SCOTTISHPOWER

SCOTTISH POWER UK PLC
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Registered No. SC117120

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STRATEGIC REPORT

The directors present an overview of Scottish Power UK plc's structure, 2016 performance, strategic objectives and plans.

SCOTTISH POWER UK PLC GROUP

STRATEGIC OUTLOOK AND 2016 PERFORMANCE

Scottish Power UK plc ("the company"), registered company number SC117120, principally acts as the holding company of the Scottish Power UK plc group ("the group"), whose activities comprise the generation, transmission and distribution of electricity, energy management and the supply of electricity and gas principally in the United Kingdom ("UK"). The three reported segments operated by the group during the year were Energy Networks, Energy Wholesale and Retail, and Renewables. The company is a wholly owned subsidiary of Iberdrola, S.A. ("Iberdrola"), the largest European integrated utility company.

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

The group's strategic objectives include:

- investing to power the UK's future with optimum existing and future assets in order to maximise value for customers and shareholders;
- making clean energy work for the UK to help combat climate change, including reducing the cost of offshore and onshore wind energy and encouraging the development of storage; and
- putting customers in control through increased digitalisation so that everyone has the opportunity to benefit from ScottishPower's lowest prices and recommended energy efficiency measures.

The closure of Longannet power station in March 2016 ended the group's coal-powered production of electricity and enabled a 50% reduction in total carbon emissions year on year. The group will continue to invest in clean energy, notably wind, extending the group's offshore presence in and beyond the UK, for example with the wholly-owned Wikinger wind farm project, located in Germany, expected to go live mid-2017. The group will also continue to invest in smart networks to ensure all customers have the power they need. The group will continue to make these investments even though the operating environment remains challenging.

The majority of the electorate voted to leave the European Union ("EU") in June 2016, leading to an immediate decline in the value of Sterling but little change in other macro-economic measures, such as GDP growth. On 29 March 2017, the UK delivered notification under Article 50 of the EU Treaty and negotiations are expected to begin shortly. These should help bring clarity about the future relationship between the UK and the EU over the next two years. The group is engaging with the UK Government to help shape the future of energy policy following "Brexit" including the scope of the UK's participation in the European Energy Market, the EU Emissions Trading Scheme and the role of interconnectors between the UK and continental Europe. The group primarily operates in UK markets with some Renewables investment in other EU member states including Ireland, France and Germany. Depending on the evolution of the UK's Energy Policy, the group plans to invest £7 billion in the UK to 2020.

In Scotland, following the outcome of the EU referendum the Scottish Government has secured Scottish Parliamentary approval to request the UK Government to grant a Section 30 order to allow Holyrood to legislate for a referendum on independence. The Scottish government would like such a referendum to be held between the autumn of 2018 and the spring of 2019 but the UK Government has ruled this out.

The Competition and Markets Authority ("CMA") published the final report of its Energy Market Investigation in June 2016. The Office of Gas and Electricity Markets ("Ofgem") has already begun to introduce remedies including the removal of parts of the Retail Market Review and the implementation of a price cap for prepayment customers in April 2017. Further interventions in the retail market may be possible following statements by the Prime Minister and Secretary of State. Other UK Government decisions include the announcement of an allocation round of Contracts for Difference ("CfD") due to start from April 2017 for renewable technologies including offshore wind. Further such rounds are planned in the period to 2020, subject to continued progress on cost reduction.

Looking forward to 2017 and beyond:

- the Energy Networks business will invest circa £4 billion until 2023 as it continues to operate under the price control mechanisms laid out in the RIIO regime (Revenue=Incentives+Innovation+Outputs). The high voltage Western Link project is planned to come into operation in late 2017;
- the retail market continues to be competitive and Energy Retail's response includes a clear focus to serve existing customers well, by ensuring they can benefit from all of ScottishPower's tariffs, as well as putting them in control with innovative digital products like PowerUp; that allows customers to purchase power in days, a unit of measurement customers understand better than kilowatt hours ("kWh");
- in Renewables, Wikinger offshore wind output is expected in 2017 and construction of the East Anglia One offshore wind farm continues with first export expected in 2019; and
- Energy Wholesale will continue to improve the efficiency of current plant, and evaluate investment opportunities for new plant, to optimise returns through the market and capacity market auctions.

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

	Revenue *		Operating profit *		Capital investment **	
Financial key performance indicators ("KPIs")	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Scottish Power UK plc group	5,422.5	6,590.4	831.3	665.1	1,730.0	1,334.4
Longannet closure costs***	–	–	–	238.5	–	–
Scottish Power UK plc group excluding the impact of Longannet closure costs	5,422.5	6,590.4	831.3	903.6	1,730.0	1,334.4

* The group's total revenue and operating profit as presented on page 22.

** The group's total capital investment as presented in Note 6 on page 43.

*** Longannet closure costs include an impairment charge of £209.5 million (refer to Note 9) and pensions and other costs of £26.0 million (refer to Note 25).

In the financial year revenues have decreased by £1,168 million, primarily as a result of reduced revenue within the Energy Wholesale and Retail business which is largely offset by lower procurement costs. Operating profit for the financial year was £831 million. After adjusting for the material one-off costs in relation to the Longannet closure recorded in 2015, underlying operating profit has decreased by £72 million in the financial year. This decrease reflects the impact of lower domestic Energy Retail average consumption and other negative Retail impacts including increased government obligations, lower Renewables production and lower Energy Networks revenue due mainly to profiling under the distribution businesses price control scheme ("RIIO-ED1").

The group's continued commitment to the UK and European energy market is reflected by a capital spend of over £1.7 billion in 2016, the group's highest ever in one year. Capital investment is focused on the Energy Networks and Renewables businesses. The planned 2017 capital investment is expected to be of a similar level to 2016.

ENERGY NETWORKS
SEGMENT DESCRIPTION AND OUTLOOK

Energy Networks owns three regulated electricity network businesses in the UK. These businesses are "asset-owner companies", holding the regulated assets and Electricity Distribution and Transmission Licences of the group, and are regulated monopolies. They own and operate the network of cables and power lines transporting electricity to around 3.5 million connected customers in the South of Scotland, Cheshire, Merseyside, North Shropshire and North Wales.

In addition, a further unregulated business, SP Power Systems Limited ("Power Systems"), provides asset management expertise and conducts the day-to-day operation of the networks.

The asset-owner companies act as an integrated business unit to concentrate expertise on regulatory and investment strategy and Power Systems implements work programmes commissioned by and agreed with the asset-owner businesses. Strict commercial disciplines are applied at the asset-owner service provider interface, with Power Systems operating as a contractor to the distribution and transmission businesses.

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

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

All three regulated businesses are natural monopolies and are governed by Ofgem via regulatory price controls. The primary objective of the regulation of the electricity networks is the protection of customers' interests while ensuring that demand can be met and companies are able to finance their activities. Price controls are the method by which the amount of allowed revenue is set for network companies over the period of the price control. Price control processes are designed to cover each company's efficient costs and allow them to earn a reasonable return, provided they act in an efficient manner, deliver value for customers and meet Ofgem targets.

The transmission and distribution network companies continue to face a considerable challenge to secure the significant investment required to maintain reliable and secure networks. To ensure that this investment is delivered at a fair price for customers, Ofgem introduced the RIIO framework. It is a performance based model, with eight year price control periods, that places a much greater emphasis on network companies playing a full role in developing a sustainable energy sector and delivering services that provide value for money for customers. A key feature is agreement on the set of outputs that companies are expected to deliver as part of the framework and the provision of incentives to reduce network costs for both current and future customers.

As SPT approaches the half-way point in its transmission price control mechanism, RIIO-T1, its strong start has been maintained. Some key upgrades were commissioned in the year: Beauly-Denny (1,150 megawatts ("MW")); Hunterston-Kintyre (240 MW); and new equipment that increases network capacity installed at four key sites on the network. SPT remains on track to complete its ambitious programme of network renewal while delivering excellent value for money for customers. As at 31 March 2016, 38% of outputs had been completed using only 30% of allowed funding. SPT is responding efficiently and with agility to new information, and new challenges. For example, the network reinforcement plans in Dumfries and Galloway have been refocused when studies showed a more cost effective solution was preferable.

On 12 May 2016, Ofgem published its decision to launch a mid-period review for the RIIO-T1 price control looking at some specific issues in relation to National Grid Electricity Transmission ("NGET"). Ofgem did not identify any changes in output requirements for SPT, so did not proceed with a mid-period review of SPT.

On 31 March 2016, Energy Networks' distribution businesses successfully completed the first year of the eight year price control RIIO-ED1 that will run until March 2023. Both licensees have built upon the strong performance delivered at the end of Distribution Price Control Review 5 ("DPCR5") in terms of outputs and across both customer and stakeholder related incentive mechanisms.

In March 2016, Energy Networks established a Distribution System Operator ("DSO") Steering Group including internal staff and industry experts. Following consultation with stakeholders and interested parties, Energy Networks published its DSO Vision on 21 October 2016. Energy Networks has submitted evidence in response to the joint call from Ofgem and the Department of Business, Energy and Industrial Strategy ("BEIS") for evidence on a smart, flexible energy system in which Energy Networks promotes its DSO vision.

During 2016, Energy Networks won three high profile industry awards. At the Utility Week Industry Awards, the Customer Service Team were winners in the Customer Care category for their work with vulnerable customers. At the Scottish Green Energy Awards, Energy Networks won the Best Innovation Award for the Dynamic Cable Rating System and jointly won the Judges Award for the Beauly to Denny transmission line.

In line with the group's strategic objectives and its regulatory obligations, Energy Networks is maintaining its significant investment in the UK energy network. Over the last ten years, Energy Networks has invested around £5.3 billion in its transmission and distribution networks, and during the next ten years, Energy Networks currently plans to invest a further £5.7 billion to modernise and improve service to customers. Energy Networks' ten year investment plans are reviewed annually in detail to ensure that Energy Networks is aligned with and continues to support UK Government energy policy.

Announcements in the past few years by the UK Government on funding programmes have led to some renewables developers scaling back future activity. Some developers have requested acceleration in connection dates, while other projects have been deferred or cancelled. These developments have been analysed carefully, resulting in updated projections of volumes and expenditure for the Energy Networks business. The external environment will continue to be monitored and the impact of any changes in trends will be considered in future forecasts. Investments in interconnectors moving energy across the UK, for which Scottish export capability was previously the main driver, have become important to ensure security of supply in Scotland through import capability in light of large thermal plant closures on both sides of the Anglo-Scottish border.

Energy Networks is mindful that some of its assets are critical national infrastructure. On 1 November 2016, the UK Government published its National Cyber Security Strategy 2016 to 2021. Energy Networks liaises with UK Government agencies to ensure that any potential threats and risks are assessed and mitigated. In circumstances where potential risks are identified, Energy Networks takes steps to enhance both the physical security of its assets and the security of its associated IT and communications systems.

ENERGY NETWORKS *continued*

SEGMENT DESCRIPTION AND OUTLOOK *continued*

In September 2016, the UK Government published its National Flood Resilience Review, which was set up following the floods experienced in some areas of the UK in December 2015. Energy Networks is working with BEIS and other stakeholders to ensure that improvements in flood defences for electricity infrastructure are effectively implemented.

Energy Networks is continuing to develop and train staff for a 'smarter' future and replenish its ageing workforce from the communities that Energy Networks serve so that the investment made in recruitment and training continues to deliver in the long-term. The challenge of replacing an ageing workforce in Energy Networks and across the UK Power Sector in the coming years will be significant. Energy Networks will continue to work closely with schools and Further and Higher Education institutions to ensure that it can attract high calibre individuals into exciting development and career opportunities. During 2016 Energy Networks recruited 10 Graduates and 47 Apprentices; in addition, internal recruits have been enrolled on the Trainee Engineer and Technical Craftsperson programmes to increase the engineering and technical capabilities of the front line teams.

2016 OPERATIONAL PERFORMANCE

Financial key performance indicators ("KPIs")	Revenue * 2016 £m	Revenue * 2015 £m	Operating profit ** 2016 £m	Operating profit ** 2015 £m	Capital investment *** 2016 £m	Capital investment *** 2015 £m
Energy Networks	1,079.8	1,113.7	577.2	612.2	767.1	845.2

* Segment total revenue as presented in Note 6 on page 40.
** Segment operating profit as presented in Note 6 on page 41.
*** Segment capital investment as presented in Note 6 on page 43.

Energy Networks' revenue is £34 million lower than the prior year. Distribution volumes were lower in 2016 which accounts for £10 million of the reduction. The remaining revenue reduction is driven by the profile of allowable distribution revenues under RIIO-ED1.

Operating profit decreased by £35 million to £577 million in 2016, mainly due to lower revenues.

Energy Networks' capital investment decreased by £78 million to £767 million in 2016, with decreased spend in SPT's development of a sub-sea High Voltage Direct Current ("HVDC") 400 km cable, which is part of a brand new interconnector running between Scotland and Wales and which is reaching an advanced stage in construction. In addition there has been reduced distribution capital investment due to lower modernisation and refurbishment spend in 2016.

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

Non-financial key performance indicators	Notes	Actual 2016	Target 2016	Actual 2015	Target 2015
Distributed energy (GWh)*					
- SPD		18,181	N/A	18,440	N/A
- SPM		15,301	N/A	15,569	N/A
Customer interruptions	(a)				
- SPD		48.5	52.1	46.6	60.1
- SPM		30.2	38.3	32.8	44.9
Customer minutes lost	(b)				
- SPD		34.8	46.2	34.0	57.5
- SPM		33.6	45.6	36.1	59.1
Customer Performance:	(c)				
Broader customer service measure – Interruptions					
- SPD		8.79	8.20	N/A	N/A
- SPM		8.86	8.20	N/A	N/A
Broader customer service measure – Connections					
- SPD		8.36	8.20	N/A	N/A
- SPM		8.43	8.20	N/A	N/A
Broader customer service measure – General enquiries					
- SPD		8.84	8.20	N/A	N/A
- SPM		9.24	8.20	N/A	N/A
Energy ombudsman (customer complaints)	(d)				
- SPD		2	–	1	–
- SPM		1	–	1	–
Transmission operational performance	(e)				
- SPT		4	–	3	–

* Gigawatt hours ("GWh")

(a) Customer interruptions are reported as the number of customers, per 100 customers, that are affected during the year by power cuts that last three minutes or more. Both licenced entities outperformed the Ofgem target.

(b) Customer minutes lost is reported as the average number of minutes that a customer is without power during a year due to power cuts that last for three minutes or more. Both licenced entities outperformed the Ofgem target.

(c) Customer performance comprises three components: a customer satisfaction survey, complaints metric and stakeholder engagement. The Regulatory year 2015/2016 was the first year of the RIIO-ED1 approach to measuring customer performance therefore comparatives to the previous DPCR5 approach have been removed.

(d) The Energy Ombudsman Services, an independent body, monitors and adjudicates complaint cases.

(e) Transmission operational performance is reported as the number of 'energy not supplied' and associated incidents. These incentivised incidents are incidents where the loss of supply is longer than three minutes.

Energy Networks is committed to maintaining high performance during extreme weather events. Consequently, during the course of the year over £60 million was invested to refurbish or rebuild the overhead line network. In addition £13 million was invested in tree cutting activities. Both of these investments have contributed significantly to improving the performance of distribution assets during storms.

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

ENERGY WHOLESALE AND RETAIL
SEGMENT DESCRIPTION AND OUTLOOK

Given the complexity of the Energy Wholesale and Retail segment and in the interests of transparency, analysis of the key business functions has been provided below.

ENERGY WHOLESALE

Energy Wholesale's operations are focused on managing the complex market conditions in relation to the operation of the group's generation asset base (except for those technologies managed by Renewables) and managing the group's exposure to the UK wholesale electricity and gas markets.

Generation owns and operates more than 2,500 MW of generating capacity comprising gas and hydroelectric generation assets, giving the business a flexible and balanced portfolio.

Energy Management is predominantly responsible for:

- the purchase of external supplies of gas and emissions allowances for the generation of electricity;
- the purchase of external supplies of electricity and gas for onward sale to customers;
- the optimisation of gas storage; and
- the sale of electricity to wholesale market participants in the UK.

The combination of high carbon taxes, high transmission charging and National Grid's decision not to award Longannet power station a contract for grid balancing services, meant that running a thermal plant in Scotland was uneconomic. As a result, the decision was taken to close Longannet power station and it closed on 24 March 2016, marking the end of its 46 years of power production in Scotland, thus reducing Energy Wholesale's generating capacity to 2,531 MW.

Capacity market auctions are an important factor in making future strategic decisions, including building new plant, as well as optimising the existing portfolio. Energy Wholesale has a strong development portfolio containing strategic projects that, subject to market signals, will grow in the future.

The 2016 T-4 capacity market auction took place in December 2016, clearing at a price of £22.50 per kilowatt ("KW"), slightly higher than in the past two years. However, disregarding units already built, only one small new combined cycle plant was procured, and reforms are likely to be needed if the auctions are to secure investment in new large scale gas generators.

There is growing recognition of the importance and value of flexibility in achieving long-term decarbonisation goals, and Energy Wholesale have an opportunity to extend the existing Pumped Hydro Storage plant at Cruachan both in terms of generation and storage capacity. A key issue, however, would be how to deal with uncertainty in the likely investment returns and whether a risk reduction mechanism can be put in place to address this.

Overall Energy Wholesales' portfolio and strategic development options are well positioned to take advantage of future market conditions.

ENERGY RETAIL

Energy Retail is responsible for the supply of electricity and gas to domestic and business customers throughout Great Britain, as well as providing customer services such as customer registration, billing and receipting processes and handling enquiries in respect of these services. Energy Retail is also responsible for the associated metering activity and managing the group's Energy Services activities. During 2016 an average of 5.4 million gas and electricity customers were supplied by Energy Retail.

On 24 June 2016 the CMA published its final report regarding the investigation into the Gas and Electricity market in the UK. Energy Retail has been working with Ofgem to implement the remedies as quickly as possible and has identified a number of opportunities for early action. These include supporting Ofgem in early testing of the proposed domestic customer database of disengaged customers and trialing customer engagement messages. In both cases, Energy Retail has been proactively working with Ofgem to support implementation in advance of the CMA timescales.

The regulatory changes in the gas and electricity market in the UK, following the results of the CMA investigation, have removed the restriction on suppliers to only have four tariffs available. Energy Retail has embraced this change by launching a number of new options, open to both existing and new ScottishPower customers.

Domestic market switching levels for 2016 were up 26% on 2015, however Energy Retail continues to outperform other major suppliers in terms of customer churn. Energy Retail currently has the lowest percentage of domestic customers of the major suppliers on standard variable tariffs ("SVTs") with less than half now on SVTs. This is as a result of offering competitively priced products on a consistent basis and enabling Energy Retail customers to switch between tariffs for free at any time.

The CMA remedies have also enabled Energy Retail to introduce a highly innovative app-based energy product called PowerUp, which aims to simplify energy purchasing and increase customer engagement. It allows customers to augment their existing online account management with the ability to buy their energy in multiples of days or months, a unit of measure that is much more easily understood than kilowatt hours by most people. This provides customers with even greater transparency of their energy consumption, allowing them to make more informed decisions about how to use energy more efficiently.

Energy Retail is working hard to make improvements to its customer service and this has been recognised externally. Over the last twelve months Energy Retail has focused its efforts in further enhancing the online experience for both existing and prospective customers, to give them greater freedom as to how they set up a new account or manage an existing account.

The introduction of a number of market-first digital services such as the Direct Debit Manager and the option for customers to make payments via an app on their mobile device, are helping customers to control their energy account and their interaction with ScottishPower. These digital tools provide an additional channel through which customers can more effectively manage their energy account, at a time that suits them. Energy Retail has also implemented a new online Customer Support Centre, which was set up in response to customer feedback from its customer panel and the experience of its customer-facing teams. The Support Centre uses innovative functionality to recognise the customer's account status, to allow Energy Retail to present each customer with information that is most relevant to them.

ENERGY WHOLESALE AND RETAIL *continued*
SEGMENT DESCRIPTION AND OUTLOOK *continued*
ENERGY RETAIL *continued*

In addition to this, Energy Retail offers specific help to its most vulnerable customers:

- The ScottishPower Hardship Fund, which was launched in May 2015, in partnership with the independent administrators, Social Enterprise Direct, has provided over £15 million to customers who are struggling to pay their arrears.
- Energy Retail has also helped to refer circa 3,500 customers to get help with ongoing budget and debt issues from its chosen free debt advice charity, National Debtline.
- Energy Retail is working to bring its Priority Services Register in line with the new Supply Licence requirements to register customers who are vulnerable, with permanent or transient needs, and to work with customers to help them during periods of uncertainty.
- Energy Retail also supports vulnerable customers with their energy bills through the Warm Home Discount Scheme ("WHD") spending almost £31 million in 2016 providing assistance to over 214,000 customers.
- The ScottishPower Energy People Trust (an independent registered charity) funds other registered charities that help people whose lives are affected by fuel poverty. During 2016, the Trust awarded over £1 million to 40 projects, helping over 15,000 households (over 31,000 individuals). Since the Trust was established in November 2005, it has awarded nearly £15 million to around 350 projects helping nearly 2 million people in over 1 million households throughout Great Britain. This has resulted in an increase in household income of £85 million, in addition, 489 jobs were created and 628 volunteers supported these organisations.

The delivery of energy efficiency measures continues to be an important objective of Energy Retail and 2016 was the fourth year of delivery of the UK Government's Energy Company Obligation ("ECO"). The ECO scheme focuses on reducing heating costs for the most vulnerable customers, and also aims to improve the energy efficiency of properties. Energy Retail continues to make strong progress towards delivering this obligation and has delivered a sufficient volume of measures to meet March 2017 obligation targets.

Energy Retail continues to play its part in the roll out of smart meters and has made good progress in 2016 in mobilising and increasing its smart deployment capabilities. Focusing on achieving the regulatory target of 100% of installs by 2020, Energy Retail has established a network of installers, who, together with Energy Retail's own Metering teams have already made good progress. This provides a strong platform to further increase its deployment capability in 2017 and 2018. The opportunity to engage with customers as Energy Retail goes through the smart meter transition will see increased awareness and promotion of the Priority Services Register to support vulnerable customers.

2016 OPERATIONAL PERFORMANCE

	Revenue *		Operating profit/(loss) **		Capital investment ***	
Financial key performance indicators ("KPIs")	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Energy Wholesale and Retail	4,476.2	5,491.4	151.7	(131.1)	115.7	80.1
Longannet closure costs****	–	–	–	238.5	–	–
Energy Wholesale and Retail excluding the impact of Longannet closure costs	4,476.2	5,491.4	151.7	107.4	115.7	80.1

* Segment total revenue as presented in Note 6 on page 40.
** Segment operating profit/(loss) as presented in Note 6 on page 41.
*** Segment capital investment as presented in Note 6 on page 43.
**** Longannet closure costs include an impairment charge of £209.5 million (refer to Note 9) and pensions and other costs of £26.0 million (refer to Note 25).

Energy Wholesale and Retail revenue decreased by £1,015 million to £4,476 million in 2016. This was mainly due to the reduced volume of both electricity and gas market sales and is mostly offset by lower procurement costs.

After adjusting for the material one-off costs in relation to the Longannet closure in 2015, the operating profit/(loss) improved by £44 million in 2016. This included positive impacts from a £41 million year on year reduction in station related operating costs and a £96 million reduction in depreciation following the closure of Longannet on 24 March 2016. Offsetting this, Retail gross margins of £89 million adverse (lower energy costs more than offset by lower revenues and increases in the cost of both government obligations and transportation of electricity). 2016 operating costs included an Energy Retail £20 million restructuring and pension costs provision (see Note 25) which was more than offset by the 2015 £18 million Ofgem settlement.

Capital investment increased by £36 million in 2016 reflecting the 2016 investment to support the roll out of the smart metering programme.

ENERGY WHOLESALE AND RETAIL *continued*
2016 OPERATIONAL PERFORMANCE *continued*

Non-financial key performance indicators	Notes	2016	2015
Plant output (GWh)	(a)		
· Coal		1,636	7,813
· CCGT*		8,234	6,235
· CHP**		1	2
· Hydro and Other		585	704
		10,456	14,754
Generating capacity (MW) as at 31 December	(b)		
· Coal		–	2,304
· CCGT*		1,967	1,967
· CHP**		1	1
· Hydro and Other		563	563
		2,531	4,835
Availability	(c)	82%	85%
Volume supplied (GWh)		52,925	52,139
Complaints handling	(d)	6th	6th
Customers (thousands)	(e)		
- Electricity		3,218	3,278
- Gas		2,143	2,178
		5,361	5,456

* Combined Cycle Gas Turbine
** Combined Heat and Power plants

(a) Plant output is a reflection of the electricity generated by the business measured in GWh.

(b) Generating capacity is the maximum output per second that generating equipment can supply to system load, adjusted for ambient conditions.

(c) Availability is the percentage of the year that the plant is available for use.

(d) Based on the Citizens Advice Complaints Handling Report for October to December, ranking reflects the group's position relative to other 'Big 6' Energy Companies and is based on a balanced scorecard considering Citizens' Advice, Consumer Futures and Energy Ombudsman referrals and complaints.

(e) Customer numbers are based on the average number of Meter Point Administration Numbers for electricity customers and Meter Point Reference Numbers for gas customers during the year to 31 December.

Customer service continues to recover from the migration of the Energy Retail customer base to the new customer relationships management system. Although the ranking remains 6th of the six major energy suppliers, the score has improved by 65% from January 2015 and Energy Retail forecast further improvements.

RENEWABLES
SEGMENT DESCRIPTION AND OUTLOOK

Renewables is responsible for the origination, development, construction and operation of renewable energy generation plants, predominantly onshore wind, with a large and growing presence in offshore wind, and the exploration of emerging renewable technologies and innovations such as battery storage.

Renewables has a successful track record as a developer of onshore wind farms with a conversion rate of MW capacity from planning to consent of over 90%. The business is the leading developer of onshore wind farms in the UK and, as at 31 December 2016, had an operating capacity of 1,616 MW. A further 269 MW are currently under construction, of which 196 MW were installed as at 31 December 2016.

As part of their manifesto, the UK Government set out its intention to remove new subsidies for onshore wind and to amend planning rules, giving more control to local communities in England and Wales in the vicinity of onshore wind projects. The UK Government went on to announce on 18 June 2015 its intention to close the Renewables Obligation ("RO") to onshore wind one year early at 31 March 2016, providing a grace period to 31 March 2017 for projects that had planning permission on or by 18 June 2015, as well as a signed grid connection agreement and land rights. Additional grace provisions with regard to delays due to grid or aviation also continue to be available. Legislation to implement this policy has been implemented by the Energy Act 2016. With regard to Renewables, this change has had no impact on current investment.

Renewables is continuing to analyse the best policy options that could sustain investment in established technologies in the future.

To date the Levy Control Framework ("LCF") is the main budgetary tool which the UK Government has used to monitor its commitments with regard to low carbon generation, including the RO, Small Scale Feed in tariff ("SSFiT") and also CfDs. The UK Government analysis considers the LCF cap of £7.6 billion in 2020 as exceeded by £1 billion, down from the previously reported high of £1.5 billion. This reduction is in part due to cost saving measures adopted by the UK Government and a review of programmes considered to offer poorer value for money including the SSFiT and RO for solar installations. As part of the Spring Budget announced on 8 March 2017, the Chancellor announced the UK Government intends to replace the LCF with a new mechanism, noting the complex interaction with EU Emissions Trading Scheme ("EU ETS"). Further details are expected as part of the Autumn Statement in November 2017. The group continues to engage with the UK Government on plans for future investments in renewable generation and the electricity system, including flexibility and storage.

Renewables is also a leading developer of offshore wind in the UK and Northern Europe. The 389 MW West of Duddon Sands ("WODS") project in the East Irish Sea (195 MW of which is owned by Renewables), a 50/50 joint arrangement with DONG Energy West of Duddon Sands (UK) Limited, completed its second year of full operation with availability and production ahead of expectation – with a similar outlook for 2017. Following acquisition in 2015 of the remaining stake in East Anglia One Limited from Vattenfall Wind Power Ltd ("Vattenfall") (refer to Note 36) and success in the first CfD auction, Renewables took a £2.5 billion Final Investment Decision ("FID") for its 714 MW East Anglia One project in early 2016. The principal supply and installation contracts were finalised at the end of 2016. Renewables also finalised an agreement with Vattenfall to split the remainder of the East Anglia Zone, meaning Renewables is now the sole owner of 2.8 gigawatts ("GW") of projects under development in the southern part of the East Anglia Zone, with similar characteristics to the East Anglia One project. Most notably, the planning determination of the 1.2 GW East Anglia Three project is anticipated mid-2017.

RENEWABLES

SEGMENT DESCRIPTION AND OUTLOOK *continued*

Beyond the UK, Renewables in Germany is progressing well with the construction of the 350 MW Wikinger wind farm, located in the Baltic Sea. Following manufacture of the main components in 2015, offshore construction commenced in 2016 with the project on track to achieve first export of power in mid-2017, with full operation by the end of that year.

Renewables has received confirmation of its eligibility to participate in the 2018 auction regarding offshore capacity in the German Baltic Sea. To this end, Renewables added a further 500 MW to its existing 330 MW of eligible capacity for the auction with acquisition of the rights to an adjacent project.

In France, Renewables is developing the 496 MW St. Brieuc project, off the north coast of Brittany, as part of a partnership formed with Renewable Energy Systems Limited ("RES") in 2012. After completing all relevant technical and environmental impact assessment works, the consent application to the French administration was submitted in 2015 with consent successfully awarded in April 2017.

2016 OPERATIONAL PERFORMANCE

Financial key performance indicators ("KPIs")	Revenue * 2016 £m	Revenue * 2015 £m	Operating profit ** 2016 £m	Operating profit ** 2015 £m	Capital investment *** 2016 £m	Capital investment *** 2015 £m
Renewables	346.8	579.4	103.8	180.2	811.0	382.5

* Segment total revenue as presented in Note 6 on page 40.
** Segment operating profit as presented in Note 6 on page 41.
*** Segment capital investment as presented in Note 6 on page 43.

Renewables revenue decreased by £233 million to £347 million in 2016 due to: the 2015 £134 million sale of the WODS offshore transmission asset (which had an equal and opposite effect on procurement costs), the decrease in electricity output (by 628 GWh to 3,098 GWh due to weather conditions), a reduction in underlying power prices and the removal of the Climate Change Levy exemption for renewably sourced electricity from 1 August 2015.

Operating profit decreased by £76 million to £104 million in 2016 mainly as a result of reduced gross margin. This was partly offset by a reduction in the depreciation charge of £27 million due to a change in accounting estimate (see Note 2).

Capital investment increased by £429 million to £811 million in 2016. UK based capital investment on onshore and offshore projects increased by £202 million. Investment outside the UK increased by £226 million mainly due to the Wikinger project.

Non-financial key performance indicators	Notes	2016	2015
Plant output (GWh)	(a)	3,098	3,726
Installed capacity (MW)	(b)	2,007	1,631
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.
(b) Installed capacity represents the total number of 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.

LIQUIDITY AND CASH MANAGEMENT

Cash and net debt

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

The Iberdrola group objective is to retain sufficient liquid resources and facilities to cover anticipated cash flow requirements for a period in excess of twelve months; current liquidity in the Iberdrola group is in excess of £8 billion, which can be utilised if required to fund the group's activities.

Net cash flows from operating activities increased by £84 million to £1,356 million for the year. As detailed in the table below, net debt increased by £1,143 million to £6,170 million. Group loans payable increased by £1,015 million while group loans receivable reduced by £89 million. Cash increased by £12 million to £36 million offset by an increase in external loans payable of £51 million to £2,029 million.

Analysis of net debt	Notes	2016 £m	2015 £m
Cash	(a)	35.5	23.7
Group loans receivable	(b)	677.7	766.7
Group loans payable	(c)	(4,854.1)	(3,839.4)
External loans payable	(d)	(2,028.9)	(1,977.8)
Net debt		(6,169.8)	(5,026.8)

(a) As detailed on the consolidated balance sheet, refer to page 20.
(b) As detailed in Note 12 on page 54.
(c) Loans with Iberdrola, S.A. and other related Iberdrola group companies, refer to Note 20 on page 62.
(d) External loans payable comprises external debt, as detailed in Note 20 on page 62.

Capital and debt structure

The company is funded by a combination of debt and equity. All equity is held by Scottish Power Limited. The group's financing structure is determined by its position in the wider Iberdrola group. As stated above the group can obtain funding via the liquidity resources maintained at the Iberdrola group. The company holds investment grade ratings with Moody's Investor Services (Baa1), Standard & Poor's Rating Services (BBB+) and Fitch Ratings (BBB+). Details of the group's financial risk management policy are set out at Note 4.

TAXES AND OTHER GOVERNMENT OBLIGATIONS

To help give an understanding of the group's contribution to UK taxes and other UK Government obligations, the following table has been provided, highlighting the key taxes and other obligations in the financial year, on an accruals and cash basis.

		Income statement expense		Cash tax paid in the year	
Analysis of taxes and other Government obligations	Notes	2016 £m	2015 £m	2016 £m	2015 £m
Carbon tax	(a)	85.6	133.7	88.9	112.6
Social security costs	(b)	28.1	26.4	30.0	27.1
Taxes other than income taxes	(c)	193.2	200.4	196.0	200.3
UK Corporation Tax	(d)	54.6	122.6	107.9	108.3
		361.5	483.1	422.8	448.3

(a) Carbon tax is a tax levied by the UK Government on the fossil fuels used to generate electricity. This is included within 'Procurements' in the income statement.

(b Social security costs as presented in Note 25 on page 64.

(c) Taxes other than income taxes as presented in Note 26 on page 65.

(d) UK Corporation Tax as presented in Note 30 on page 66.

HEALTH AND SAFETY

The prevention of harm to employees, contractors and members of the public, and the protection of business assets and operational capability, is a top priority for the group. The organisation has continued to strive for improved performance and both internal and external assessments have again returned positive findings. The main business areas within the group maintained OHSAS 18001 Health and Safety Management System accreditation. The group's employee accident and incident statistics showed a decrease in 2016, and the incident severity remained low. Five of the seven employee lost time accidents* were required to be reported to the Health and Safety Executive ("HSE") under The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations ("RIDDOR"). The commitment to investigate accidents and incidents to address root causes remains steadfast and is given the highest priority with panels of inquiry being established whenever there is a significant incident. The table below provides the occurrence of lost time accidents in each business.

Loss time accidents*	2016	2015
Energy Networks	7	5
Energy Wholesale and Retail	–	4
Renewables	–	–
	7	9

* Number of accidents on the job resulting in the loss of at least a day's work

Provision of public safety information and education about electricity safety has continued through delivery of a mixture of internet, community and school teaching programmes. As well as delivering safety education in schools, ScottishPower provides electrical safety information advice to groups that are at a high risk of coming into contact with apparatus on the electricity network, including agricultural and construction workers.

PRINCIPAL RISKS AND UNCERTAINTIES

ScottishPower's strategy, and so that of the group, is 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.

During 2016, the governance structure was supported by risk policies approved by the Board of Directors of Iberdrola and adopted by the Board of Directors of Scottish Power Limited ("the Board"). ScottishPower's business risk assessment team and independent group Risk Management function supported the Board in the execution of due diligence and risk management. In addition, ScottishPower is represented at the Iberdrola Risk Management Committee to ensure that the business risks are adequately assessed, monitored, mitigated and managed. Further details of ScottishPower's governance structure and risk management are provided in Note 4 to the Accounts.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

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

SCOTTISHPOWER – GLOBAL

RISK	RESPONSE
Material deterioration in the relatively stable and predictable UK regulatory and political environment, including any sudden changes of policy, or new initiatives in the retail market outside the framework of the CMA investigation outcome.	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.
Impacts arising from the UK decision to leave the EU or market reactions to events during the negotiation. These impacts could include further depreciation in the value of Sterling and other financial instruments. In the longer term there could be negative or positive changes in the UK economy and in the political and regulatory environment in which the company operates.	In addition to monitoring ongoing developments related to "Brexit" the 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 the group and specific business units will be managed in line with developments.
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 aim to ensure not only continuing legal compliance but also drive towards best practice in all levels of its health and safety operations.
Breach in cyber security and unwanted infiltration of the ScottishPower IT infrastructure by 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 as to how behaviour can reduce this risk. Embedding cyber security in IT related projects where appropriate.

ENERGY NETWORKS

RISK	RESPONSE
Failure to deliver the Distribution and Transmission outputs agreed with the Regulator in their respective price controls.	Mitigating actions include formulating detailed investment, resource, outage and contingency plans supported by an extensive procurement strategy. Good communication and co-ordination of activities across the business is integral to success, complemented by a comprehensive monitoring regime that provides early warning of potential issues.
Security of Supply due to potential asset failures alongside reduced generation capacity.	Risk based asset investment programme in place, business continuity and emergency planning well established including Black Start. "Strategic Spares" policy in place.
Failure to protect customer service performance.	Well-established customer service processes to respond to power loss, including storm readiness. Priority Service Register to protect vulnerable customers in the event of power loss. Implementation of a single emergency number to route customer queries.
Inability to recruit or retain an appropriately skilled workforce.	A Strategic Work Force Planning and Implementation plan that incorporates; a) retirement profiles with demographics; b) one year ahead Strategic Recruitment; and c) ten year Strategic Recruitment plan. Identification of business critical roles and succession planning.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

ENERGY WHOLESALE AND RETAIL

RISK	RESPONSE
Risk of unfavourable results from capacity auctions, adversely affecting the returns from generation assets.	Optimising returns from the energy market and efficient control of costs, to maximise the chance of success in the auctions. Engagement with all relevant stakeholders to seek to ensure that the auctions are not distorted by hidden subsidies.
Adverse wholesale price movements and reduced energy market liquidity, adversely affecting the returns from generation assets.	Trading activity to secure value of assets and deliver return based on expected price movements, and providing support to Ofgem initiatives to stimulate liquidity.
The potential for plant performance issues reducing availability.	Technical assessments of key risk areas of operational performance, an optimised approach to repairs and maintenance and plans specific to each plant.
Reduction in retail margins as a result of reduced market share, unfavourable wholesale energy costs and increasing non-energy costs.	Continued focus on improving customer service to enhance customers' experience; creating innovative, competitive products that compliment current offerings; increasing customer awareness of the ScottishPower brand; and improve efficiencies across the business through the new billing system.
The potential for non-compliance with the UK Government's mandate to complete the roll-out of smart metering to customers in accordance with prescribed timescales.	Dedicated project team focused on ensuring adequate business processes and systems are developed. The team is responsible for ensuring the roll-out capability is secured to enable deployment of meters. Energy Retail is an active participant in industry bodies responsible for developing smart metering technology and capability across the UK.
Reputational risk from customer service performance.	Continued investment in additional resource and employee training to handle customer queries and respond to complaints. Further mitigating actions include continued enhancement to key processes to reduce customer effort and improve customer journeys, including investment in the Energy Retail customer website.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

RENEWABLES

RISK	RESPONSE
Changing energy policy in the UK with regard to renewable generation, particularly, long term decarbonisation objectives, coupled with affordability concerns presenting competition and allocation risk.	Actions to reduce allocation risk, including engagement with the UK Government regarding access and parameters of an enduring CfD mechanism and overarching LCF or alternative mechanism. 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.
The potential for plant performance issues reducing availability.	Technical assessments of key trade risk areas of operational performance, an optimised approach to repairs and maintenance and plans specific to each wind farm. Co-ordination with procurement team in negotiating terms and conditions with turbine suppliers and independent operations and maintenance service providers to ensure plant performance is optimised.
Delivery of large and complex offshore projects on time and on budget.	ScottishPower and Iberdrola have a strong track record in delivering large scale engineering projects and have gained significant experience from developing the WODS and Wikinger offshore wind farms. Risks are further reduced by using established and experienced suppliers and advisors along with robust financial management including appropriate foreign exchange hedging.
Identification and optimisation of future onshore development pipeline.	Engagement with national and local Government to influence and inform policy regarding the role of onshore wind (including life extension and repowering), particularly in Scotland, in the future generation mix to ensure optimal levels of deployment.

BY ORDER OF THE BOARD

David Wark
Director
26 April 2017

DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2016. References to 'ScottishPower' below apply fully to 'the group'.

INFORMATION CONTAINED WITHIN THE STRATEGIC REPORT

The directors have chosen to disclose information on the following, required by the Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 11:

- information on financial risk management and policies; and
- information regarding future developments of the business.

RESULTS AND DIVIDEND

The net profit for the year attributable to the equity holders of the parent amounted to £580.9 million (2015 £486.6 million). A dividend of £663.0 million was paid during the year (2015 £230.0 million).

TAXATION

In 2011, the Board of Directors of Iberdrola, S.A., approved a 'Good Tax Practices Policy', part of the company's corporate governance system, to be implemented worldwide in companies that are part of Iberdrola. This policy was updated in 2017.

ScottishPower is a responsible tax payer and seeks to be open, honest and transparent in dealings with the tax authorities and to comply with both the letter and the spirit of tax laws set by the UK Government. ScottishPower remits taxes due on a timely basis, and has a relationship with HM Revenue & Customs ("HMRC") based on mutual trust and cooperation.

In common with other businesses, companies in the group take advantage of available reliefs and concessions, many of which are designed to encourage activities or practices that the UK Government believes are beneficial to the national economy. Generation, transmission and distribution of electricity require significant investment in property, plant and equipment and the group benefits from reliefs that allow a greater proportion of the capital costs of these items to be expensed in the calculation of taxable profit in earlier years of operation. This has no effect on the total amount of Corporation Tax payable during the life of the asset, but it results in lower tax payments initially.

Further details on taxes and other Government obligations can be found in the Strategic Report on page 8.

RESEARCH AND DEVELOPMENT

ScottishPower is aware of the importance of innovation to develop an industrial project at the vanguard of the sector. ScottishPower's research and development ("R&D") efforts are aimed at the optimisation of operational performance, improving security and reducing the environmental impact of its activities. All R&D is developed as part of Iberdrola's global open and decentralised R&D model.

ScottishPower's main areas of development during the past year have been focused on the renewables offshore development, smart grids and smart meter roll-outs, improving customer engagement and service, and the increase in network performance and availability. During the year ended 31 December 2016 R&D effort (expenditure and investment) was £68 million (2015 £15 million). Detailed information in relation to ScottishPower's wider R&D activities can be found in the Iberdrola Innovation Report. The most recent report can be accessed via the 'Sustainability-Innovation' section of www.iberdrola.com.

ENVIRONMENTAL MANAGEMENT AND REGULATION

Throughout its operations, ScottishPower strives to meet, or exceed, relevant legislative and regulatory environmental requirements and codes of practice. ScottishPower has developed an Integrated Environmental Management System (certified in accordance with ISO 14001:2004) that covers its operating business activities (CCGT, hydro and renewable generation, transmission and distribution of electricity and assets management). The environmental activities of ScottishPower are governed within the Iberdrola Global Environmental Management Model.

Detailed information on ScottishPower's approach to environmental management and performance for 2016 can be found in the Iberdrola Sustainability Report that can be accessed via the 'Shareholders and Investors' section of www.iberdrola.com.

Further information on applicable environmental regulations is available on request from the Company Secretary.

EMPLOYEES

The group had 6,073 employees at 31 December 2016 (2015 6,439). Of these, 2,857 (2015 2,972) were employed in Energy Networks, 2,405 (2015 2,649) in Energy Wholesale and Retail and 312 (2015 279) in Renewables, with the remaining 499 (2015 539) employed in Corporate services. Refer to Note 25(b) for further details on employees.

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 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 with over 2,700 (2015 2,500) training events and over 139,000 hours (2015 169,000 hours) undertaken in 2016. Much of the training is focused on health and safety and technical training ensuring field staff are safe and competent. In addition ScottishPower recruits over 100 craft and engineering trainees annually who undertake a formal 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 our leadership capability.

Employee feedback and consultation

Employee feedback is recognised as key to driving engagement within ScottishPower and in 2016 the group again carried out its annual employee engagement survey, 'The LOOP'. This year there was a significant increase in the response rate from employees with 75% of employees across the group providing feedback. The overall engagement score increased to 76% in 2016 which is a positive reflection of how employees feel about working for ScottishPower.

All ScottishPower businesses recognise the importance of taking action in response to employee feedback. Action plans were developed following the LOOP survey in 2016 and focus on three key areas across ScottishPower – recognising the day to day achievements of our employees, improving face to face communication and creating a positive employee experience for all employees.

In addition to employee feedback, ScottishPower regularly consults with employees and their representatives via a variety of channels, including monthly team meetings, business conferences, health and safety committees and employee relations forums.

Equality and diversity

ScottishPower recognises the importance of difference and respects individuality as part of its ongoing commitment to promoting equality and diversity. ScottishPower also understands that diversity goes beyond legally compliant policies and practices and includes a focus on creating an innovative, integrated organisation where people feel valued, inspiring them to perform at their best.

ScottishPower have a Diversity and Inclusion Governance Group whose objective is to drive the Diversity and Inclusion action plan with key stakeholders across the organisation to ensure that diversity is embedded into ScottishPower's working policies and practices.

Activities over 2016 included E-learning and training on diversity and unconscious bias to raise the awareness of employees and key stakeholders. ScottishPower also received external recognition for ScottishPower's flexible and agile working practices to support working families and its development and employment programmes for young people.

ScottishPower is committed to driving gender diversity in the energy sector by encouraging women into leadership roles and engineering careers, not only seeking to develop its diverse and inclusive workforce but take active steps to address the deepening skills shortage in the sector. During 2016 ScottishPower joined the Women's Engineering Society and Powerful Women, sponsored the Top 50 Women in Engineering list and supported National Women in Engineering day.

Employment of disabled persons

In support of the policy on Equality and Diversity (above), ScottishPower expects all employees to be treated with respect and has supporting policy guidance on People with Disabilities and Reasonable Adjustments to help ensure equality of employment opportunity for people with disabilities. The aim of these guidelines is to establish working conditions that encourage the full participation of people with disabilities, which may be achieved through activities such as making adjustments and/or adaptations to premises, enabling access to the full range of recruitment and career opportunities including the provision of specialist training and the retention of existing staff who are affected by disability, through rehabilitation, training and reassignment. ScottishPower also works with support organisations, such as Business Disability Forum, which provide support, guidance and sharing of best practice to enable companies to become disability confident.

Employee health and wellbeing

ScottishPower promotes and supports the physical and mental health and wellbeing of its employees through a programme of health promotion and information run by its occupational health department.

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. ScottishPower's company-wide Volunteering Policy has been actively utilised by employees during 2016.This policy gives all registered volunteers, on an annual basis, an opportunity to take an additional one day's paid leave, to be used as a volunteering day.

CONTRIBUTION OF SCOTTISHPOWER TO THE UNITED KINGDOM'S ECONOMY

Based on an independent report, ScottishPower makes a significant contribution to the UK's economy, contributing around £7 billion to the UK's GDP from its own direct impact and indirectly through expenditure and investment in its supply chain. Directly and indirectly ScottishPower generates around 90,000 jobs in the UK.

COMMUNITY RELATIONSHIPS

Community relationships
Building the trust of communities has been part of ScottishPower's core values for many years. ScottishPower has a significant presence in many communities and aims to conduct its activities responsibly, in a way that is considerate to local communities and makes a positive contribution to society.

Community consultation
ScottishPower engages with communities across its operations, where new and modernising developments are planned. The key areas where ScottishPower's business interacts with the community include the siting of new facilities such as wind farms, the presence of distribution and transmission lines and routine maintenance and upkeep work. ScottishPower takes a proactive approach to providing good and accurate information from pre-planning through to construction.

ScottishPower maintains strong relationships with local communities by working with community groups, elected representatives, interest groups and individuals ensuring that those affected by the work are aware of what is happening in their area in advance, allowing communities to have their say. This is of particular importance to the business as a 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 the communities potentially affected. ScottishPower's community consultation processes include representation at community meetings, presentations and forums such as Public Information Days. 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.

Many of ScottishPower's assets, such as wind farms and pylons, are situated on land not owned by ScottishPower, therefore 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. Energy Networks and those working on its behalf adhere to a Grantor's Charter which sets out guidance of commitment to grantors and has been prepared in consultation with key stakeholders.

Energy Networks has reorganised its business around geographical districts to get closer to its customers, communities and stakeholders; focussing on customer service, winning the trust of communities and engaging with its stakeholders.

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 its employees. ScottishPower promotes payroll giving and encourages employee development through volunteering and community based programmes. Opportunities are created 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 the group's facilities. The group works closely with the UK and devolved administrations to develop policy on community engagement and benefit and adhere to all voluntary codes of good practice.

ScottishPower uses the London Benchmarking Group ("LBG") model to evaluate its community investment activity. The model is used by hundreds of leading businesses around the world and provides a comprehensive and consistent set of measures for companies to determine their contributions to the community.

During the year ended 31 December 2016, ScottishPower voluntarily contributed £11.8 million (2015 £9.2 million) in community support activity of which £7.4 million (2015 £4.5 million) was contributed to registered charitable organisations. The £11.8 million (2015 £9.2 million) total incorporated £0.5 million (2015 £0.5 million) in management costs, £0.1 million (2015 £0.1 million) categorised as charitable gifts, £6.8 million (2015 £6.1 million) categorised as community investment and £4.4 million (2015 £2.5 million) categorised as commercial initiatives; given in cash, through staff time and in-kind donations. Included within these figures, Renewables made £3.5 million (2015 £3.7 million) in voluntary community benefit payments to the communities neighbouring its wind farms.

These figures are compiled from ScottishPower's Community Investment Database, and are submitted annually in a return to LBG. The figures provided above will form part of the company's return in 2017 and have not yet been audited by LBG.

ScottishPower Foundation
ScottishPower established the ScottishPower Foundation to reinforce ScottishPower's commitment to charitable work throughout the UK. The ScottishPower Foundation is a registered Scottish charity (SC043862) and a company limited by guarantee (SC445116). Registered Office: 320 St. Vincent Street, Glasgow G2 5AD. It provides funds to support charitable initiatives that promote the advancement of education, environmental protection, citizenship and community development, arts, culture and science as well as the prevention of poverty or disadvantage.

POLITICAL DONATIONS AND EXPENDITURE

ScottishPower is a politically neutral organisation. It is subject to the Political Parties, Elections and Referendums Act 2000, which defines political "donations" and "expenditure" in wider terms than would be commonly understood by these phrases. During the year ended 31 December 2016, the group paid a total of £22,010 (2015 £20,000) for the sponsorship of conferences and events – activities that may be regarded as falling within the terms of the Act.

The recipients of these payments were:

- The Conservative Party £7,000 (2015 £6,000)
- The Labour Party £7,000 (2015 £7,000)
- The Scottish National Party £8,010 (2015 £7,000)

The above amounts were for sponsored receptions at the 2016 conferences of the above parties. These occasions provide an important opportunity for the group to represent its views on a non-partisan basis to politicians from across the political spectrum and were open to everyone attending the conference, including party members, non-governmental organisations, the media and trade unions. The payments do not indicate support for any particular party.

CORPORATE GOVERNANCE

The ultimate parent of the company is Iberdrola, S.A., which is listed on the Madrid stock exchange.

As a general guiding principle, ScottishPower and so the group adopts the principles and rules contained in the most widely recognised good governance recommendations and, in particular, has taken as a reference the Uniform Good Governance Code for Listed Companies approved by the National Securities Market Commission of Spain.

Administrative, management and supervisory bodies

Board and management meetings

The company is governed by a Board, consisting of three directors who bring a broad range of skills and experience to the company. All are full-time employees of the Iberdrola group.

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

The Management Committee (formally known as the Co-ordination Committee) ensures executive focus on coordinating the activities of ScottishPower. The Management Committee meets weekly in 2017 (fortnightly during 2016) 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 assist the Chief Corporate Officer ("CCO") in the performance of his duties. The Management Committee reports to the ScottishPower Board and currently comprises the following executives: the CCO (who is also Chief Executive Officer ("CEO") of the Renewables business); the directors of Finance, Regulation, Human Resources ("HR"), Purchasing (as of 14 December 2016) and Communications; the CEO of the Liberalised Business (Energy Wholesale and Retail); the CEO of the Regulated Business (Energy Networks); the CEO of the Renewables business; and the Head of Legal.

The Boards of Scottish Power Energy Networks Holdings Limited ("SPENH"), Scottish Power Generation Holdings Limited ("SPGH") and Scottish Power Renewable Energy Limited ("SPREL") are responsible for the effective management of the Regulated, Liberalised and Renewables businesses respectively, in accordance with the strategy set by the ScottishPower Board. These Boards meet regularly and review strategy, operational performance and risk issues on behalf of the respective business.

SPENH Board

The SPENH Board comprised the Chairman Armando Martínez Martínez and seven other directors as at 31 December 2016. The directors and their attendance at SPENH Board meetings held during the period under review (five meetings) are shown in the table below:

Javier Villalba Sánchez (Chairman)	Attended no meetings (resigned 1 February 2016)
Armando Martínez Martínez (Chairman)	Attended all meetings (appointed 3 February 2016)
Frank Mitchell (Chief Executive Officer)	Attended all meetings
Nicola Connelly	Attended all meetings
Antonio Espinosa de los Monteros	Attended all meetings
José Izaguirre Nazar	Attended all meetings
Scott Mathieson	Attended all meetings
Wendy Barnes (Independent non-executive director)	Attended four meetings
Elizabeth Haywood (Independent non-executive director)	Attended all meetings

Javier Villalba Sánchez was Chairman until his resignation from the board on 1 February 2016. Armando Martínez Martínez was appointed as Chairman on 3 February 2016.
Nicola Connelly resigned from the SPENH Board on 1 February 2017.

SPGH Board

The SPGH Board comprised the Chairman Aitor Moso Raigoso and five other directors as at 31 December 2016. The directors and their attendance at SPGH Board meetings held during the period under review (five meetings) are shown in the table below:

Armando Martínez Martínez (Chairman)	Attended no meetings (resigned 1 February 2016)
Aitor Moso Raigoso (Chairman)	Attended all meetings (appointed 3 February 2016)
Neil Clitheroe (Chief Executive Officer)	Attended all meetings
Heather Chalmers	Attended all meetings
Ángel Chiarri Toscano	Attended four meetings
Hugh Finlay	Attended no meetings (resigned 1 February 2016)
Oscar Fortis Pita	Attended all meetings
Félix Rojo Sevillano	Attended all meetings

Armando Martínez Martínez was Chairman until his resignation from the board on 1 February 2016. Aitor Moso Raigoso was appointed as Chairman on 3 February 2016.

SPREL Board

The SPREL Board comprised the Chairman Xabier Viteri and four other directors as at 31 December 2016. The directors and their attendance at SPREL board meetings held during the period under review (five meetings) are shown in the table below:

Xabier Viteri (Chairman)	Attended all meetings
Keith Anderson (Chief Executive Officer)	Attended all meetings
Jonathan Cole	Attended all meetings
Javier García de Fuentes	Attended all meetings
Unai Astiz	Attended all meetings.

CORPORATE GOVERNANCE *continued*

Administrative, management and supervisory bodies *continued*

ScottishPower Board

The ScottishPower Board comprised the Chairman José Ignacio Sánchez Galán and seven other directors as at 31 December 2016. José Ignacio Sánchez Galán is also the Chairman and Chief Executive Officer of Iberdrola.

The directors of Scottish Power Limited are shown in the table below:

José Ignacio Sánchez Galán	Chairman
Lord Kerr of Kinlochard GCMG	Vice Chairman, Independent non-executive director
José Miguel Alcolea Cantos	(resigned 15 June 2016)
Juan Carlos Rebollo Liceaga	
José Sainz Armada	
Keith Anderson	
Professor Susan Deacon	Independent non-executive director
Sir Tom Farmer CVO CBE KCSG	Independent non-executive director
Professor Sir James McDonald	Independent non-executive director

ScottishPower Board meetings 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
José Miguel Alcolea Cantos	Attended two meetings
Juan Carlos Rebollo Liceaga	Attended all meetings
José Sainz Armada	Attended all meetings
Keith Anderson	Attended all meeting
Professor Susan Deacon	Attended all meetings
Sir Tom Farmer CVO CBE KCSG	Attended four meetings
Professor Sir James McDonald	Attended all meetings

ScottishPower Audit and Compliance Committee ("ACC")

The 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 ScottishPower Board within its scope of action, which is governed by the Articles of Association of Scottish Power Limited and by the Terms of Reference of the ACC. The ACC's responsibilities include:

- monitoring the financial reporting process for ScottishPower;
- monitoring the effectiveness of the ScottishPower's internal control, internal audit, compliance and risk management systems; and
- monitoring the statutory audit of the annual and consolidated Accounts of ScottishPower.

The ACC comprises three members, including two independents, as indicated in the table below.

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

Professor Sir James McDonald (Chairman)	External independent, attended all meetings
Professor Susan Deacon	External independent, attended all meetings
Juan Carlos Rebollo Liceaga	Attended four meetings

Iberdrola Appointments and Remuneration Committees

There is no separate Appointments or Remuneration Committee within ScottishPower. Instead appointments and remuneration matters relevant to ScottishPower and the company are dealt with by the Iberdrola Appointments Committee ("IAC") and the Iberdrola Remuneration Committee ("IRC"). The members of the IAC are:

María Helena Antolín Raybaud (Chairperson)	External independent
Iñigo Víctor de Oriol Ibarra	Other external
Ángel Jesús Acebes Paniagua	External independent

The members of the IRC are:

Inés Macho Stadler (Chairperson)	External independent
Iñigo Víctor de Oriol Ibarra	Other external
Santiago Martínez Lage	External independent

On 31 March 2017 Santiago Martínez Lage resigned from the IRC and was replaced by Juan Manuel González Serna.

The IAC has the power to supervise the process of selection of directors and senior managers of the Iberdrola group companies. The IRC has the power to assist the Boards of Directors in the determination and supervision of the compensation policy for the above-mentioned persons.

CORPORATE GOVERNANCE *continued*

Internal control

During the year under review, the directors of the company had overall responsibility for establishing and maintaining an adequate system of internal controls within the group and they participated in the review of internal controls over financial reporting, the preparation of consolidated Accounts and the certification process which took place on a ScottishPower group-wide basis. The effectiveness of the system within ScottishPower was kept under review through the work of the ACC. The system of internal control is designed to manage rather than eliminate risk. In pursuing these objectives, internal control can only provide reasonable and not absolute assurance against material misstatement or loss.

A risk and control governance framework is in place across ScottishPower. The risk management framework and internal control system is subject to continuous review and development. The company is committed to ensuring that a proper control environment is maintained. There is a commitment to competence and integrity and to the communication of ethical values and control consciousness to managers and employees. HR policies underpin that commitment by a focus on enhancing job skills and promoting high standards of probity among staff. In addition, the appropriate organisational structure has been developed within which to control the businesses and to delegate authority and accountability, having regard to acceptable levels of risk. The company's expectations in this regard are set out in 'ScottishPower Code of Ethics', a policy document which aims to summarise some of the main legal, regulatory, cultural and business standards applicable to all employees. This document has been distributed to all employees of the company.

ScottishPower has a set of Anti-Bribery and Corruption Policies and Procedures, Crime Prevention and Anti-Fraud Guidelines, and Speaking Out Guidelines in place. Together with the Code of Ethics, these Policies, Procedures and Guidelines provide mechanisms to ensure that instances of fraud, bribery, corruption or other criminal or unethical behaviour are identified, reported and investigated. The Speaking Out guidelines incorporate a confidential external reporting service operated by an independent provider. These guidelines, which are applicable to employees and suppliers of the company, cover any incident, issue, behaviour or practice which does not comply with the Code of Ethics, including fraud, bribery, theft, misuse of company resources and conflicts of interest. There is also a process in existence within ScottishPower whereby all members of staff may report any financial irregularities to the Audit on Risk Supervision Committee of Iberdrola.

Identification and evaluation of risks and control objectives

During the year under review the ScottishPower governance structure was supported by risk policies adopted by the ScottishPower Board. These risk policies are adopted by the ScottishPower Board on an annual basis. ScottishPower business risk assessment teams and the independent group risk management function support the ScottishPower Board in the execution of due diligence and risk management. In addition, the SPENH, SPGH and SPREL Boards are responsible for ensuring that their respective businesses' risks are adequately assessed, monitored, mitigated and managed.

ScottishPower's strategy, which is adopted by the company, is 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. ScottishPower develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation.

The company identifies and assesses the key business risks associated with the achievement of its strategic objectives. Any key actions needed to further enhance the control environment are identified, along with the person responsible for the management of the specific risk.

Auditor independence

The Audit, Risk and Supervision Committee of Iberdrola, which comprises non-executive directors, is responsible for the nomination of the external auditors. This committee and the firm of external auditors have safeguards to avoid the possibility that the auditors' objectivity and independence could be compromised.

Where the work to be undertaken is of a nature that is generally considered reasonable to be completed by the external auditors for sound commercial and practical reasons, including confidentiality, the conduct of such work is permissible provided that all necessary internal governance has been met.

Social, environmental and ethical matters

Social, environmental and ethical ("SEE") matters are included in the overall risk and control framework and in the Risk Report which is reviewed at the monthly management meetings. As such, regular account is taken of the strategic significance of SEE matters to the group, and the risks and opportunities arising from these issues that may have an impact on the group's short-term and long-term values are considered.

Further information regarding the SEE matters can be found in the 'Corporate Social Responsibility' section of the ScottishPower website www.scottishpower.com.

DIRECTORS

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

Daniel Alcaín López (resigned 4 February 2016)
David Wark (appointed 4 February 2016)
Marion S Venman
Donald Wright

DIRECTORS' INDEMNITY

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

DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU.

The directors are responsible for preparing Accounts for each financial period that give a true and fair view, in accordance with IFRSs, of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those Accounts, 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 the parent company and the group Accounts comply with IFRSs, subject to any material departures disclosed and explained in the Accounts; and
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the parent company Accounts and the group Accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Ernst & Young LLP were re-appointed as auditor of the company for the year ended 31 December 2016.

BY ORDER OF THE BOARD

David Wark
Director
26 April 2017

INDEPENDENT AUDITOR'S REPORT

to the member of Scottish Power UK plc

We have audited the Accounts of Scottish Power UK plc for the year ended 31 December 2016 which comprise the Consolidated and Company Balance Sheets, the Consolidated Income Statement, the Consolidated and Company Statements of Comprehensive Income, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements, and the related notes 1 to 57. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's member 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 member those matters we are required to state to it 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 member, as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the directors are responsible for the preparation of the Accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE ACCOUNTS

An audit involves obtaining evidence about the amounts and disclosures in the Accounts sufficient to give reasonable assurance that the Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Accounts. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited Accounts, and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON ACCOUNTS

In our opinion:

- the Accounts give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group Accounts have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company Accounts have been properly prepared in accordance with IFRSs, as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Accounts have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Accounts are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In light of the knowledge and understanding of the group and Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company Accounts 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.

Ernst & Young LLP

Annie Graham
(Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
Glasgow
26 April 2017

SCOTTISH POWER UK PLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
at 31 December 2016 and 31 December 2015

	Notes	2016 £m	2015 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		551.0	850.8
Goodwill	8	364.6	364.6
Other intangible assets	8	186.4	486.2
Property, plant and equipment		12,829.1	11,246.8
Property, plant and equipment in use	9	10,069.8	9,501.2
Property, plant and equipment in the course of construction	9	2,759.3	1,745.6
Financial assets		106.1	69.9
Investments in joint ventures	10	8.7	31.1
Other investments	11	1.1	1.2
Finance lease receivables	11	0.6	1.0
Derivative financial instruments	11, 21	95.7	36.6
Trade and other receivables	12	74.2	47.9
Deferred tax asset	24	5.2	-
NON-CURRENT ASSETS		13,565.6	12,215.4
CURRENT ASSETS			
Inventories	13	84.1	126.0
Trade and other receivables	12	1,484.0	1,608.4
Financial assets		206.1	139.1
Finance lease receivables	11	0.3	0.3
Derivative financial instruments	11, 21	205.8	138.8
Cash	11	35.5	23.7
CURRENT ASSETS		1,809.7	1,897.2
TOTAL ASSETS		15,375.3	14,112.6

SCOTTISH POWER UK PLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS *continued*
at 31 December 2016 and 31 December 2015

	Notes	2016 £m	2015 £m
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent	15	4,014.2	4,176.8
Share capital	14, 15	872.0	872.0
Share premium	15	398.2	398.2
Hedge reserve	15	79.2	(48.7)
Translation reserve	15	0.3	(0.6)
Other reserves	15	14.0	14.0
Retained earnings	15	2,650.5	2,941.9
Of non-controlling interests	16	0.6	0.5
TOTAL EQUITY		4,014.8	4,177.3
NON-CURRENT LIABILITIES			
Deferred income	17	1,107.3	1,007.6
Provisions		637.4	473.2
Provisions for retirement benefit obligations	18	442.5	264.4
Other provisions	19	194.9	208.8
Bank borrowings and other financial liabilities		2,701.2	2,509.9
Loans and other borrowings	20	2,698.1	2,496.0
Derivative financial instruments	11, 21	3.1	13.9
Trade and other payables	23	35.2	7.8
Deferred tax liabilities	24	721.5	690.0
NON-CURRENT LIABILITIES		5,202.6	4,688.5
CURRENT LIABILITIES			
Provisions	19	51.5	93.7
Bank borrowings and other financial liabilities		4,346.4	3,521.1
Loans and other borrowings	20	4,184.9	3,321.2
Derivative financial instruments	11, 21	161.5	199.9
Trade and other payables	23	1,731.7	1,549.4
Current tax liabilities		28.3	82.6
CURRENT LIABILITIES		6,157.9	5,246.8
TOTAL LIABILITIES		11,360.5	9,935.3
TOTAL EQUITY AND LIABILITIES		15,375.3	14,112.6

Authorised for issue by the Board and signed on its behalf on 26 April 2017 by:

David Wark
Director

The accompanying Notes 1 to 37 are an integral part of the consolidated balance sheets at 31 December 2016 and 31 December 2015.

SCOTTISH POWER UK PLC AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
for the years ended 31 December 2016 and 31 December 2015

	Notes	2016 £m	2015 £m
Revenue		5,422.5	6,590.4
Procurements		(3,195.8)	(4,149.0)
GROSS MARGIN		2,226.7	2,441.4
NET OPERATING EXPENSES		(645.7)	(721.7)
Net personnel expenses	25	(262.5)	(287.7)
Staff costs	25	(395.1)	(416.8)
Capitalised staff costs	25	132.6	129.1
Net external services		(383.2)	(434.0)
External services		(520.5)	(554.7)
Other operating income		137.3	120.7
Taxes other than income tax	26	(193.2)	(200.4)
EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION		1,387.8	1,519.3
Depreciation and amortisation charge, allowances and provisions	27	(556.5)	(854.2)
OPERATING PROFIT		831.3	665.1
Result of companies accounted for using the equity method	10	0.9	(4.3)
Gains on disposal/acquisition of non-current assets		1.6	6.5
Losses on disposal of non-current assets		-	(0.4)
Finance income	28	24.2	43.1
Finance costs	29	(184.3)	(198.0)
PROFIT BEFORE TAX		673.7	512.0
Income tax	30	(92.7)	(25.3)
NET PROFIT FOR THE YEAR		581.0	486.7
Non-controlling interests	16	(0.1)	(0.1)
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT		580.9	486.6

All results relate to continuing operations.

The accompanying Notes 1 to 37 are an integral part of the consolidated income statements for the years ended 31 December 2016 and 31 December 2015.

SCOTTISH POWER UK PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the years ended 31 December 2016 and 31 December 2015

	Note	2016 £m	2015 £m
NET PROFIT FOR THE YEAR		581.0	486.7
OTHER COMPREHENSIVE INCOME			
Items that may be subsequently reclassified to the income statement:			
Cash flow hedges:			
Change in the value of cash flow hedges	15	79.8	19.9
Tax relating to cash flow hedges	15	(15.0)	(4.0)
		64.8	15.9
Items that will not be reclassified to the income statement:			
Actuarial losses on retirement benefits:			
Actuarial losses on retirement benefits	15	(251.4)	(10.5)
Tax relating to actuarial losses on retirement benefits	15	42.1	2.1
Cash flow hedges:			
Change in the value of cash flow hedges	15	78.8	3.6
Tax relating to cash flow hedges	15	(15.7)	(0.7)
		(146.2)	(5.5)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		(81.4)	10.4
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		499.6	497.1
Total comprehensive income for the year attributable to equity holders of the parent		499.5	497.0
Total comprehensive income for the year attributable to non-controlling interests		0.1	0.1
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		499.6	497.1

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ended 31 December 2016 and 31 December 2015

	Attributable to equity holders of the parent								
	Ordinary share capital £m	Share premium £m	Hedge reserve £m	Translation reserve £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2015	872.0	398.2	(67.5)	(0.1)	14.0	2,693.7	3,910.3	0.4	3,910.7
Total comprehensive income for the year	-	-	18.8	-	-	478.2	497.0	0.1	497.1
Exchange movement on translation of overseas results and net assets	-	-	-	(0.5)	-	-	(0.5)	-	(0.5)
Dividends	-	-	-	-	-	(230.0)	(230.0)	-	(230.0)
At 1 January 2016	872.0	398.2	(48.7)	(0.6)	14.0	2,941.9	4,176.8	0.5	4,177.3
Total comprehensive income for the year	-	-	127.9	-	-	371.6	499.5	0.1	499.6
Exchange movement on translation of overseas results and net assets	-	-	-	0.9	-	-	0.9	-	0.9
Dividends	-	-	-	-	-	(663.0)	(663.0)	-	(663.0)
At 31 December 2016	872.0	398.2	79.2	0.3	14.0	2,650.5	4,014.2	0.6	4,014.8

The accompanying Notes 1 to 37 are an integral part of the consolidated statements of comprehensive income and the consolidated statements of changes in equity for the years ended 31 December 2016 and 31 December 2015.

SCOTTISH POWER UK PLC AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
for the years ended 31 December 2016 and 31 December 2015

	2016 £m	2015 £m
Cash flows from operating activities		
Profit before tax	673.7	512.0
Adjustments for:		
Depreciation, amortisation and impairment	489.0	798.8
Research and development expenditure credit	(0.8)	(0.5)
Change in provisions	24.9	56.7
Result of companies accounted for using the equity method	(0.9)	4.3
Capital grants and transfer of assets from customers	(32.3)	(31.5)
Finance income and costs	160.1	154.9
Net losses/(gains) on disposal/write-off non-current assets	0.7	(3.3)
Movement in retirement benefits	(80.1)	(63.8)
Net fair value (gains)/losses on operating derivatives	(54.1)	12.4
Movement in deferred income	(0.1)	(0.1)
Movement in plant maintenance stocks	(7.9)	3.4
Changes in working capital:		
Change in trade and other receivables	69.4	9.8
Change in inventories	20.3	184.1
Change in trade and other payables	102.2	(310.6)
Provisions paid	(17.5)	(12.5)
Emissions allowances acquired	(23.6)	(58.3)
Assets received from customers	126.7	105.7
Income taxes paid	(107.9)	(108.3)
Interest received	14.3	18.7
Dividends received	0.1	0.1
Net cash flows from operating activities (i)	1,356.2	1,272.0
Cash flows from investing activities		
Investments in intangible assets	(43.3)	(44.6)
Investments in property, plant and equipment (net of capital grants)	(1,569.0)	(1,063.7)
Investments in/disposal of jointly controlled entities	23.3	23.8
Investments in other non-current investments	-	(0.6)
Proceeds from disposal of property, plant and equipment	2.2	3.0
Net proceeds paid from disposal of subsidiary	-	(6.3)
Net cash flows from investing activities (ii)	(1,586.8)	(1,088.4)
Cash flows from financing activities		
Increase in amounts due to Iberdrola group companies	330.5	100.7
Cash inflows from borrowings	22.4	7.1
Dividends paid to company's equity holders	(663.0)	(230.0)
Interest paid	(171.2)	(182.5)
Repayments of borrowing	-	(4.7)
Net cash flows from financing activities (iii)	(481.3)	(309.4)
Net decrease in cash and cash equivalents (i)+(ii)+(iii)	(711.9)	(125.8)
Effect of foreign exchange rates on cash and cash equivalents	(5.3)	2.7
Cash and cash equivalents at beginning of year	(2,489.1)	(2,366.0)
Cash and cash equivalents at end of year	(3,206.3)	(2,489.1)

Cash and cash equivalents at end of year comprises:		
Consolidated balance sheet cash	35.5	23.7
Receivables due from Iberdrola group companies - loans	677.7	766.7
Payables due to Iberdrola group companies - loans	(3,919.5)	(3,279.5)
Consolidated cash flow statement cash and cash equivalents	(3,206.3)	(2,489.1)

The accompanying Notes 1 to 37 are an integral part of the consolidated cash flow statements for the years ended 31 December 2016 and 31 December 2015.

NOTES TO THE CONSOLIDATED ACCOUNTS
31 December 2016

1 GROUP ACTIVITIES
A. COMPANY INFORMATION
Scottish Power UK plc
The group's holding company is Scottish Power UK plc (registered company number SC117120), a private company limited by shares. It is incorporated in Scotland and its registered address is 320 St. Vincent Street, Glasgow G2 5AD.

B. GROUP INFORMATION
The group provides electricity transmission and distribution services in the UK, supplies gas and electricity services to homes and businesses across the UK, operates electricity generation and gas storage facilities and provides associated energy management activities in the UK. It also conducts renewable energy activities across the UK, Republic of Ireland, France and Germany.

As described in Note 6, in line with IFRS 8 'Operating Segments', the group defines operating segments based on a combination of factors, principally differences in products and services and the regulatory environment in which the business operates.

The group operated and reported three segments during the year: Energy Networks, Energy Wholesale and Retail and Renewables.

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

Energy Wholesale and Retail
The generation of electricity from the group's own power stations, the purchase of external supplies of coal (until 24 March 2016) and gas for the generation of electricity, the purchase of external supplies of electricity and gas for onward sale to customers and the optimisation of gas storage. The business is also involved in the sale of electricity to market participants in the UK and the sale of electricity and gas to industrial and domestic customers, together with related billing and collection activities.

Renewables
The construction and the development of renewable energy generation assets and the generation and sale of electricity from those assets.

2 BASIS OF PREPARATION
A. BASIS OF PREPARATION OF THE ACCOUNTS
The company is required by law to prepare Accounts for both the company and the group and to deliver them to the Registrar of Companies. Both the group (being these consolidated Accounts) and the company's individual Accounts, have been prepared in accordance with International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") Interpretations (collectively referred to as IFRS), as adopted by the EU as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 December 2016. Both the group and company Accounts are prepared in accordance with the Accounting Policies set out in Note 3.

A1. CHANGES IN ESTIMATES
During 2016, Iberdrola performed a review of the life of their onshore wind farms; the analysis reviewed both internal and external sources of information. As a result of this review the group has increased the useful life of the civil works and turbine bases of the wind turbines to 40 years compared to the 24 years previously applied. This change in estimate has been applied prospectively from 1 January 2016. The impact of this change has been to reduce the depreciation of the group for the current year by £26.7 million. It is impracticable to estimate the effect of these changes on future periods.

B. ACCOUNTING STANDARDS
In preparing these Accounts, the group has applied all relevant IAS, IFRS and IFRIC Interpretations which have been adopted by the EU as of the date of approval of these Accounts and which are mandatory for the financial year ended 31 December 2016.

For the year ended 31 December 2016, the group has applied the following standards and amendments for the first time:

Standard	Note
• Amendments to IAS 1 'Presentation of Financial Statements: Disclosure Initiative'	(a)
• Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' – 'Clarification of Acceptable Methods of Depreciation and Amortisation'	(a)
• Amendments to IAS 16 'Property, Plant and Equipment' and IAS 41 'Agriculture' – 'Bearer Plants'	(a)
• Amendments to IAS 27 'Separate Financial Statements: Equity Method in Separate Financial Statements'	(a)
• Amendments to IFRS 11 'Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations'	(a)
• Annual Improvements to IFRS Standards 2012-2014 Cycle	(a)
• Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in and Joint Ventures' – 'Investment Entities: Applying the Consolidated Exception'	(a)

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

2 BASIS OF PREPARATION *continued*

B. ACCOUNTING STANDARDS *continued*

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

Standard	Notes	IASB effective date (for periods commencing on or after)	Planned date of application by the group
• Amendments to IAS 12 'Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses'	(b), (c), (d)	1 January 2017	1 January 2018
• Amendments to IAS 7 'Statement of Cash Flows: Disclosure Initiative'	(b), (c), (d)	1 January 2017	1 January 2018
• Annual Improvements to IFRS Standards 2014 – 2016 Cycle	(b), (c), (e)	1 January 2017 & 1 January 2018	1 January 2018
• IFRS 9 'Financial Instruments'	(f)	1 January 2018	1 January 2018
• IFRS 15 'Revenue from Contracts with Customers' (including 'Amendments to IFRS 15: Effective date of IFRS 15')	(g)	1 January 2018	1 January 2018
• Clarifications to IFRS 15 'Revenue from Contracts with Customers'	(c), (g)	1 January 2018	1 January 2018
• Amendments to IAS 40 'Investment Property: Transfers of Investment Property'	(b), (c)	1 January 2018	1 January 2018
• Amendments to IFRS 2 'Share-based Payments: Clarification and Measurement of Share-based Payment Transactions'	(b), (c)	1 January 2018	1 January 2018
• Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'	(b), (c)	1 January 2018	1 January 2018
• IFRIC 22 'Foreign Currency Transactions and Advance Consideration'	(b), (c)	1 January 2018	1 January 2018
• IFRS 16 'Leases'	(c), (h)	1 January 2019	1 January 2019
• IFRS 14 'Regulatory Deferral Accounts'	(b), (c), (i)	1 January 2016	To be decided
• Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' – 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	(b), (c), (j)	Deferred indefinitely	To be decided

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

(c) This pronouncement has not yet been endorsed by the EU.

(d) Despite the IASB effective date of 1 January 2017, this pronouncement has yet to be endorsed by the EU (expected 2017). The endorsement notice will be reviewed for specific guidance but in the absence of further information it is anticipated that the group will apply this pronouncement for the accounting period following endorsement, i.e. 1 January 2018.

(e) This pronouncement includes amendments to three standards. The amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 28 'Investments in Associates and Joint Ventures' have an effective date of 1 January 2018. The amendments to IFRS 12 'Disclosure of Interests in Other Entities' have an effective date of 1 January 2017. Despite this, the pronouncement has yet to be endorsed by the EU (expected 2017). The endorsement notice will be reviewed for specific guidance but in the absence of further information it is anticipated that the group and the company will apply this amendment for the accounting period following endorsement, i.e. 1 January 2018.

(f) The group is currently analysing the impact of implementing IFRS 9 'Financial Instruments' ('IFRS 9') which is effective for the group from 1 January 2018. Following a preliminary analysis, the group provisionally expects that financial assets will be measured at amortised cost, except for equity instruments and derivative financial instruments that will be measured at fair value. The group intends to apply the general approach to the recognition of expected credit losses to all financial assets; except for trade receivables and leases to which the simplified approach will be taken regardless of whether they contain a significant financing component. The probability of default is not expected to be significant given the high credit quality of the financial assets. It is anticipated that more hedging instruments and hedged items will qualify for hedge accounting under IFRS 9. This analysis will continue in 2017.

(g) The group is currently analysing the impact of implementing IFRS 15 'Revenue from Contracts with Customers' and the associated amendments and clarifications, all of which are effective for the group from 1 January 2018. Following a preliminary analysis of income earning arrangements, the only significant impact expected on the consolidated Accounts is the capitalisation of incremental costs of obtaining certain contracts. This analysis will continue in 2017.

(h) The group is currently analysing the impact of implementing IFRS 16 'Leases' ('IFRS 16') which is effective for the group from 1 January 2019. The group's principal leases relate to land for wind farms and sub-stations, property and vehicles. Most of these leases are currently classified as operating leases under IAS 17 'Leases'. The group expects to recognise 'right-of-use' assets and corresponding lease liabilities. The value of these is expected to be greater than the future minimum lease payments disclosed in Note 9(c). The group expects to take the exemptions in relation to short-term leases and leases of low-value assets. The group does not intend to bring leases of intangible assets within scope of IFRS 16. On transition, the modified retrospective method is expected to be applied and the new lease definition applied to all existing contracts at this point. The group is currently modifying its IT systems in order to adapt to the new requirements. This analysis will continue in 2017.

(i) The endorsement process of this interim standard has not been launched as the EU has decided to wait for the final standard to be issued.

(j) The IASB set the effective date of this pronouncement as periods commencing on or after 1 January 2016. However, in December 2015, the IASB postponed the effective date indefinitely pending the outcome of its research project on the equity method of accounting. The EU endorsement process for this pronouncement has been postponed, awaiting a revised exposure draft from the IASB. The IASB effective date will be amended in due course.

2 BASIS OF PREPARATION *continued*

B. ACCOUNTING STANDARDS *continued*

The Energy Companies Obligation ("ECO") was established on 4 December 2012 by The Electricity and Gas (Energy Company Obligation) Order 2012 ("the Order"). It imposes a legal obligation on larger energy suppliers to deliver energy efficiency measures to domestic energy users.

Once a supplier has been considered eligible for the ECO obligation, based on their domestic customer numbers, the amount of the obligation is established based on the amount of energy supplied to such domestic customers. The overall obligation period is multiannual and the obligation period is broken down into different phases. For each phase, Ofgem determines the amount of each supplier's obligation based on the domestic energy supplied by each energy supplier as a proportion of the total domestic energy supplied by all suppliers during the relevant notification period.

The ECO obligation commenced on 1 January 2013 and was initially expected to run to 31 March 2015. On 5 December 2013 the UK Government announced an extension of the overall obligation period from 31 March 2015 to 31 March 2017.

In November 2015, the UK Government announced that ECO will be replaced with a new longer term supplier obligation to reduce carbon emissions and focus on the fuel poor. Consultation remains ongoing, however, the new obligation is expected to run from 1 October 2018 to 31 March 2022. In transition towards this longer term scheme, a proposed further extension to ECO has reached parliamentary approval which will cover the period from 1 April 2017 to 30 September 2018.

The group considers that the appropriate accounting treatment is prescribed by IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', as this obligation complies with the three features to be considered for a provision (present obligation, probable out-flow of resources and a reliable estimate can be made). In accordance with a legal opinion obtained by the group, it is considered that an obligation arises for each phase of the overall obligation period. For this reason, it is appropriate to consider this obligation as an additional cost of supply to domestic customers, as this activity constitutes the obligating event, as defined under IAS 37.

The Financial Reporting Council ("FRC") staff paper 'Accounting for the Energy Company Obligation', dated 27 September 2013, indicates that the expenditure should be recognised as the assigned measures are being implemented, regardless of the rate at which energy is supplied to the domestic customers. The external auditor has determined that this is the only accounting treatment which is acceptable.

Based on the FRC staff paper and the opinion of the external auditor, the group has recorded the expense in its financial statements as the measures were actually implemented during the year. This accounting treatment involves recording £5.2 million in addition to (2015 £21.6 million less than) the amount that would have resulted from following a recognition rate of the obligation consistent with the rate of energy supplied to domestic customers during the accounting period.

C. BASIS OF CONSOLIDATION

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

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

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

The interest of non-controlling shareholders is initially stated at the non-controlling party's proportion of the fair values of the assets and liabilities recognised. In a business combination achieved in stages, the previously held equity interest in the acquiree is remeasured at its acquisition date fair value and resulting gain or loss recognised in profit or loss.

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

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

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

3 ACCOUNTING POLICIES

The principal accounting policies applied in preparing the group's consolidated Accounts and, where applicable, the company's Accounts, are set out below. The 'company' or 'SPUK' refers to Scottish Power UK plc.

A. REVENUE
B. GOODWILL
C. INTANGIBLE ASSETS (EXCLUDING GOODWILL)
D. PROPERTY, PLANT AND EQUIPMENT
E. LEASED ASSETS
F. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (EXCLUDING GOODWILL)
G. FINANCIAL INSTRUMENTS
H. INVENTORIES (EXCLUDING EMISSIONS ALLOWANCES)
I. EMISSIONS ALLOWANCES
J. GRANTS AND TRANSFERS OF ASSETS FROM CUSTOMERS
K. RETIREMENT BENEFITS
L. DECOMMISSIONING COSTS
M. FOREIGN CURRENCIES
N. TAXATION
O. INVESTMENTS

A. REVENUE

Revenue comprises the sales value of electricity and gas and other related energy services supplied to customers during the year and excludes Value Added Tax and intra-group sales. The group recognises revenue in respect of its principal revenue-generating operations as follows:

Transmission and distribution – revenue comprises charges made to the Great Britain system operator for the use of the transmission network and charges made to customers for use of the distribution network. Distribution revenue includes accruals in respect of unbilled income relating to units transferred over the network established from data flows and for other rechargeable work completed but not yet billed.

Generation – revenue comprises the value of units supplied during the year. Units are based on energy volumes that can actually be sold on the wholesale market and are recorded on wind farm and power station meters and industry-wide trading and settlement systems. Revenue from wind farms also includes the value of Renewables Obligation Certificates ("ROCs") sold during the year and Levy Exemption Certificates ("LECs") until their cessation effective 1 August 2015.

Wholesale – revenue comprises the value of units of wholesale energy supplied to customers during the year. Units are based on energy volumes that can actually be sold on the wholesale market and are recorded using industry-wide trading and settlement systems. Purchases of wholesale energy are reported within 'Procurements'.

Retail – revenue from the sale of energy to retail customers is the value of units supplied during the year and includes an estimate of the value of units supplied to customers between the date of their last meter reading and the year end, based on external data supplied by the electricity and gas market settlement process.

Gas storage – natural gas storage revenues are recognised over the contract period and hub service revenues are recognised at the point of gas flowing into or out of the storage facilities.

Interest income is accrued on a time proportional basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate which exactly discounts estimated future cash receipts through the expected life of the asset to that asset's carrying amount.

B. GOODWILL

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

Goodwill is recognised as an asset and reviewed for impairment at least annually and whenever there is an indication of impairment. Any impairment is recognised in the income statement in the period in which it is identified.

On disposal of a subsidiary, associate, jointly controlled entity or business, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions after 31 March 1998 but prior to the group's date of transition to IFRS, 1 April 2004, has been retained as an asset at the previous UK Generally Accepted Accounting Principles amounts as at 1 April 2004.

Goodwill arising on acquisitions prior to 1 April 1998 was written off against reserves and will not be included in determining any subsequent profit or loss on disposal.

3 ACCOUNTING POLICIES *continued*

C. INTANGIBLE ASSETS (EXCLUDING GOODWILL)

C1. COMPUTER SOFTWARE COSTS

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 will probably generate economic benefits over a period in excess of one year are capitalised and amortised, on a straight-line basis, over their estimated operational lives. Costs include employee costs relating to software development and an appropriate proportion of relevant overheads directly attributable to bringing the software into use. Amortisation of computer software costs is over periods of up to seven years.

C2. OTHER INTANGIBLE ASSETS

Value was attributed to future Renewables projects recognised by Iberdrola, S.A. on the acquisition of ScottishPower Renewable Energy Limited ("SPREL") and was carried at acquisition cost. These assets were transferred to 'Property, plant and equipment' when the construction of each wind farm commenced.

D. PROPERTY, PLANT AND EQUIPMENT

The group and company 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. Property, plant and equipment includes capitalised employee costs, interest 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 are undertaken annually of the estimated remaining lives and residual values of property, plant and equipment. Residual values are assessed based on prices prevailing at each balance sheet date.

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

	Years
Hydro-electric plants	5-105
Fossil fuel plants	2-46
Combined cycle plants	2-37
Gas storage facilities	10-35
Wind farms	24-40
Transmission facilities	40
Distribution facilities	23-40
Meters and measuring devices	2-15
Other facilities and other items of property, plant and equipment	2-50

E. LEASED ASSETS

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; whether fulfilment of the arrangement is dependent on the use of a specific asset(s) or the arrangement conveys a right to use the asset(s), even if that right is not explicitly specified in the arrangement. For arrangements entered into prior to 1 April 2004, the date of inception is deemed to be 1 April 2004 in accordance with the transitional requirements of IFRIC 4 'Determining Whether an Arrangement Contains a Lease'.

The group classifies leases as finance leases whenever the lessor transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance lease receivables are initially recognised at the lower of the fair value of the leased asset and the present value of future payments. Finance income is subsequently recognised over the useful life of the leased asset using the effective interest method.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

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

At each balance sheet date, the group 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 group estimates the recoverable amount of the cash generating unit to which the asset belongs.

G. FINANCIAL INSTRUMENTS

This policy is applicable to both the group's consolidated Accounts and the company's individual Accounts.

G1. ACCOUNTING POLICIES UNDER IAS 39

(a) Financial assets categorised as trade and other receivables are recognised and carried at original invoice amount less an allowance for impairment of doubtful debts. Allowance for doubtful debts has been estimated by management, taking into account future cash flows, based on past experience and assessment of the current economic environment within which the group operates.

(b) The carrying amount of finance lease receivables is calculated as set out in Note 3E.

3 ACCOUNTING POLICIES *continued*

G. FINANCIAL INSTRUMENTS *continued*

G1. ACCOUNTING POLICIES UNDER IAS 39 *continued*

(c) Cash and cash equivalents and term deposits in the balance sheet comprise cash on hand and term deposits which are readily convertible into a known amount of cash without a significant risk of changes in value. In the cash flow statement, cash and cash equivalents exclude term deposits which have a maturity of more than 90 days at the date of acquisition and include bank overdrafts repayable on demand the next business day and the net of current loans receivable and payable from group companies.

(d) Financial liabilities categorised as trade and other payables are recognised and carried at original invoice amount.

(e) All interest bearing loans and borrowings are initially recognised at fair value, net of directly attributable transaction costs. Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method, except where the loan or borrowing is a hedged item in an effective fair value hedging relationship (see G3. Hedge Accounting).

(f) 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. Revaluation surpluses and deficits are recognised in the statement of comprehensive income.

(g) The group enters into sale and purchase transactions for gas, electricity, oil and coal (until 24 March 2016) in the normal course of its energy business. Most of these contracts are entered into for the purposes of the group's expected business requirements. These 'own use' contracts are outside the scope of IAS 39 'Financial Instruments: Recognition and Measurement', and are accounted for on an accruals basis.

Certain physical commodity purchase and sale contracts are within the scope of IAS 39 because they are net settled or are capable of net settlement. All such contracts are classified as derivative financial instruments in accordance with IAS 39. The group also enters into treasury-related derivatives to manage its financial risk. The group's policies and management with respect to risks are discussed in Note 4.

IAS 39 requires all derivatives to be recognised on the balance sheet at fair value. Embedded derivatives in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value through the income statement.

Unrealised gains or losses on remeasurement of derivatives and embedded derivatives are reported in the income statement except when hedge accounting is applied (see G3 below). Fair value gains and losses on derivatives used in the group's energy management activities are recognised in the income statement within procurements and fair value gains and losses on derivatives used in the group's treasury activities are recognised in the income statement as finance income or finance costs as appropriate.

G2. RISK CONTROL ENVIRONMENT

The group's strategy is to conduct business in a manner benefiting customers through balancing cost and risk while delivering shareholder value and protecting the group's performance and reputation by prudently managing the risks inherent in the business. To maintain this strategic direction the group develops and implements risk management policies and procedures, and promotes a rigid control environment at all levels of the organisation. Further details of the group's strategy and management of risks are discussed in detail in Note 4.

G3. HEDGE ACCOUNTING

Hedge accounting is applied when certain conditions required by IAS 39 are met. Hedge accounting falls into the following categories:

G3.1 CASH FLOW HEDGES

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. For hedges of financing activities, any ineffectiveness is recognised within 'Finance income' or 'Finance costs', as appropriate, in the income statement. If the cash flow hedge relates to an underlying transaction which results in the recognition of a non-financial asset, the associated gains or losses on the derivative that had previously been recognised in equity are recognised in the initial measurement of the asset arising from the hedged transaction. For hedges that relate to an underlying transaction which results in recognition of a financial asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects the income statement.

G3.2 FAIR VALUE HEDGES

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

3 ACCOUNTING POLICIES *continued*

G. FINANCIAL INSTRUMENTS *continued*

G3.3 HEDGE EFFECTIVENESS

Hedge effectiveness is measured and respective entries recorded in the balance sheet, reserves and income statement on a monthly basis in respect of commodities and on a half-yearly basis in respect of treasury hedging relationships. Hedge effectiveness is achieved where the correlation between the changes in value of the hedging instrument and the hedged item is between 80% and 125%.

G3.4 DISCONTINUING HEDGE ACCOUNTING

The group discontinues prospectively 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.

G4. VALUATION OF FINANCIAL INSTRUMENTS

In those circumstances where IAS 39 requires financial instruments to be recognised in the balance sheet at fair value, the group's valuation strategies for derivative and other financial instruments utilise as far as possible quoted prices in an active trading market.

In the absence of quoted prices for identical or similar assets or liabilities, it is sometimes necessary to apply valuation techniques where contracts are marked using approved models. Models are used for developing both the forward curves and the valuation metrics of the instruments themselves where 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 designed to ensure the validity and accuracy of the model assumptions and inputs.

G5. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

H. INVENTORIES (EXCLUDING EMISSIONS ALLOWANCES)

Inventories are valued at the lower of average cost and net realisable value.

I. EMISSIONS ALLOWANCES

The group participates in the EU Emissions Trading Scheme ("EU ETS"). As there are no specific rules under IFRS dealing with the treatment of emissions allowances, the group, in alignment with group accounting policy, classifies purchased emissions allowances as inventories as they are consumed in the production process. Such allowances are recognised at their acquisition cost. Emissions allowances are charged to the income statement as the emissions arise.

The group recognises liabilities in respect of its obligations to deliver emissions allowances at the value at which these allowances were initially recognised on the balance sheet. If it is estimated that it will be necessary to deliver more emissions allowances than recorded on the balance sheet, the liability for this shortfall is calculated based on the market price of the allowances at the balance sheet date.

J. GRANTS AND TRANSFERS OF ASSETS FROM CUSTOMERS

Capital and revenue grants and transfers of assets from customers are initially credited to 'Deferred income'.

Capital grants are released to the income statement in equal installments over the estimated operational lives of the related assets. Revenue grants are released to the income statement over the period in which they are intended to contribute to expenditure incurred.

Pursuant to the applicable industry regulations, the group occasionally receives contributions from its customers for the construction of grid connection facilities, or is assigned such assets that must be used to connect those customers to a network and provide them with ongoing access to a supply of goods or services, or both. As the installation received is considered to be payment for ongoing access to the supply of the goods and services, it is credited to deferred income and released to the income statement in equal installments over the estimated operational lives of the related assets.

K. RETIREMENT BENEFITS

The group provides pensions through defined benefit schemes and one defined contribution scheme.

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

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

3 ACCOUNTING POLICIES *continued*

L. DECOMMISSIONING COSTS

Provision is made, on a discounted basis, for the estimated decommissioning costs at the end of the producing lives of the group's power stations and 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'.

M. FOREIGN CURRENCIES

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

The results and cash flows of overseas subsidiaries are translated to sterling at average rates of exchange. The net assets of such subsidiaries, including fair value adjustments and the goodwill arising on their acquisition, are translated to sterling at the closing rates of exchange ruling at the balance sheet date.

N. TAXATION

The group's and 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 in 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.

O. INVESTMENTS

The company's investments in subsidiaries are stated in the balance sheet at cost, or fair value of shares issued as consideration where applicable. Dividends from subsidiaries are recognised when the right to receive the dividend is established.

4 FINANCIAL RISK MANAGEMENT POLICY

The group's principal financial liabilities, other than derivatives, comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the group's operations. The group has loans and other receivables, trade and other receivables, and cash and short-term deposits that arise directly from its operations. The group also holds other investments, finance lease receivables and enters into derivative contracts.

During the year ended 31 December 2016, the group has been exposed to energy market risk, credit risk and treasury risk. The group's senior management oversees the management of these risks. Details of the governance structure in place are summarised below.

During the year under review, the ScottishPower governance structure and so that of the group, was supported by risk policies approved by the ScottishPower Board. These risk policies are adopted and the risk limits and indicators approved by the Boards of the group's businesses. ScottishPower's business risk assessment teams and the independent group risk management function support the ScottishPower Board in the execution of due diligence and risk management. In addition, the Boards of the group's businesses are responsible for ensuring that their respective business risks are adequately assessed, monitored, mitigated and managed. The UK Risk Director reports on risks for ScottishPower to the ScottishPower Audit and Compliance Committee and such reports are then presented to the ScottishPower Board.

The governance structure ensured that the risk management policies established for each business to identify, assess, monitor, report, manage and mitigate each of the various types of risk involved in its business were adequately designed and implemented and that an effective and efficient system of internal controls was maintained. The businesses adhered to their specific business risk limits and guidelines which were approved by the ScottishPower Board.

4 FINANCIAL RISK MANAGEMENT POLICY *continued*

The position on risk and strategy for risk management were contained in the Risk Policy for Iberdrola's businesses in the UK (ScottishPower). The ScottishPower Board adopted these policies and they were implemented through a rigid risk governance structure, whereby responsibilities were vested with groups, committees and individuals on a global as well as business level. Generally, the risk management policy and control environment ensured that transactions undertaken and instruments used fall into the types of transactions approved by the ScottishPower Board and are properly validated within the appropriate levels of authority. Transactions included instruments such as physically settled instruments, financially-settled instruments, other contractual obligations, regulatory requirements and other obligations. The types of instruments which can be used are approved for each business. Subject to the limit requirements discussed above, no transaction was executed unless it was an approved instrument. Authorised personnel were permitted to engage only in those activities specified in the business operational policies and procedures.

A clear reporting structure was implemented within the group. It ensured that the portfolios were monitored on a timely basis and sufficient information was made available to management to enable quick response of the business to the dynamic characteristics of its market environment. Those reports included daily position, mark-to-market, Value at Risk ("VaR") reports as well as periodical fundamentals reports, credit watch, credit exposure, accounting and insurance reports.

Further details of the policies in place to manage exposure to the key risks are detailed below:

(a) Energy market risk
The group is exposed to market risk associated with fluctuations in the market price of electricity and generation fuel compounded by volumetric risk caused by unplanned changes in the load and output of its portfolio of generation assets. The risk management policies are implemented at the business level with the oversight of the businesses' Boards, management teams and the independent risk management function. The group uses a number of risk measurement procedures and techniques to ensure that risk is kept within pre-approved limits. The key measures are stop loss limits and volume exposure by tenor limits. All valuation models are reviewed and approved by the independent group Risk Management function on an ongoing basis, including changes to assumptions and model inputs. Changes that could have had significant impact on the Accounts required additional review and approval by the appropriate Boards.

The Risk Management function employs additional techniques such as VaR, to assist in measuring risk within the volume exposure by tenor limits. VaR is a key measure of the potential financial loss on a price exposure position over a defined period to a given level of confidence. VaR computations for the group's energy commodity portfolios are based on a historical simulation technique, which utilises historical energy market forward price curve changes to estimate the potential unfavourable impact of price changes in the portfolio positions. The quantification of market risk using VaR provides a consistent measure of risk and sensitivity across the group's continually changing portfolio, however, VaR is not necessarily indicative of actual results that may occur. Future changes in markets inconsistent with historical data or assumptions used could cause variation in actual results to exceed predicted ranges. The group's VaR computations for its energy commodity portfolio utilise several key assumptions, including a 99% confidence level for the resultant price changes and a holding period of five business days. VaR, while sensitive to changes in portfolio volume, does not account for commodity volume risk. Commodity volume risk is defined as the possibility that a change in the supply of, or demand for, the commodity will create an unexpected imbalance and change the requirements for the commodity.

The application of the VaR methodology has evolved to include the total forecasted volumes for the generation assets and retail contracts to provide a more accurate measure of the risk associated with the volume exposure by tenor limits. The group's VaR measures are shown in the table below.

	2016 £m	2015 £m
VaR	42.0	20.9
Average VaR over prior year	29.0	23.6
Maximum VaR over prior year	42.0	30.0
Minimum VaR over prior year	18.5	13.9

Hedging activities associated with energy market risk are undertaken within the energy management function. The strategy of the business is to mitigate the economic risks associated with electricity generation, purchase of fuel and supply of electricity and natural gas to end users in both the wholesale and retail markets and also to optimise the value of the asset portfolio. From a reporting perspective the objective is to report earnings results that are consistent with its operational strategies and hence recognise the earnings effect of financial and non-financial derivative transactions executed to hedge economic business risks in the same period in which the hedged operational activity impacts earnings. The aim is to minimise earnings volatility, which would otherwise be present as a result of fair valuing all derivative contracts under IAS 39. To achieve this objective, where effectiveness documentation and reporting requirements are met, cash flow hedge accounting is applied by designation of a series of derivative trades and deferring in equity the fair value changes of open derivative positions until the period in which forecast transactions occur. A number of contracts do not qualify for own use or hedge accounting under IAS 39 and are therefore wholly or partially fair valued through the income statement.

4 FINANCIAL RISK MANAGEMENT POLICY *continued*

(a) Energy market risk *continued*

Cash flow hedging strategies are developed for each of the electricity, natural gas, coal and carbon allowances portfolios to hedge the variability in cash flows associated with changes in the market price of each commodity. Forward (fixed price/fixed volume) contracts are designated as hedging instruments in the electricity, gas, and carbon hedges, and financial swaps are designated in the coal hedge. Coal hedging ceased during 2016 following the closure of Longannet.

The electricity, gas, coal and carbon hedges relate to the cash flow variability associated with sales of electricity and purchases of electricity, natural gas, coal and carbon allowances at floating prices that are required to meet forecast demand for each commodity. Forecast demand is based on the existing level of and predicted changes in customer numbers and historic profiles of demand, plus the existing level of and predicted changes in generating activity, all of which are highly probable of occurring. The associated cash flows extend until 2020 for electricity, 2019 for gas and 2020 for carbon allowances.

The assessment of effectiveness of all hedging relationships currently in place is carried out on a monthly basis as part of the financial reporting cycle. Prospective assessment is carried out at inception of the hedge and on an ongoing basis to verify that the forecast is still highly probable of occurring.

Retrospective assessment is also carried out to assess the effectiveness in the period under review. Prospective and retrospective assessment is performed using statistical analysis and the business can apply the hedge accounting rules prescribed by IAS 39 if the hedging relationship passes the criteria of a three-step regression test.

(b) Credit risk

The group is exposed to both settlement risk (defined as the risk of a counterparty failing to pay for energy and/or services which have been delivered), as well as replacement risk (defined as the risk of incurring additional costs in order to replace a sale or purchase contract following a counterparty default). Credit risk is mitigated by contracting with multiple counterparties and limiting exposure to individual counterparties to clearly defined limits based upon the risk of counterparty default.

Aggregate portfolio risk is monitored and reported by a Credit Value-at-Risk Monte-Carlo based simulation model to quantify the total credit risk within the existing portfolio.

The group considers that 100% of its credit risk associated with energy-related derivatives can be considered to be with counterparties in related energy industries, financial institutions operating in energy markets or fellow Iberdrola group companies. At the counterparty level the group employs specific eligibility criteria in determining appropriate limits for each prospective counterparty and supplements this with netting and collateral agreements including margining, guarantees, letters of credit and cash deposits where appropriate.

Exposure to credit risk in the supply of electricity and gas arises from the potential customer defaulting on their invoiced payables. The financial strength and credit-worthiness of business customers is assessed prior to commencing, and for the duration of their contract of supply. Domestic credit worthiness is reviewed from a variety of internal and external information.

At 31 December 2016 and 31 December 2015, the group evaluated the concentration of risk with respect to trade receivables as low, with no material concentration of credit risk in the group arising from one particular counterparty.

The table below shows trade receivables that are past due but not considered impaired. These relate primarily to retail customers who have not paid the outstanding balance within agreed payment terms:

	2016 £m	2015 £m
Past due but not impaired:		
Less than 3 months	98.3	103.6
Between 3 and 6 months	36.6	27.7
Between 6 and 12 months	38.8	30.9
After more than 12 months	14.0	11.5
	187.7	173.7

The requirement for an impairment is analysed at each reporting date and this is estimated by management taking into account future cash flows, prior experience, ageing analysis and an assessment of the current economic climate within which the group operates.

The maximum exposure to credit risk in respect of trade receivables is the carrying value of the trade receivables at the balance sheet date. The carrying value of trade receivables is stated net of the allowance for impairment.

4 FINANCIAL RISK MANAGEMENT POLICY *continued*

(c) Treasury risk

Treasury risk is comprised of liquidity risk and market risk. The group's cash management and short-term financing activity is integrated with ScottishPower, whose activities are themselves integrated with Iberdrola's. The group's financing structure is determined by its position in the wider Iberdrola group. The company holds investment grade ratings with Moody's Investor Services (Baa1), Standard & Poor's Rating Services (BBB+) and Fitch Ratings (BBB+).

(i) Treasury liquidity risk

Liquidity risk, the risk that the group will have insufficient funds to meet its liabilities, is managed by Iberdrola Group Treasury, who are responsible for arranging banking facilities on behalf of the group. For the purposes of the group, Scottish Power Limited is the principal counterparty for the loan balances due to and from the subsidiaries of Scottish Power UK plc.

The tables below summarise the maturity profile of the group's financial liabilities as at 31 December 2016 and 31 December 2015 based on contractual undiscounted payments.

Financial liabilities (excluding commodity derivatives)

	2016						
Cash outflows	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 and thereafter £m	Total £m
Derivative financial instruments (excluding commodity derivatives)*	107.5	30.6	1.1	–	–	–	139.2
Loans and other borrowings	4,615.4	286.9	275.5	229.0	408.9	2,164.6	7,980.3
Payables**	1,399.3	2.9	1.7	–	–	–	1,403.9
	6,122.2	320.4	278.3	229.0	408.9	2,164.6	9,523.4

	2015						
Cash outflows	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 and thereafter £m	Total £m
Derivative financial instruments (excluding commodity derivatives)*	215.8	96.4	7.6	–	–	–	319.8
Loans and other borrowings	3,559.3	339.1	280.9	270.3	209.4	2,382.2	7,041.2
Payables**	1,171.7	2.6	2.6	2.6	–	–	1,179.5
	4,946.8	438.1	291.1	272.9	209.4	2,382.2	8,540.5

* The above liquidity analysis is stated after the impact of counterparty netting (refer to Note 11 (c)).
** Contractual cash flows exclude accrued interest as these cash flows are included within loans and other borrowings.

Commodity derivatives

The group believes the liquidity risk associated with commodity derivatives needs to be considered in conjunction with the profile of payments in relation to all derivative contracts rather than only those in a liability position. It should be noted that cash flows associated with future energy sales and commodity contracts which are not IAS 39 financial instruments are not included in this analysis, which is prepared in accordance with IFRS 7 'Financial Instruments: Disclosures'.

	2016						
	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 and thereafter £m	Total £m
Net cash outflows	130.0	88.5	39.7	0.9	–	–	259.1

	2015						
	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 and thereafter £m	Total £m
Net cash outflows	244.6	102.7	14.6	0.8	–	–	362.7

Details of the group's contractual commitments are given in Note 33.

4 FINANCIAL RISK MANAGEMENT POLICY *continued*

(c) Treasury risk *continued*

(ii) Treasury market risk

Market risk is the risk of loss that results from changes in market rates (foreign exchange rates and interest rates). Within the Treasury function the group utilises a number of financial instruments to manage interest rate and foreign currency exposures.

The table below shows the debt structure of the group, after taking hedging derivatives into account.

Interest rate analysis of debt

	2016 £m	2015 £m
Fixed rate	2,019.0	1,832.9
Variable rate	4,864.0	3,984.3
	6,883.0	5,817.2

The reference interest rates for the floating rate borrowings are London Inter-Bank Offer Rate ("LIBOR"), Euro Bank Offered Rate ("EURIBOR"), Bank of England Base Rate ("Base") and Retail Prices Index ("RPI").

The variable rate debt consists of a £104.6 million (2015 £83.0 million) Japanese Yen ("JPY") loan, £273.6 million (2015 £269.6 million) inflation linked bonds, £200.3 million (2015 £179.2 million) LIBOR debt, £439.5 million (2015 £198.1 million) EURIBOR debt and a £3,846.0 million (2015 £3,254.4 million) loan linked to Base.

The interest on the £104.6 million JPY debt is fixed, however this is changed to variable by a cross currency swap. Interest is based on the Sterling LIBOR curve. For indicative purposes, a 1% increase in LIBOR would result in a £0.5 million increase in the full year interest charge.

For the inflation linked bonds, if RPI was to increase by 1% the impact on the annual interest rate charge would be £0.2 million. If RPI was to increase by 1% the impact on the capital would be £2.7 million.

For LIBOR/EURIBOR linked debt, a 1% increase in the rate would result in a £6.4 million increase in the full year interest charge.

The interest rate on the short-term variable rate debt is linked to Base, a 1% increase in the Base rate would result in £38.5 million increase in the full year interest charge.

Cash flow hedges

Hedging of commodity purchases: where commodities are priced in a currency other than Sterling, the foreign exchange risk is hedged using forward foreign exchange contracts. These are designated as cash flow hedges where they comply with the requirements of IAS 39.

Hedging of asset purchases: the group is subject to cash flow risk resulting from the purchase of various assets which are denominated in foreign currencies. The risk being hedged relates to the fluctuation in the functional currency terms of value of these foreign denominated purchases. The group enters into forward foreign exchange rate contracts to hedge those risks.

Hedging the value of currency denominated intercompany loans: the group has provided funding to or received funding from other Iberdrola companies denominated in currencies other than Sterling. The value of the group's assets or liabilities in relation to this funding is subject to foreign exchange risk. As a result, the group enters into cross currency swaps or foreign exchange rate contracts as hedges and has designated those within a cash flow hedging relationship where they meet required hedging criteria.

Fair value hedges

Hedging the value of cross currency debt: the group has issued debt instruments denominated in JPY. The value of the group's liability with respect to those instruments is subject to foreign exchange risk and interest rate risk. As a result the group has entered into cross-currency swaps as hedges and has designated those within a fair value hedging relationship where they meet required hedging criteria.

Hedging the value of currency denominated intercompany loans: the group has provided funding to other Iberdrola companies denominated in currencies other than Sterling. The value of the group's asset with respect to those loans is subject to foreign exchange risk and interest rate risk. As a result the group has entered into cross currency swaps and has designated those within a fair value hedging relationship where they meet the required hedging criteria.

Hedge assessment

Hedge assessment is done prospectively to verify that the forecast transactions are still highly probable of occurring (for cash flow hedges) as well as retrospectively, to assess the effectiveness in the period under review. Prospective assessment is performed using sensitivity analysis and critical terms matching. Retrospective assessment is performed using the dollar offset approach which compares the change in fair value of the hedging instrument with the hedged item, to determine whether a high level of correlation exists between those changes.

5 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy to be followed could materially affect the reported amounts of revenues, expenses, assets and liabilities of the group should it later be determined that a different choice would be more appropriate. Such a policy is discussed at (a) below. In addition, in preparing the consolidated Accounts in conformity with IFRS, the company is required to make estimates and assumptions that impact on the reported amounts of revenues, expenses, assets and liabilities of the group. Actual results may differ from these estimates. These are discussed at (b) to (h) below. These critical accounting judgements and key sources of estimation uncertainty should be read in conjunction with the full statement of Accounting Policies at Note 3.

(a) EMISSIONS ALLOWANCES

In accordance with the group accounting policy, purchased emissions allowances are recognised at cost within inventories. The group recognises liabilities in respect of its obligations to deliver emissions allowances. Any liabilities recognised are measured based on the value at which these allowances were initially recognised on the balance sheet. If it is estimated that it will be necessary to deliver more emission allowances than recorded on the balance sheet the liability to this shortfall is calculated based on the market price of the allowances at the balance sheet date.

At 31 December 2016, the liability in the balance sheet in respect of the company's obligation to deliver emissions allowances was £23.7 million (2015 £56.2 million).

(b) FINANCIAL INSTRUMENTS

IAS 39 requires certain financial instruments, in particular derivatives, to be recorded as assets and liabilities in the balance sheet. The group's valuation strategy for these financial instruments is to 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 to 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 designed to ensure the validity and accuracy of the model assumptions and inputs.

The assumptions within the models used to value financial instruments are critical, since any changes in assumptions could have a significant impact on the fair values and movements which are reflected in the group income statement, group statement of comprehensive income and group balance sheet. As a result, significant judgements must be made in applying IAS 39 to the group's energy contracts in particular. Disclosures relating to the group's VaR measures and derivative financial instruments are set out in Notes 4 and 21 respectively.

At 31 December 2016, the carrying value of derivative financial assets was £301.5 million (2015 £175.4 million) and the carrying value of derivative financial liabilities was £164.6 million (2015 £213.8 million).

(c) REVENUE

The nature of the energy industry in the UK in which the group operates is such that the group's revenue recognition is subject to a degree of estimation. The assessment of energy sales to retail customers is based on meter readings, which are carried out on a systematic basis throughout the year. Revenue from the sale of energy to retail customers and from wind farms is the value of units supplied during the year and includes an estimate of the value of the units supplied to customers between the date of their last meter reading and the period end based on external data supplied by the electricity and gas market settlement process. At the end of each accounting period, amounts of energy delivered to customers since the last billing date are estimated and the corresponding unbilled revenue is estimated and recorded in revenue.

Billed revenue not yet received is included in trade receivables and unbilled revenue is included within accrued income in the consolidated balance sheet. Billed and unbilled revenue relating to the group's retail customers included within the consolidated balance sheet at 31 December 2016 amounted to £493.3 million (2015 £509.4 million).

(d) IMPAIRMENT OF TRADE RECEIVABLES

Trade receivables are stated net of allowance for impairment of doubtful debts. The group estimates its provision for impairment taking into account future cash flows, based on prior experience, ageing analysis and an assessment of the current economic environment within which the group operates. Such estimates involve a significant degree of judgement.

The provision for impairment of trade receivables at 31 December 2016 amounted to £120.5 million (2015 £94.4 million) and trade receivables and accrued income (net of the provision for impairment) amounted to £707.1 million (2015 £772.3 million).

5 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *continued*

(e) IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND GOODWILL

In certain circumstances property, plant and equipment is required to be reviewed for impairment. Goodwill is reviewed for impairment at least annually. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the expected future cash flows of the relevant Cash Generating Unit ("CGU"), or disposal value if higher. The discount rate applied is based on the group's weighted average cost of capital with appropriate adjustments for the risks associated with the CGU. Estimates of cash flows involve a significant degree of judgement and are consistent with management's plans and forecasts.

At 31 December 2016, the carrying value of property, plant and equipment amounted to £12,829.1 million (2015 £11,246.8 million). The carrying value of goodwill amounted to £364.6 million (2015 £364.6 million). Refer to Note 8(b) for further details on the impairment testing performed on goodwill.

(f) CONTINGENCIES

Appropriate recognition and disclosure of contingent liabilities is made regarding litigation, tax matters, regulatory and environmental issues, among others. Accounting for contingencies requires significant judgement by management regarding the estimated probabilities and ranges of exposure to potential loss. The evaluation of these contingencies is performed by various specialists inside and outside of the group.

The company's assessment of the group's exposure to contingencies could change as new developments occur or more information becomes available. The outcome of the contingencies could vary significantly and could materially impact the group's results and financial position. The group has used its best judgement in applying IAS 37 to these matters.

(g) RETIREMENT BENEFITS

The group operates two defined benefit schemes for its employees which are accounted for in accordance with IAS 19 'Employee Benefits' ("IAS 19") using the immediate recognition approach.

The expense and balance sheet items relating to the group's accounting for pension schemes under IAS 19 are based on actuarial valuations. Inherent in these valuations are key assumptions, including discount rates, earnings increases, mortality and increases in pensions in payment. These actuarial assumptions are reviewed annually in line with the requirements of IAS 19. The assumptions adopted are based on prior experience, market conditions and the advice of actuaries and other specialists within the Iberdrola group.

At 31 December 2016, the liability in the balance sheet for retirement benefit obligations amounted to £442.5 million (2015 £264.4 million). Sensitivity disclosures relating to the group's retirement benefit obligations are set out in Note 18.

(h) DECOMMISSIONING AND ENVIRONMENTAL

The group periodically revises the estimates made concerning the costs to be incurred in the decommissioning of the group's plant (including wind farms) and the obligation to remove asbestos from the power stations over the course of their operational lives. At 31 December 2016, the present value of the aforementioned costs amounted to £199.3 million (2015 £209.2 million).

6 BUSINESS SEGMENT REPORTING

(a) Operating segments and business divisions

The group classifies its operating segments based on a combination of factors principally differences in products and services and the regulatory environment in which each business operates. The group is organised into three reportable segments: Energy Networks, Energy Wholesale and Retail and Renewables. The group identifies SPT, SPD and SPM as individual operating segments, but as management deem these operating segments to exhibit similar economic characteristics, they have been aggregated (together with other Energy Networks entities) into a single reported segment, Energy Networks. In line with IFRS 8 'Operating Segments' the group reports its operating segments on this basis and the measure of profit used for the purpose of reporting to the Chief Operating Decision maker ("CODM") is operating profit as per the consolidated income statement. All revenue for the reported segments arise from operations within Great Britain and Ireland.

In accordance with the disclosure requirements of IFRS, the Annual Report and Accounts of the company reports the relevant financial results of the reported segments as described above. In the interest of improved transparency the group has voluntarily disclosed revenue and operating profit for the separate business divisions within the Energy Wholesale and Retail and Renewables reported segments, whilst also providing detail in relation to non-recurring items and certain re-measurements arising from IAS 39, consistent with the Supply and Generation regulatory licence conditions. This information has been calculated, where appropriate, in accordance with Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences.

The group's reported segments, business functions and business divisions are as follows:

Reported segment	Business function	Business division	Business division description
Energy Networks		Energy Networks	The transmission and distribution business within the group.
Energy Wholesale and Retail	Energy Wholesale	Generation – Licensed business[1]	The licensed activity of the Energy Wholesale business function, which owns and operates gas and hydro-electric generation plant, and until 24 March 2016 coal generation.
		Energy Management[1]	The non-licensed activities of the Energy Wholesale business function, responsible for wholesale market sales and purchases for the Generation and Supply licensed business divisions.
		Other	The other non-licensed activity of the Energy Wholesale business function which includes the results of the group's waste water treatment facility.
	Energy Retail	Supply – Licensed business[1]	The licensed activity of the Energy Retail business function responsible for the supply of electricity and gas to domestic and non-domestic customers.
		Other	The non-licensed activity of the Energy Retail business function includes the group's Energy Services activities and non-licenced metering activities.
Renewables		Renewables – Licensed business[1]	The Great Britain licensed activity of the Renewables reported segment, which develops and operates renewable generation plant, other than hydro-electric generation plant.
		Other	The non-licensed activity of the Renewables reported segment, which includes generation activity outside Great Britain and the impact of the amortisation of the fair value attributed to the Renewables operating segment when purchased by Iberdrola during 2007.

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

6 BUSINESS SEGMENT REPORTING *continued*

(b) Revenue by reported segment, business function and business division

(i) Revenue by reported segment

The revenue by reported segment for the year ended 31 December 2016 is detailed below:

Reported segment	External revenue £m	Inter-segment revenue £m	Total revenue reported to the CODM £m
Energy Networks	**905.4**	**174.4***	**1,079.8**
Energy Wholesale and Retail	**4,471.1**	**5.1**	**4,476.2**
Renewables	**46.1**	**300.7**	**346.8**
Elimination of inter-segment revenue			(480.3)
			5,422.5

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

The revenue by reported segment for the year ended 31 December 2015 is detailed below:

Reported segment	External revenue £m	Inter-segment revenue £m	Total revenue reported to the CODM £m
Energy Networks	919.9	193.8*	1,113.7
Energy Wholesale and Retail	5,486.1	5.3	5,491.4
Renewables	184.4	395.0	579.4
Elimination of inter-segment revenue			(594.1)
			6,590.4

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

(ii) Additional information – Revenue by business function and business division

The revenue by business function and business division for the year ended 31 December 2016 is detailed below:

Reported segment	Business function	Business division	Total revenue £m	Joint venture share of revenue (Note (iii)) £m	Revenue re-allocations as per regulatory licence requirements (Note (iv)) £m	Total revenue as per regulatory licence requirements £m
Energy Networks			1,079.8	–	–	1,079.8
		Generation – Licensed business	719.1	–	–	719.1
		Energy Management	2,868.8	–	–	2,868.8
		Elimination of intra-function revenue	(990.8)	–	–	(990.8)
	Energy Wholesale		2,597.1	–	–	2,597.1
		Supply – Licensed business	3,702.4	–	(24.8)	3,677.6
		Other	9.6	–	–	9.6
	Energy Retail		3,712.0	–	(24.8)	3,687.2
		Elimination of intra-segment revenue	(1,832.9)	–	–	(1,832.9)
Energy Wholesale and Retail			4,476.2	–	(24.8)	4,451.4
		Renewables – Licensed business	331.8	7.9	–	339.7
		Other	15.0	–	–	15.0
Renewables			346.8	7.9	–	354.7
Elimination of inter-segment revenue			(480.3)	–	–	(480.3)
Total			5,422.5	7.9	(24.8)	5,405.6

6 BUSINESS SEGMENT REPORTING *continued*

(b) Revenue by reported segment, business function and business division *continued*

(ii) Additional information – Revenue by business function and business division *continued*

The revenue by business function and business division for the year ended 31 December 2015 is detailed below:

Reported segment	Business function	Business division	Note	Total revenue £m	Joint venture share of revenue (Note (iii)) £m	Revenue re-allocations as per regulatory licence requirements (Note (iv)) £m	Total revenue as per regulatory licence requirements £m
Energy Networks				1,113.7	–	–	1,113.7
		Generation – Licensed business		1,148.2	–	–	1,148.2
		Energy Management		4,309.8	–	–	4,309.8
		Elimination of intra-function revenue		(1,716.5)	–	–	(1,716.5)
	Energy Wholesale			3,741.5	–	–	3,741.5
		Supply – Licensed business		3,803.4	–	(33.6)	3,769.8
		Other		9.4	–	–	9.4
	Energy Retail			3,812.8	–	(33.6)	3,779.2
		Elimination of intra-segment revenue		(2,062.9)	–	–	(2,062.9)
Energy Wholesale and Retail				5,491.4	–	(33.6)	5,457.8
		Renewables – Licensed business		431.9	3.0	–	434.9
		Other	(v)	147.5	–	–	147.5
Renewables				579.4	3.0	–	582.4
Elimination of inter-segment revenue				(594.1)	–	–	(594.1)
Total				6,590.4	3.0	(33.6)	6,559.8

(iii) All the joint ventures within the group are consolidated using the equity method. The results of the joint ventures are therefore presented within "Results of companies accounted for using the equity method" on the face of the consolidated income statement and so do not form part of "Total revenue". As per the licence conditions, and so the associated regulatory reporting, the group is required to proportionally consolidate the results of the joint ventures and so present revenues and costs in the appropriate lines of the income statement.

(iv) As disclosed in Note 26 of the financial statements, in line with group accounting policy "Taxes, other than income tax" includes the costs of the WHD scheme. As per the licence conditions these costs are required to be deducted from "Total revenue".

(v) "Total revenue" in 2015 includes £134.4 million following the sale of a transmission asset during the year.

(c) Operating profit/(loss) by reported segment, business function and business division

(i) Operating profit/(loss) by reported segment

The operating profit/(loss) by reported segment for the year ended 31 December 2016 is detailed below:

Reported segment	Operating profit/(loss) reported to the CODM £m
Energy Networks	577.2
Energy Wholesale and Retail	151.7
Renewables	103.8
Unallocated	(1.4)
Total	831.3

The operating profit/(loss) by reported segment for the year ended 31 December 2015 is detailed below:

Reported segment	Operating profit/(loss) reported to the CODM £m
Energy Networks	612.2
Energy Wholesale and Retail	(131.1)
Renewables	180.2
Unallocated	3.8
Total	665.1

6 BUSINESS SEGMENT REPORTING *continued*

(c) Operating profit/(loss) by reported segment, business function and business division *continued*

(ii) Additional information – Operating profit/(loss) by business function and business division

The operating profit/(loss) by business function and business division for the year ended 31 December 2016 is detailed below:

Reported segment	Business function	Business division	Operating profit/(loss) £m	Joint venture share of operating profit/(loss) (Note (iii)) £m	Non-recurring items (Note (iv)) £m	Certain remeasurements (Note (v)) £m	Adjusted operating profit/(loss) as per regulatory licence requirements* £m
Energy Networks			577.2	0.1	5.2	–	582.5
		Generation – Licensed business	(33.2)	–	3.5	(17.2)	(46.9)
		Energy Management	71.9	–	–	(58.9)	13.0
		Other	3.3	(0.1)	–	–	3.2
	Energy Wholesale		42.0	(0.1)	3.5	(76.1)	(30.7)
		Supply – Licensed business	114.3	–	16.8	(1.3)	129.8
		Other	(4.6)	–	3.7	–	(0.9)
	Energy Retail		109.7	–	20.5	(1.3)	128.9
Energy Wholesale and Retail			151.7	(0.1)	24.0	(77.4)	98.2
		Renewables – Licensed business	116.4	0.4	6.0	–	122.8
		Other	(12.6)	1.7	–	–	(10.9)
Renewables			103.8	2.1	6.0	–	111.9
Unallocated			(1.4)	–	(0.7)	–	(2.1)
Total			831.3	2.1	34.5	(77.4)	790.5

* Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences.

The operating profit/(loss) by business function and business division for the year ended 31 December 2015 is detailed below:

Reported segment	Business function	Business division	Operating profit/(loss) £m	Joint venture share of operating (loss)/profit (Note (iii)) £m	Non-recurring items (Note (iv)) £m	Certain remeasurements (Note (v)) £m	Adjusted operating profit/(loss) as per regulatory licence requirements* £m
Energy Networks			612.2	–	0.1	–	612.3
		Generation – Licensed business	(365.2)	–	235.8	20.4	(109.0)
		Energy Management	34.0	–	0.4	(14.2)	20.2
		Other	2.9	(0.5)	0.9	–	3.3
	Energy Wholesale		(328.3)	(0.5)	237.1	6.2	(85.5)
		Supply – Licensed business	196.9	–	(33.4)	1.1	164.6
		Other	0.3	–	–	–	0.3
	Energy Retail		197.2	–	(33.4)	1.1	164.9
Energy Wholesale and Retail			(131.1)	(0.5)	203.7	7.3	79.4
		Renewables – Licensed business	230.8	(3.3)	9.4	–	236.9
		Other	(50.6)	(0.1)	0.1	–	(50.6)
Renewables			180.2	(3.4)	9.5	–	186.3
Unallocated			3.8	–	2.6	–	6.4
Total			665.1	(3.9)	215.9	7.3	884.4

* Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences.

(iii) Joint venture share of operating profit

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

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

6 BUSINESS SEGMENT REPORTING *continued*

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

(iv) Non-recurring items

In the year ended 31 December 2016 the following non-recurring items were recorded:

Provisions for restructuring and other liabilities: On review of the group's provisions as at 31 December 2016 net restructuring provisions and associated pension costs of £21.9 million were recognised principally in relation to a restructuring programme within the Energy Retail business function.

Impairment and non-current asset write-offs: During the year ended 31 December 2016 the group recognised an impairment charge of £14.6 million comprising of a charge of £6.9 million following a reduction to the residual value of Longannet power station, a charge of £3.1 million for the write off of operational windfarm assets following fire damage and a charge of £4.6 million in relation to the cancellation of certain onshore wind power projects (Refer to Note 9). Non-current asset write-offs of £1.9 million were also recognised.

Non-recurring income: During the year the group recognised £3.9 million of non-recurring income on settlement of various contractual disputes.

In the year ended 31 December 2015 the following non-recurring items were recorded:

Provisions for restructuring and other liabilities: On review of the group's provisions as at 31 December 2015 net restructuring provisions and associated pension costs of £29.1 million were recognised principally in relation to the closure of Longannet power station. In addition the group recognised £19.6 million of net costs associated with other contractual and regulatory obligations.

Impairment and non-current asset write-offs: During the year ended 31 December 2015 the group recognised an impairment charge of £216.6 million comprising of a charge of £209.5 million in respect of the closure of Longannet power station and a charge of £7.1 million principally in relation to the cancellation of certain onshore wind power projects (Refer to Note 9). Equity accounted joint ventures within the group, also recognised impairment charges of £5.4 million relating principally to the cancellation of a wind farm repowering project. Non-current asset write-offs of £0.6 million were also recognised.

Non-recurring income: During the year, the group recognised £55.4 million of non-recurring income on settlement of various contractual disputes.

(v) Certain remeasurements

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

(d) Other financial data by operating segment

Other items by segment for the year ended 31 December 2016	Acquisition of property, plant and equipment and intangible assets reported to the CODM £m	Depreciation, amortisation and impairment reported to the CODM £m	Impairment of trade receivables reported to the CODM £m
Energy Networks	767.1	236.9	0.3
Energy Wholesale and Retail	115.7	118.2	81.1
Renewables	811.0	114.7	–
Unallocated	36.2	19.2	0.1
Total	1,730.0	489.0	81.5

Other items by segment for the year ended 31 December 2015	Acquisition of property plant and equipment and intangible assets reported to the CODM £m	Depreciation, amortisation and impairment reported to the CODM £m	Impairment of trade receivables reported to the CODM £m
Energy Networks	845.2	229.5	(0.1)*
Energy Wholesale and Retail	80.1	412.8	55.1
Renewables	382.5	137.9	(0.1)*
Unallocated	26.6	18.6	–
Total	1,334.4	798.8	54.9

* In Energy Networks the release of excess provisions for impairment exceeded the charge for impairment during the year.

7 GROUP INFORMATION

(a) Subsidiaries and joint ventures

The table below sets out details of the subsidiaries and joint ventures included in the consolidated Accounts for the group.

Name	Principal activities	Registered office and country of incorporation (see Note (ix))	Equity interest 2016		2015
Energy Networks					
Subsidiaries					
Scottish Power Energy Networks Holdings Limited	Holding company	(A)	100%	(i)	100%
SP Distribution plc	Ownership and operation of distribution network within the ScottishPower area	(B)	100%		100%
SP Manweb plc	Ownership and operation of distribution network within the Mersey and North Wales area	(C)	100%		100%
SP Network Connections Limited	Design and construction of utility connections	(C)	100%		100%
SP Power Systems Limited	Provision of asset management services and multi-utility and construction service	(A)	100%		100%
SP Transmission plc	Ownership and operation of transmission network within the ScottishPower area	(A)	100%		100%
Manweb Services Limited	Operation of a private electricity distribution network	(C)	100%		100%
Joint ventures					
NGET/SPT Upgrades Limited	Development of offshore HVDC West Coast transmission link	(D)	50%	(ii), (iii)	50%
Energy Wholesale and Retail					
Subsidiaries					
Scottish Power Generation Holdings Limited	Holding company	(B)	100%	(i)	100%
ScottishPower (DCL) Limited	Holding company	(C)	100%		100%
ScottishPower Energy Management Limited	Wholesale energy management company engaged in purchase and sale of electricity and gas	(B)	100%		100%
ScottishPower Energy Management (Agency) Limited	Agent for energy management activity of ScottishPower Energy Management Limited and Scottish Power UK plc	(B)	100%		100%
ScottishPower Generation Limited	Electricity generation	(B)	100%		100%
ScottishPower (SCPL) Limited	Holding company	(C)	100%		100%
SMW Limited	Wastewater treatment	(B)	100%		100%
SP Gas Transportation Cockenzie Limited	Holder of Gas Transporter Licence	(B)	100%		100%
SP Gas Transportation Hatfield Limited	Holder of Gas Transporter Licence	(B)	100%		100%
ScottishPower Energy Retail Limited	Supply of electricity and gas to domestic and business customers	(B)	100%		100%
SP Dataserve Limited	Data collection, data aggregation, meter operation and revenue protection	(B)	100%		100%
Joint ventures					
ScotAsh Limited	Sales of ash and ash-related cementitious products	(E)	50%	(ii)	50%
Renewables					
Subsidiaries					
ScottishPower Renewable Energy Limited	Holding company	(B)	100%	(i)	100%
Coldham Windfarm Limited	Electricity generation	(C)	80%		80%
East Anglia One Limited	Development and construction of offshore wind farm	(F)	100%	(iv)	100%
East Anglia Three Limited	Development of offshore wind farm	(F)	100%	(v)	50%
ScottishPower Renewables (UK) Limited	Development, construction and operation of wind farms	(G)	100%		100%
ScottishPower Renewables (WODS) Limited	Operation of an offshore wind farm	(B)	100%		100%
Iberdrola Renovables France SAS	Holding company	(H)	100%		100%
Iberdrola Renovables Offshore Deutschland GmbH	Development and construction of offshore wind farm	(I)	100%	(vi)	100%
Iberdrola Renovables Deutschland GmbH	Holding company	(I)	100%		100%
Ailes Marines SAS	Development of offshore wind farm	(H)	70%		70%
Joint ventures					
Celtpower Limited	Electricity generation	(C)	50%	(ii)	50%
East Anglia Offshore Wind Limited	Commercial operation of offshore met masts	(F)	50%	(ii)	50%
East Anglia Four Limited (now Norfolk Vanguard Limited)	Development of offshore wind farm	(J)	–	(ii), (vii)	50%
Morecambe Wind Limited	Provision of operational services	(K)	50%	(ii)	50%

7 GROUP INFORMATION *continued*

(a) Subsidiaries and joint ventures *continued*

Name	Principal activities	Registered office and country of incorporation (see Note (ix))	Equity interest 2016		Equity interest 2015
Other					
Subsidiaries					
ScottishPower Investments Limited	Holding company	(B)	100%	(i)	100%
Dormant subsidiaries in liquidation					
Clubcall Telephone Services Limited	In liquidation	(L)	100%		100%
Clubline Services Limited	In liquidation	(C)	100%		100%
Demon Internet Limited	In liquidation	(M)	100%		100%
Manweb Energy Consultants Limited	In liquidation	(M)	100%		100%
Manweb Nominees Limited	In liquidation	(M)	100%		100%
Manweb Pensions Trustees Limited	In liquidation	(M)	100%		100%
Manweb Share Scheme Trustees Limited	In liquidation	(M)	100%		100%
ScottishPower (DCOL) Limited	In liquidation	(N)	100%		100%
SP Gas Limited	In liquidation	(O)	100%		100%
Teledata (Holdings) Limited	In liquidation	(O)	100%	(i)	100%
Teledata (Outsourcing) Limited	In liquidation	(L)	100%		100%
Teledata Scotland Limited	In liquidation	(O)	100%		100%
The Callcentre Service Limited	In liquidation	(L)	100%		100%
The Information Service Limited	In liquidation	(L)	100%		100%
Dormant subsidiaries now dissolved					
Caledonian Gas Limited	Dissolved	(O)	-		100%
Camjar plc	Dissolved	(L)	-	(viii)	100%
Manweb Contracting Services Limited	Dissolved	(N)	-	(viii)	100%
Manweb Gas Limited	Dissolved	(N)	-	(viii)	100%
ScottishPower Sharesave Trustees Limited	Dissolved	(O)	-	(viii)	100%
ScottishPower Share Scheme Trustees Limited	Dissolved	(O)	-	(viii)	100%
ScottishPower (SOCL) Limited	Dissolved	(N)	-	(viii)	100%
Scottish Power Trustees Limited	Dissolved	(O)	-	(viii)	100%
SPD Finance UK plc	Dissolved	(N)	-	(viii)	100%
SPPT Limited	Dissolved	(L)	-	(viii)	100%
Sterling Collections Limited	Dissolved	(O)	-	(viii)	100%
Telephone International Media Holdings Limited	Dissolved	(L)	-	(viii)	100%
Telephone International Media Limited	Dissolved	(L)	-	(viii)	100%
Telephone Information Services plc	Dissolved	(L)	-	(viii)	100%
TIM Limited	Dissolved	(L)	-	(viii)	100%

(i) The investment in this company is a direct holding of Scottish Power UK plc at 31 December 2016.

(ii) All joint ventures are accounted for using the equity method.

(iii) NGET/SPT Upgrades Limited has a non-conterminous year end date of 31 March. This is a contractual obligation as agreed in the joint operating agreement.

(iv) This company was an equity accounted joint venture until the group increased its equity interest to 100% in March 2015 (refer to Note 36).

(v) On 15 February 2016, the group acquired the remaining 50% interest in the share capital of East Anglia Three Limited, at which point East Anglia Three Limited ceased to be a joint venture and became a subsidiary.

(vi) On 3 December 2015, Iberdrola Renovables Offshore Deutschland GmbH entered into a joint operation with 50Hertz Offshore GmbH. The agreement is for the joint realisation of the offshore substation being built as part of the Wikinger offshore wind farm project located in Germany. Both parties have joint control of this asset.

(vii) On 15 February 2016, the group sold its 50% interest in the share capital of East Anglia Four Limited for a consideration of £0.50, being the carrying value of the investment. The group now holds no interest in East Anglia Four Limited.

(viii) This company was dissolved during the year ended 31 December 2016.

(ix) The registered offices of the subsidiaries and joint ventures are as listed below, along with their countries of incorporation. Where a company's registered office is in England it is registered in England and Wales:

- (A) Ochil House, 10 Technology Avenue, Blantyre G72 0HT, Scotland
- (B) 320 St Vincent Street, Glasgow G2 5AD, Scotland
- (C) 3 Prenton Way, Prenton, CH43 3ET, England
- (D) 1–3 Strand, London, WC2N 5EH, England
- (E) Portland House, Bickenhall Lane, Solihull, Birmingham, B37 7BQ, England
- (F) 3rd Floor, 1 Tudor Street, London, EC4Y 0AH, England
- (G) The Soloist, 1 Lanyon Place, Belfast, BT1 3LP, Northern Ireland
- (H) Oficina Central, 40 Rue de la Boetie, 75008, Paris, France
- (I) Charlottenstrasse 63, D-10117, Berlin, Germany
- (J) 1st Floor, 1 Tudor Street, London, EC4Y 0AH, England
- (K) DONG Energy, 5 Howick Place, London, SW1P 1WG, England
- (L) KPMG LLP, 15 Canada Square, London, E14 5GL, England
- (M) Johnston Carmichael, 107–111 Fleet Street, London, EC4A 2AB, England
- (N) KPMG LLP, 8 Salisbury Square, London, EC4Y 8BB, England
- (O) KPMG LLP, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG, Scotland

(x) For those entities incorporated in Scotland, Northern Ireland and England and Wales, the principal place of business is considered to be the United Kingdom; for all other entities, the country of incorporation is the principal place of business.

7 GROUP INFORMATION *continued*

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

The consolidated financial statements combine the financial statements of Scottish Power UK plc and its subsidiaries. A subsidiary is an entity over which the company has control. The company has control over another entity when an entity has power over the relevant activities of the investee, for example through voting rights; exposure, or rights to, variable returns from its involvement with the investee; and the ability to affect those returns through its power over the investee.

No significant judgements have been made in applying these principles during the year.

(c) Significant restrictions

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

SP Distribution plc

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

Value restricted	2016 £m	2015 £m
Distributable reserves	557.6	499.9
Property, plant and equipment	2,633.1	2,515.4

SP Manweb plc

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

Value restricted	2016 £m	2015 £m
Distributable reserves	681.6	597.7
Property, plant and equipment	2,577.1	2,460.3

SP Transmission plc

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

Value restricted	2016 £m	2015 £m
Distributable reserves	572.6	493.8
Property, plant and equipment	2,466.2	2,181.9

8 INTANGIBLE ASSETS

(a) Movements in intangible assets

			Other intangible assets				
Year ended 31 December 2015	Note	Goodwill (Note (b)) £m	Computer software (Note (i)) £m	Licences £m	Other (Note (iii)) £m	Total £m	Total £m
Cost:							
At 1 January 2015		364.6	434.0	9.5	398.4	841.9	1,206.5
Additions		–	43.5	–	1.1	44.6	44.6
Transfers to property, plant and equipment	(ii)	–	–	–	(108.7)	(108.7)	(108.7)
Disposals		–	(81.6)	–	(6.4)	(88.0)	(88.0)
At 31 December 2015		364.6	395.9	9.5	284.4	689.8	1,054.4
Amortisation:							
At 1 January 2015		–	221.9	2.6	6.5	231.0	231.0
Amortisation for the year		–	60.1	0.3	0.1	60.5	60.5
Disposals		–	(81.5)	–	(6.4)	(87.9)	(87.9)
At 31 December 2015		–	200.5	2.9	0.2	203.6	203.6
Net book value:							
At 31 December 2015		364.6	195.4	6.6	284.2	486.2	850.8
At 1 January 2015		364.6	212.1	6.9	391.9	610.9	975.5

			Other intangible assets				
Year ended 31 December 2016	Note	Goodwill (Note (b)) £m	Computer software (Note (i)) £m	Licences £m	Other (Note (ii)) £m	Total £m	Total £m
Cost:							
At 1 January 2016		364.6	395.9	9.5	284.4	689.8	1,054.4
Additions		–	43.3	–	–	43.3	43.3
Transfers from/(to) property, plant and equipment	(ii)	–	2.0	–	(282.9)	(280.9)	(280.9)
Disposals		–	(42.0)	–	–	(42.0)	(42.0)
At 31 December 2016		**364.6**	**399.2**	**9.5**	**1.5**	**410.2**	**774.8**
Amortisation:							
At 1 January 2016		–	200.5	2.9	0.2	203.6	203.6
Amortisation for the year		–	59.8	0.4	0.4	60.6	60.6
Transfers from property, plant and equipment		–	1.4	–	–	1.4	1.4
Disposals		–	(41.8)	–	–	(41.8)	(41.8)
At 31 December 2016		**–**	**219.9**	**3.3**	**0.6**	**223.8**	**223.8**
Net book value:							
At 31 December 2016		**364.6**	**179.3**	**6.2**	**0.9**	**186.4**	**551.0**
At 1 January 2016		364.6	195.4	6.6	284.2	486.2	850.8

(i) The cost of fully amortised computer software still in use at 31 December 2016 was £30.8 million (2015 £101.0 million).

(ii) The 'Other' category of intangible assets principally represented the value attributable to future Renewables projects recognised by Iberdrola, S.A. on acquisition of SPREL. During 2016, following FID approval of the East Anglia One project, these assets were transferred to 'Property, plant and equipment' (refer to Note 9).

(iii) The cost of intangible assets under construction at 31 December 2016 was £49.5 million (2015 £25.8 million).

8 INTANGIBLE ASSETS *continued*

(b) Impairment test for goodwill

The carrying amount of goodwill for the Renewables business at 31 December 2016 was £364.6 million (2015 £364.6 million).
The recoverable amount for the Renewables business has been determined based on a value-in-use calculation. The calculation uses cash flow projections which reflect past experience and which are based upon a management approved business plan ending in 2024. Cash flows beyond that period reflect asset estimated useful lives as well as management's forward view of prices and the business strategic objectives. It is considered appropriate to assess the cash flows over a period longer than five years as this better reflects the long term nature of energy market operations and governance and of wind farm development lead times.

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

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

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

Main assumptions used for value-in-use calculations	Basis for determining values assigned to key assumptions
Discount rate (pre-tax): Onshore 5.91%; and Offshore 7.11%	Discount rate is determined on the basis of market data and the divisional cost of capital
Forward price of power	Market quotes/management future expectations

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

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

- 1% increase in the discount rate; and
- 10% decline in the power price per kWh (only applicable to production for which no long-term sales agreements have been entered into).

The sensitivity analysis was carried out separately for each basic assumption and did not detect the existence of any impairment.

9 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 December 2015	Notes	Total operating plant (Note (b)) £m	Other items of property, plant and equipment in use £m	Plant in progress £m	Other items of property, plant and equipment in progress £m	Total £m
Cost:						
At 1 January 2015		13,339.2	404.2	942.0	34.0	14,719.4
Additions		60.9	19.6	1,205.1	4.2	1,289.8
Transfers from in progress to plant in use		569.3	–	(569.3)	–	–
Transfers from intangible assets	(iii)	–	–	108.7	–	108.7
Transfers from Iberdrola group companies		–	0.7	–	–	0.7
Disposals		(100.3)	(69.6)	(0.4)	(7.6)	(177.9)
Business combinations	(iv)	–	–	49.1	–	49.1
Impairment	(v)	–	–	(7.1)	(10.1)	(17.2)
Exchange		–	–	(3.0)	–	(3.0)
At 31 December 2015		13,869.1	354.9	1,725.1	20.5	15,969.6
Depreciation:						
At 1 January 2015		3,965.3	197.3	–	–	4,162.6
Charge for the year		506.2	15.5	–	–	521.7
Disposals		(92.7)	(68.2)	–	–	(160.9)
Impairment	(v)	199.4	–	–	–	199.4
At 31 December 2015		4,578.2	144.6	–	–	4,722.8
Net book value:						
At 31 December 2015		9,290.9	210.3	1,725.1	20.5	11,246.8
At 1 January 2015		9,373.9	206.9	942.0	34.0	10,556.8
The net book value of property, plant and equipment at 31 December 2015 is analysed as follows:						
Property, plant and equipment in use		9,290.9	210.3	–	–	9,501.2
Property, plant and equipment in the course of construction		–	–	1,725.1	20.5	1,745.6
		9,290.9	210.3	1,725.1	20.5	11,246.8

Year ended 31 December 2016	Notes	Total operating plant (Note (b)) £m	Other items of property, plant and equipment in use £m	Plant in progress £m	Other items of property, plant and equipment in progress £m	Total £m
Cost:						
At 1 January 2016		13,869.1	354.9	1,725.1	20.5	15,969.6
Additions		98.3	17.5	1,562.2	8.7	1,686.7
Transfers		(1.6)	1.6	–	–	–
Transfers from in progress to plant in use		878.6	24.3	(891.4)	(11.5)	–
Transfers from a joint venture	(vi)	–	–	19.0	–	19.0
Transfer to inventory in respect of offshore transmission asset		–	–	(9.5)	–	(9.5)
Net transfers (to)/from intangible assets	(iii)	(2.0)	–	282.9	–	280.9
Disposals		(1,067.6)	(32.7)	–	(0.8)	(1,101.1)
Impairment	(v)	(4.0)	–	(4.2)	(0.4)	(8.6)
Exchange		–	–	58.7	–	58.7
At 31 December 2016		**13,770.8**	**365.6**	**2,742.8**	**16.5**	**16,895.7**
Depreciation:						
At 1 January 2016		4,578.2	144.6	–	–	4,722.8
Charge for the year		399.4	14.4	–	–	413.8
Transfers to intangible assets		(1.4)	–	–	–	(1.4)
Disposals		(1,044.2)	(30.4)	–	–	(1,074.6)
Impairment	(v)	6.0	–	–	–	6.0
At 31 December 2016		**3,938.0**	**128.6**	–	–	**4,066.6**
Net book value:						
At 31 December 2016		9,832.8	237.0	2,742.8	16.5	12,829.1
At 1 January 2016		9,290.9	210.3	1,725.1	20.5	11,246.8
The net book value of property, plant and equipment at 31 December 2016 is analysed as follows:						
Property, plant and equipment in use		9,832.8	237.0	–	–	10,069.8
Property, plant and equipment in the course of construction		–	–	2,742.8	16.5	2,759.3
		9,832.8	237.0	2,742.8	16.5	12,829.1

9 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) The movements in total operating plant are analysed as follows:

Year ended 31 December 2015	Hydro-electric plants £m	Fossil fuel plants £m	Combined cycle plants £m	Wind power plants £m	Gas storage facilities £m	Transmission facilities £m	Distribution facilities £m	Meters and measuring devices £m	Other facilities (Note (vii)) £m	Total operating plant £m
Cost:										
At 1 January 2015	148.0	954.6	942.2	3,121.2	35.1	1,708.3	5,854.4	386.1	189.3	13,339.2
Additions	–	11.1	2.7	17.0	0.1	–	8.0	22.0	–	60.9
Transfers from in progress to plant in use	2.4	*7.8*	*20.5*	*17.3*	*0.3*	159.6	359.7	–	1.7	569.3
Disposals	(0.1)	(1.5)	(38.0)	(10.6)	–	(8.3)	(18.0)	(2.4)	(21.4)	(100.3)
At 31 December 2015	150.3	972.0	927.4	3,144.9	35.5	1,859.6	6,204.1	405.7	169.6	13,869.1
Depreciation:										
At 1 January 2015	77.8	646.7	438.4	593.7	12.3	381.4	1,418.1	286.5	110.4	3,965.3
Charge for the year	4.8	95.3	48.9	129.3	0.9	42.0	158.1	19.7	7.2	506.2
Disposals	(0.1)	–	(37.6)	(6.6)	–	(7.8)	(17.3)	(2.1)	(21.2)	(92.7)
Impairment	–	199.4	–	–	–	–	–	–	–	199.4
At 31 December 2015	82.5	941.4	449.7	716.4	13.2	415.6	1,558.9	304.1	96.4	4,578.2
Net book value:										
At 31 December 2015	67.8	30.6	477.7	2,428.5	22.3	1,444.0	4,645.2	101.6	73.2	9,290.9
At 1 January 2015	70.2	307.9	503.8	2,527.5	22.8	1,326.9	4,436.3	99.6	78.9	9,373.9

Year ended 31 December 2016	Hydro-electric plants £m	Fossil fuel plants £m	Combined cycle plants £m	Wind power plants £m	Gas storage facilities £m	Transmission facilities £m	Distribution facilities £m	Meters and measuring devices £m	Other facilities (Note (vii)) £m	Total operating plant £m
Cost:										
At 1 January 2016	150.3	972.0	927.4	3,144.9	35.5	1,859.6	6,204.1	405.7	169.6	13,869.1
Additions	–	–	1.0	16.7	0.1	–	5.3	75.2	–	98.3
Transfers	–	(1.6)	–	–	–	–	–	–	–	(1.6)
Transfers from in progress to plant in use	2.3	–	11.4	259.7	–	275.5	328.3	–	1.4	878.6
Transfers to intangible assets	–	(2.0)	–	–	–	–	–	–	–	(2.0)
Disposals	–	(968.4)	(2.7)	(0.1)	–	(8.0)	(16.1)	(72.1)	(0.2)	(1,067.6)
Impairment	–	–	–	(4.0)	–	–	–	–	–	(4.0)
At 31 December 2016	**152.6**	**–**	**937.1**	**3,417.2**	**35.6**	**2,127.1**	**6,521.6**	**408.8**	**170.8**	**13,770.8**
Depreciation:										
At 1 January 2016	82.5	941.4	449.7	716.4	13.2	415.6	1,558.9	304.1	96.4	4,578.2
Charge for the year	4.8	0.2	49.1	103.7	0.8	46.9	167.4	19.3	7.2	399.4
Transfers	–	–	–	(18.1)	–	–	18.1	–	–	–
Transfers to intangible assets	–	(1.4)	–	–	–	–	–	–	–	(1.4)
Disposals	–	(947.1)	(2.4)	(0.1)	–	(7.3)	(15.3)	(71.9)	(0.1)	(1,044.2)
Impairment	–	6.9	–	(0.9)	–	–	–	–	–	6.0
At 31 December 2016	**87.3**	**–**	**496.4**	**801.0**	**14.0**	**455.2**	**1,729.1**	**251.5**	**103.5**	**3,938.0**
Net book value:										
At 31 December 2016	**65.3**	**–**	**440.7**	**2,616.2**	**21.6**	**1,671.9**	**4,792.5**	**157.3**	**67.3**	**9,832.8**
At 1 January 2016	67.8	30.6	477.7	2,428.5	22.3	1,444.0	4,645.2	101.6	73.2	9,290.9

(i) Interest on the funding attributable to major capital projects was capitalised during the year at a rate of 1.7% (2015 2.2%).

(ii) The cost of fully depreciated property, plant and equipment still in use at 31 December 2016 was £504.5 million (2015 £1,719.7 million).

(iii) This primarily represents future Renewables projects in the development phase (to which value was attributed on Iberdrola, S.A.'s acquisition of SPREL) that were transferred from 'Intangible assets' to 'Property, plant and equipment' when the construction of each wind farm commenced (refer to Note 8).

(iv) During the year ended 31 December 2015, the group acquired the remaining 50% interest in East Anglia One Limited, a company previously accounted for as a 50% joint venture under the equity method. The cost of property, plant and equipment recognised as part of this acquisition, amounted to £49.1 million (as set out at in Note 36).

(v) The impairment charge of £14.6 million recognised during the year comprised a £6.9 million reduction to the residual value of Longannet Power Station, following a *review of the scrap value of the plant. Prior to the year end, the remaining plant assets in relation to Longannet were disposed of. The remaining impairment charge* comprised the write-off of operational wind farm assets following fire damage of £3.1 million and a charge of £4.6 million in respect of the cancellation of certain onshore wind projects. The impairment charge of £216.6 million made during the year ended 31 December 2015 comprised a charge of £209.5 million in respect of the closure of Longannet power station and a charge of £7.1 million principally in relation to the cancellation of certain onshore wind projects. The recoverable amount of Longannet power station at 31 December 2015 was £29.8 million, which was deemed to be the then current value-in use. The costs in both years have been charged to 'Depreciation and amortisation charge, allowances and provisions' in the income statement.

(vi) During 2016 Renewables finalised an agreement with Vattenfall Wind Power Ltd ("Vattenfall") to split the remainder of the East Anglia Zone. As part of this suite of agreements £19.0 million of development assets were transferred from East Anglia Offshore Wind Limited (a joint venture between ScottishPower Renewables (UK) Limited and Vattenfall) to subsidiary companies within the group.

(vii) The 'Other facilities' category of operating plant largely comprises water treatment facilities and Energy Networks communications facilities.

(viii) In March 2015, the lease on the building which the group held under a finance lease was re-negotiated with the landlord and designated as an operating lease. At that date the group de-recognised the asset and the related finance lease obligation. The derecognition resulted in a credit to the income statement of £6.6 million included within 'Depreciation and amortisation charge, allowances and provisions'.

(ix) Included within 'Other operating income' in the income statement for the year ended 31 December 2016 is £6.9 million (2015 £nil) relating to compensation receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.

(x) Included within the cost of property, plant and equipment at 31 December 2016 are assets in use not subject to depreciation, being land and cushion gas, of £135.6 million (2015 £133.3 million).

(xi) Following a review, the group has increased the useful life of certain wind farm assets (refer to Note 2).

9 PROPERTY, PLANT AND EQUIPMENT *continued*

(c) Operating lease arrangements

(i) Operating lease payments	2016 £m	2015 £m
Minimum lease payments under operating leases recognised as an expense in the year	21.9	19.2
Contingent based operating lease rents recognised as an expense in the year	56.3	72.1
Sublease payments recognised as an expense in the year	0.1	0.3
	78.3	91.6

The group leases various property, plant and equipment under non-cancellable operating lease arrangements. The leases have varying terms, escalation clauses and renewal rights.

The contingent based operating lease rents primarily relate to contracts under which the group purchases electricity. The expense recognised represents the invoiced amounts under these contacts.

(ii) Operating lease commitments	2016 £m	2015 £m
The future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	25.6	21.3
Between one and five years	74.0	56.0
More than five years	218.4	77.6
	318.0	154.9

The group leases various property, plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

(iii) Operating lease receivables	2016 £m	2015 £m
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	2.0	3.6
Between one and five years	1.5	3.1
More than five years	0.9	1.0
	4.4	7.7

The group leases buildings and equipment as a lessor under operating leases. The lease arrangements have initial terms of 1 to 99 years and some contain provisions to extend the term at the option of the lessee. The leases have varying terms, escalation clauses and renewal rights.

Total sublease rentals recognised as income in the year ended 31 December 2016 amounted to £1.1 million (2015 £1.0 million).

(d) Capital commitments

	2016 £m	2015 £m
Contracted but not provided	2,429.4	1,618.0

(e) Research and development expenditure

The amount of research and development expenditure recognised as an expense during the year was £8.0 million (2015 £6.0 million).

10 INVESTMENTS IN JOINT VENTURES

(a) Movements in investments in joint ventures are analysed as follows:

	Note	Shares £m	Loans £m	Total £m
At 1 January 2015		16.2	43.0	59.2
Additions		0.8	–	0.8
Repayment of loans		–	(24.6)	(24.6)
Share of result for year		(4.3)	–	(4.3)
At 1 January 2016		12.7	18.4	31.1
Repayment of capital	(vi)	(5.2)	–	(5.2)
Repayment of loans		–	(18.1)	(18.1)
Share of result for year		0.9	–	0.9
At 31 December 2016		8.4	0.3	8.7

(i) Investments in joint ventures are accounted for using the equity method. Details of the joint ventures are set out in Note 7.

(ii) No quoted market prices exist for investments in joint ventures.

(iii) No significant restrictions exist (e.g. resulting from borrowing arrangements, regulatory requirements or contractual arrangements between investors with joint control of or significant influence over a joint venture) that impact upon the ability of joint ventures to transfer funds to the group in the form of cash dividends, or to repay loans or advances made by the group (2015 none).

(iv) On 15 February 2016, the group acquired the remaining 50% of the share capital of East Anglia Three Limited for £0.50 at which point East Anglia Three Limited ceased to be a joint venture and became a subsidiary.

(v) On 15 February 2016, the group disposed of its 50% interest in the share capital of East Anglia Four Limited for a consideration equal to its carrying value of £0.50.

(vi) On 27 July 2016, the group's 50% joint venture, East Anglia Offshore Wind Limited repaid share capital of £5,250,000 to the group.

10 INVESTMENTS IN JOINT VENTURES *continued*

(b) Interest in joint ventures

	2016 £m	2015 £m
Aggregate carrying amount of individually immaterial equity accounted interests	8.4	12.7
Aggregate profit/(loss) from continuing operations attributable to the group	0.9	(4.3)
Aggregate total comprehensive income attributable to the group	**0.9**	**(4.3)**

The group has no interests in associates.

(c) Commitments

The group has commitments not recognised as at 31 December 2016 relating to its interests in joint ventures of £200.8 million (2015 £252.7 million).

11 FINANCIAL INSTRUMENTS

(a) Carrying value of financial instruments

The table below sets out the carrying amount and fair value of the group's financial instruments.

		2016		2015	
	Notes	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets					
Finance lease receivables		0.9	0.9	1.3	1.3
Derivative financial instruments	(i)	301.5	301.5	175.4	175.4
Current receivables	(ii)	1,406.0	1,406.0	1,562.0	1,562.0
Non-current receivables	(ii)	37.9	37.9	38.2	38.2
Other investments		1.1	1.1	1.2	1.2
Cash	(iii)	35.5	35.5	23.7	23.7
Financial liabilities					
Derivative financial instruments	(i)	(164.6)	(164.6)	(213.8)	(213.8)
Loans and other borrowings	(iv)	(6,883.0)	(7,412.7)	(5,817.2)	(6,220.6)
Payables	(ii)	(1,513.4)	(1,513.4)	(1,287.1)	(1,287.1)

The carrying amount of these financial instruments is calculated as set out in Note 3G. With the exception of loans and other borrowings, the carrying value of financial instruments is a reasonable approximation of fair value. The fair value of loans and other borrowings is calculated as set out in Note (iv) below.

(i) Further detail on derivative financial instruments is disclosed in Note 21.

(ii) Balances outwith the scope of IFRS 7 have been excluded, namely prepayments, payments received on account and other taxes receivable and payable.

(iii) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits. Cash as at 31 December 2016 includes deposits with banks of £33.7 million (2015 £19.4 million) which is either restricted for use on specific projects; to meet regulatory requirements; or for use by a joint operation, and so is not available to finance the group's day-to-day operations.

(iv) The fair value of listed debt is calculated using the most recently traded price to the year-end date and the fair value of all other loans and borrowings is calculated using a discounted cash flow.

(b) Measurement of financial instruments

The group holds certain financial instruments which are measured in the balance sheet at fair value. The group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

In both the current and prior year all derivatives held by the group are Level 2.

Included in Level 2 liabilities of £164.6 million (2015 £213.8 million) are inseparable third-party credit enhancements. These have been reflected in the fair value measurement of the liability.

11 FINANCIAL INSTRUMENTS *continued*

(c) Offsetting of financial assets and financial liabilities

The group is eligible to present financial assets and financial liabilities net on the balance sheet as described in Note 3C.5. The following table provides information on the impact of offsetting on the consolidated balance sheet as well as the financial impact of the netting of certain instruments in the event of default or similar agreements.

2016	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial (liabilities)/assets offset in the balance sheet £m	Net amounts of financial assets/(liabilities) presented in the balance sheet £m	Related amounts not offset in balance sheet: Financial instruments (Note (i)) £m	Related amounts not offset in balance sheet: Cash collateral (held)/posted (Notes (ii) and (iii)) £m	Net amount £m
Financial assets						
Receivables	1,836.5	(392.6)	1,443.9	(32.4)	(4.8)	1,406.7
Derivative financial instruments	814.5	(513.0)	301.5	(73.4)	(50.3)	177.8
Financial liabilities						
Payables	(1,906.0)	392.6	(1,513.4)	32.4	4.8	(1,476.2)
Derivative financial instruments	(677.6)	513.0	(164.6)	73.4	–	(91.2)

2015	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial (liabilities)/assets offset in the balance sheet £m	Net amounts of financial assets/(liabilities) presented in the balance sheet £m	Related amounts not offset in balance sheet: Financial instruments (Note (i)) £m	Related amounts not offset in balance sheet: Cash collateral (held)/posted (Notes (ii) and (iii)) £m	Net amount £m
Financial assets						
Receivables	1,761.4	(161.2)	1,600.2	(11.5)	(39.7)	1,549.0
Derivative financial instruments	302.2	(126.8)	175.4	(33.7)	(29.2)	112.5
Financial liabilities						
Payables	(1,448.3)	161.2	(1,287.1)	11.5	39.7	(1,235.9)
Derivative financial instruments	(340.6)	126.8	(213.8)	33.5	–	(180.3)

(i) Certain contracts for derivatives, receivables, and payables in relation to the purchase of gas do not currently meet the offsetting criteria within IAS 32 'Financial Instruments: Presentation' ("IAS 32"), however in the event of default would be required to be offset per the requirements of the contract. The above balances show the effect on the group if these contracts were also offset. Due to the nature of certain contracts, it is not possible to split accurately the effect of offsetting these balances across the derivatives, receivables and payables categories. For presentational purposes the impact has been allocated to receivables and payables as appropriate.

(ii) The group enters into standard netting agreements with its commodity trading counterparties in order to mitigate the credit risk exposure of the business. In addition, the group utilises collateral support agreements with derivative counterparties to manage its credit exposure. All collateral is settled in cash. These forms of collateral include margining for trading with exchanges, cash collateral used for bilateral and brokering trading as well as letters of credit. At 31 December 2016, the value of letters of credit held amounted to £44.0 million (2015 £51.0 million) and letters of credit posted amounted to £188.2 million (2015 £176.9 million).

(iii) At 31 December 2016 the group held cash collateral of £14.9 million (2015 £3.9 million) in respect of receivables, of which all (2015 all) can be offset against financial assets. At 31 December 2016 the group also posted cash collateral of £14.1 million (2015 £44.2 million) in respect of payables, of which £10.1 million (2015 £43.6 million) can be offset against financial liabilities.

12 TRADE AND OTHER RECEIVABLES

	Notes	2016 £m	2015 £m
Current receivables:			
Receivables due from Iberdrola group companies – trade		10.1	6.0
Receivables due from Iberdrola group companies – loans	(a)	677.7	766.7
Receivables due from Iberdrola group companies – interest		9.5	13.1
Receivables due from jointly controlled entities – trade		1.2	3.9
Receivables due from jointly controlled entities – other		0.4	-
Trade receivables and accrued income	(b), (c)	707.1	772.3
Prepayments		59.8	27.5
Other tax receivables		18.2	18.9
		1,484.0	1,608.4
Non-current receivables:			
Prepayments		36.3	9.7
Other receivables	(d)	37.9	38.2
		74.2	47.9

(a) Current loans receivable due from group companies are receivable on demand with interest linked to the Bank of England base rate. A 1% increase in the base rate would result in a £6.8 million increase in full year interest income.

(b) Trade receivables are stated net of allowance for impairment of doubtful debts of £120.5 million (2015 £94.4 million). Trade receivables are assumed to approximate their fair values due to the short term nature of trade receivables. Provisions for doubtful debts have been estimated by management, taking into account future cash flows, based on prior experience, ageing analysis and an assessment of the current economic environment within which the group operates. The income statement impact of change in bad debt for the year to 31 December 2016 is £81.5 million (2015 £54.9 million).

(c) Certain trade receivables and payables are presented net on the balance sheet when the offsetting criteria under IAS 32 are met (refer to Note 3G.5). A reconciliation between the gross and net position is provided in Note 11(c).

(d) This balance represents other receivables recognised as part of a contractual renegotiation.

(e) With the exception of retail customers, the group considers that its credit risk can be considered to be with counterparties in related energy industries or with financial institutions operating in energy markets. The carrying amount of receivables represents the maximum exposure to credit risk.

(f) Trading terms are governed by Industry Standard agreements which typically provide for interest to be charged where payments are not made on the specified settlement date.

(g) Movements on the provision for impairment of trade receivables are as follows:

	2016 £m	2015 £m
At beginning of year	94.4	88.1
Receivables written off during the year as uncollectible	(55.4)	(48.6)
Provision for receivables impairment	81.5	54.9
At end of year	120.5	94.4

(i) The creation and release of the provision for impaired receivables has been included in "Depreciation and amortisation charge, allowances and provisions" in the consolidated income statement (refer to Note 27).

(ii) The provision for impaired receivables mainly relates to retail customers where a low likelihood of collection has been assessed.

(iii) At 31 December 2016, trade receivables of £77.2 million (2015 £61.3 million) that would otherwise be past due or impaired were renegotiated. These mainly relate to retail customers who, subsequent to defaulting on original payment terms, have made new arrangements to pay amounts owed.

13 INVENTORIES

	Notes	2016 £m	2015 £m
Fuel stocks	(a)	8.8	69.1
Emissions allowances	(a)	24.0	56.9
Other inventories	(b)	51.3	–
		84.1	126.0

(a) Inventories with a value of £102.2 million (2015 £362.4 million) were recognised as an expense during the year.

(b) Other inventories principally represents a transmission asset which will be sold to an offshore transmission operator once it has been completed.

14 SHARE CAPITAL

	2016 £m	2015 £m
Allotted, called up and fully paid shares:		
1,743,983,102 ordinary shares of 50p each (2015 1,743,983,102)	872.0	872.0

15 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SCOTTISH POWER UK PLC

	Ordinary share capital £m	Share premium (Note (a)) £m	Hedge reserve (Note (b)) £m	Translation reserve (Note (c)) £m	Other reserves (Note (d)) £m	Retained earnings (Note (e)) £m	Total £m
At 1 January 2015	872.0	398.2	(67.5)	(0.1)	14.0	2,693.7	3,910.3
Profit for the year attributable to equity holders of Scottish Power UK plc	-	-	-	-	-	486.6	486.6
Changes in the value of cash flow hedges	-	-	23.5	-	-	-	23.5
Actuarial losses on retirement benefits	-	-	-	-	-	(10.5)	(10.5)
Tax on items relating to cash flow hedges	-	-	(4.7)	-	-	-	(4.7)
Tax on items relating to actuarial losses on retirement benefits	-	-	-	-	-	2.1	2.1
Exchange movement on translation of overseas results and net assets	-	-	-	(0.5)	-	-	(0.5)
Dividends	-	-	-	-	-	(230.0)	(230.0)
At 1 January 2016	872.0	398.2	(48.7)	(0.6)	14.0	2,941.9	4,176.8
Profit for the year attributable to equity holders of Scottish Power UK plc	-	-	-	-	-	580.9	580.9
Changes in the value of cash flow hedges	-	-	158.6	-	-	-	158.6
Actuarial losses on retirement benefits	-	-	-	-	-	(251.4)	(251.4)
Tax on items relating to cash flow hedges	-	-	(30.7)	-	-	-	(30.7)
Tax on items relating to actuarial losses on retirement benefits	-	-	-	-	-	42.1	42.1
Exchange movement on translation of overseas results and net assets	-	-	-	0.9	-	-	0.9
Dividends	-	-	-	-	-	(663.0)	(663.0)
At 31 December 2016	**872.0**	**398.2**	**79.2**	**0.3**	**14.0**	**2,650.5**	**4,014.2**

(a) The share premium account represents consideration received for shares issued in excess of their nominal amount.

(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) The translation reserve represents the accumulated exchange differences on the translation of the results and net assets of foreign subsidiaries.

(d) Other reserves at 31 December 2016 comprises a revaluation reserve of £5.8 million (2015 £5.8 million) and a capital redemption reserve of £8.2 million (2015 £8.2 million). The revaluation reserve comprises the revaluation of assets arising on the purchase of the remaining 50% of the equity share capital of a former joint venture. The capital redemption reserve represents the cumulative nominal value of shares repurchased and cancelled by the company.

(e) Retained earnings comprise the cumulative balance of profits and losses recognised in the financial statements as adjusted for transactions with shareholders, principally dividends.

15 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SCOTTISH POWER UK PLC *continued*

(f) The changes in the hedge reserve arising from valuation adjustments to hedging derivatives is set out below:

Cash flow hedges	Commodity hedges £m	Foreign exchange rate hedges £m	Gross value of hedges £m	Tax effect £m	Total £m
At 1 January 2015	(74.2)	(10.4)	(84.6)	17.1	(67.5)
Effective cash flow hedges recognised	(58.3)	(8.6)	(66.9)	13.4	(53.5)
De-designated cash flow hedges	20.3	(0.3)	20.0	(4.0)	16.0
Removed from equity and recognised in income statement	30.1	7.5	37.6	(7.5)	30.1
Removed from equity and recognised in carrying amount of hedged items	30.1	2.7	32.8	(6.6)	26.2
At 1 January 2016	(52.0)	(9.1)	(61.1)	12.4	(48.7)
Effective cash flow hedges recognised	3.1	90.4	93.5	(18.7)	74.8
De-designated cash flow hedges	0.6	(0.1)	0.5	(0.1)	0.4
Removed from equity and recognised in income statement	72.7	(1.7)	71.0	(14.2)	56.8
Removed from equity and recognised in carrying amount of hedged items	1.0	(7.4)	(6.4)	1.3	(5.1)
Change in tax rates	-	-	-	1.0	1.0
At 31 December 2016	**25.4**	**72.1**	**97.5**	**(18.3)**	**79.2**

(g) The maturity analysis of amounts included in the hedge reserve is as follows:

	2016 £m	2015 £m
Less than 1 year	18.0	(39.2)
1-2 years	27.1	(8.8)
2-3 years	25.9	(0.7)
3-4 years	7.3	-
4-5 years	0.9	-
	79.2	(48.7)

16 NON-CONTROLLING INTERESTS

	£m
At 1 January 2015	0.4
Net profit attributable to non-controlling interests	0.1
At 1 January 2016	0.5
Net profit attributable to non-controlling interests	0.1
At 31 December 2016	**0.6**

17 DEFERRED INCOME

Year ended 31 December 2015	At 1 January 2015 £m	Receivable during year £m	Released to income statement £m	At 31 December 2015 £m
Capital grants	1.8	–	(1.3)	0.5
Transfer of assets from customers	923.6	113.7	(30.2)	1,007.1
Emissions allowances allocated	–	0.1	(0.1)	–
Total deferred income	925.4	113.8	(31.6)	1,007.6

Year ended 31 December 2016	At 1 January 2016 £m	Receivable during year £m	Released to income statement £m	At 31 December 2016 £m
Capital grants	0.5	–	(0.1)	0.4
Transfer of assets from customers	1,007.1	132.0	(32.2)	1,106.9
Emissions allowances allocated	–	0.1	(0.1)	–
Total deferred income	**1,007.6**	**132.1**	**(32.4)**	**1,107.3**

18 RETIREMENT BENEFIT OBLIGATIONS

(a) Analysis of balance

The amounts recognised in the balance sheet in respect of retirement benefit obligations are detailed below:

	2016 £m	2015 £m
Non-current liabilities	442.5	264.4

(b) Group pension arrangements

The group operates the following pension schemes for staff:

Scheme	Scottish Power Pension Scheme ("SPPS")	Manweb Group of Electricity Supply Pension Scheme ("Manweb")	Stakeholder Pension Plan
Type of benefit	Final salary	Final salary	Defined contribution
New entrants	No *	No	Yes
Funded separately from group assets	Yes	Yes	Yes
Administration method	Trustee board	Trustee board	Insurance contract
Member contributions	5% of salary	5.5% of salary	5% of salary
Group contributions – how determined	Agreement of trustees and group following actuarial valuation (last valuation: 31 March 2015)	Agreement of trustees and group following actuarial valuation (last valuation: 31 March 2015)	Defined
Current actual group contributions	48% of salary	45% of salary	Service-related, 6% to 14% of salary
Special contributions during year ended 31 December 2016	£51.1 million	£30.9 million	None
Special contributions planned for year ending 31 December 2017	£50.0 million	£39.0 million	None
Pension charge	Based on advice of independent qualified actuary	Based on advice of independent qualified actuary	Equal to actual group contributions in the year

* A number of members of the Stakeholder Pension Plan were entitled to defined benefits for future service upon achieving ten years of membership. The group has withdrawn this option and therefore there is no benefit accrual for Stakeholder members.

The age profile of the two final salary schemes is expected to rise over time, due to the reduction in new entrants. This will in turn result in increasing service costs for these two schemes due to the actuarial valuation method used (the projected unit method). The group believes that the projected unit method continues to be appropriate at present, and provides a reasonable basis for assessing the group's final salary pension costs.

Group pension scheme governance

As described in the table above, the group operates two defined benefit pension schemes. Active members continue to accrue benefits in the schemes, which are based on final pensionable salary. The two schemes are however closed to new entrants. The schemes provide benefits which are based on final pensionable salary.

The schemes are approved by HMRC and subject to standard UK pensions and tax law. The defined benefit schemes are subject to the scheme funding requirements as set out in section 224 of the Pensions Act 2004. In accordance with the scheme funding requirements, an actuarial funding valuation is carried out at least triennially to determine the appropriate level of ongoing contributions for both future service and a recovery plan in respect of any deficit at the valuation date. These actuarial valuations will be based on assumptions agreed between the Trustees and the group. The most recent completed actuarial valuation was as at the effective date of 31 March 2015. The valuations for SPPS and Manweb were agreed in December 2016. The new recovery plans and schedules of contributions came in to effect from 1 January 2017. Company contribution rates increased from 31% to 48% for SPPS and from 30.1% to 45% for Manweb. In addition to the deficit contributions expected to be paid in 2017 (as shown in the above table), £21 million and £7 million was paid in January 2017 for SPPS and Manweb respectively to cover backdated future service contributions.

In accordance with UK trust and pensions law, the defined benefit pension schemes are governed by their respective board of trustees. Although the group meets the financial cost of running the schemes, the Trustees are responsible for the management and governance of the schemes and have a duty to act in the best interests of the members.

The strategic management of the assets is the responsibility of the Trustees acting on expert advice. The Trustees take advice from the schemes' actuaries and investment advisers with a view to investing the schemes' assets in a manner that is appropriate to the nature and duration of the expected future retirement and death benefits payable from the schemes. In consultation with the group, the Trustees have set out a target investment strategy for the schemes of 55% matching and 45% growth assets. In terms of the matching portfolio, the schemes utilise a Liability Driven Investment ("LDI") strategy. The aim of the LDI portfolio is to invest in a range of assets (mostly bonds) which broadly match the expected future benefit payments from the schemes. In addition, the Trustees of the ScottishPower Pension Scheme and the Trustees of the Manweb Group of Electricity Supply Pension Scheme have implemented longevity swaps in December 2014 and July 2016 respectively. For further details, please see the 'Mortality risk' section that follows.

In addition to the defined benefit schemes described above, the group also operates a defined contribution scheme which is open to new entrants. This scheme is a contract based arrangement to which both the group and the employee contribute.

18 RETIREMENT BENEFIT OBLIGATIONS *continued*

(b) Group pension arrangements *continued*

Following the decision by the UK to exit the European Union, there has been significant market volatility and actions such as the Bank of England's decision to cut base interest rates and extend quantitative easing has resulted in lower yields on both government and corporate bonds with subsequent increases in pension scheme liabilities. The formal exit process commenced in March 2017 with negotiations between the UK and the EU to last at least two years. During this period, the Trustees will continue to monitor how decisions impact on the schemes from an investment and legal perspective based on expert advice.

Risk management
The defined benefit schemes expose the group to actuarial risks and details of the specific risks and how they are managed are described below:

Investment (market) risk: there is a risk relating to changes in the value of the portfolio due to movements in the market value of the assets. To the extent that there is a mismatch between the investment strategy and the overall level and profile of the liabilities this can lead to volatility in the funding level and as the portfolio matures there is a risk of not being able to reinvest assets at the assumed rates. The Trustees utilise an LDI strategy which aims to invest 55% of the assets in matching LDIs such as bonds, which broadly match the nature and profile of the future expected benefit payments from the scheme. The Trustees have further diversified the market risk in the growth portfolio across multiple asset types, such as equities, property, diversified growth funds, infrastructure and mezzanine debt. Through diversification, the specific risk associated with individual investments is mostly mitigated and expected volatility of returns is reduced. In addition, the Trustees review the investment strategy on a regular basis to ensure that it remains appropriate and in particular in response to legislative changes, a material change in the schemes' funding levels or changes in the attitude to risk of the Trustees or group.

Mortality risk: the assumptions adopted by the group make allowance for future improvements in life expectancy. There is a risk that life expectancy improves faster than assumed and that benefits are paid for longer than expected, thereby increasing the cost of the schemes. The group and the Trustees regularly review the actual scheme mortality experience to minimise the risk of using an inappropriate assumption. In general, the Trustees will also use prudent assumptions when deriving the triennial actuarial valuation basis used for funding requirements and this will help to manage the risk.

In December 2014, the Trustees of SPPS implemented a longevity swap in respect of the current pensioners. The swap removes the previously unhedged longevity risk for the current pensioners (who constitute approximately 50% of the total liability of the scheme) and their contingent spouses by hedging the risk of members covered by the contract living longer than expected. The swap is an insurance contract between SPPS and the counterparty insurer. Counterparty risk is mitigated by both SPPS and the counterparty posting collateral to the other party on a daily basis to account for market movements in the value of the derivatives held.

In July 2016, the Trustees of Manweb also implemented a longevity swap in respect of the current pensioners. The swap removes the previously unhedged longevity risk for the current pensioners (who constitute approximately 50% of the total liability of the scheme) and their contingent spouses by hedging the risk of members covered by the contract living longer than expected. The swap is an insurance contract between Manweb and the counterparty insurer. Counterparty risk is mitigated by both Manweb and the counterparty posting collateral to the other party on a daily basis to account for market movements in the value of the derivatives held.

Interest rate risk: a fall in the yield on government bonds increases both the liabilities and assets of the schemes. To the extent that the assets do not fully match the nature and duration of the liabilities, this could lead to a worsening in the funding position of the schemes. The Trustees currently target 55% of the schemes' investments in LDI which include matching assets such as fixed interest bonds. The interest rate hedging strategy adopted within the LDI portfolio provides protection against the impact of changes in yields.

Inflation rate risk: the majority of the schemes' liabilities increase in line with inflation, subject to relevant caps and collars. To the extent that inflation is higher than expected, this will increase the liabilities of the schemes. The schemes' target investment strategy is to invest 55% of the portfolio in LDI investments which will include bonds which are also linked to inflation. The inflation hedging strategy adopted within the LDI portfolio provides protection against the impact of changes in inflation.

Each of the pension schemes is invested in an appropriately diversified range of assets. The broad proportion of each asset class in which the schemes aim to be invested are as follows, however it is important to note that this may vary from time to time as markets change and as cash may be held for strategic reasons.

	2016	2015
Equities	21%	19%
Infrastructure	3%	5%
Liability driven investment	55%	55%
Property	4%	4%
Mezzanine debt	5%	4%
Diversified growth funds	12%	13%
Total	100%	100%

No scheme held ScottishPower or Iberdrola shares in 2016 or 2015.

Additional pension arrangement: The group also operates an Unfunded Unapproved Retirement Benefit Scheme ("UURBS") for former senior executives' benefit promises in excess of limits set by the UK taxation authorities. The UURBS has no invested assets, and the group has provided £6.2 million as at 31 December 2016 (2015 £6.6 million) for the benefit promises which will ultimately be paid by the group.

(c) Pensions – defined contribution scheme
The charge for the year ended 31 December 2016 in respect of the Stakeholder Pension Plan is £6.8 million (2015 £6.6 million).

(d) Pensions – defined benefit schemes
The group operates defined benefit pension schemes as described earlier in this note. Formal actuarial valuations were carried out as described earlier and updated to 31 December 2016 by a qualified independent actuary. The major assumptions applied by the actuary are given in footnote (e).

(i) Analysis of net liability relating to pensions

	2016 £m	2015 £m
Present value of funded obligations	(5,324.2)	(4,635.6)
Fair value of scheme assets	4,887.9	4,377.8
Net liability of funded plans	(436.3)	(257.8)
Present value of unfunded obligations	(6.2)	(6.6)
Net liability	(442.5)	(264.4)
Amounts in the balance sheet:		
Non-current liabilities	(442.5)	(264.4)
Net liability	(442.5)	(264.4)

18 RETIREMENT BENEFIT OBLIGATIONS *continued*

(d) Pensions – defined benefit scheme *continued*

(ii) The amounts recognised are as follows:

	2016 £m	2015 £m
Current service cost	52.3	55.2
Past service cost	14.8	21.7
Net interest cost on defined benefit obligation/scheme assets	6.8	9.3
Administration expenses	2.5	2.5
Total income statement charge	76.4	88.7
Actual return on scheme assets	616.9	109.2
Net actuarial losses recognised in the consolidated statement of comprehensive income	(251.4)	(10.5)

(iii) Changes in the present value of the defined benefit obligations are as follows:

	2016 £m	2015 £m
Defined benefit obligation at beginning of year	(4,642.2)	(4,614.7)
Current service cost	(52.3)	(55.2)
Interest on obligation	(171.6)	(174.5)
Scheme members' contributions	(8.6)	(9.1)
Past service costs	(14.8)	(21.7)
Actuarial gains/(losses):		
Actuarial gains/(losses) arising from changes in demographic assumptions	30.8	(1.3)
Actuarial (losses)/gains arising from changes in financial assumptions	(719.7)	26.7
Actuarial (losses)/gains arising from changes of the scheme experience different to that assumed	(14.6)	20.1
Benefits paid	262.6	187.5
Defined benefit obligation at end of year	(5,330.4)	(4,642.2)

	2016 £m	2015 £m
Analysis of defined benefit obligation		
Plans that are wholly or partly funded	(5,324.2)	(4,635.6)
Plans that are wholly unfunded	(6.2)	(6.6)
Total	(5,330.4)	(4,642.2)

The defined benefit obligations for SPPS are 34% (2015 34%) in respect of active scheme participants, 14% (2015 13%) in respect of deferred scheme participants and 52% (2015 53%) in respect of retirees. The weighted average duration of the defined benefit obligation as at 31 December 2016 is 21 years.

The defined benefit obligations for Manweb are 38% (2015 35%) in respect of active scheme participants, 7% (2015 8%) in respect of deferred scheme participants and 55% (2015 57%) in respect of retirees. The weighted average duration of the defined benefit obligation as at 31 December 2016 is 19 years.

(iv) Changes in the fair value of scheme assets are as follows:

	2016 £m	2015 £m
Fair value of scheme assets at beginning of year	4,377.8	4,306.3
Interest income on scheme assets	164.8	165.2
Return on assets in excess of interest income	452.1	(56.0)
Employer contributions	149.7	143.2
Scheme members' contributions	8.6	9.1
Administration expenses	(2.5)	(2.5)
Benefits paid	(262.6)	(187.5)
Fair value of scheme assets at end of year	4,887.9	4,377.8

(e) Actuarial assumptions

(i) The assumptions used by the actuary for the pensions arrangements, for all schemes, were as follows and are expressed as weighted averages:

	2016	2015
Rate of increase in salaries	3.5% p.a.	3.6% p.a.
Rate of increase in deferred pensions	3.0% p.a.	3.1% p.a.
Rate of increase to pensions in payment	2.9% p.a.	3.0% p.a.
Discount rate	2.9% p.a.	3.8% p.a.
Inflation assumption	3.0% p.a.	3.1% p.a.

(ii) The weighted average life expectancy for mortality used to determine the benefit obligations were as follows:

Member age 63 (current life expectancy)	2016	2015
Male	25.6	25.8
Female	26.7	27.1
Member age 45 (life expectancy at age 63)		
Male	27.7	27.4
Female	28.9	28.7

18 RETIREMENT BENEFIT OBLIGATIONS *continued*

(e) Actuarial assumptions *continued*

(iii) The following table presents a sensitivity analysis for each critical actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumptions that were reasonably possible at the balance sheet date. This sensitivity applies to the defined benefit obligation only and not to the net defined benefit pension liability in its entirety, the measurement of which is driven by a number of factors including, in addition to the assumptions below, the fair value of scheme assets.

Sensitivity analysis of critical actuarial assumptions	Increase/(decrease) in defined benefit obligation 2016 £m	2015 £m
Rates of increase in inflation and salary growth		
Increase by 0.1%	99.8	78.6
Decrease by 0.1%	(27.1)	(79.1)
Discount rate		
Increase by 0.25%	(248.4)	(196.6)
Decrease by 0.25%	267.7	196.6
Assumed life expectancy		
Increase mortality by one additional year	181.6	145.1

(iv) Allowance for cash commutation
Within the pension schemes, members are assumed to commute 25% of their benefits for a tax-free cash sum where this option is available.

(v) The following table provides information on the composition and fair value of plan assets of the SPPS and Manweb pension schemes. The group's definition of Level 1, 2 and 3 valuation techniques is detailed in Note 11(b).

SPPS Scheme	2016 Level 1 £m	2016 Level 2 £m	2016 Level 3 £m	2016 Total £m	2016 Plan asset allocation %	2015 Level 1 £m	2015 Level 2 £m	2015 Level 3 £m	2015 Total £m	2015 Plan asset allocation %
Equities	848.9	–	–	848.9	23.3%	748.8	–	–	748.8	23.0%
Infrastructure	–	–	108.4	108.4	3.0%	–	–	161.5	161.5	4.9%
Liability driven instrument	1,613.5	250.4	–	1,863.9	51.0%	1,442.1	130.2	–	1,572.3	48.3%
Property	0.6	–	150.2	150.8	4.1%	0.7	–	154.8	155.5	4.8%
Cash	189.4	–	–	189.4	5.2%	205.2	–	–	205.2	6.3%
Mezzanine debt	–	–	128.5	128.5	3.5%	–	–	116.2	116.2	3.6%
Diversified growth funds	311.4	–	–	311.4	8.5%	297.1	–	–	297.1	9.1%
BMO – Guaranteed government debt	50.3	–	–	50.3	1.4%	–	–	–	–	–
Fair value of scheme assets	3,014.1	250.4	387.1	3,651.6	100%	2,693.9	130.2	432.5	3,256.6	100%

Manweb Scheme	2016 Level 1 £m	2016 Level 2 £m	2016 Level 3 £m	2016 Total £m	2016 Plan asset allocation %	2015 Level 1 £m	2015 Level 2 £m	2015 Level 3 £m	2015 Total £m	2015 Plan asset allocation %
Equities	291.8	–	–	291.8	23.6%	256.8	–	–	256.8	22.9%
Infrastructure	–	–	32.5	32.5	2.6%	–	–	48.4	48.4	4.3%
Liability driven instrument	594.5	16.3	–	610.8	49.4%	523.6	88.3	–	611.9	54.6%
Cash	76.0	–	–	76.0	6.2%	1.6	–	–	1.6	0.1%
Diversified growth funds	225.2	–	–	225.2	18.2%	202.5	–	–	202.5	18.1%
Fair value of scheme assets	1,187.5	16.3	32.5	1,236.3	100%	984.5	88.3	48.4	1,121.2	100%
Total				4,887.9					4,377.8	

(f) Future contributions

The group expects to contribute £193.6 million to the pension schemes in the year ending 31 December 2017, based on the agreement with scheme trustees following the valuation at March 2015.

19 OTHER PROVISIONS

Year ended 31 December 2015	Notes	At 1 January 2015 £m	New provisions £m	Unwinding of discount £m	Disposal of subsidiaries £m	Utilised during year £m	Released during year £m	At 31 December 2015 £m
Reorganisation and restructuring	(a)	0.6	6.1	–	–	(0.6)	–	6.1
Decommissioning and environmental	(b)	181.7	27.0	3.5	–	(2.3)	(0.7)	209.2
Emissions allowances	(c)	49.1	56.0	–	–	(45.3)	(3.6)	56.2
Onerous contracts	(d)	24.1	5.2	0.3	–	(6.6)	(2.0)	21.0
Insurance	(e)	9.5	0.7	–	(4.3)	(0.2)	(1.6)	4.1
Regulatory	(f)	2.4	–	–	–	(2.4)	–	–
Other	(g)	11.7	0.1	–	–	(2.4)	(3.5)	5.9
		279.1	95.1	3.8	(4.3)	(59.8)	(11.4)	302.5

Year ended 31 December 2016	Notes	At 1 January 2016 £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	At 31 December 2016 £m
Reorganisation and restructuring	(a)	6.1	5.1	–	(4.7)	(0.5)	6.0
Decommissioning and environmental	(b)	209.2	17.7	3.6	(28.0)	(3.2)	199.3
Emissions allowances	(c)	56.2	23.7	–	(54.7)	(1.5)	23.7
Onerous contracts	(d)	21.0	(6.7)	0.2	(5.5)	(0.3)	8.7
Insurance	(e)	4.1	2.3	–	(1.7)	(1.1)	3.6
Other	(g)	5.9	0.1	–	(0.3)	(0.6)	5.1
		302.5	42.2	3.8	(94.9)	(7.2)	246.4

Analysis of total provisions	2016 £m	2015 £m
Non-current	194.9	208.8
Current	51.5	93.7
	246.4	302.5

(a) The new provision for reorganisaton and restructuring in 2016 relates to the Energy Retail business function and is expected to be utilised in 2017. The provision at 31 December 2015 principally relates to the closure of Longannet power station within the Energy Wholesale business function and was largely utilised during 2016. The remaining balance will be utilised in 2017.

(b) The provision for decommissioning and environmental costs is the discounted future estimated costs of decommissioning the group's power plants and the obligation to remove asbestos from power stations over the course of their operational lives. The decommissioning of these plants is expected to occur over the period between 2017 and 2056.

(c) The provision for emissions allowances represents the value of emissions allowances certificates expected to be delivered in the next year.

(d) The provision for onerous contracts principally relates to various property leases. These leases will expire over the period between 2017 and 2025.

(e) The provision for insurance principally represents the value of claims reserves. The claims are expected to be settled between 2017 and 2020.

(f) The provision for regulatory costs at 1 January 2015 related to various contractual obligations and the future costs associated with various regulatory reviews. This was fully utilised during 2015.

(g) The 'Other' category comprises provisions which are not individually sufficiently material to warrant separate disclosure.

20 LOANS AND OTHER BORROWINGS

Analysis by instrument and maturity	Notes	Interest rate*	Maturity	2016 £m	2015 £m
Loans with Iberdrola group companies		Base + 1%	On demand	3,846.0	3,254.4
Loans with Iberdrola group companies	(b)	EURIBOR + 0.4593%	On demand	22.2	14.6
Loans with Iberdrola group companies	(b)	EUR 3 month + 1.1892%	On demand	51.3	10.5
£200 million euro-sterling bond	(c), (d)	8.375%	20 February 2017	200.0	199.8
Collateral		LIBOR	17 June 2017	50.3	29.2
Loan with Avel Vor Energie Eolienne	(e)	EUR 12 month + 1.11%	31 January 2018	10.6	7.8
Long-term loans with Iberdrola group companies		LIBOR + 0.34%	17 December 2018	150.0	150.0
Long-term loans with Iberdrola group companies		3.858%	29 January 2019	150.0	150.0
Loans with Iberdrola group companies	(b)	EUR 3 month + 0.785%	1 May 2020	255.4	-
Loans with Iberdrola group companies		5.135%	1 August 2020	23.8	20.7
Loans with Iberdrola group companies	(f)	EUR 6 month + 1.025%	2 November 2020	-	62.9
Loans with Iberdrola group companies		1.262%	2 November 2020	85.1	74.0
£300 million medium-term note	(g)	5.9%	22 February 2021	297.2	296.6
Loans with Iberdrola group companies	(h)	EURIBOR + 1.025%	28 March 2022	100.0	102.3
Loans with Iberdrola group companies	(i)	2.25%	3 April 2023	170.3	-
£250 million euro-sterling bond	(c), (j)	6.75%	29 May 2023	248.9	248.8
£175 million inflation linked bond	(g)	3.494% x RPI	13 October 2024	273.6	269.6
£350 million euro-sterling bond	(c), (k)	5.875%	17 July 2026	347.2	346.9
£350 million euro-sterling bond	(c), (l)	4.875%	20 September 2027	346.5	346.1
10 billion JPY loan	(m)	4.6%	27 July 2029	104.6	83.0
£50 million medium-term note	(g)	5.75%	9 December 2039	50.0	50.0
£100 million medium-term note	(g)	6.375%	31 May 2041	100.0	100.0
				6,883.0	5,817.2

* Base - Bank of England Base Rate; LIBOR - London Inter-Bank Offer Rate; EURIBOR - Euro Bank Offered Rate; RPI - Retail Prices Index; JPY - Japanese Yen.

Analysis of total loans and other borrowings	Note	2016 £m	2015 £m
Non-current		2,698.1	2,496.0
Current	(a)	4,184.9	3,321.2
		6,883.0	5,817.2

(a) Current borrowings comprise loans with Iberdrola group companies repayable on demand, the short-term element of the EURIBOR 2022 loan with Iberdrola (refer to Note (h) below) and collateral together with finance costs due to be amortised within one year, the short term element of fair value hedge adjustments and the adjustments on discontinued fair value hedges due to be amortised within one year, which totalled (£(3.3) million (2015 £(3.5) million).

(b) These loans have the interest rates reset at pre-determined dates, this includes the ability to adjust the margin rate as deemed appropriate by both parties.

(c) These bonds contain a "Loss of licences" covenant that will require repayment of the outstanding amount should the group lose all of their electricity licences (distribution, transmission and supply licences).

(d) The euro-sterling bond due 2017 can be redeemed at any time by the group at the higher of principal amount or redemption price (as determined by HSBC Bank plc) giving 30 to 90 days' notice to lender.

(e) Under the loan between Ailes Marines SAS and Avel Vor Energie Eolienne further borrowings can be drawn down, giving at least one month's notice, up to a maximum of €10.8 million in total.

(f) The £62.9 million loan between Iberdrola Renovables Offshore Deutschland GmbH and Iberdrola Financiación S.A.U. was repaid early in April 2016.

(g) The company and Scottish Power Limited have an established joint US$7 billion euro-medium term note programme. Scottish Power Limited has not issued under the programme. SPUK has in issue various notes in Sterling which can be redeemed by SPUK with 30 to 90 days' notice in case of unfavourable and unavoidable changes in the UK tax laws impacting on the note payments.

(h) The EURIBOR loan with Iberdrola that is due to mature in March 2022 has a schedule of repayments which commenced in 2014. The repayment of £18.4 million due in 2017 (2015 £16.0 million due in 2016) is classified as current in the above analysis.

(i) These loans can be redeemed at any time by the group, totally or partially, at market value (calculated as a present value of future cashflows discounted at the current internal rate of return, defined as market swap rate plus applicable credit spread at valuation date) giving five business days' notice to the lender. The lender may declare these credit facility agreements to have matured early in the event the lender's shareholding in the group reduces to the extent that the group no longer belongs to the Iberdrola group.

(j) The euro–sterling bond due 2023 can be redeemed at any time by the group at the higher of principal amount or redemption price (as determined by HSBC Bank plc) giving 30 to 45 days' notice to the lender.

(k) The £350 million euro-sterling bond will be redeemed at its principal amount on 17 July 2026 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the group at a higher redemption price (as determined by a financial advisor appointed by the group and Guarantor) giving 30 to 60 days' notice.

(l) The £350 million euro-sterling bond will be redeemed at its principal amount on 20 September 2027 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the group at a higher redemption price (as determined by a financial advisor appointed by the group and Guarantor) giving 30 to 60 days' notice.

(m) The interest rate quoted above on the 10 billion JPY loan is fixed. This is changed to a variable rate by a cross currency swap.

(n) The group has no undrawn committed borrowing facilities at 31 December 2016 (2015 nil).

21 DERIVATIVE FINANCIAL INSTRUMENTS

Analysis of derivative financial instruments – carrying value

		2016				2015			
		Assets		Liabilities		Assets		Liabilities	
	Note	Current £m	Non Current £m	Current £m	Non Current £m	Current £m	Non Current £m	Current £m	Non Current £m
Hedging derivatives:									
Exchange rate hedges									
Fair value hedge – Currency swap		1.1	53.9	–	–	0.9	32.3	–	–
Cash flow hedge – Foreign exchange rate		41.3	5.0	(13.9)	(0.4)	17.5	2.3	(13.6)	(0.7)
Commodity hedge – Cashflow hedge		48.8	36.7	(37.0)	(2.2)	44.2	1.5	(57.7)	(14.6)
Non-hedging derivatives:									
Exchange rate derivatives – Foreign exchange rate		2.3	–	(2.0)	–	12.6	0.6	(7.1)	(0.3)
Commodity derivatives		618.6	6.8	(614.9)	(7.2)	179.7	10.6	(237.6)	(9.0)
Total gross derivatives		712.1	102.4	(667.8)	(9.8)	254.9	47.3	(316.0)	(24.6)
Impact of netting	(a)	(506.3)	(6.7)	506.3	6.7	(116.1)	(10.7)	116.1	10.7
Total net derivatives in balance sheet		205.8	95.7	(161.5)	(3.1)	138.8	36.6	(199.9)	(13.9)

(a) Certain derivative financial instruments are presented net on the balance sheet. A reconciliation between the gross and net position is provided in Note 11(c).

22 EFFECT OF HEDGING AND DERIVATIVE INSTRUMENTS ON THE RESULTS

An analysis of the effect of hedging and derivative financial instruments on the income statement is given below:

	Notes	2016 £m	2015 £m
Operating derivatives:			
Effect of operating derivative instruments	(a)	54.1	(12.4)
Financing derivatives:			
Effect of foreign exchange rate derivatives	(a)	(1.6)	7.3
Fair value hedges:			
Movements in the fair value of hedging instruments		7.8	1.6
Movements in the fair value of hedged item		(7.8)	(1.6)
Effect of fair value hedges		–	–
Cash flow hedges – amounts released from equity:			
Commodities		(72.7)	(30.1)
Foreign exchange rate derivatives		1.7	(7.5)
Effect of cash flow hedges	(b)	(71.0)	(37.6)
Total	(c)	(18.5)	(42.7)

(a) The amount includes de-designated cash flow hedges.

(b) The amount relates to gains and losses on the effective portions of cash flow hedges which have previously been deferred in equity which have been transferred to the income statement in the current year to match timing of occurrence of the hedged cash flows.

(c) The net effect of hedging and derivative financial instruments with Iberdrola group companies on the income statement for the year ended 31 December 2016 was £45.7 million (2015 £(24.1) million).

23 TRADE AND OTHER PAYABLES

	Notes	2016 £m	2015 £m
Current trade and other payables:			
Payables due to Iberdrola group companies – trade		37.4	21.9
Payables due to Iberdrola group companies – capital		41.5	62.7
Payables due to Iberdrola group companies – interest		57.1	55.6
Payables due to jointly controlled entities – trade		6.6	8.4
Trade payables	(a), (b)	591.5	514.5
Other taxes and social security		70.6	92.7
Payments received on account		152.3	177.4
Capital payables and accruals		580.3	451.8
Other payables		194.4	164.4
		1,731.7	1,549.4
Non-current other payables:			
Payments received on account		30.6	–
Other payables		4.6	7.8
		35.2	7.8

(a) Trade payables include amounts due on commodity activities.

(b) Certain trade payables and receivables are presented net on the balance sheet when offsetting criteria under IAS 32 are met (refer to Note 3G.5). A reconciliation between the gross and net position is provided at Note 11(c).

24 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m	Derivative financial instruments £m	Retirement benefits £m	Intangible assets £m	Other temporary differences £m	Total £m
At 1 January 2015	788.3	(25.3)	(61.7)	78.3	(4.9)	774.7
(Credit)/charge to income statement	(65.9)	(2.0)	10.9	(26.8)	(3.7)	(87.5)
Recorded in the statement of comprehensive income	–	4.7	(2.1)	–	–	2.6
Exchange	–	–	–	–	0.2	0.2
At 1 January 2016	722.4	(22.6)	(52.9)	51.5	(8.4)	690.0
Charge/(credit) to income statement	60.1	16.1	12.9	(51.5)	0.6	38.2
Recorded in the statement of comprehensive income	–	30.7	(42.1)	–	–	(11.4)
Exchange	–	–	–	–	(0.5)	(0.5)
At 31 December 2016	**782.5**	**24.2**	**(82.1)**	**–**	**(8.3)**	**716.3**

Deferred tax presented in the Accounts is as follows:

	Note	2016 £m	2015 £m
Non-current assets	(c)	5.2	–
Non-current liabilities		(721.5)	(690.0)
		(716.3)	(690.0)

(a) At 31 December 2016, the group had unutilised capital losses of £22.3 million (2015 £16.5 million). No deferred tax asset has been recognised in the Accounts due to the unpredictability of suitable future profit streams against which these losses may be utilised.

(b) Legislation has been enacted to reduce the rate of UK Corporation Tax to 19% on 1 April 2017 and to 17% on 1 April 2020. These changes reduce the tax rates expected to apply when temporary differences reverse and impact the deferred tax charge.

(c) The deferred tax asset relates to losses from the group's operations in Germany and is expected to be recovered after the Wikinger wind farm becomes operational.

25 EMPLOYEE INFORMATION

(a) Staff costs

	Note	2016 £m	2015 £m
Wages and salaries		273.2	284.2
Social security costs		28.1	26.4
Pension and other costs	(i)	93.8	106.2
Total staff costs		395.1	416.8
Less: capitalised staff costs		(132.6)	(129.1)
Charged to the income statement		262.5	287.7

(i) Pension and other costs in 2016 includes £19.7 million of costs for a restructuring programme within the Energy Retail business function. In 2015 this included £26.0 million of pension and other costs in relation to the closure of Longannet Power Station.

25 EMPLOYEE INFORMATION *continued*

(b) Employee numbers

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

	Year end 2016	Average 2016	Year end 2015	Average 2015
Energy Networks	2,857	2,912	2,972	2,985
Energy Wholesale and Retail	2,405	2,498	2,649	2,709
Renewables	312	292	279	289
Corporate	499	503	539	538
Total	6,073	6,205	6,439	6,521

The year end and average numbers of full-time equivalent staff employed by the group, including UK based directors, were:

	Year end 2016	Average 2016	Year end 2015	Average 2015
Total	5,861	6,004	6,220	6,318

26 TAXES OTHER THAN INCOME TAX

	Note	2016 £m	2015 £m
Property taxes		115.9	114.8
Business taxes		0.4	1.2
Other taxes	(a)	76.9	84.4
		193.2	200.4

(a) Other taxes mainly comprise obligations specific to the energy industry, which in both years principally comprised ECO and WHD.

27 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	Note	2016 £m	2015 £m
Property, plant and equipment depreciation charge		413.8	521.7
Intangible asset amortisation		60.6	60.5
Capital grants transferred to income for the year		-	(1.3)
Charges and provisions, allowances and impairment of assets	(a)	82.1	273.3
		556.5	854.2

(a) Included within 'Charges and provisions, allowances and impairment of assets' for the year ended 31 December 2015 are impairment charges of £209.5 million relating to the closure of Longannet power station.

28 FINANCE INCOME

	2016 £m	2015 £m
Interest on bank and other deposits	1.2	1.0
Interest receivable from Iberdrola group companies	9.5	13.5
Interest receivable from jointly controlled entities	0.1	0.3
Foreign exchange gains	10.3	14.6
Fair value and other gains on financing derivatives	3.1	13.7
	24.2	43.1

29 FINANCE COSTS

	Note	2016 £m	2015 £m
Interest on bank loans and overdrafts		0.3	0.1
Interest on amounts due to Iberdrola group companies		62.6	60.4
Interest on other borrowings		114.2	112.7
Unwinding of discount on provisions		3.8	3.8
Foreign exchange losses		10.3	13.3
Net interest on retirement benefit obligations		6.8	9.3
Fair value and other losses on financing derivatives		4.7	6.4
Impairment of financial investments		0.6	3.6
		203.3	209.6
Capitalised interest	(a)	(19.0)	(11.6)
		184.3	198.0

(a) The tax relief on the capitalised interest for the year ended 31 December 2016 was £2.1 million (2015 £1.4 million).

30 INCOME TAX

	2016 £m	2015 £m
Current tax:		
UK Corporation Tax charge on profits for the year	54.6	122.6
Adjustments in respect of prior years	(0.1)	(9.8)
Current tax for the year	54.5	112.8
Deferred tax:		
Origination and reversal of temporary differences	88.3	(7.6)
Adjustments in respect of prior years	3.2	3.5
Impact of tax rate change	(53.3)	(83.4)
Deferred tax for the year	38.2	(87.5)
Income tax expense for the year	92.7	25.3

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

	2016 £m	2015 £m
Corporation Tax at 20% (2015 20.25%)	134.7	103.7
Adjustments in respect of prior periods	3.1	(6.3)
Impact of tax rate change	(53.3)	(83.4)
Non deductible expenses and other permanent differences	8.2	11.3
Income tax expense for the year	92.7	25.3

The rate of UK Corporation Tax reduced from 21% to 20% on 1 April 2015. Legislation has been enacted to reduce the rate of UK Corporation Tax to 19% on 1 April 2017 and to 17% on 1 April 2020. These changes reduce the tax rates expected to apply when temporary differences reverse and impact the deferred tax charge.

Comparison of UK Corporation Tax charge and payments	2016 £m	2015 £m
UK Corporation Tax charge on profits for the year	54.6	122.6
UK Corporation Tax in the consolidated cash flow statement	107.9	108.3

The amount of Corporation Tax paid in the year, shown in the consolidated cash flow statements, and the amount of the Corporation Tax charge for the year are not the same. The main reason for this is the timing of payments. UK Corporation Tax is due in four instalments: two in the year to which the instalment relates, and two in the following year. In addition, the amount in the cash flow statement also includes any refunds received or payments made relating to Corporation Tax liabilities of prior periods.

31 DIVIDENDS

	2016 pence per ordinary share	2015 pence per ordinary share	2016 £m	2015 £m
Interim dividend paid	38.0	13.2	663.0	230.0

32 CONTINGENT LIABILITIES

Legal proceedings

The group's businesses are parties to various legal claims, actions and complaints, certain of which may involve material amounts. The group is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be. The group currently believes that disposition of these matters will not have a materially adverse effect on the Consolidated Accounts.

33 FINANCIAL COMMITMENTS

Contractual commitments

The group manages its energy resource requirements by integrating long-term firm, short-term and spot market purchases with its own generating resources to manage volume and price volatility and maximise value across the energy value chain. As part of its energy resource portfolio the group is committed under long-term purchase contracts summarised in the tables below.

	2016						
	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 and thereafter £m	Total £m
Long-term energy purchase contract commitments	1,902.2	273.2	19.4	–	–	–	2,194.8
Other contractual commitments	83.3	63.8	26.0	20.6	9.7	3.0	206.4

	2015						
	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 and thereafter £m	Total £m
Long-term energy purchase contract commitments	1,932.9	270.9	25.5	0.8	–	–	2,230.1
Other contractual commitments	123.3	65.7	31.8	23.8	18.6	8.2	271.4

34 RELATED PARTY TRANSACTIONS

(a) Transactions and balances arising in the normal course of business

	2016				2015				
	Ultimate parent (Iberdrola, S.A.) £m	Immediate parent (Scottish Power Limited) (Note (ii)) £m	Other Iberdrola group companies (Note (ii)) £m	Jointly controlled entities £m	Ultimate parent (Iberdrola, S.A.) £m	UK parent (Scottish Power Limited) £m	Immediate parent (Scottish Power UK Holdings Limited) (Note (ii)) £m	Other Iberdrola group companies £m	Jointly controlled entities £m
Types of transaction									
Sales and rendering of services	0.1	1.4	90.8	4.1	0.1	1.3	–	25.4	3.1
Purchases and receipt of services	(38.5)	(2.0)	(179.4)	(12.2)	(34.0)	(5.2)	–	(264.3)	(0.4)
Finance income	–	9.5	–	0.1	–	13.5	–	–	0.3
Finance costs	(2.3)	(54.6)	(5.7)	–	(2.3)	(56.2)	–	(1.9)	–
Net (losses)/gains on foreign exchange	(15.1)	15.1	(1.0)	–	7.2	(7.4)	–	0.6	–
Net (losses)/gains on financing derivatives	–	(1.6)	–	–	–	7.3	–	–	–
Dividends paid	–	(383.0)	(280.0)	–	–	–	(230.0)	–	–
Changes in the value of cash flow hedges	–	80.1	–	–	–	0.9	–	–	–
Transfers of property, plant and equipment	–	–	–	–	–	–	–	0.7	–
Balances outstanding									
Loans receivable	–	677.7	–	0.3	–	766.7	–	–	18.4
Trade and other receivables	0.1	–	10.0	1.6	–	–	–	6.0	3.9
Interest receivable	–	9.5	–	–	–	13.1	–	–	–
Derivative financial assets	–	48.6	12.0	–	–	32.9	–	4.7	–
Loans payable	(173.5)	(4,146.0)	(534.6)	–	(127.4)	(3,554.4)	–	(157.6)	–
Trade payables	–	–	(37.4)	(6.6)	(2.5)	(0.1)	–	(19.3)	(8.4)
Capital payables	–	–	(41.5)	–	–	–	–	(62.7)	–
Interest payable	(0.9)	(52.6)	(3.6)	–	(0.7)	(54.2)	–	(0.7)	–
Derivative financial liabilities	–	(16.3)	(0.7)	–	–	(21.7)	–	(40.0)	–

(i) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received in relation to intra-group transactions.

(ii) Scottish Power UK Holdings Limited was the immediate parent company during the period from 1 January 2015 to 6 July 2016. On 7 July 2016, Scottish Power Limited became the immediate parent company. On 31 March 2016 a dividend of £280.0 million was paid to Scottish Power UK Holdings Limited.

(b) Remuneration of key management personnel

The remuneration of the key management personnel of the group is set out below. Of the twelve (2015 twelve) key management personnel, three (2015 four) were remunerated by another Iberdrola group company during the year.

	2016 £m	2015 £m
Short-term employee benefits	3.4	3.2
Post-employment benefits	0.5	0.5
Share-based payments	1.5	1.7
	5.4	5.4

(c) Directors' remuneration

The remuneration of the directors that provided qualifying services to the group is set out below. During the year, all (2015 two) of the directors were remunerated by the group.

	2016 £000	2015 £000
Aggregate remuneration in respect of qualifying services	890	934
Aggregate contributions payable to a defined contribution pension scheme	–	4
Number of directors who exercised share options	3	2
Number of directors who received shares under a long-term incentive scheme	2	2
Number of directors accruing retirement benefits under a defined benefit pension scheme	3	2

Highest paid director	2016 £000	2015 £000
Aggregate remuneration in respect of qualifying services	344	420
Accrued pension benefit	49	–
Aggregate contributions payable to a defined contribution pension scheme	–	4

(i) The highest paid director received shares under a long-term share incentive scheme in both years.
(ii) The highest paid director exercised share options during 2016 only.

(d) Ultimate parent company

The directors regard Iberdrola, S.A. (incorporated in Spain) as the ultimate parent company, which is also the parent company of the largest group in which the results of the company are consolidated. Copies of the Consolidated Accounts of Iberdrola, S.A. may be obtained from the registered office of the company at Iberdrola, S.A., Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain.

The parent company of the smallest group in which the results of the company are consolidated is Scottish Power Limited. Copies of the Consolidated Accounts of Scottish Power Limited may be obtained from the Secretary, Scottish Power Limited, 320 St. Vincent Street, Glasgow G2 5AD.

35 AUDITORS' REMUNERATION

	2016 £m	2015 £m
Audit of the company's annual Accounts	0.1	0.1
Audit of the company's subsidiaries pursuant to legislation	1.2	1.2
Audit fees	1.3	1.3
Audit-related assurance services – other services	0.2	0.1
Total	1.5	1.4

For the year ended 31 December 2016, all fees paid to the auditors of £1.5 million (2015 £1.4 million) were charged to operating profit.

36 BUSINESS COMBINATIONS

(a) Acquisition of East Anglia One Limited

The principal activity of East Anglia One Limited ("EA1") is the development and construction of an offshore wind farm in the East Anglia zone.

At 1 January 2015, EA1 was jointly owned and managed by ScottishPower Renewables (UK) Limited ("SPRUKL"), a subsidiary of the group, and Vattenfall Wind Power Ltd ("VWPL"), both holding a 50% interest in the equity of the company. During the period from 1 January 2015 to 24 March 2015, EA1 was treated as an equity-accounted joint venture within the Scottish Power UK plc group Accounts.

On 24 March 2015, SPRUKL acquired the remaining 50% interest in the share capital of EA1, at which point the company became a wholly owned subsidiary of SPRUKL and of the group.

Details of the book value and fair value of the assets and liabilities of EA1 as at 24 March 2015 are shown in the table below:

	Book value of EA1 at date of acquisition* £m	Fair value uplift* £m	Fair value of EA1 at date of acquisition* £m
Property, plant and equipment	44.3	4.8	49.1
Amounts payable to Iberdrola group companies	(44.3)	–	(44.3)
Deferred tax	–	(0.8)	(0.8)
Net assets	–	4.0	4.0

* Represents 100% of EA1 entity

In line with group accounting policy the group remeasured the previously held equity interest in EA1 at acquisition date fair value and therefore recognised a gain of £2.0 million in the income statement in the year ended 31 December 2015; £2.4 million was recognised within 'Gains on disposal/acquisition of non-current assets' along with a related tax charge of £0.4 million within 'Income tax'.

	£m
Book value of previously held equity investment in EA1	–
Fair value of previously held equity interest	2.0
Fair value uplift recognised in the income statement	2.0

The fair value of the net assets acquired by the group on the acquisition of the remaining 50% interest in EA1 was £2.0 million and the consideration paid for that 50% interest was £0.50. A gain of £2.0 million was therefore recognised in the income statement in the year ended 31 December 2015; £2.4 million was recognised within 'Gains on disposal/acquisition of non-current assets' along with a related tax charge of £0.4 million within 'Income tax'.

	£m
Cash consideration for the acquisition of remaining 50% in EA1	–
Fair value of 50% of remaining interest in EA1 acquired	2.0
Gain on acquisition of remaining 50% interest in EA1	2.0

(b) Disposal of subsidiary

ScottishPower Insurance Limited

On 18 December 2015, ScottishPower Insurance Limited ("SPIL") was sold to Enstar for net cash proceeds of £1.9 million. At the date of disposal SPIL had net assets of £3.9 million which included cash of £8.2 million, offset by provisions of £4.3 million. This resulted in a net loss on disposal of £2.0 million which was offset against the provision recognised in the consolidated income statement in respect of this transaction during 2014.

The analysis of cash flow in respect of the above transaction is detailed below:

	£m
Net cash proceeds	1.9
Net cash and cash equivalents disposed of	(8.2)
Net cash outflows on disposal of subsidiary	(6.3)

37 GOING CONCERN

The group's business activities together with the factors likely to affect its future development and position are set out in the Strategic Report on pages 1 to 11.

The group has recorded a profit after tax in both the current and previous financial years and the group's balance sheet shows that it has net current liabilities of £4,348.2 million and net assets of £4,014.8 million at its most recent balance sheet date.

The group is ultimately owned by Iberdrola, S.A. and it participates in the Iberdrola group's centralised treasury arrangements and shares banking facilities with its parent companies and fellow subsidiaries. As a consequence, the group depends, in part, on the ability of the Iberdrola group to continue as a going concern. The directors have considered the group's funding relationship with Iberdrola to date and have considered available relevant information relating to Iberdrola's ability to continue as a going concern. In addition, the directors have no reason to believe that Iberdrola group will not continue to fund the group to enable it to continue in operational existence.

On the basis of these considerations, the directors have a reasonable expectation that the group will be able to continue in operational existence for the foreseeable future. Therefore, they continue to adopt the going concern basis of accounting in preparing the Accounts.

SCOTTISH POWER UK PLC
COMPANY BALANCE SHEETS
at 31 December 2016 and 31 December 2015

	Notes	2016 £m	2015 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	38	19.7	24.7
Property, plant and equipment		47.5	26.3
Property, plant and equipment in use	39	45.7	22.9
Property, plant and equipment in course of construction	39	1.8	3.4
Trade and other receivables	40	1,739.6	1,957.8
Financial assets		3,255.3	3,048.7
Investments in subsidiaries	41	3,200.7	3,015.7
Other investments	41	0.7	0.7
Derivative financial instruments	43, 50	53.9	32.3
Deferred tax asset	42	85.4	58.0
NON-CURRENT ASSETS		5,147.5	5,115.5
CURRENT ASSETS			
Trade and other receivables	40	703.9	409.1
Current tax receivables		18.0	12.0
Financial assets		1.3	0.9
Derivative financial instruments	43, 50	1.3	0.9
CURRENT ASSETS		723.2	422.0
TOTAL ASSETS		5,870.7	5,537.5
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		2,332.1	2,564.4
Share capital	45, 46	872.0	872.0
Share premium	46	398.2	398.2
Hedge reserve	46	0.1	-
Other reserves	46	8.2	8.2
Retained earnings – opening balance	46	1,286.0	1,227.7
Retained earnings – profit for the year	46	639.9	296.7
Retained earnings – other movements	46	(872.3)	(238.4)
Retained earnings – closing balance	46	1,053.6	1,286.0
TOTAL EQUITY		2,332.1	2,564.4
NON-CURRENT LIABILITIES			
Provisions		448.2	272.0
Provision for retirement benefit obligations	47	442.5	264.4
Other provisions	48	5.7	7.6
Bank borrowings and other financial liabilities		1,076.5	1,250.0
Loans and other borrowings	49	1,076.5	1,250.0
Trade and other payables	51	69.3	40.5
NON-CURRENT LIABILITIES		1,594.0	1,562.5
CURRENT LIABILITIES			
Provisions	48	2.7	2.3
Bank borrowings and other financial liabilities		1,824.3	1,303.0
Loans and other borrowings	49	1,824.3	1,303.0
Trade and other payables	51	117.6	105.3
CURRENT LIABILITIES		1,944.6	1,410.6
TOTAL LIABILITIES		3,538.6	2,973.1
TOTAL EQUITY AND LIABILITIES		5,870.7	5,537.5

Approved by the board on 26 April 2017 and signed on its behalf by:

David Wark
Director

Notes 1 to 5 and the accompanying Notes 38 to 57 are an integral part of the company balance sheets as at 31 December 2016 and 31 December 2015.

SCOTTISH POWER UK PLC
COMPANY STATEMENTS OF COMPREHENSIVE INCOME
for the years ended 31 December 2016 and 31 December 2015

	Note	2016 £m	2015 £m
NET PROFIT FOR THE YEAR		639.9	296.7
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the income statement:			
Actuarial losses on retirement benefits:			
Actuarial losses on retirement benefits	46	(251.4)	(10.5)
Tax relating to actuarial losses on retirement benefits	46	42.1	2.1
Cash flow hedges:			
Change in the value of cash flow hedges recognised	46	0.2	-
Tax relating to cash flow hedges	46	(0.1)	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR		(209.2)	(8.4)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		430.7	288.3

Total comprehensive income for both years is wholly attributable to the equity holders of Scottish Power UK plc.

COMPANY STATEMENTS OF CHANGES IN EQUITY
for the years ended 31 December 2016 and 31 December 2015

	Ordinary share capital £m	Share premium £m	Hedge reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 January 2015	872.0	398.2	-	8.2	1,227.7	2,506.1
Total comprehensive income for the year	-	-	-	-	288.3	288.3
Dividends	-	-	-	-	(230.0)	(230.0)
At 1 January 2016	872.0	398.2	-	8.2	1,286.0	2,564.4
Total comprehensive income for the year	-	-	0.1	-	430.6	430.7
Dividends	-	-	-	-	(663.0)	(663.0)
At 31 December 2016	**872.0**	**398.2**	**0.1**	**8.2**	**1,053.6**	**2,332.1**

Notes 1 to 5 and the accompanying Notes 38 to 57 are an integral part of the company statements of comprehensive income and the company statements of changes in equity for the years ended 31 December 2016 and 31 December 2015.

SCOTTISH POWER UK PLC
COMPANY CASH FLOW STATEMENTS
for the years ended 31 December 2016 and 31 December 2015

	2016 £m	2015 £m
Cash flows from operating activities		
Profit before tax	632.7	291.2
Adjustments for:		
Depreciation and amortisation	20.3	21.1
Change in provisions	(0.1)	-
Finance income and costs	30.4	21.3
Shareholding income	(663.0)	(320.0)
Net (loss)/gain on disposal/impairment of non-current assets	(0.1)	8.3
Movement in retirement benefits	(80.1)	(63.8)
Changes in working capital:		
Change in trade and other receivables	(4.6)	(45.9)
Change in trade and other payables	38.1	44.0
Provisions paid	(1.6)	(2.3)
Income taxes received	15.8	19.6
Interest received	72.7	58.3
Dividends received	663.0	320.0
Net cash flows from operating activities (i)	**723.5**	**351.8**
Cash flows from investing activities		
Investments in intangible assets	(7.3)	(12.6)
Investments in property, plant and equipment	(34.5)	(7.4)
Proceeds from disposal of property, plant and equipment	0.3	1.0
Net investment in non-current investments	(185.0)	(499.9)
Net cash flows from investing activities (ii)	**(226.5)**	**(518.9)**
Cash flows from financing activities		
Decrease/(increase) in amounts due from Iberdrola group companies	192.0	(679.0)
Dividends paid to company's equity holders	(663.0)	(230.0)
Cash inflows from borrowings	21.1	7.1
Interest paid	(83.4)	(71.7)
Repayments of borrowings	-	(5.6)
Net cash flows from financing activities (iii)	**(533.3)**	**(979.2)**
Net decrease in cash and cash equivalents (i)+(ii)+(iii)	**(36.3)**	**(1,146.3)**
Cash and cash equivalents at beginning of year	**(1,121.1)**	**25.2**
Cash and cash equivalents at end of year	**(1,157.4)**	**(1,121.1)**
Cash and cash equivalents at end of year comprises:		
Receivables due from Iberdrola group companies – loans	418.8	154.9
Payables due to Iberdrola group companies – loans	(1,576.2)	(1,276.0)
Company cash flow statement cash and cash equivalents	**(1,157.4)**	**(1,121.1)**

Notes 1 to 5 and the accompanying Notes 38 to 57 are an integral part of the company cash flow statements for the years ended 31 December 2016 and 31 December 2015.

38 INTANGIBLE ASSETS

Year ended 31 December 2015	Computer software (Note (a)) £m	Licences £m	Total £m
Cost:			
At 1 January 2015	151.6	-	151.6
Additions	11.5	1.1	12.6
Disposals	(65.6)	-	(65.6)
At 31 December 2015	97.5	1.1	98.6
Amortisation:			
At 1 January 2015	126.1	-	126.1
Amortisation for the year	13.1	0.2	13.3
Disposals	(65.5)	-	(65.5)
At 31 December 2015	73.7	0.2	73.9
Net book value:			
At 31 December 2015	23.8	0.9	24.7
At 1 January 2015	25.5	-	25.5

Year ended 31 December 2016	Computer software (Note (a)) £m	Licences £m	Total £m
Cost:			
At 1 January 2016	97.5	1.1	98.6
Additions	7.3	-	7.3
Disposals	(20.6)	-	(20.6)
At 31 December 2016	84.2	1.1	85.3
Amortisation:			
At 1 January 2016	73.7	0.2	73.9
Amortisation for the year	11.8	0.4	12.2
Disposals	(20.5)	-	(20.5)
At 31 December 2016	65.0	0.6	65.6
Net book value:			
At 31 December 2016	19.2	0.5	19.7
At 1 January 2016	23.8	0.9	24.7

(a) The cost of fully amortised computer software still in use at 31 December 2016 was £36.3 million (2015 £54.6 million).

39 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 December 2015	Property, plant and equipment in use (Note (i)) £m	Plant in progress (Note (ii)) £m	Total £m
Cost:			
At 1 January 2015	76.2	1.7	77.9
Additions	9.8	1.7	11.5
Transfers from Iberdrola group companies	0.6	-	0.6
Disposals	(14.0)	-	(14.0)
At 31 December 2015	72.6	3.4	76.0
Depreciation:			
At 1 January 2015	55.2	-	55.2
Charge for the year	7.8	-	7.8
Disposals	(13.3)	-	(13.3)
At 31 December 2015	49.7	-	49.7
Net book value:			
At 31 December 2015	22.9	3.4	26.3
At 1 January 2015	21.0	1.7	22.7
The net book value of property, plant and equipment at 31 December 2015 is analysed as follows:			
Property, plant and equipment	22.9	-	22.9
Property, plant and equipment in the course of construction	-	3.4	3.4
	22.9	3.4	26.3

Year ended 31 December 2016	Property, plant and equipment in use (Note (i)) £m	Plant in progress (Note (ii)) £m	Total £m
Cost:			
At 1 January 2016	72.6	3.4	76.0
Additions	12.3	17.2	29.5
Transfers from progress to plant in use	18.8	(18.8)	-
Disposals	(14.4)	-	(14.4)
At 31 December 2016	**89.3**	**1.8**	**91.1**
Depreciation:			
At 1 January 2016	49.7	-	49.7
Charge for the year	8.1	-	8.1
Disposals	(14.2)	-	(14.2)
At 31 December 2016	**43.6**	**-**	**43.6**
Net book value:			
At 31 December 2016	**45.7**	**1.8**	**47.5**
At 1 January 2016	22.9	3.4	26.3
The net book value of property, plant and equipment at 31 December 2016 is analysed as follows:			
Property, plant and equipment	45.7	-	45.7
Property, plant and equipment in the course of construction	-	1.8	1.8
	45.7	1.8	47.5

(i) The 'Property, plant and equipment in use' category principally comprises IT equipment and vehicles.
(ii) The 'Plant in progress' category comprises costs in relation to leased office buildings.
(iii) The cost of fully depreciated property, plant and equipment still in use at 31 December 2016 was £26.1 million (2015 £33.5 million).

39 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) Operating lease arrangements

(i) Operating lease commitments	2016 £m	2015 £m
The future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	13.5	9.3
Between one and five years	40.8	25.1
More than five years	92.4	11.2
	146.7	45.6

The company leases various property, plant and equipment under non-cancellable operating lease arrangements. The leases have varying terms, escalation clauses and renewal rights.

(ii) Operating lease receivables	2016 £m	2015 £m
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	0.7	1.2
Between one and five years	0.5	1.2
	1.2	2.4

The company leases buildings as a lessor under operating leases. The lease arrangements have initial terms of 1 to 99 years and some contain provisions to extend the term at the option of the lessee. The leases have varying terms, escalation clauses and renewal rights.

(c) Capital commitments	2016 £m	2015 £m
Contracted but not provided	3.2	0.2

40 TRADE AND OTHER RECEIVABLES

	Notes	2016 £m	2015 £m
Current receivables:			
Receivables due from Iberdrola group companies – trade		17.2	9.2
Receivables due from Iberdrola group companies – loans	(a)	634.8	346.9
Receivables due from Iberdrola group companies – interest		29.9	29.8
Trade receivables		12.7	14.3
Prepayments		9.3	8.9
		703.9	409.1
Non-current receivables:			
Receivables due from Iberdrola group companies – loans	(a)	1,694.0	1,910.0
Prepayments		7.8	9.6
Other receivables	(b)	37.8	38.2
		1,739.6	1,957.8

(a) Current loans due from Iberdrola group companies includes £418.8 million (2015 £154.9 million) repayable on demand with interest payable at 1% above the Bank of England base rate. The non-current loans with Iberdrola group companies due to mature in 2022 and 2023 are repayable in equal annual installments on a bi-annual basis. The installment of £216.0 million due in 2017 on the loans with a final maturity of 2023 is classified as current at 31 December 2016 and the installment of £192.0 million paid in 2016 on the loans with a final maturity date of 2022 was classified as current at 31 December 2015.

(b) This balance represents other receivables recognised as part of a contractual renegotiation.

(c) The company utilises forms of collateral to manage its credit exposure. At 31 December 2016, the company held letters of credit of £13.5 million (2015 £13.5 million).

(d) At 31 December 2016 trade receivables of £11.8 million (2015 £6.2 million) were past due but not impaired:

	2016 £m	2015 £m
Past due but not impaired:		
Less than 3 months	11.7	6.0
Between 3 and 6 months	0.1	–
Between 6 and 12 months	–	0.2
	11.8	6.2

41 INVESTMENTS

	Notes	Investments in subsidiaries £m	Other investments (Note (a)) £m	Total £m
At 1 January 2015		2,524.1	0.8	2,524.9
Additions	(b)	500.0	–	500.0
Disposals		–	(0.1)	(0.1)
Impairment	(c)	(8.4)	–	(8.4)
At 1 January 2016		3,015.7	0.7	3,016.4
Additions	(d)	185.0	–	185.0
At 31 December 2016		3,200.7	0.7	3,201.4

(a) At 31 December 2016 the company held £0.7 million (2015 £0.7 million) of investments for which no quoted market price is available and whose fair value could not be reliably measured.

(b) On 24 December 2015 the company subscribed for and was allotted an additional 500,000,000 ordinary shares of £1 each in Scottish Power Generation Holdings Limited for a consideration of £500.0 million.

(c) During the year ended 31 December 2015, an impairment charge of £8.4 million was made in respect of the company's 100% interest in the share capital of various dormant subsidiaries now in liquidation.

(d) On 24 October 2016 the company subscribed for and was allotted an additional 185,000,000 ordinary shares of £1 each in ScottishPower Energy Networks Holding Limited for a consideration of £185.0 million.

(e) The company's subsidiary and joint venture holdings are listed in Note 7.

(f) On 11 April 2016 Caledonian Gas Limited, a dormant subsidiary, was dissolved. The investment in this company was £nil.

42 DEFERRED TAX ASSET

Deferred tax recognised in the Accounts is as follows:

	Property, plant and equipment £m	Derivative financial instruments £m	Retirement benefits £m	Other temporary differences £m	Total £m
At 1 January 2015	5.6	0.3	61.7	0.7	68.3
Charge to income statement	(1.1)	(0.3)	(10.9)	(0.1)	(12.4)
Recorded in the statement of comprehensive income	–	–	2.1	–	2.1
At 1 January 2016	4.5	–	52.9	0.6	58.0
Charge to income statement	(1.3)	–	(12.9)	(0.4)	(14.6)
Recorded in the statement of comprehensive income	–	(0.1)	42.1	–	42.0
At 31 December 2016	3.2	(0.1)	82.1	0.2	85.4

(a) At 31 December 2016, the company had unutilised capital losses of £5.4 million (2015 £3.7 million). No deferred tax has been recognised in the Accounts due to the unpredictability of the suitable future profit streams against which these losses may be utilised.

(b) Legislation has been enacted to reduce the rate of the UK Corporation Tax to 19% on 1st April 2017 and to 17% on 1 April 2020. These changes reduce the tax rate expected to apply when temporary differences reverse and impact the deferred tax charge.

43 FINANCIAL INSTRUMENTS

The table below sets out the carrying amount and fair value of the company's financial instruments:

		2016		2015	
	Notes	Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
Financial assets					
Derivative financial instruments	(a)	55.2	55.2	33.2	33.2
Current receivables	(b)	694.6	694.6	400.2	400.2
Non-current receivables	(b), (c)	1,731.8	2,113.0	1,948.2	2,306.4
Other investments		0.7	0.7	0.7	0.7
Financial liabilities					
Loans and other borrowings	(d)	(2,900.8)	(3,182.2)	(2,553.0)	(2,783.7)
Payables	(b)	(142.5)	(142.5)	(137.3)	(137.3)

The carrying amount of these financial instruments is calculated as set out in Note 3G. With the exception of non current receivables and loans and other borrowings, the carrying value of financial instruments is a reasonable approximation of fair value. The fair value of non-current receivables is calculated as set out in footnote (c). The fair value of loans and other borrowings is calculated as set out in footnote (d).

(a) Further detail on derivative financial instruments is disclosed in Note 50.

(b) Balances outwith the scope of IFRS 7 have been excluded principally prepayments, payments received on account and other tax payables.

(c) The fair value of non-current receivables relating to loans due from Iberdrola group companies is calculated using a discounted cash flow.

(d) The fair value of listed debt is calculated using the most recently traded price to the year-end date and the fair value of all other loans and borrowings is calculated using a discounted cash flow.

The company holds certain financial instruments which are measured in the balance sheet at fair value. The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All derivatives held by the company were Level 2 in both the current and prior year.

44 LIQUIDITY ANALYSIS

Maturity profile of financial liabilities

The table below summarises the maturity profile of the company's financial liabilities based on contractual undiscounted cash flows.

		2016						
Cash outflows	Note	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 and thereafter £m	Total £m
Derivative financial instruments		0.6	–	–	–	–	–	0.6
Loans and other borrowings		1,919.1	56.8	57.1	57.3	348.8	1,072.1	3,511.2
Payables	(a)	46.1	11.1	8.9	5.2	13.5	–	84.8
		1,965.8	67.9	66.0	62.5	362.3	1,072.1	3,596.6

		2015						
Cash outflows	Note	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 and thereafter £m	Total £m
Loans and other borrowings		1,389.3	272.9	56.4	56.7	57.0	1,412.8	3,245.1
Payables	(a)	47.2	11.8	11.0	7.5	5.6	4.6	87.7
		1,436.5	284.7	67.4	64.2	62.6	1,417.4	3,332.8

(a) Contractual cash flows exclude accrued interest as these cash flows are included within loans and other borrowings.

45 SHARE CAPITAL

	2016 £m	2015 £m
Allotted, called up and fully paid:		
1,743,983,102 (2015 1,743,983,102) ordinary shares of 50p each	872.0	872.0

46 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF SCOTTISH POWER UK PLC

	Share capital £m	Share premium (Note (a)) £m	Hedge reserve (Note (b)) £m	Other reserves (Note (c)) £m	Retained earnings (Note (d)) £m	Total £m
At 1 January 2015	872.0	398.2	–	8.2	1,227.7	2,506.1
Profit for the year attributable to the equity holders of Scottish Power UK plc	–	–	–	–	296.7	296.7
Actuarial losses on retirement benefits	–	–	–	–	(10.5)	(10.5)
Tax on items relating to actuarial losses on retirement benefits	–	–	–	–	2.1	2.1
Dividends	–	–	–	–	(230.0)	(230.0)
At 1 January 2016	872.0	398.2	–	8.2	1,286.0	2,564.4
Profit for the year attributable to the equity holders of Scottish Power UK plc	–	–	–	–	639.9	639.9
Changes in the value of cash flow hedges	–	–	0.2	–	–	0.2
Actuarial losses on retirement benefits	–	–	–	–	(251.4)	(251.4)
Tax relating to cash flow hedges	–	–	(0.1)	–	–	(0.1)
Tax on items relating to actuarial losses on retirement benefits	–	–	–	–	42.1	42.1
Dividends	–	–	–	–	(663.0)	(663.0)
At 31 December 2016	872.0	398.2	0.1	8.2	1,053.6	2,332.1

(a) The share premium account represents consideration received for shares issued in excess of their nominal amount.

(b) The hedge reserve represents the balance of gains and losses on cashflow hedges (net of taxation) not yet transferred to income or the carrying value of a non-financial asset.

(c) Other reserves as 31 December 2016 comprises a capital redemption reserve of £8.2 million (2015 £8.2 million). The capital redemption reserve comprises the nominal value of the company's ordinary share capital purchased by the company in previous years.

(d) Retained earnings comprise the cumulative balance of profit and losses recognised in the financial statements as adjusted for transactions with shareholders, principally dividends.

(e) The changes in the hedge reserve arising from valuation adjustments to the hedging derivatives are set out below:

	Foreign exchange rate hedges £m	Tax effect £m	Total £m
At 1 January 2015 and 1 January 2016	–	–	–
Effective cashflow hedges recognised	0.3	(0.1)	0.2
Removed from equity and recognised in the carrying amount of hedged items	(0.1)	–	(0.1)
31 December 2016	0.2	(0.1)	0.1

(f) All amounts included in the hedge reserve at 31 December 2016 are due to mature within one year (2015 due within one year).

47 RETIREMENT BENEFIT OBLIGATIONS

The amounts recognised in the balance sheet in respect of retirement benefit obligations are detailed below:	2016 £m	2015 £m
Non-current liabilities	442.5	264.4

(a) The company recognises the pension scheme deficit in the balance sheet for the schemes for which it is the sponsoring employer as there is no appropriate contractual agreement or group policy to allocate the deficit on a legal entity basis. Detailed disclosures are provided in Note 18 of the group financial statements.

48 OTHER PROVISIONS

Year ended 31 December 2015	Notes	At 1 January 2015 £m	New Provisions £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	At 31 December 2015 £m
Onerous contracts	(a)	10.6	1.9	0.3	(2.3)	(1.9)	8.6
Other	(b)	1.3	–	–	–	–	1.3
		11.9	1.9	0.3	(2.3)	(1.9)	9.9

Year ended 31 December 2016	Notes	At 1 January 2016 £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	At 31 December 2016 £m
Onerous contracts	(a)	8.6	0.2	0.2	(1.4)	(0.3)	7.3
Other	(b)	1.3	–	–	(0.2)	–	1.1
		9.9	0.2	0.2	(1.6)	(0.3)	8.4

Analysis of total other provisions	2016 £m	2015 £m
Non-current	5.7	7.6
Current	2.7	2.3
	8.4	9.9

(a) The provision for 'Onerous contracts' relates to various property leases. The leases will expire between 2017 and 2025.

(b) The 'Other' category comprises various provisions which are not individually sufficiently material to warrant separate disclosure.

49 LOANS AND OTHER BORROWINGS

Analysis by instrument and maturity	Notes	Interest rate*	Maturity	2016 £m	2015 £m
On demand loans with Iberdrola group companies		Base + 1%	On demand	1,576.2	1,276.0
£200 million euro-sterling bond	(b), (c)	8.375%	20 February 2017	200.0	199.8
Collateral		LIBOR	17 June 2017	50.3	29.2
£300 million medium-term note	(d)	5.9%	22 February 2021	297.2	296.6
£250 million euro-sterling bond	(b), (e)	6.75%	29 May 2023	248.9	248.8
£175 million inflation linked bond	(d)	3.494% x RPI	13 October 2024	273.6	269.6
10 billion JPY loan	(f)	4.6%	27 July 2029	104.6	83.0
£50 million medium-term note	(d)	5.75%	9 December 2039	50.0	50.0
£100 million medium-term note	(d)	6.375%	31 May 2041	100.0	100.0
				2,900.8	2,553.0

* Base - Bank of England Base Rate; LIBOR–London Inter-Bank Offer Rate; RPI – Retail Price Index

Analysis of loans and other borrowings	Note	2016 £m	2015 £m
Non-current		1,076.5	1,250.0
Current	(a)	1,824.3	1,303.0
		2,900.8	2,553.0

(a) Current borrowings comprise loans with Iberdrola group companies repayable on demand and collateral together with finance costs due to be amortised within one year, short term element of fair value hedge adjustments and the adjustments on discontinued fair value hedges due to be amortised within one year. This totalled £(2.2) million (2015 £(2.2) million).

(b) These bonds contain a "Loss of licences" covenant that will require repayment of the outstanding amount should the UK group lose all its electricity licences (distribution, transmission and supply licences).

(c) The euro-sterling bond due 2017 can be redeemed at any time by the company at the higher of principal amount or redemption price (as determined by HSBC Bank plc) giving 30 to 90 days' notice to the lender.

(d) Scottish Power Limited and the company have an established joint US$7 billion euro-medium term note programme. Scottish Power Limited has not issued under the programme. The company has in issue various notes in Sterling, which can be redeemed by the company with 30 to 90 days' notice in case of unfavourable and unavoidable changes in the UK tax laws impacting on the note payments.

(e) The euro-sterling bond due 2023 can be redeemed at any time by the company at the higher of principal amount or redemption price (as determined by HSBC Bank plc) giving 30 to 45 days' notice to the lender.

(f) The interest rate quoted above on the 10 billion JPY loan is fixed. This is changed to a variable rate by a cross currency swap.

(g) The company has no undrawn committed borrowing facilities at 31 December 2016 (2015 nil).

50 DERIVATIVE FINANCIAL INSTRUMENTS

Analysis of derivative financial instruments – carrying value

		2016 Assets		2015 Assets	
	Note	Current	Non-current	Current	Non-current
Hedging derivatives: Exchange rate hedges					
Fair value hedge – Currency swap	(a)	1.1	53.9	0.9	32.3
Fair value hedge – Foreign Exchange		0.2	–	–	–
Total derivatives in the balance sheet		1.3	53.9	0.9	32.3

(a) At 31 December 2016 the company held cash collateral of £50.3 million (2015 £29.2 million) in respect of derivatives.

51 TRADE AND OTHER PAYABLES

	Note	2016 £m	2015 £m
Current trade and other payables:			
Payables due to Iberdrola group companies – trade		15.5	11.5
Payables due to Iberdrola group companies – interest		19.5	11.8
Trade payables		19.8	19.8
Other taxes and social security		12.5	8.5
Payables received on account		1.3	–
Capital payables		5.7	10.7
Other payables		43.3	43.0
		117.6	105.3
Non-current other payables:			
Payables due to Iberdrola group companies – trade	(a)	37.8	38.2
Payables received on account		30.6	–
Other payables		0.9	2.3
		69.3	40.5

(a) This balance represents other payables recognised as part of a contractual renegotiation.

52 COMPANY INCOME STATEMENT

As permitted by Section 408 of the Companies Act 2006, the company has not presented its own income statement. The company's income statement was approved by the Board on 26 April 2017. The profit for the financial year per the Accounts of the company was £639.9 million (2015 £296.7 million).

53 STAFF COSTS

(a) Staff costs

	2016 £m	2015 £m
Wages and salaries	28.0	30.8
Social security costs	3.0	3.1
Pension and other costs	12.5	13.8
Total staff costs	43.5	47.7
Less: capitalised staff costs	(0.8)	(0.8)
Charged to the income statement	42.7	46.9

(b) Employee numbers

Details of the year end and average number of employees (full and part time) employed by the company, including UK based directors, can be found within the Corporate category of Note 25(b).

(c) Pensions

The company's contributions in the year were £5.8 million (2015 £5.8 million). The company contributes to the group's defined benefit and defined contribution schemes in the UK. Full details of these schemes can be found in Note 18.

54 AUDITOR'S REMUNERATION

The auditors' remuneration of the ScottishPower group is billed on a group basis and is not recharged to the company. Of the total group audit fee for the year ended 31 December 2016, £33,000 (2015 £33,000) related to the audit of the company Accounts. The total auditors' remuneration for the group is disclosed in Note 35 to the consolidated Accounts.

55 DIVIDENDS

	2016 pence per ordinary share	2015 pence per ordinary share	2016 £m	2015 £m
Interim dividend paid	38.0	13.2	663.0	230.0

56 FINANCIAL COMMITMENTS

	2016						
	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 and thereafter £m	Total £m
Long-term energy purchase contract commitments	0.5	–	–	–	–	–	0.5
Other contractual commitments	35.0	29.8	23.3	19.6	8.7	3.0	119.4

	2015						
	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 and thereafter £m	Total £m
Other contractual commitments	40.4	30.4	28.2	22.5	18.6	8.2	148.3

57 RELATED PARTY TRANSACTIONS

(a) Transactions and balances arising in the normal course of business

	2016				2015				
	Ultimate parent company (Iberdrola, S.A.) £m	Immediate parent (Scottish Power Limited) (Note (ii)) £m	Subsidiary companies £m	Other Iberdrola group companies (Note (ii)) £m	Ultimate parent company (Iberdrola, S.A.) £m	UK parent (Scottish Power Limited) £m	Immediate parent (Scottish Power UK Holdings Limited (Note (ii)) £m	Subsidiary companies £m	Other Iberdrola group companies £m
Types of transaction									
Sales and rendering of services	0.1	1.4	166.4	4.4	0.1	1.3	–	124.4	3.9
Purchases and receipt of services	(37.0)	–	(1.5)	(0.1)	(33.7)	–	–	(2.2)	–
Finance income	–	–	72.8	–	–	–	–	70.4	–
Finance costs	–	(19.4)	(0.7)	–	–	(11.4)	–	(1.4)	–
Change in the value of cashflow hedge reserve	–	0.2	–	–	–	–	–	–	–
Dividends received	–	–	663.0	–	–	–	–	320.0	–
Dividends paid	–	(383.0)	–	(280.0)	–	–	(230.0)	–	–
Pensions contributions received	–	–	90.3	–	–	–	–	84.2	–
Transfer of property, plant and equipment	–	–	–	–	–	–	–	–	0.6
Balances outstanding									
Loans receivable	–	–	2,328.8	–	–	–	–	2,256.9	–
Trade receivables	–	–	9.7	7.5	–	–	–	1.7	7.5
Interest receivable	–	–	29.9	–	–	–	–	29.8	–
Derivative financial assets	–	0.2	–	–	–	–	–	–	–
Loans payable	–	(1,559.5)	(16.7)	–	–	(1,258.3)	–	(17.7)	–
Trade payables	–	–	(53.3)	–	–	–	–	(49.7)	–
Interest payable	–	(19.3)	(0.2)	–	–	(11.4)	–	(0.4)	–

(i) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.
(ii) Scottish Power UK Holdings Limited was the immediate parent company during the period from 1 January 2015 to 6 July 2016. On 7 July 2016, Scottish Power Limited became the immediate parent company. On 31 March 2016 a dividend of £280.0 million was paid to Scottish Power UK Holdings Limited.

(b) Remuneration of key management personnel

The remuneration of the key management personnel of the company is set out below. As all of the key management personnel are remunerated for their work for the ScottishPower group, it has not been possible to apportion their remuneration specifically in respect of their services to this company. During the year all (2015 two) of the key management personnel were remunerated by the company.

	2016 £m	2015 £m
Short-term employee benefits	0.8	0.8
Post-employment benefits	0.2	0.1
Share-based payments	0.3	0.3
	1.3	1.2

(c) Directors' remuneration

Details of directors' remuneration are set out at Note 34(c).

(d) Ultimate parent company

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 Limited. 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 Scottish Power Limited may be obtained from The Secretary, Scottish Power Limited, 320 St. Vincent Street, Glasgow G2 5AD.