East Anglia One Limited	Construction and operation of an offshore wind farm	(C)	60%	100%	(iii)
East Anglia One North Limited	Development of offshore wind farm	(C)	100%	100%	
East Anglia Three Limited	Development of offshore wind farm	(C)	100%	100%	
East Anglia Two Limited	Development of offshore wind farm	(C)	100%	100%	
ScottishPower Renewables (WODS) Limited	Operation of an offshore wind farm	(B)	100%	100%	
Joint ventures					
CeltPower Limited	Operation of an onshore wind farm	(A)	50%	50%	
East Anglia Offshore Wind Limited	Commercial operation of offshore meteorological masts	(C)	50%	50%	
Morecambe Wind Limited	Provision of operational services	(D)	50%	50%	(iv)

(i) The registered offices of the subsidiaries and joint ventures are as listed below, along with their countries of incorporation. Where the registered office is in England, it is registered in England and Wales.
- (A) 3 Prenton Way, Prenton, CH43 3ET, England
- (B) 320 St. Vincent Street, Glasgow, G2 5AD, Scotland
- (C) 3rd Floor, 1 Tudor Street, London, EC4Y 0AH, England
- (D) 5 Howick Place, London, SW1P 1WG, England

(ii) On 20 May 2019, the company acquired 72% of the share capital of Douglas West Extension Limited.
(iii) On 30 August 2019, the company sold 40% of the share capital of East Anglia One Limited to Bilbao Offshore Holding Limited.
(iv) The investment in Morecambe Wind Limited is an indirect holding.

7 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 (Note (a)) £m	Contingent consideration (Note (b)) £m
At 1 January 2019	0.5	-	-
Recorded in income statement	(0.5)	-	34.4
Recorded in cash flow hedge reserve	-	(1.5)	-
At 31 December 2019	**-**	**(1.5)**	**34.4**

(a) Derivative financial instruments

The company's derivatives comprise forward foreign exchange contracts and commodity derivatives. The company uses foreign currency forwards to hedge its exposure to foreign currency risk and commodity derivatives to hedge its exposure to commodity price risk. Under the company's policy the critical terms of the derivatives must align with the hedged items. The company enters into foreign currency forwards to hedge Euro asset purchases and commodity derivatives to hedge the cost of electricity. For such items the company designates the entire value of the foreign currency forward and the commodity derivative in the hedge relationship.

The following tables overleaf illustrate the timing of the notional amount of the hedging instruments and the average forward price of the foreign exchange hedging instrument.

7 FINANCIAL INSTRUMENTS *continued*

(a) Derivative financial instruments *continued*

	Notional amount of hedging instrument (maturity profile)					
						£m
As at 31 December 2019	**1 year**	**2 years**	**3 years**	**4 years**	**5 years**	**Total**
Foreign exchange forwards	35.9	8.7	-	-	-	**44.6**
Commodity forwards	-	7.9	8.6	8.7	43.4	**68.6**

The future amounts on derivative instruments may be different from the amounts in the table as interest rates and exchange rates or the relevant conditions underlying the calculation change.

	Average forward price (exchange rate)	
As at 31 December 2019	**1 year**	**2 years**
EUR (GBP:EUR)	1.08	1.07

(b) Contingent consideration

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 East Anglia One wind farm's forecasted spend which was agreed as part of the share purchase agreement.

The contingent consideration was fair valued using a Monte-Carlo 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. As at the transaction date the fair value of the contingent consideration was estimated to be £32.6 million (refer to Note 6(a)(ii)).

As at 31 December 2019 the fair value of the contingent consideration was estimated to be £34.4 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 the East Anglia One wind farm becomes fully operational.

8 TRADE AND OTHER RECEIVABLES

	Notes	2019 £m	2018 £m
Current receivables:			
Receivables due from Iberdrola group companies - trade		**172.5**	174.6
Receivables due from Iberdrola group companies - loans	(a)	**577.7**	-
Receivables due from Iberdrola group companies - interest		**2.4**	-
Receivables due from jointly controlled entities - prepayments		**0.1**	2.0
Trade receivables and accrued income		**10.7**	10.6
Prepayments		**7.4**	8.7
Other tax receivables		**3.2**	4.0
Other receivables	(b)	**34.4**	-
	(c)	**808.4**	199.9
Non-current receivables:			
Receivables due from Iberdrola group companies - other		**1.7**	-
Prepayments		**1.8**	1.9
	(c)	**3.5**	1.9

(a) Interest on loans due from Iberdrola group companies is payable at 1% above the Bank of England base rate and are repayable on demand.
(b) This balance represents the contingent consideration on the sale of 40% of EA1L (refer to Note 7(b)).
(c) The following table provides information about IFRS 15 contract balances included within trade and other receivables:

	Note	2019 £m	2018 £m
Receivables	(i)	**171.0**	180.7

(i) Impairment losses of £0.3 million (2018 £nil) were recognised during the year on receivables and contract assets arising from the company's contracts with customers.

9 SHARE CAPITAL

	Note	2019 £m	2018 £m
Allotted, called up and fully paid shares:			
2,033,352,567 ordinary shares of £1 each (2018 673,630,347)	(a)	**2,033.3**	673.6

(a) On 30 August 2019, the company issued 1,359,722,220 ordinary shares of £1 to its immediate parent, SPREL, for a total consideration of £1,359.7 million.
(b) The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

10 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY

	Share capital Note (a)) £m	Hedge reserve (Note (b)) £m	Retained earnings (Note (c)) £m	Total £m
At 1 January 2018	673.6	2.6	83.2	759.4
Profit for the year attributable to equity holder of the company	-	-	197.8	197.8
Changes in the value of cash flow hedges	-	(3.2)	-	(3.2)
Tax relating to cash flow hedges	-	0.6	-	0.6
Dividends	-	-	(150.0)	(150.0)
At 1 January 2019	673.6	-	131.0	804.6
Profit for the year attributable to equity holder of the company	-	-	867.5	867.5
Share capital issued	1,359.7	-	-	1,359.7
Changes in the value of cash flow hedges	-	(1.5)	-	(1.5)
Tax relating to cash flow hedges	-	0.3	-	0.3
Dividends	-	-	(284.1)	(284.1)
At 31 December 2019	**2,033.3**	**(1.2)**	**714.4**	**2,746.5**

(a) On 30 August 2019, the company issued 1,359,722,220 ordinary shares of £1 to its immediate parent, SPREL, for a total consideration of £1,359.7 million.
(b) 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.
(c) Retained earnings comprises the cumulative balance of profits and losses recognised in the accounts as adjusted for transactions with shareholders, principally dividends.

11 PROVISIONS

Year ended 31 December 2018	Note	At 1 January 2018 £m	New provisions £m	Unwinding of discount £m	At 31 December 2018 £m
Decommissioning and environmental	(a)	149.7	(19.0)	2.3	133.0
Other		-	0.1	-	0.1
		149.7	(18.9)	2.3	133.1

Year ended 31 December 2019	Note	At 1 January 2019 £m	New provisions £m	Unwinding of discount £m	Transfers £m	Utilised during year £m	**At 31 December 2019 £m**
Decommissioning and environmental	(a)	133.0	35.4	2.2	-	-	**170.6**
Other		0.1	-	-	0.1	(0.1)	**0.1**
		133.1	35.4	2.2	0.1	(0.1)	**170.7**

Analysis of total provisions	**2019 £m**	2018 £m
Non-current	**170.6**	133.0
Current	**0.1**	0.1
	170.7	133.1

11 PROVISIONS *continued*

(a) The provision for decommissioning is the discounted future estimated costs of decommissioning the company's wind farms. The decommissioning is expected to occur in the years between 2021 and 2057. 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 £17.0 million higher and lower respectively. Had the discount rate been 0.25% higher or lower, this would have resulted in the decommissioning provision being £11.7 million lower and higher respectively. The reduction of £19.0 million in the provision in 2018 resulted from a reassessment of future costs.

12 LOANS AND OTHER BORROWINGS

(a) Analysis of loans and borrowings by instrument and maturity

Instrument	Interest rate*	Maturity	2019 £m	2018 £m
Loans with Iberdrola group companies	Base + 1%	On demand	-	320.7
Loan with joint venture	Base + 1%	On demand	3.0	3.0
Loans with Iberdrola group companies	3.05%	20 December 2027	700.0	700.0
			703.0	1,023.7

* Base - Bank of England base rate

Analysis of total loans and other borrowings	2019 £m	2018 £m
Non-current	700.0	700.0
Current	3.0	323.7
	703.0	1,023.7

13 TRADE AND OTHER PAYABLES

	2019 £m	2018 £m
Current trade and other payables:		
Payables due to Iberdrola group companies - trade	4.9	5.7
Payables due to Iberdrola group companies - capital	3.8	1.5
Payables due to Iberdrola group companies - interest	0.7	5.3
Payables due to jointly controlled entities - trade	0.1	3.5
Trade payables	29.9	23.7
Other taxes and social security	0.9	0.8
Capital payables and accruals	14.5	7.6
Other payables	5.7	4.1
	60.5	52.2
Non-current other payables:		
Other payables	1.3	1.0

14 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m	Derivative financial instruments £m	Other temporary differences £m	Total £m
At 1 January 2018	159.4	0.6	(0.1)	159.9
Charge to the income statement	7.8	-	(0.1)	7.7
Recorded in the statement of comprehensive income	-	(0.6)	-	(0.6)
At 1 January 2019	167.2	-	(0.2)	167.0
Charge to the income statement	3.6	-	5.9	9.5
Recorded in the statement of comprehensive income	-	(0.3)	-	(0.3)
At 31 December 2019	**170.8**	**(0.3)**	**5.7**	**176.2**

Legislation was previously enacted to reduce the rate of UK Corporation Tax to 17% on 1 April 2020. Accordingly, deferred tax balances have been measured at the 17% rate, this being the tax rate enacted at the balance sheet date and the rate temporary differences are expected to reverse. After 31 December 2019, further legislation has been substantively enacted on 17 March 2020 under the Provisional Collection of Taxes Act 1968 that maintains the 19% UK Corporation tax rate. The 19% rate will apply from 1 April 2020. This rate change would increase the 31 December 2019 deferred tax liability by £20.6 million.

15 EMPLOYEE INFORMATION

(a) Staff costs

	2019 £m	2018 £m
Wages and salaries	30.3	24.7
Social security costs	3.5	2.9
Pension and other costs	4.4	5.4
Total staff costs	**38.2**	33.0
Less: capitalised staff costs	(1.4)	(1.2)
Charged to the income statement	**36.8**	31.8

(b) Employee numbers

The average numbers of employees (full and part-time) employed by the company, including UK based directors, were:

	Average 2019	Average 2018
Administrative staff	**78**	69
Operations	**354**	306
Total	**432**	375

(c) Retirement benefits

The company's pension contributions payable in the year were £3.7 million (2018 £3.2 million). The company contributes to the ScottishPower group's defined benefit and defined contribution schemes in the UK and the contributions payable in the year reflect the contributions payable in respect of active participants in the group schemes who are employed by the company. Full details of these schemes are provided in the most recently available Annual Report and Accounts of SPL. As at 31 December 2019, the deficit in the ScottishPower group's defined benefit schemes in the UK amounted to £651.7 million (2018 £512.7 million). The employer contribution rate for these scheme in the year ended 31 December 2019 was 47.9%-51.0%.

16 TAXES OTHER THAN INCOME TAX

	2019 £m	2018 £m
Property taxes	**19.1**	17.5

17 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2019 £m	2018 £m
Property, plant and equipment depreciation charge	**78.9**	79.2
Intangible asset amortisation	**0.3**	0.3
Right-of-use asset depreciation charge	**7.0**	-
Charges and provisions, allowances and impairment of assets	**-**	2.2
	86.2	81.7
Capitalised right-of-use asset depreciation	**(0.1)**	-
	86.1	81.7

18 FINANCE INCOME

	2019 £m	2018 £m
Fair value movement on contingent consideration	**1.8**	-
Interest receivable from Iberdrola group companies	**2.4**	-
Foreign exchange gains	**0.2**	-
	4.4	-

19 FINANCE COSTS

	2019 £m	2018 £m
Interest on amounts due to Iberdrola group companies	**21.3**	26.0
Interest on amounts due to jointly controlled entities	**0.1**	-
Impairment of other investments	**0.5**	-
Unwinding of discount on provisions	**2.2**	2.3
Interest on lease liabilities	**7.0**	-
Foreign exchange losses	**0.2**	-
	31.3	28.3
Capitalised interest	**(0.2)**	-
	31.1	28.3

20 INCOME TAX

	2019 £m	2018 £m
Current tax:		
UK Corporation Tax charge on profits for the year	**44.0**	35.4
Adjustments in respect of prior years	**(0.2)**	(1.4)
Current tax for the year	**43.8**	34.0
Deferred tax:		
Origination and reversal of temporary differences	**11.4**	7.2
Adjustments in respect of prior years	**(0.9)**	1.2
Impact of tax rate change	**(1.0)**	(0.7)
Deferred tax for the year	**9.5**	7.7
Income tax expense for the year	**53.3**	41.7

The tax charge on profit on ordinary activities for the year varied from the standard rate of UK Corporation Tax applicable to the company as follows:

	2019 £m	2018 £m
Corporation Tax at 19% (2018 19%)	**175.0**	45.5
Adjustments in respect of prior years	**(1.1)**	(0.2)
Impact of tax rate change	**(1.0)**	(0.7)
Gain on partial disposal of subsidiary - covered by Substantial Shareholding Exemption	**(110.4)**	-
Non-deductible expenses and other permanent differences	**(9.2)**	(2.9)
Income tax expense for the year	**53.3**	41.7

Legislation has been enacted to reduce the rate of UK Corporation Tax to 17% on 1 April 2020. After 31 December 2019, further legislation has been substantively enacted on 17 March 2020 under the Provisional Collection of Taxes Act 1968 that maintains the 19% UK Corporation tax rate. The 19% rate will apply from 1 April 2020.

21 DIVIDENDS

	2019 pence per ordinary share	2018 pence per ordinary share	2019 £m	2018 £m
Interim dividend paid	**14.0**	22.3	**284.1**	150.0

22 FINANCIAL COMMITMENTS

	2019						
	2020	**2021**	**2022**	**2023**	**2024**	**2025 and thereafter**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Contractual commitments	25.2	18.5	14.9	11.4	6.1	34.8	**110.9**

	2018						
	2019	2020	2021	2022	2023	2024 and thereafter	Total
	£m	£m	£m	£m	£m	£m	£m
Contractual commitments	20.2	6.4	2.4	2.4	2.4	41.0	74.8

23 RELATED PARTY TRANSACTIONS

(a) Transactions and balances arising in the normal course of business (excluding wholly owned subsidiaries of Iberdrola, S.A.)

	Other Iberdrola group *companies*	***Subsidiaries***	**Jointly controlled *entities***	Other Iberdrola group *companies*	*Subsidiaries*	Jointly controlled *entities*
	£m	**£m**	**£m**	£m	£m	£m
Types of transaction						
Sales and rendering of services	-	**28.2**	**0.2**	-	-	0.2
Purchases and receipt of services	**(11.0)**	-	**(0.1)**	(8.5)	-	(3.9)
Interest costs	-	-	**(0.1)**	-	-	-
Dividends received	-	-	-	-	0.8	-
Balances outstanding						
Trade and other receivables	-	**2.9**	**0.1**	2.4	-	2.0
Loans payable	-	-	**(3.0)**	-	-	(3.0)
Trade and other payables	**(2.0)**	**(0.1)**	**(0.1)**	(3.5)	-	(3.5)
Capital payables	**(3.8)**	-	-	(1.5)	-	-

(i) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

(b) Directors' remuneration

The total remuneration of the directors that provided qualifying services to the company is shown below. As these directors are remunerated for their work for Renewables, it has not been possible to apportion the remuneration specifically in respect of services to this company. All four (2018 five) of the directors were remunerated by another Renewables company during both years.

	2019	2018
	£000	£000
Aggregate remuneration in respect of qualifying services	**889**	1,164
Aggregate contributions payable to a defined contribution pension scheme	**29**	27
Aggregate compensation for loss of office	**179**	652
Number of directors who exercised share options	**3**	3
Number of directors who received shares under a long-term incentive scheme	**3**	5
Number of directors accruing retirement benefits under a defined benefit scheme	**2**	3
Number of directors accruing retirement benefits under a defined contribution scheme	**1**	1

		2019	2018
Highest paid director	Note	**£000**	£000
Aggregate remuneration		**429**	507
Accrued pension benefits	(i)	-	96

(i) The accrued pension benefit for the highest paid director represents the value accrued as at the year end.
(ii) The highest paid director received shares under a long-term incentive scheme during both years.
(iii) The highest paid director exercised share options during both years.

23 RELATED PARTY TRANSACTIONS *continued*

(c) Ultimate and immediate parent company

The immediate parent company is SPREL. The registered office of SPREL is 320 St. Vincent Street, Glasgow, 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. The parent company of the smallest group in which the results of the company are consolidated is Scottish Power UK plc ("SPUK").

Copies of the consolidated Accounts of Iberdrola, S.A. may be obtained from Iberdrola, S.A., at its registered office, Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain. Copies of the consolidated Accounts of SPUK may be obtained from SPUK, at its registered office, 320 St. Vincent Street, Glasgow, G2 5AD.

In addition to the company's parent undertakings disclosed above, the company's other related undertakings are disclosed in Note 6.

24 AUDITOR REMUNERATION

	2019	2018
	£000	£000
Audit of the company's annual Accounts	**32**	28

25 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 13.

The company has recorded a profit after tax in the current financial year and the company's balance sheet shows that it has net current assets of £688.6 million as at 31 December 2019. As at 31 December 2019, 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 a significant component of the ScottishPower group which in turn is part of Iberdrola, one of the world's largest integrated utilities. The company participates in a UK treasury function operated by the company's intermediate parent company, 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 funding provided via Iberdrola, through the global treasury function. Scottish Power Limited has indicated its intention to provide the company with the funding it requires ("financial support") for a period of at least twelve months from the date of these financial statements. Scottish Power Limited will provide this financial support through the UK treasury function utilising its committed facilities with Iberdrola group treasury. The directors of Scottish Power Limited have completed an assessment of their ability to provide this financial support across the ScottishPower group and are satisfied that this can be provided utilising its committed facilities with Iberdrola group treasury.

The directors of the company are aware of the assessment performed by the directors of Scottish Power Limited and they are satisfied that Scottish Power Limited has the ability to provide the company with the financial support it requires to meet its liabilities as they fall due for a period of at least twelve months from the date of these financial statements. However, as with any company placing reliance on other group entities for financial support, the company directors acknowledge that there can be no certainty that this financial support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Since the year end, 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. The company continues to trade at close to normal levels, providing vital services which underpin the national economy and all essential services.

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 statement for a period of 18 months from the date of approval of these financial statements. The cash flow forecasts indicate that, after taking account of severe but plausible downsides including the impact of the COVID-19 pandemic, the company's existing resources and the financial support noted above from Scottish Power Limited are sufficient to enable it to trade and pay its liabilities as they fall due for the forecast period.

25 GOING CONCERN *continued*

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 18 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

26 EVENTS AFTER THE BALANCE SHEET DATE

COVID-19

On 11 March 2020, the World Health Organization declared the outbreak of Coronavirus COVID-19 a pandemic, due to its rapid spread throughout the world, having affected more than 110 countries at that time. Most global governments are taking restrictive measures to contain the spread of the virus, including: isolation, quarantine, restricting the free movement of people, closure of public and private premises (except those of basic necessity and health), closure of borders and a significant reduction in air, sea, rail and land transport.

In the UK, the UK and devolved Governments have put in various measures culminating on 23 March 2020, when a 'lockdown' was announced, requiring all citizens to stay at home (with a few specific exceptions) for a number of weeks. Following the slow release of the full lockdown, some level of restriction is expected to be in place for a significant part of 2020. Also, temporary emergency legislation, the Coronavirus Act 2020 ("The Act") received Royal Assent on 25 March 2020. This Act (and other similar acts approved by the devolved governments) provide powers needed to respond to the current coronavirus pandemic, including containing and slowing the virus and enhancing capacity and the flexible deployment of staff.

This situation is significantly affecting the global economy, due to the interruption or slow-down of supply chains, and the significant increase in economic uncertainty; evidenced by increased volatility of asset prices and exchange rates, and a reduction in long-term interest rates. The Chancellor of the Exchequer has launched a number of unprecedented measures in a bid to support the UK economy and to mitigate the economic and social impacts of this crisis.

As the significant impacts of COVID-19 arose after 31 December 2019, this is considered a non-adjusting post balance sheet event for the company for the year ended 31 December 2019, without prejudice to the fact that the impacts will be recognised as part of the 31 December 2020 year end. The Principal Risks and Uncertainties associated with COVID-19 are detailed on pages 4 and 5 of the Strategic Report.

It is difficult to estimate the present and future impacts resulting from this crisis. However, at the date of signing these Accounts, the effects that the current crisis could have on the company in 2020 are considered to be as follows:

- There is no expectation of a material reduction in production volumes and revenues as a result of COVID-19 given that generation depends primarily on the wind resources and the pricing for the generation output is fixed as per the Purchase Power Agreement ("PPA") contracts in place.
- However, the company may see a slowdown in the construction of the development sites due to the availability of resources and putting in place necessary adaptions to working protocols in light of COVID-19.
- Due to the existing environment, trade and other receivables presently classified as current may not be recovered within twelve months of the balance sheet date.

Notwithstanding the above, as at the date of signing these Accounts, it is the directors' opinion that the principal activities of the company are expected to operate throughout this crisis period without significant disruption and therefore will not have a material impact on the company's business operations, assets and liabilities.

Business Transactions

Subsequent to the balance sheet date, the company purchased 100% of the share capital of a wind farm development company, Hagshaw Hill Repowering Limited, for aggregate consideration of £16.9 million.