SP MANWEB PLC
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2018

Registered No. 2366937

SP MANWEB PLC
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2018

CONTENTS

SP MANWEB PLC
STRATEGIC REPORT

The directors present an overview of SP Manweb plc's structure, 2018 performance and strategic outlook including principal risks and uncertainties.

STRATEGIC OUTLOOK

The principal activity of SP Manweb plc ("the company"), registered company number 2366937, is the ownership and operation of the electricity distribution network within Cheshire, Merseyside, North Shropshire and North Wales. The network is used to distribute electricity, which has been transmitted to grid supply points, for electricity supply companies for onward sale to their customers. The company will continue with this activity for the foreseeable future.

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

The company is part of ScottishPower's Energy Networks business ("Energy Networks"). Energy Networks owns three regulated electricity network businesses in the UK. The company and fellow subsidiary companies, SP Distribution plc and SP Transmission plc, are 'asset-owner companies' holding the regulated assets and Electricity Distribution and Transmission licences of ScottishPower, and are regulated monopolies. Energy Networks owns and operates 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.

The company is a Distribution Network Operator ("DNO"). The electricity distribution networks are regional grids that transport electricity at a lower voltage from the national transmission grid and embedded generators and connect to industrial, commercial and domestic users.

The company is a natural monopoly and is governed by The Office of Gas and Electricity Markets ("Ofgem") via a regulatory price control. The primary objective of the regulation of the electricity networks is the protection of consumers' interests while ensuring that demand can be met and companies are able to finance their activities. Price controls are the method by which the amount of allowed revenue is set for network companies over the period of the price control. Price control processes are designed to cover the company's efficient costs and allow it to earn a reasonable return, provided the company acts in an efficient manner, delivers value for customers and meets Ofgem targets.

Up to 31 December 2017, SP Power Systems Limited ("Power Systems"), an unregulated business, provided asset management expertise and conducted the day-to-day operation of the networks. Along with the asset-owner companies it acted as an integrated business unit to concentrate expertise on regulatory and investment strategy with Power Systems implementing programmes commissioned by and agreed with the asset-owner companies. Strict commercial disciplines were applied at the asset-owner service provider interface, with Power Systems operating as a contractor to the distribution and transmission businesses. From 1 January 2018, the role of Power Systems changed and it now provides a narrower range of asset management support services as opposed to being an internal contractor delivering work programmes. As part of this change, on 1 January 2018 the service contracts of 904 employees, inventories and certain liabilities were transferred from Power Systems to the company. Power Systems transferred an amount of cash equivalent to the net liabilities acquired by the company. A new Network Asset Management System was introduced in 2018. This more fully utilises functionality within Energy Networks' existing SAP enterprise resource planning system. Key improvements targeted include standardised and streamlined business processes alongside automated work management and reporting.

The company continues 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 (Revenue = Incentives + Innovation + Outputs) 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.

STRATEGIC OUTLOOK *continued*

The second round of RIIO price controls (RIIO-2) will begin in 2023 for distribution businesses. In July 2018, Ofgem published its RIIO-2 Framework decision which included high level decisions on particular elements of the price control framework. Alongside this document, Ofgem also published a report by Cambridge Economic Policy Associates, a consulting firm setting out its initial cost of capital ranges, which will not be finalised until Ofgem's final transmission price determination in 2020. In December 2018, Ofgem published its RIIO-2 sector specific consultation which includes further price control developments, such as the cost of capital and incentives.

In March 2018, Energy Networks announced the launch of a Green Economy Fund. Working alongside the Scottish Government, Ofgem and independent economic advisors, funding will be made available for initiatives focused on delivering low carbon transport and heating. The Fund aims to further Scotland's ambitious green energy plans and at the same time create economic growth opportunities for local communities.

Energy Networks has recently achieved important milestones towards the goal of being a recognised leader in asset management. These include the signing of a corporate partnership with the Institute of Engineering and Technology ("IET") and Energy Networks' leading role in this year's CIRED (Congress International de Reseaux Electriques) conference in Glasgow, where Energy Networks set out the vision for evolution to a Distribution System Operator ("DSO").

During 2018, Energy Networks also won a number of awards:

- At the Young Professionals Green Energy Awards 2018, three Energy Networks employees won awards for Innovation, Achievement and a Special Commendation award.
- SP Distribution plc received the BSI Kite Mark Certification for Customer Service after completing a seven day audit. Energy Networks is the first utility in the world to have achieved this new standard.
- The company's LV ("Low Voltage") Engine project won the annual WSP Project Award for Scotland and North England in the Sustainability Category. LV Engine is a Network Innovation Competition ("NIC") project funded by Ofgem which will build and test a number of smart transformers for use within secondary substations.
- An Energy Networks apprentice was awarded the Rising Star award at the National Skills Academy for Power's annual award ceremony held in September 2018.
- Energy Networks received three awards at the Utility Week Stars Award 2018 event. The Energy Networks employees received the awards in the categories of Rising Star, Guiding Star and Hero Team.

In line with ScottishPower's strategic objectives and its regulatory obligations, Energy Networks is maintaining its significant investment in the UK energy network. Over the last ten years, it has invested around £5.6 billion in its transmission and distribution networks, and during the next ten years, Energy Networks currently plans to invest a further £5.4 billion to modernise and improve service to customers. Energy Networks' ten year investment plans are reviewed annually in detail to ensure plans are aligned with, and continue to support, UK Government energy policy.

In 2017, both the Scottish and UK Governments outlined plans to limit the purchase of new diesel or petrol vehicles after 2032 and 2040 respectively. To enable the wide scale roll out of electric vehicles ("EVs"), it is key that the UK's electricity networks can facilitate suitable charging infrastructure for customers at a reasonable cost. Energy Networks will be engaging with a range of stakeholders to understand the capabilities of EV products and thereby understand the potential impact on customers' electrical needs.

The Electricity Network Association's ("ENA") previously launched Open Networks project lays the foundations of a smart energy grid in the UK. The project brings together the UK energy industry as well as leading academics, trade associations and non-governmental organisations and aims to transform the way networks work. The project will enable the UK's energy networks companies to move from the traditional role of delivering electricity in one direction from centralised power plants to homes and communities, to one where the network acts as a smart platform that enables a whole range of new energy technologies that generate, consume and manage electricity. The project is a key tool to support Energy Networks' vision of how it can transition from a traditional DNO role to that of a DSO.

Energy Networks has joined with four other UK DNOs to trial the Piclo Flex online marketplace in an effort to discover where flexibility can be used as an effective alternative to traditional reinforcement in congested network areas. The trial is designed to provide key results that will inform, complement and support Energy Networks' £6 million smart energy platform Fusion, which the business launched in Q4 2017.

STRATEGIC OUTLOOK *continued*

Energy Networks is mindful that some of its assets are critical national infrastructure. Energy Networks liaises with UK Government agencies to ensure that any potential threats and risks are assessed and mitigated. Energy Networks takes steps to enhance both the physical security of its assets and the security of its associated IT and communications systems in circumstances where potential risks are identified.

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.

In July 2018, Energy Networks was awarded the full Successful Delivery Reward of £1.6 million future revenue funding for project ARC (Accelerating Renewable Connections) and project VISOR (Visualisation of Real Time System Dynamics using Enhanced Monitoring) reflecting successful delivery of two flagship innovation projects under the Ofgem NIC. These projects were both about releasing capacity in the transmission and distribution network to enable renewable generation to connect faster and at a lower cost while maintaining network security and stability. Both of these projects were completed on time and below budget while over-delivering on project outputs.

Looking ahead, Energy Networks will continue to play a part in the roll out of smart meters. In some properties there is a requirement to upgrade Energy Networks' assets to enable the fitting of a smart meter or to respond to an emergency situation. Such interventions may continue to be required in greater numbers than previously forecast by the industry. As the deployment of smart metering increases, plans have been updated to ensure resource levels are adequate to meet the challenge.

The impact of Brexit on Energy Networks, and so the company, is considered on pages 5 to 7 of the Strategic Report.

2018 OPERATIONAL PERFORMANCE

The table below provides key financial information relating to the company's performance during the year.

	Revenue**		Operating profit**		Capital investment***	
	2018	2017*	**2018**	2017	**2018**	2017
Financial key performance indicators	**£m**	£m	**£m**	£m	**£m**	£m
SP Manweb plc	**362.3**	356.2	**134.3**	138.6	**219.1**	249.3

* Restated (refer to Note 1B1.1).
** Revenue and operating profit are presented on page 21.
*** Capital investment is presented within Note 3 on pages 33 and 34.

Revenue has increased by £6.1 million compared to 2017, primarily as a result of higher base revenues allowed under RIIO-ED1.

Operating profit decreased by £4.3 million to £134.3 million in 2018. This reflects increases in net personnel expenses (following the transfer of 904 employees from Power Systems) and depreciation charges partially offset by higher revenues and a decrease in net external expenses (principally arising from the change in the role of Power Systems).

The company's capital investment was £219.1 million in 2018, reflecting the company's, and ScottishPower's, continued commitment to investing in the UK energy market.

The company's Electricity Distribution Licence ("the licence") requires the directors to prepare regulatory accounts to 31 March for each regulatory year. Reporting of key performance indicators is aligned to the regulatory year end. Consequently, the latest available data for the last regulatory year has been disclosed in the tables below, with the exception of distributed energy that is reported for the years ending 31 December. The tables on the following page provide key non-financial performance indicators relating to the company's operational assets and operational performance.

Operational assets	Note	**Year ended 31 March 2018**	Year ended 31 March 2017
Franchise area (km^2)		**12,200**	12,200
System maximum demand (MW*)	(a)	**3,039**	3,022
Distributed energy (GWh**)		**14,913**	15,023
Length of overhead lines (circuit km)		**19,976**	20,053
Length of underground cables (circuit km)		**27,078**	26,953

* Megawatts ("MW"), **Gigawatt hours ("GWh")

(a) System maximum demand value for the regulatory year to 31 March 2018 was finalised at 3,039 MW (2017 3,022 MW).

2018 OPERATIONAL PERFORMANCE *continued*

Operational performance	Notes	Actual Year ended 31 March 2018	Target Year ended 31 March 2018	Actual Year ended 31 March 2017	Target Year ended 31 March 2017
Quality of service					
Customer minutes lost ("CML")	(a)	**33.1**	**42.4**	37.3	44.2
Customer interruptions ("CI")	(b)	**30.6**	**37.6**	38.2	38.1
Average time off supply (minutes)		**108**	**113**	98	116
Electricity supply available		**99.99%**	**99.99%**	99.99%	99.99%
Customer performance	(c)				
Broader customer service measure - Interruptions		**8.86**	**8.20**	8.74	8.20
Broader customer service measure - Connections		**8.43**	**8.20**	8.68	8.20
Broader customer service measure - General enquiries		**9.39**	**8.20**	9.30	8.20
Energy ombudsman (customer complaints)	(d)	**3**	**-**	2	-
Total number of Energy ombudsman findings against the licensee (financial, non-financial and both)	(d)	**-**	**-**	-	-

(a) CML 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.
(b) CI 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.
(c) Broader customer service measures are assessed using the following three methods; a customer satisfaction survey, complaints metric and stakeholder engagement. Further detail is given below.
(d) The Energy Ombudsman Services, an independent body, monitors and adjudicates complaint cases.

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

The underlying CML and CI for the year to 31 March 2018 were 33.1 and 30.6, respectively. These values have been validated and confirmed by Ofgem, and were published in Ofgem's RIIO-ED1 Annual Report 2017/18 in March 2019. During 2017/18 the supply of energy to customers was disrupted by two major storm events which met Ofgem's 'exceptional event' exclusion criterion; a wind and gale storm in October 2017 and a snow and gale storm in March 2018 (2016/17 one exceptional storm event). The CML and CI figures for Actual Year ended 31 March 2017 were confirmed by Ofgem in their final directions, issued in October 2017, and were published in Ofgem's RIIO-ED1 Annual Report 2016/17.

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

Customer Service Performance: All customer contacts relating to interruption of power supplies, requests for and delivery of new connections to the network and any other general enquiries are passed to an independent research agency on a weekly basis (for all DNO's). The independent agency randomly samples customers each week to ask a series of customer satisfaction questions. Sampled customers give a score out of ten and the average annual score for each of the three categories drives each year's performance in this incentive. A reward is received if the average score is above 8.2 out of 10 and anything below 8.2 attracts a financial penalty. The customer satisfaction performance for each of the three elements in 2017/18 is shown in the table above.

Complaints Performance: This is a 'penalty-only' incentive. Companies are measured on their complaints performance over a number of key metrics: volume of complaints resolved in one day; volume of complaints resolved in 31 days; volume of repeat complaints; and the number of complaints referred to the Energy Ombudsman which have been ruled against the company. The Energy Ombudsman, an independent body, monitors and adjudicates complaint cases. The Energy Ombudsman performance is shown in the table above for 2017/18 performance. For the wider complaints metric the company achieved a score of 2.71 and an overall eighth position out of the 14 licence areas.

2018 OPERATIONAL PERFORMANCE *continued*

Stakeholder Engagement and Customer Vulnerability: This is a 'reward-only' incentive and is an annual assessment of the company's Stakeholder Engagement activities. An annual submission is provided to Ofgem in April in respect of the previous regulatory year and is assessed by Ofgem and an independent panel (including social assessors) in July and scored out of ten in order to determine a financial reward. The submissions set out the company's strategy, engagement and outputs for stakeholder engagement and customer vulnerability. The assessment for 2017/18 has now been completed with a score of 6.35 out of 10 awarded.

The company is committed to maintaining high performance during extreme weather events. Consequently, during the year to 31 December 2018, £29.9 million was invested to refurbish or rebuild sections of the overhead line network. In addition, £8.4 million was invested in tree cutting activities. Both of these investments contributed significantly to improving the performance of distribution assets and minimising disruptions during storms.

LIQUIDITY AND CASH MANAGEMENT

Cash and net debt

Net cash flows from operating activities increased by £1.4 million to £248.8 million for the year, as shown on page 23. As detailed in the table below, net debt increased by £54.0 million to £1,240.8 million. The movement comprises an increase of £34.8 million in group loans payable, a £24.3 million decrease in group loans receivable and a £0.3 million increase in external loans payable, offset by a £5.4 million increase in cash.

Analysis of net debt	Notes	2018 £m	2017 £m
Cash	(a)	**17.1**	11.7
Group loans receivable	(b)	**-**	24.3
Group loans payable	(c)	**(910.8)**	(876.0)
External loans payable	(c)	**(347.1)**	(346.8)
Net debt		**(1,240.8)**	(1,186.8)

(a) As detailed on the balance sheet, refer to page 20.
(b) As detailed in Note 6 on page 35.
(c) As detailed in Note 12 on pages 40 and 41.

Capital and debt structure

The company is funded by a combination of debt and equity in accordance with the directors' objectives of establishing an appropriately funded business consistent with the requirements of the Utilities Act 2000 and the objectives of the Iberdrola group. All the equity is held by the company's immediate parent undertaking, SPENH. Treasury services are provided by SPL. Further details of the treasury policy for ScottishPower and how it manages them is included in Note 7.

HEALTH AND SAFETY

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

UK DECISION TO LEAVE THE EU (BREXIT)

The UK was originally scheduled to leave the European Union ("EU") on 29 March 2019. Following intensive negotiations on the subjects of a separation payment, mutual recognition of citizens' rights and avoiding a hard border between Northern Ireland and the Republic of Ireland, two key documents were approved by the EU Council on 25 November 2018: the EU Withdrawal Agreement (a legally binding document setting out the terms of the UK's exit from the EU, including citizens' rights and the Irish 'backstop'); and the Political Declaration (setting out the basis for a future negotiation of the future UK-EU relationship after Brexit, including UK-EU trade and security). As at the date of signing these accounts this deal has not been approved by the UK Parliament; cross party discussions are taking place to reach a consensus on a revised deal to be presented to the UK Parliament for approval. The EU and the UK have now agreed a delay to Brexit until 31 October 2019 at the latest, assuming that the UK takes part in the European Parliamentary elections on 23 May 2019. If the UK does not participate in the European elections then the UK will need to leave the EU on 1 June 2019 under a 'no-deal' scenario unless the UK Parliament has approved an EU Withdrawal Agreement.

UK DECISION TO LEAVE THE EU (BREXIT) *continued*

If the EU Withdrawal Agreement is not approved by the UK Parliament within the EU timelines the risk of a 'no-deal' Brexit exists. This would probably mean that the trade relationship between the UK and EU would revert to World Trade Organisation ("WTO") rules. The UK Government has published a series of technical papers covering some of the key areas of concern in the event of 'no-deal' scenario. Essentially these papers seek to minimise the impacts as much as possible, including by limiting the scale of the changes to existing arrangements. Nevertheless, WTO rules would mean that trade between the UK and EU which is currently frictionless, would become cross-border trade subject to customs checks and tariffs. In the event of a 'no-deal' scenario some economic disruption is expected in the UK and thus ScottishPower is preparing to mitigate any negative impacts arising from this outcome. A cross-party operational working group has been co-ordinating ScottishPower's preparations to mitigate the impact of a 'no-deal' Brexit. Some of the key ScottishPower risks considered relevant to the company are explained in the table below.

BREXIT RISKS	
RISK	**RESPONSE**
Impacts arising from the UK decision to leave the EU or market reactions to events during the negotiation. These impacts could include movements in the value of Sterling and other financial instruments. In the longer term there could be positive or negative changes in the UK economy and in the political and regulatory environment in which ScottishPower 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 ScottishPower and the company will be managed in line with developments. A ScottishPower wide regulatory group is monitoring any potential risks arising from a regulatory perspective and is engaging with governments and regulators to minimise any disruption.
Supply chain disruption – import delays of key equipment and components for major programmes causing project delays.	Assessment of key equipment and components undertaken and additional orders placed in order to increase stock levels. Additional storage requirements also assessed and actions taken to ensure there is sufficient storage.
Foreign exchange rate exposure and additional tariffs if WTO rules apply.	Exchange rate hedged on existing orders and contracts. Legal review of all critical contracts to determine potential exposure to additional tariffs.
Contractual risk for existing non-trading contracts including the risk of contract re-openers, clauses such as force majeure/material adverse change clauses and jurisdiction.	Legal review of all critical contracts to determine potential exposure and mitigation specific to each contract.
Free movement of labour – potential restrictions on EU nationals working in the UK or international assignees from elsewhere in the Iberdrola group, not currently in the UK but wishing to enter the UK.	Recent announcements by the UK Government confirmed EU nationals in the UK will be part of an EU settlement scheme. Workplace audit underway to assess impact and support staff affected through the process.
Data Protection – impact of General Data Protection Regulation ("GDPR") rules and status of UK post Brexit could impact transfer of data between group companies and suppliers in the normal course of business.	All intercompany contracts reviewed to update contractual clauses. High risk suppliers identified and where appropriate discussions commenced to amend contractual terms.

Even in the event of an agreement being concluded, Brexit may have both risks and opportunities for ScottishPower and therefore the company. Until the terms of exit and the nature of the future relationship are clear, it is not possible to be definitive about these.

Many of the risks described above relating to a 'no-deal' scenario arise from so-called 'horizontal' issues where there could be issues affecting businesses in many sectors of the economy. UK official forecasts are for a negative impact on the UK economy as a whole; in the event of a 'no-deal' scenario it might be sharply negative, at least for the short/medium term.

UK DECISION TO LEAVE THE EU (BREXIT) *continued*

ScottishPower, and therefore the company, will continue to monitor the impact of Brexit and take appropriate action to protect operations as the outcome of the Brexit deal becomes clearer.

PRINCIPAL RISKS AND UNCERTAINTIES

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. To maintain this strategic direction ScottishPower develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation. Further details of the risk management practices can be found at Note 7.

The principal risks and uncertainties of ScottishPower (other than those specific to Brexit already discussed) and so those of the company, 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 intervention outside established regulatory frameworks.	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained and public backing is secured for the necessary investment in the UK energy system. Providing stakeholders with evidence of the risks of ad hoc intervention in markets.
A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.	ScottishPower's Health and Safety function provides specialist services and support for the businesses in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes, is established throughout ScottishPower, which 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 internal and external parties.	Implementation of a cyber-risk policy which provides the framework for mitigation. Proactive approach to identifying where ScottishPower is vulnerable and addressing these points through technical solutions. Educating company employees as to how behaviour can reduce this risk. Embedding cyber security in all projects where appropriate.

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

ENERGY NETWORKS	
RISK	**RESPONSE**
Potential reduction in base regulatory revenues as a result of RIIO-2 price control process, which Ofgem has commenced.	Steering group and dedicated teams in place to produce robust business plan submission; extensive proactive engagement with Ofgem and other stakeholders.

SP MANWEB PLC
STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

NETWORKS *continued*	
RISK	**RESPONSE**
Inability to recruit or retain an appropriately skilled workforce.	A Strategic Workforce Planning and Implementation plan that incorporates: a) retirement profiles with demographics; b) a one year ahead strategic recruitment plan; and c) a ten year strategic recruitment plan. Identification of business critical roles and succession planning.
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 deliver the distribution outputs agreed with Ofgem in their price control.	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.
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.
Failure to respond to customers' changing requirements and to deploy new technologies through low carbon transition, for example electric vehicles, distributed generation, storage and heat pumps.	Mitigating actions include owning a clear DSO vision and influencing developments at industry forums, undertaking scenario modelling of the impact of low carbon technologies, considering technical and commercial innovation projects and engaging with key stakeholders.

ON BEHALF OF THE BOARD

Scott Mathieson
Director
26 April 2019

SP MANWEB PLC
DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2018.

INFORMATION CONTAINED WITHIN THE STRATEGIC REPORT

The directors have chosen to disclose information on the following, required by Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 8:

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

RESULTS AND DIVIDEND

The net profit for the year amounted to £76.2 million (2017 £80.4 million). A dividend of £96.7 million was paid during the year (2017 £72.0 million).

ENVIRONMENTAL MANAGEMENT AND REGULATION

Throughout its operations, ScottishPower strives to meet, or exceed, relevant legislative and regulatory environmental requirements and codes of practice. A more extensive description of how ScottishPower addresses environmental requirements can be found in the most recent Annual Report and Accounts of SPL.

INNOVATION

ScottishPower believes that innovation plays a fundamental role in the success of the business. Innovation efforts span across internal culture, systems and academic and supply chain partnerships with the aim of identifying future value. All innovation areas are developed as part of Iberdrola's global open and decentralised innovation model.

ScottishPower's main innovation themes during the past year have delivered projects such as improving operational efficiencies using data analytics, increasing productivity through asset optimisation and delivering improved customer experience through digitisation. Detailed information in relation to ScottishPower's wider innovation activities can be found in the Iberdrola Innovation Report. The most recent report can be accessed via the 'Sustainability' section of www.iberdrola.com.

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 3,061 (2017 2,900) training events in the year. 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

In 2018, ScottishPower carried out its annual employee engagement survey, 'The LOOP' as part of an Iberdrola group engagement survey framework. The survey provides key insight on how employees feel about working for ScottishPower. The response rate in 2018 equalled 2017, with 75% of employees providing feedback. The results of the survey highlighted a number of strengths and opportunities and overall 61% of employees feel proud to work for ScottishPower. Areas of strength highlighted were in relation to collaboration, performance management and safety. The opportunities identified as part of the feedback where the ScottishPower businesses have the opportunity to respond to challenges are around providing more clarity on ScottishPower's future strategy, enabling employees to carry out their role and supporting employees to develop and grow through the organisation. These areas are a focus for the ScottishPower action plan going forward.

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.

EMPLOYEES *continued*

Inclusion and diversity

Inclusion and diversity fosters innovation and creativity, driving better business performance. ScottishPower is working hard to create an inclusive and diverse workplace that is open to change; where employees feel they can be themselves.

In March 2018, ScottishPower welcomed the steps that the UK Government has taken to introduce legislation on gender pay gap reporting. ScottishPower is committed to pay for performance equally and fairly, and is focused on breaking down barriers across the employee lifecycle as over time this will improve the Gender Pay Gap position whilst widening the inclusion of other under-represented groups. Key activities during 2018 included the design and roll out of e-learning and training on diversity and unconscious bias for recruiting managers and newly appointed managers. In addition, in 2018 ScottishPower welcomed six females into Science, Technology, Engineering and Mathematics ("STEM") based placements as part of the Women Returners programme to support women returning to work after a lengthy career break. The programme aims to help women grow their career after a career break from the STEM sector, offering the time and support needed to refresh and redevelop their skills to help them in returning to employment on a more permanent basis.

As part of its commitment to closing the gender pay gap the ScottishPower Senior Leadership Team have set two aspirational targets to break down the barriers for women:

- Increase the number of women in ScottishPower's senior leadership population to exceed 30% (currently 21%).
- Increase the number of women in ScottishPower's middle management population to exceed 40% (currently 29%).

For more information on ScottishPower's gender pay gap please go to
https://www.scottishpower.com/pages/gender_pay.aspx

ScottishPower continues to forge links with a number of recognised organisations to grow its commitment to diversity and inclusion. These include: Business Disability Forum, Employers Network for Equality & Inclusion, Equate, Working Families, ENABLE, POWERful Women and Stonewall.

ScottishPower expects all employees to be treated with respect and has supporting policy guidance on People with Disabilities to help ensure equality of employment opportunity for people with disabilities. ScottishPower have obtained the Disability Confident standard and are accredited to an 'engaged level' with Carers Scotland. In addition, in 2018 ScottishPower was part of an inspirational programme, called Breaking Barriers. The programme aimed to raise aspirations for young people who have learning disabilities and provide equal opportunities to access university. Between January and June 2018 eight learners aged 18 to 24 studied for a Certificate in Applied Business Skills at the University Of Strathclyde Business School. As part of this experience the learners gained valuable skills and work experience as part of an eight week placement with ScottishPower.

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 2018. 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.

Modern Slavery Statement

ScottishPower is committed to human and labour rights and to eliminating modern slavery that could in any way be connected to its business. ScottishPower welcomed the introduction of the Modern Slavery Act 2015 and published its own Modern Slavery Statement which was approved by the Board of Directors of Scottish Power Limited.

ScottishPower's Modern Slavery Statement is published on the ScottishPower website at:
www.scottishpower.com/pages/scottishpowers_modern_slavery_statement.aspx.

CORPORATE GOVERNANCE

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

As a guiding principle, the company adopts the principles and rules contained in the most widely recognised good governance recommendations and, in particular, has taken as reference (for guidance purposes only) the Uniform Good Governance Code for Listed Companies approved by the National Securities Market Commission of Spain. The company is not, however, subject to any corporate governance codes and, in particular, is not subject to the Uniform Good Governance Code for Listed Companies.

ScottishPower, the UK operation of Iberdrola, S.A., operates on divisional lines and the activities of the company fall within the Transmission and Distribution business within the Energy Networks Regulated Business ("Regulated Business").

Administrative, management and supervisory bodies

Board and management meetings

During the year, the company was governed by a Board ("the SP Manweb Board") consisting of five directors, all of whom brought a broad range of skills and experience to the company. Two of the five directors were independent non-executive directors. The immediate parent of the company is SPENH. The SPENH Board of Directors ("SPENH Board") is responsible for the effective day to day oversight of the Regulated Business, including that of the company, within ScottishPower. The SPENH Board operates in accordance with the strategy defined by the ScottishPower Board ("ScottishPower Board") and in accordance with the terms of reference of the SPENH Board.

Oversight is provided at ScottishPower group level by the ScottishPower Board (which included four independent non-executive directors), other than on those matters reserved for the SPENH Board (which includes two independent non-executive directors, who are also appointed to the SP Manweb Board).

In addition to formal SP Manweb plc and SPENH Board meetings, which are convened as required, the directors and other senior managers within the Regulatory Business hold monthly management meetings which review strategy, operational performance and risk issues on behalf of both the company (and other companies within the Regulated Business), including all other matters not reserved for the SPENH Board.

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.

SPENH Board

The SPENH Board comprised the Chairman Armando Martínez Martínez and six other directors as at 31 December 2018.

The directors of SPENH are shown below.

Armando Martínez Martínez	Chairman
Frank Mitchell	Chief Executive Officer
Antonio Espinosa de los Monteros	
José Izaguirre Nazar	
Scott Mathieson	
Wendy Barnes	Independent non-executive director
Suzanne Fox	Independent non-executive director (resigned 15 November 2018)
Alison McGregor	Independent non-executive director (appointed 15 November 2018)

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

Armando Martínez Martínez	Attended all meetings
Frank Mitchell	Attended all meetings
Antonio Espinosa de los Monteros	Attended all meetings
José Izaguirre Nazar	Attended four meetings
Scott Mathieson	Attended all meetings
Wendy Barnes	Attended all meetings
Suzanne Fox	Attended all meetings
Alison McGregor	Attended one meeting

CORPORATE GOVERNANCE *continued*
Administrative, management and supervisory bodies *continued*
SPENH Board *continued*
The terms of reference of the SPENH Board are published at:
www.scottishpower.com/userfiles/file/SPENHL-Terms%20of-Reference-Board-Directors-130603.pdf.

ScottishPower Board
The ScottishPower Board comprised the Chairman José Ignacio Sánchez Galán and eight other directors as at 31 December 2018. José Ignacio Sánchez Galán is also the Chairman and Chief Executive of Iberdrola.

The directors of Scottish Power Limited are shown below.

Directors	
José Ignacio Sánchez Galán	Chairman
Lord Kerr of Kinlochard GCMG	Vice Chairman, Independent non-executive director
Keith Anderson	
Juan Carlos Rebollo Liceaga	
José Sainz Armada	
Professor Sir James McDonald	Independent non-executive director
Anthony Gardner	Independent non-executive director (resigned 19 February 2018)
Dame Nicola Brewer	Independent non-executive director
Suzanne Fox	Independent non-executive director (appointed 12 December 2018)
Iñigo Fernández de Mesa Vargas	Independent non-executive director (appointed 12 December 2018)

ScottishPower Board meetings were held on five occasions during the year under review. Attendance by the directors is also shown below.

José Ignacio Sánchez Galán	Attended all meetings
Lord Kerr of Kinlochard GCMG	Attended all meetings
Keith Anderson	Attended all meetings
Juan Carlos Rebollo Liceaga	Attended all meetings
José Sainz Armada	Attended all meetings
Professor Sir James McDonald	Attended four meetings
Anthony Gardner	Attended one meeting
Dame Nicola Brewer	Attended all meetings
Suzanne Fox	Attended one meeting
Iñigo Fernández de Mesa Vargas	Attended one meeting

ScottishPower Audit and Compliance Committee ("SP ACC")
The SP ACC, a permanent internal body, has an informative and consultative role, without executive functions, with powers of information, assessment and presentation of proposals to the ScottishPower Board within its scope of action, which is governed by the Articles of Association of SPL and by the terms of reference of the SP ACC. The SP ACC's responsibilities include:

- monitoring the financial reporting process for ScottishPower;
- monitoring the effectiveness of ScottishPower's internal control, internal audit, compliance and risk management systems;
- monitoring the statutory audit of the Annual Report and Accounts of ScottishPower; and
- monitoring the independence of the external auditor and recommending to the ScottishPower Board, the appointment or re-appointment of the auditor and the associated terms of reference.

The SP ACC's terms of reference are published at:
www.scottishpower.com/pages/audit_and_compliance_committee.aspx.

CORPORATE GOVERNANCE *continued*

Administrative, management and supervisory bodies *continued*

ScottishPower Audit and Compliance Committee ("SP ACC") *continued*

Membership and attendance

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

Professor Sir James McDonald (Chairman)	External independent, attended all meetings
Juan Carlos Rebollo Liceaga	Attended all meetings
Anthony Gardner	External independent, attended one meeting (resigned 19 February 2018)
Dame Nicola Brewer	External independent, attended three meetings (appointed 11 July 2018)

Iñigo Fernández de Mesa Vargas was appointed as an external independent member of the SP ACC on 12 December 2018.

In addition to the attendance set out above, the ScottishPower Control and Administration Director, Head of Internal Audit and the external auditor normally attend by invitation, all meetings of the SP ACC. Other members of senior management are also invited to attend as appropriate.

Matters considered by the SP ACC during 2018

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

In addition to the issues detailed in the report above, the SP ACC, in early 2019, also considered various matters which are relevant to the monitoring of the statutory audit of the Annual Report and Accounts of ScottishPower for 2018. In particular on 12 February 2019:

- the SP ACC reviewed the independence of the external auditor and submitted its conclusions on the same to the ScottishPower Board;
- as part of the SP ACC's supervision of the auditing of the Annual Report and Accounts, the external auditor appeared before the SP ACC to present its conclusions on the 2018 statutory audit; and
- the SP ACC reviewed the financial results to 31 December 2018 and submitted its conclusions on the same to the ScottishPower Board.

For the year ended 31 December 2018 there were no significant financial statement reporting issues.

SPENH Audit and Compliance Committee ("SPENH ACC")

On 31 January 2018, the SPENH Board approved the establishment of the SPENH Audit & Compliance Committee ("SPENH ACC") to undertake the role and function of the SP ACC as they relate to the Regulated Business within ScottishPower (including the company).

The SPENH 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 SPENH Board within its scope of action, which is governed by the Articles of Association of SPENHL and by the terms of reference of the SPENH ACC. The SPENHL ACC's terms of reference are published at:
https://www.spenergynetworks.co.uk/userfiles/file/Terms_of_Reference_of_the_Audit_and_Compliance_Committee.pdf.

Membership and attendance

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

Wendy Barnes (Chairperson*)	External independent, attended all meetings
Sr José Izaguirre Nazar	Attended all meetings
Suzanne Fox	External independent, attended all meetings, (resigned 15 November 2018)
Alison McGregor	External independent, attended one meeting (appointed 15 November 2018)

* On 15 November 2018, Wendy Barnes was appointed as Chair of the SPENH ACC following the resignation of Suzanne Fox. Until 15 November 2018, Ms Fox was Chair of the SPENH ACC.

In addition to the attendance set out above, the ScottishPower Energy Networks Finance Director and Head of Internal Audit normally attend all meetings of the SPENH ACC. Other members of senior management and the external auditor are also invited to attend as appropriate.

CORPORATE GOVERNANCE *continued*

Administrative, management and supervisory bodies *continued*

SPENH Audit and Compliance Committee ("SPENH ACC") *continued*

Matters considered by the SPENH ACC during 2018

The issues that the SPENH ACC specifically addressed are detailed in its report which is published at: https://www.spenergynetworks.co.uk/userfiles/file/2018_Committee_Annual_Activity_Report.pdf.

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 company and they participated in the review of internal controls over financial reporting and the certification process which took place on a ScottishPower group-wide basis. The effectiveness of the system at ScottishPower group level was kept under review through the work of the SP 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 and 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 with the Energy Network specific policy also being adopted by the SPENH Board. 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 Board is responsible for ensuring that business 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.

External auditor

Annually, the SP ACC reviews the external auditor's audit plan and reviews and assesses the information provided by them confirming their independence and objectivity within the context of regulatory requirements and professional standards. The external auditor contributes a further independent perspective on certain aspects of the company's internal controls over financial reporting arising from their work and reports to the SP ACC if appropriate.

During 2018 the SP ACC approved the proposal to the ScottishPower Board on the terms of engagement of the external auditor, KPMG LLP.

CORPORATE GOVERNANCE *continued*

Auditor Independence

The Audit, Risk and Supervision Committee of Iberdrola, which comprises non-executive directors, is responsible for the nomination of the external auditor. This committee and the external auditor have safeguards to avoid the possibility that the auditor's 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 auditor for sound commercial and practical reasons, including confidentiality, the conduct of such work is permissible provided that all necessary internal governance requirements have been met.

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 Commitee ("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
Sara de la Goiricelaya	External independent

The members of the IRC are:

Juan Manuel González (Chairperson)	External independent
Inés Macho Stadler	Other External
Manuel Moreu Munaiz	External independent

The IAC has the power to supervise the process of selection of directors and senior managers of the Iberdrola group companies. The diversity policy applied by the IAC is included within the Committee's terms of reference at:
www.iberdrola.com/wcorp/gc/prod/en_US/corporativos/docs/comision_nombramientos.pdf.
The diversity policy itself is published at:
www.iberdrola.com/wcorp/gc/prod/en_US/corporativos/docs/director_candidate_selection_policy.pdf.

The IRC has the power to assist the Iberdrola Board of Directors in the determination and supervision of the compensation policy for the above-mentioned persons.

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 company, and the risks and opportunities arising from these issues that may have an impact on ScottishPower's short-term and long-term values are considered.

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

DIRECTORS

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

Wendy Barnes	
Suzanne Fox	(resigned 15 November 2018)
Alison McGregor	(appointed 15 November 2018)
Stephen Stewart	
Scott Mathieson	
Frank Mitchell	

DIRECTORS' INDEMNITY

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS
The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 December 2018 ("IFRSs as adopted by the EU") and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

Responsibility statement of the directors in respect of the Annual Report and Accounts
Each of the directors in office as at the date of this Annual Report and Accounts confirms that to the best of his or her knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer together with a description of the principal risks and uncertainties that it faces.

AUDITOR
KPMG LLP were re-appointed as the auditor of the company for the year ended 31 December 2018.

ON BEHALF OF THE BOARD

Scott Mathieson
Director
26 April 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SP MANWEB PLC

1 Our opinion is unmodified
We have audited the financial statements of SP Manweb plc ("the company") for the year ended 31 December 2018 which comprise the balance sheet, income statement and statement of comprehensive income, statement of changes in equity, cash flow statement, and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of the its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

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

2 Key audit matters: our assessment of risks of material misstatement
Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2017), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Capital expenditure
(£219.1 million; 2017 £249.3 million)

Refer to page 29 (accounting policy) and pages 33 and 34 (financial disclosures).

The risk – Accounting Treatment - The company continues to undertake major capital projects, including significant enhancements to the distribution networks. The determination of project costs as capital or operating expenditure is inherently judgemental as there is a need to distinguish between enhancement and maintenance works. Costs capitalised include an allocation of overhead costs, relating to the proportion of time spent by support function staff, which is also inherently judgemental. Property, plant and equipment (including those assets in the course of construction) is quantitatively the most significant amount on the Company's balance sheet and is the most significant area of audit effort.

Our response - Our procedures included:
Control design and observation: Evaluating the design and operating effectiveness of a selection of the company's controls over the capital spend process including the approval of the capital spend and the procedures for transferring assets from assets under construction to completed assets. Tests of effectiveness were performed by re-performing a sample selected on the basis of the frequency of control operation and were designed to verify that appropriate procedures were followed in each instance. Testing was also performed to ensure that the automated system control used to calculate overheads allocated to projects was operating effectively.

Test of details: A sample of external costs for projects were agreed to purchase invoices and reviewed to ensure that these had been capitalised in line with the company's capitalisation policy. We identified and assessed the impact of in-year changes to capitalisation rates for all existing projects, as once set they are typically unchanged from period to period. Overhead costs allocated to projects were agreed to the overhead allocation model on a sample basis. We critically assessed the proportion of overhead costs which are capitalised based on corroborated enquiry and our sector knowledge.

Our results - We found the accounting treatment for capital expenditure to be acceptable.

3 Our application of materiality and an overview of the scope of our audit
Materiality for the financial statements as a whole was set at £20.0 million (2017 £19.0 million), determined with reference to a benchmark of total assets, of which it represents 0.64% (2017 0.68%).

We agreed to report to the Board any corrected or uncorrected identified misstatements exceeding £1.0 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

4 We have nothing to report on going concern
The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the company's business model, including the impact of a disorderly Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the other information in the Annual Report
The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report
Based solely on our work on the other information:

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

6 We have nothing to report on the other matters on which we are required to report by exception
Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 16, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

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

In addition we considered the impact of laws and regulations in the specific areas of regulatory compliance recognizing the regulated nature of the company's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

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 them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member, as a body, for our audit work, for this report, or for the opinions we have formed.

Philip Charles (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St. Vincent Street
Glasgow
G2 5AS
29 April 2019

SP MANWEB PLC
BALANCE SHEET
at 31 December 2018

	Notes	2018 £m	2017 £m
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		**3,031.6**	2,890.1
Property, plant and equipment in use	3	2,631.8	2,590.4
Property, plant and equipment in the course of construction	3	399.8	299.7
Financial assets		**0.1**	0.1
Investments in subsidiaries	4	0.1	0.1
NON-CURRENT ASSETS		**3,031.7**	2,890.2
CURRENT ASSETS			
Inventories	5	**9.5**	-
Trade and other receivables	6	**55.0**	76.4
Cash	7	**17.1**	11.7
CURRENT ASSETS		**81.6**	88.1
TOTAL ASSETS		**3,113.3**	2,978.3
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**978.6**	999.3
Share capital	8, 9	300.0	300.0
Share premium	9	3.3	3.3
Other reserves	9	6.0	6.0
Retained earnings	9	669.3	690.0
TOTAL EQUITY		**978.6**	999.3
NON-CURRENT LIABILITIES			
Deferred income	10	**463.8**	452.6
Provisions	11	**1.1**	0.8
Bank borrowings and other financial liabilities		**971.4**	1,168.1
Loans and other borrowings	12	971.4	1,168.1
Trade and other payables	13	**0.1**	-
Deferred tax liabilities	14	**173.7**	164.6
NON-CURRENT LIABILITIES		**1,610.1**	1,786.1
CURRENT LIABILITIES			
Provisions	11	**2.0**	0.1
Bank borrowings and other financial liabilities		**286.5**	54.7
Loans and other borrowings	12	286.5	54.7
Trade and other payables	13	**232.6**	135.1
Current tax liabilities		**3.5**	3.0
CURRENT LIABILITIES		**524.6**	192.9
TOTAL LIABILITIES		**2,134.7**	1,979.0
TOTAL EQUITY AND LIABILITIES		**3,113.3**	2,978.3

Approved by the Board and signed on its behalf on 26 April 2019:

Scott Mathieson
Director

The accompanying Notes 1 to 26 are an integral part of the balance sheet at 31 December 2018.

SP MANWEB PLC
INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Notes	2018 £m	2017 Restated* £m
Revenue	15	362.3	356.2
Procurements		(18.6)	(17.6)
GROSS MARGIN		**343.7**	338.6
NET OPERATING EXPENSES		**(91.0)**	(88.1)
Net personnel expenses		**(16.2)**	(0.9)
Staff costs	16	(63.0)	(0.9)
Capitalised staff costs	16	46.8	-
Net external expenses		**(74.8)**	(87.2)
External services		(79.8)	(98.8)
Other operating income		5.0	11.6
Taxes other than income tax	17	**(22.4)**	(19.9)
GROSS OPERATING PROFIT		**230.3**	230.6
Impairment losses on trade and other receivables		(0.6)	(0.4)
Depreciation and amortisation charge, allowances and provisions	18	(95.4)	(91.6)
OPERATING PROFIT		**134.3**	138.6
Gains on disposal of non-current assets		0.1	0.1
Dividends received		0.1	0.1
Finance income	19	0.9	-
Finance costs	20	(41.7)	(40.3)
PROFIT BEFORE TAX		**93.7**	98.5
Income tax	21	(17.5)	(18.1)
NET PROFIT FOR THE YEAR		**76.2**	80.4

*Comparative figures have been restated (refer to Note 1B1.1).

Net profit for both years is wholly attributable to the equity holders of SP Manweb plc.

Net profit for both years comprises the total comprehensive income for the respective years.

All results relate to continuing operations.

The accompanying Notes 1 to 26 are an integral part of the income statement and statement of comprehensive income for the year ended 31 December 2018.

SP MANWEB PLC
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 January 2017	300.0	3.3	6.0	681.6	990.9
Total comprehensive income for the year	-	-	-	80.4	80.4
Dividends	-	-	-	(72.0)	(72.0)
At 1 January 2018	300.0	3.3	6.0	690.0	999.3
Adjustments due to IFRS 9 (Refer to Note 1B2.2)	-	-	-	(0.2)	(0.2)
Adjusted balance at 1 January 2018	300.0	3.3	6.0	689.8	999.1
Total comprehensive income for the year	-		-	76.2	76.2
Dividends	-	-	-	(96.7)	(96.7)
At 31 December 2018	**300.0**	**3.3**	**6.0**	**669.3**	**978.6**

The accompanying Notes 1 to 26 are an integral part of the statement of changes in equity for the year ended 31 December 2018.

SP MANWEB PLC
CASH FLOW STATEMENT
for year ended 31 December 2018

	2018 £m	2017 £m
Cash flows from operating activities		
Profit before tax	93.7	98.5
Adjustments for:		
Depreciation	95.2	91.2
Change in provisions	1.0	-
Transfer of assets from customers	(14.3)	(13.8)
Finance income and costs	40.8	40.3
Shareholding income	(0.1)	(0.1)
Write-off of non-current assets/net gain on disposal	-	0.3
Changes in working capital:		
Change in trade and other receivables	(3.2)	0.6
Change in inventories	(20.1)	-
Change in trade payables	38.8	(8.7)
Provisions paid	(0.1)	
Repayment of deferred income	-	(3.5)
Assets received from customers	24.9	53.3
Income taxes paid	(7.8)	(10.7)
Net cash flows from operating activities (i)	248.8	247.4
Cash flows from investing activities		
Interest received	0.9	-
Dividends received	0.1	0.1
Transfers from Power Systems	28.3	-
Investments in property, plant and equipment	(193.2)	(245.2)
Proceeds from disposal of property, plant and equipment	0.1	3.1
Net cash flows from investing activities (ii)	(163.8)	(242.0)
Cash flows from financing activities		
Net increase/(decrease) in amounts due to/from Iberdrola group companies - current loans	59.1	(190.4)
Increase in amounts due to Iberdrola group companies - non-current loans payable	-	300.0
Dividends paid to company's equity holders	(96.7)	(72.0)
Interest paid	(42.0)	(40.4)
Net cash flows from financing activities (iii)	(79.6)	(2.8)
Net increase in cash and cash equivalents (i)+(ii)+(iii)	5.4	2.6
Cash and cash equivalents at beginning of year	11.7	9.1
Cash and cash equivalents at end of year	17.1	11.7

Cash and cash equivalents at end of year comprises:

	2018 £m	2017 £m
Cash	17.1	11.7
Cash flow statement cash and cash equivalents	17.1	11.7

The accompanying Notes 1 to 26 are an integral part of the cash flow statement for the year ended 31 December 2018.

1 BASIS OF PREPARATION

A COMPANY INFORMATION

SP Manweb plc ("the company"), registered company number 2366937, is a private company limited by shares, incorporated in England and Wales and its registered address is 3 Prenton Way, Prenton, CH43 3ET.

B BASIS OF PREPARATION OF THE ACCOUNTS

The company is required by law to prepare accounts and to deliver them to the Registrar of Companies. The Accounts have been prepared in accordance with International Financial Reporting Standards 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 2018 (IFRS as adopted by the EU). The Accounts are prepared in accordance with the Accounting Policies set out in Note 2. Monetary amounts are presented in pounds sterling and are rounded to the nearest hundred thousand unless otherwise indicated.

The Accounts contain information about SP Manweb plc as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. Under Section 405 of the Companies Act 2006, the company has not prepared consolidated accounts as the inclusion of its subsidiary undertakings in consolidated accounts is not material for the purpose of giving a true and fair view.

The company has one operating segment for management reporting purposes which operates in a single geographical area and reports revenues from a single activity.

B1. CHANGES IN PRESENTATION

B1.1 TRANSFERS OF ASSETS FROM CUSTOMERS

The company earns income arising from transfers of assets from customers, as it is common for utilities to receive contributions from customers so that they can be connected to a network or receive ongoing access to a supply of services from them. In line with IFRIC 18 'Transfer of Assets from Customers', this income had previously been presented within Other operating income in the income statement. However, in order to provide better information to the users of the financial statements and classify all customer-derived income consistently under the scope of IFRS 15 'Revenue from Contracts with customers', management have opted to reclassify this stream of income, and as such, income arising from transfers of assets from customers is now presented within Revenue in the income statement. The prior year income statement has been restated accordingly. The effect of this change in presentation has been to decrease the prior year Other operating income and increase Revenue by £13.8 million. This restatement has had no impact on the net profit for the year shown on the income statement nor the net assets position shown on the balance sheet.

B2. EFFECT OF INITIAL APPLICATION OF IFRS 15 AND IFRS 9

This is the first set of the company's annual financial statements in which IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' have been applied. The nature and effect of the changes as a result of the implementation of these standards are described below.

B2.1 EFFECT OF INITIAL APPLICATION OF IFRS 15

The company has applied IFRS 15 for the first time using the cumulative effect method i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 'Revenue' and the IFRS 15 disclosure requirements have not been applied to comparative information.

The application of IFRS 15 has not had a significant impact on the company's revenue recognition and therefore there is nothing to disclose in relation to the impact on the opening balances at 1 January 2018, the balances at and the results for the year ended 31 December 2018.

B2.2 EFFECT OF INITIAL APPLICATION OF IFRS 9

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

1 BASIS OF PREPARATION *continued*

B BASIS OF PREPARATION OF THE ACCOUNTS *continued*

B2. EFFECT OF INITIAL APPLICATION OF IFRS 15 AND IFRS 9 *continued*

B2.2 EFFECT OF INITIAL APPLICATION OF IFRS 9 *continued*

As a result of the initial application of IFRS 9, the company has applied the consequential amendments to IAS 1 'Presentation of Financial Statements', which requires impairment of financial assets to be presented in a separate line item in the income statement. Previously, the company's approach was to include the impairment of trade and other receivables within Depreciation and amortisation charge, allowances and provisions. Consequently, the company reclassified impairment losses amounting to £0.4 million, recognised under IAS 39, from Depreciation and amortisation charge, allowances and provisions to Impairment losses on trade and other receivables in the income statement for the year ended 31 December 2017.

Impairment losses on other financial assets continue to be presented under Finance costs in the income statement, similar to their presentation under IAS 39, and are not presented separately in the income statement on the grounds of materiality.

The company has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. In line with consequential amendments to IFRS 7 'Financial Instruments: Disclosures', the company has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the company's previous accounting policy under IAS 39.

The table below illustrates the impact of the application of IFRS 9 on the opening balances at 1 January 2018.

	Adjustments due to IFRS 9 £m
Retained earnings	
Recognition of Expected Credit Losses ("ECLs") under IFRS 9	(0.3)
Related tax	0.1
Impact at 1 January 2018	**(0.2)**

(a) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. As stated above, the company has applied the classification and measurement requirements retrospectively, with initial application on 1 January 2018, thus the figures for comparative periods have not been restated.

Financial assets

The company has classified its financial assets as being held at amortised cost. A description of this category of financial asset can be found in Note 2F1.1.

The following table and the accompanying notes explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the company's financial assets at 1 January 2018. The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

Financial Asset	**Original Classification under IAS 39**	**New Classification under IFRS 9**	Notes	**Original carrying value under IAS 39**	**New carrying value under IFRS 9**
Receivables	Loans and Receivables	Amortised cost	(i), (ii)	74.4	74.1
Cash	Loans and Receivables	Amortised cost	(iii)	11.7	11.7
				86.1	**85.8**

1 BASIS OF PREPARATION *continued*

B BASIS OF PREPARATION OF THE ACCOUNTS *continued*

B2. EFFECT OF INITIAL APPLICATION OF IFRS 15 AND IFRS 9 *continued*

B2.2 EFFECT OF INITIAL APPLICATION OF IFRS 9 *continued*

***(a) Classification and measurement of financial assets and financial liabilities** continued*

(i) Receivables includes trade receivables (including accrued income) and trade receivables due from Iberdrola group companies. Refer to Notes 6 and 7(a).
(ii) Balances that were classified as Loans and receivables under IAS 39 are now classified at amortised cost. An increase of £0.3 million in the allowance for impairment over these balances was recognised in the opening retained earnings at 1 January 2018 on transition to IFRS 9 (refer to note (b) below).
(iii) While these balances are also subject to the impairment requirements of IFRS 9, the identified impairment loss was less than £0.1 million.

Refer to Note 7 for details of the company's financial assets in the current year. The classification and measurement requirements of IFRS 9 did not have a significant impact on the company.

Financial liabilities

The classification of the company's financial liabilities has not undergone any changes with respect to the application of IFRS 9. Consequently the application of IFRS 9 has not had a significant effect on the company's accounting policies related to financial liabilities. For an explanation of how the company classifies and measures financial liabilities and accounts for related gains and losses under IFRS 9 (refer to Note 2F1.2).

(b) Impairment of financial assets

The application of IFRS 9 has changed the company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a new ECL approach. This new impairment model applies to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39 (refer to Note 2F1.1).

The company applies the simplified approach for calculation of ECLs. Under the simplified model, the loss allowance is measured at an amount equal to a lifetime ECL. The company has adopted the practical expedient whereby it calculates the ECL on trade receivables using a provision matrix based on its historical credit loss experience and where possible readily available forecast information.

Additional information about how the company measures the allowance for impairment is described in Note 7. The company has adopted the impairment requirements retrospectively, with initial application on 1 January 2018, thus opting not to restate the figures for comparative periods. The company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows:

	£m
Loss allowance at 31 December 2017 under IAS 39 (trade and other receivables)	**0.5**
Additional impairment recognised at 1 January 2018 on current trade and other receivables	0.3
Loss allowance at 1 January 2018 under IFRS 9	**0.8**

C ACCOUNTING STANDARDS

C1 IMPACT OF NEW IFRS

In preparing these Accounts, the company has applied all relevant International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") (collectively referred to as IFRS) that have been adopted by the EU as of the date of approval of these Accounts and that are mandatory for the financial year ended 31 December 2018.

For the year ended 31 December 2018, the company has applied the following amendments for the first time:

Standard	Notes
• Annual Improvements to IFRS Standards 2014 –2016 Cycle	(a), (b)
• IFRS 15 'Revenue from Contracts with Customers' (including 'Amendments to IFRS 15: Effective date of IFRS 15' and 'Clarifications to IFRS 15 Revenue from Contracts with Customers')	(c)
• IFRS 9 'Financial Instruments'	(d)
• Amendments to IAS 40 'Investment Property: Transfers of Investment Property'	(a)
• Amendments to IFRS 2 'Share-based Payments: Clarification and Measurement of Share-based Payment Transactions'	(a)
• Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'	(a)
• IFRIC 22 'Foreign Currency Transactions and Advance Consideration'	(a)

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

C1 IMPACT OF NEW IFRS *continued*

(a) The application of these pronouncements has not had a material impact on the company's accounting policies, financial position or performance.
(b) 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 been applied by the company effective 1 January 2018. The amendments to IFRS 12 'Disclosure of Interests in Other Entities' were applied by the company effective 1 January 2017.
(c) Refer to Note 1B2.1 for further information.
(d) Refer to Note 1B2.2 for further information.

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 company:

Standard	Notes	IASB effective date (for periods commencing on or after)	Planned date of application by the company
• IFRS 16 'Leases'	(e)	1 January 2019	1 January 2019
• IFRIC 23 'Uncertainty over Income Tax Treatments'	(f)	1 January 2019	1 January 2019
• Amendments to IFRS 9 'Financial Instruments: Prepayment Features with Negative Compensation'	(f)	1 January 2019	1 January 2019
• Amendments to IAS 28 'Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures'	(f)	1 January 2019	1 January 2019
• Annual Improvements to IFRS Standards 2015-2017 Cycle	(f)	1 January 2019	1 January 2019
• Amendments to IAS 19 'Employee Benefits: Plan Amendment, Curtailment or Settlement'	(f)	1 January 2019	1 January 2019
• Amendments to References to the Conceptual Framework in IFRS Standards	(f),(g)	1 January 2020	1 January 2020
• Amendments to IFRS 3 'Business Combinations'	(f),(g)	1 January 2020	1 January 2020
• Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material'	(f),(g)	1 January 2020	1 January 2020
• IFRS 17 'Insurance Contracts'	(f),(g)	1 January 2021	1 January 2021
• IFRS 14 'Regulatory Deferral Accounts'	(f),(g),(h)	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'	(f),(g),(i)	Deferred indefinitely	To be decided

(e) Details of the impact of implementing IFRS 16 'Leases' is described at Note 1C2 below.
(f) The future application of this pronouncement is not expected to have a material impact on the company's accounting policies, financial position or performance.
(g) This pronouncement has not yet been endorsed by the EU.
(h) 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.
(i) The IASB set the effective date of this pronouncement as for periods commencing on or after 1 January 2016. However, in December 2015, the IASB postponed the effective date indefinitely pending the outcome of its research project on the equity method of accounting. The EU endorsement process for this pronouncement has been postponed, awaiting a revised exposure draft from the IASB. The effective date will be amended in due course.

C2 IMPACT OF FUTURE IMPLEMENTATION OF IFRS 16

IFRS 16 'Leases' is effective for the company as from 1 January 2019. The impact of implementing this standard is detailed below. The impact of this standard will have no effect on the recorded cash flows.

From the lessors' perspective, IFRS 16 does not introduce any significant change. From the lessees' perspective, IFRS 16 removes the current classification of operating and finance leases and requires, for any lease agreements, that the lessee recognises the present value of the lease on the balance sheet as a right-of-use asset and a liability.

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

C2 IMPACT OF FUTURE IMPLEMENTATION OF IFRS 16 *continued*

The company has carried out analysis in order to assess whether an agreement is, or contains, a lease at its inception considering the requirements of IFRS 16. In this analysis, in line with the Iberdrola group, the company has concluded that the assignment of land use does not constitute a lease when the landowner has the right to operate any kind of economic activity on the land in order to continue obtaining more than insignificant economic benefits as a result of that use.

Within its ordinary business activities, the company enters into agreements whereby it obtains the right to use land owned by third parties for the purposes of electricity distribution. Clauses within these contracts allow the landowner to access the land and continue carrying out economic activities, provided that they do not interfere with the operation of the activities carried out by the company. In line with the Iberdrola group, the company has concluded that such contracts grant shared use of the land to both the owner and the company, thus the company does not have the right to control the use of the underlying asset. Therefore, such agreements do not contain a lease in accordance with IFRS 16.

The company will transition to IFRS 16 applying the modified retrospective method which does not require comparative periods to be restated but recognises the effect of the initial application of IFRS 16 on the date it is implemented i.e. 1 January 2019. Therefore, in lease agreements in which the company is the lessee, the lease liability will be measured at the present value of the remaining lease payments, applying an appropriate discount rate as at the date of initial application. Generally, right-of-use assets will be measured as the same amount as the corresponding liabilities; both these assets and liabilities will be recognised on the balance sheet.

The right-of-use assets will be depreciated and the charge recorded within Depreciation and amortisation charge, allowances and provisions in the income statement; similarly the discount on the liabilities will unwind over the term of the lease and charged to Finance costs in the income statement. The expense in the year relating to minimum lease payments under operating leases will no longer be recognised in the income statement; a charge of £2.6 million was recognised in 2018 (refer to Note 3(b)).

Based on the scope exemptions available under IFRS 16, in line with the Iberdrola group, the company has opted not to apply it to lease agreements for intangible assets and short-term leases i.e. leases with a term of twelve months or less (which will continue being accounted for as now under IAS 17 'Leases').

A contract may include multiple lease components, not all of which would qualify as a lease. In line with the Iberdrola group, the company has opted to not separate multiple components for accounting purposes but will recognise them as a single component, except for certain agreements for which the separation may have a significant impact on the financial statements.

As at 1 January 2019, IFRS 16 will give rise to an increase in current and non-current liabilities totalling an estimated £7.1 million as noted below for the different types of underlying assets:

Estimated total lease liability as at 1 January 2019	£m
Buildings	2.8
Vehicles	3.4
Land	0.8
Other	0.1
Total	**7.1**

The total liability noted above is presented on a discounted net present value basis. As at the date of initial application, the range of discount rates used to calculate the above pertaining to Sterling were in the range of between 1.12% and 3.32%.

There is a difference between the future minimum lease payments under non-cancellable operating leases under the scope of IAS 17 as at 31 December 2018 (refer to Note 3(b)) and the lease liabilities to be recognised as at 1 January 2019 under IFRS 16 (see analysis above), the main reconciling items relate to scope changes between the two standards and the application of different discount rate assumptions.

The company will continue to refine its accounting policies and monitor emerging industry practice in relation to this standard.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES

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 company, should it later be determined that a different choice would be more appropriate. The company has no such policies. At 31 December 2018, the company had no items which have significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

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

A REVENUE
B PROCUREMENTS
C PROPERTY, PLANT AND EQUIPMENT
D LEASED ASSETS
E IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT
F FINANCIAL INSTRUMENTS
G INVENTORIES
H RETIREMENT BENEFITS
I TAXATION
J CASH AND CASH EQUIVALENTS

A REVENUE

The company has applied IFRS 15 for the first time from 1 January 2018. Information about the company's accounting policies and estimates in relation to contracts with customers is provided in Note 15. The effect of the initial application of IFRS 15 is disclosed in Note 1B2.1.

B PROCUREMENTS

Procurements principally comprises use of system charges from National Grid.

C PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and is generally depreciated on a straight-line basis over the estimated operational lives of the assets. Property, plant and equipment includes, where appropriate, capitalised employee costs 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, where appropriate, to the cost of those assets, until such time as the assets are substantially ready for their intended use. Reviews of the estimated remaining lives and residual values of property, plant and equipment are undertaken annually. Residual values are assessed based on prices prevailing at each balance sheet date.

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

	Years
Distribution facilities	40
Meters and measuring devices	6 - 10
Other facilities and other items of property, plant and equipment	3 - 50

D 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 company 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.

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

E IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

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

F FINANCIAL INSTRUMENTS

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

F1 ACCOUNTING POLICIES UNDER IFRS 9

F1.1 FINANCIAL ASSETS

(a) Recognition and initial measurement

The company's financial assets are classified, at initial recognition, as subsequently measured at amortised cost. Trade receivables without a significant financing component and for which the company has applied the simplified ECL model are measured at the transaction price determined under IFRS 15 (refer to Note 15).

(b) Classification and subsequent measurement

(i) Classification

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

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

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

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

(ii) Subsequent measurement and gains and losses

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

The company's financial assets measured at amortised cost include trade receivables and trade receivables due from Iberdrola group companies.

Derecognition

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

(iii) Impairment of financial assets

Disclosures relating to impairment of financial assets are provided in Note 7.

The company has adopted the simplified ECL model for its trade receivables. In applying the simplified model, loss allowances for trade receivables are always measured at an amount equal to lifetime ECL. The company has established a provision matrix based on its historical credit loss experience and where possible readily available forecast information.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*
F FINANCIAL INSTRUMENTS *continued*
F1 ACCOUNTING POLICIES UNDER IFRS 9 *continued*
F1.1 FINANCIAL ASSETS *continued*
(b) Classification and subsequent measurement *continued*
(iii) Impairment of financial assets continued
Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Twelve month ECLs are the portion of ECLs that result from default events that are possible within the twelve months after the reporting date (or a shorter period if the expected life of the instrument is less than twelve months). The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

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

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

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

F1.2 FINANCIAL LIABILITIES
(a) Recognition and initial measurement
The company's financial liabilities include trade and other payables and loans and borrowings. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

(b) Classification and subsequent measurement
Financial liabilities are classified as measured at amortised cost. Financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in the income statement. Any gain or loss on derecognition is also recognised in the income statement.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest method is included as Finance costs in the income statement.

The company derecognises a financial liability when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

F2 ACCOUNTING POLICIES UNDER IAS 39
As detailed in Note 1B2.2 on the initial application of IFRS 9, the company has elected not to restate comparative information. The accounting policies for the company under IAS 39 have therefore been presented below.

(a) Financial assets categorised as trade and other receivables are recognised and carried at original invoice amount less a provision 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 company operates.

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

F FINANCIAL INSTRUMENTS *continued*

F2 ACCOUNTING POLICIES UNDER IAS 39 *continued*

(c) 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.

G INVENTORIES

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

H RETIREMENT BENEFITS

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

I TAXATION

The company's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted at the balance sheet date.

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

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

J CASH AND CASH EQUIVALENTS

Cash and short-term deposits in the balance sheet comprise cash on hand and term deposits which are readily convertible into a known amount of cash without significant risk of changes in value. 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.

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2018

3 PROPERTY, PLANT AND EQUIPMENT
(a) Movements in property, plant and equipment

Year ended 31 December 2017	Distribution facilities £m	Meters and measuring devices £m	Other items of property, plant and equipment in use (Note (i)) £m	Plant in progress (Note (ii)) £m	Total £m
Cost:					
At 1 January 2017	3,410.5	113.9	13.8	250.5	3,788.7
Additions (Note (iii))	1.0	1.2	-	247.1	249.3
Transfers from in progress to plant in use	197.9	-	-	(197.9)	-
Disposals	(14.2)	(23.6)	-	-	(37.8)
At 31 December 2017	3,595.2	91.5	13.8	299.7	4,000.2
Depreciation:					
At 1 January 2017	961.6	88.7	3.0	-	1,053.3
Depreciation for the year	86.9	3.9	0.4	-	91.2
Disposals	(10.8)	(23.6)	-	-	(34.4)
At 31 December 2017	1,037.7	69.0	3.4	-	1,110.1
Net book value:					
At 31 December 2017	2,557.5	22.5	10.4	299.7	2,890.1
At 1 January 2017	2,448.9	25.2	10.8	250.5	2,735.4

The net book value of property plant and equipment at 31 December 2017 is analysed as follows:

Property, plant and equipment in use	2,557.5	22.5	10.4	-	2,590.4
Property, plant and equipment in the course of construction	-	-	-	299.7	299.7
	2,557.5	22.5	10.4	299.7	2,890.1

Year ended 31 December 2018	Distribution facilities £m	Meters and measuring devices £m	Other items of property, plant and equipment in use (Note (i)) £m	Plant in progress (Note (ii)) £m	Total £m
Cost:					
At 1 January 2018	3,595.2	91.5	13.8	299.7	4,000.2
Additions (Note (iii))	0.6	0.4	2.8	215.3	219.1
Transfers from in progress to plant in use	131.9	-	0.9	(132.8)	-
Transfers from inventories	-	-	-	17.8	17.8
Disposals	(6.7)	(4.9)	-	(0.2)	(11.8)
At 31 December 2018	**3,721.0**	**87.0**	**17.5**	**399.8**	**4,225.3**
Depreciation:					
At 1 January 2018	1,037.7	69.0	3.4	-	1,110.1
Depreciation for the year	90.8	3.9	0.5	-	95.2
Disposals	(6.7)	(4.9)	-	-	(11.6)
At 31 December 2018	**1,121.8**	**68.0**	**3.9**	**-**	**1,193.7**
Net book value:					
At 31 December 2018	**2,599.2**	**19.0**	**13.6**	**399.8**	**3,031.6**
At 1 January 2018	2,557.5	22.5	10.4	299.7	2,890.1

The net book value of property plant and equipment at 31 December 2018 is analysed as follows:

Property, plant and equipment in use	2,599.2	19.0	13.6	-	2,631.8
Property, plant and equipment in the course of construction	-	-	-	399.8	399.8
	2,599.2	**19.0**	**13.6**	**399.8**	**3,031.6**

3 PROPERTY, PLANT AND EQUIPMENT *continued*

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

(i) The category Other items of property, plant and equipment in use principally comprises other technical installations, communications equipment and land.
(ii) The category Plant in progress principally comprises distribution facilities in the course of construction.
(iii) Additions of £nil (2017 £248.1 million) were purchased from asset management entity Power Systems, as noted within Note 24.
(iv) The cost of fully depreciated property, plant and equipment still in use at 31 December 2018 was £133.1 million (2017 £133.5 million).
(v) Included within the cost of property, plant and equipment at 31 December 2018 are assets in use not subject to depreciation, being land of £6.0 million (2017 £6.0 million).

(b) Operating lease arrangements

(i) Operating lease payments	2018 £m	2017 £m
Minimum lease payments under operating leases recognised as an expense in the year	**2.6**	0.2

The company leases property as a lessee under operating leases. The leases have varying terms, escalation clauses and renewal rights.

(ii) Operating lease commitments	2018 £m	2017 £m
Within one year	**1.6**	0.2
Between one and five years	**3.1**	0.7
More than five years	**2.5**	2.0
	7.2	2.9

The company leases property as a lessee under operating leases. The leases have varying terms, escalation clauses and renewal rights.

(iii) Operating lease receivables	2018 £m	2017 £m
The future minimum discounted lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	**0.3**	0.2
Between one and five years	**0.4**	0.2
	0.7	0.4

The company leases land as a lessor under operating leases. The leases have varying terms, escalation clauses and renewal rights.

(c) Capital commitments

	2018 £m	2017 £m
Contracted but not provided	**86.8**	67.2

4 INVESTMENTS

	Investments in subsidiaries £m
At 1 January 2017, 1 January 2018 and 31 December 2018	**0.1**

Subsidiaries	Principal activities	Notes	Registered office and country of incorporation (see Note (a))	Equity interest 2018	Equity interest 2017
Manweb Services Limited	Operation of a private electricity distribution network	(b)	(A)	**100%**	100%
Manweb Nominees Limited	Dissolved	(c)	(B)	-	99%
Manweb Share Scheme Trustees Limited	Dissolved	(d)	(B)	-	99.5%

(a) The registered offices of the subsidiaries are as listed below, along with their countries of incorporation. Where the registered office is in England, the country of incorporation is deemed to be "England and Wales".
(A) 3 Prenton Way, Prenton, CH43 3ET, England
(B) Johnston Carmichael, 107–111 Fleet Street, London, EC4A 2AB, England
(b) This investment is a direct holding of the company.
(c) At 31 December 2017, his investment was a direct holding of the company. This entity was dissolved during the year ended 31 December 2018.
(d) At 31 December 2017, 50% of the shares in this entity were held directly by the company and the remaining 50% were held by Manweb Nominees Limited. This entity was dissolved during the year ended 31 December 2018.

5 INVENTORIES

	Notes	2018 £m	2017 £m
Other inventories	(a), (b)	**9.5**	-

(a) On 1 January 2018, as part of the change in the asset management processes of Energy Networks, Power Systems transferred £7.1 million of plant maintenance inventory to the company and an equivalent amount was paid as a cash outflow to the on demand group loan account.
(b) Inventories with a value of £0.6 million (2017 £nil) were recognised as an expense during the year.

6 TRADE AND OTHER RECEIVABLES

	Notes	2018 £m	2017 £m
Current receivables:			
Receivables due from Iberdrola group companies - trade		**9.3**	9.3
Receivables due from Iberdrola group companies - loans	(a)	**-**	24.3
Trade receivables (including accrued income)	(b)	**44.9**	40.8
Prepayments		**0.2**	1.5
Other tax receivables		**0.6**	0.5
	(c)	**55.0**	76.4

(a) The current loan due from Scottish Power UK plc ("SPUK") was charged interest at the Bank of England Base rate plus 1% and was repayable on demand. It was fully repaid during 2018.
(b) Information about the company's exposure to credit and market risks, and impairment losses for trade receivable are included in Note 7.
(c) Trade and other receivables includes £52.0 million of IFRS 15 receivables (refer to Note 15(c)).

7 FINANCIAL INSTRUMENTS

The effect of the initial application of IFRS 9 on the company's Accounts is detailed in Note 1B2.2. Due to the transition method chosen, comparative information has not been restated to reflect the new requirements.

(a) Carrying value of financial instruments

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

		2018			2017		
	Notes	Carrying amount £m	Fair value £m	Classification under IFRS 9	Carrying amount £m	Fair value £m	Classification under IAS 39
Financial assets							
Receivables	(i)	**54.2**	**54.2**	Amortised cost	74.4	74.4	Loans and Receivables
Cash	(ii)	**17.1**	**17.1**	Amortised cost	11.7	11.7	Loans and Receivables
Financial liabilities							
Loans and other borrowings	(iii)	**(1,257.9)**	**(1,392.8)**	Amortised cost	(1,222.8)	(1,404.5)	Loans and Receivables
Payables	(i)	**(160.3)**	**(160.3)**	Amortised cost	(66.0)	(66.0)	Loans and Receivables

The carrying amount of these financial instruments is calculated as set out in Note 2F. 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 footnote (iii) below.

(i) Balances outwith the scope of IFRS 7 'Financial Instruments: Disclosure' have been excluded, namely prepayments, other tax receivables, payments received on account and other taxes and social security.
(ii) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits. Cash as at 31 December 2018 included deposits with banks of £17.1 million (2017 £11.7 million) in respect of ring-fenced funds received from third parties for use on specific innovation projects and are not available to finance the company's day-to-day operations.
(iii) 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) Financial risk management

The company's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the company's operations. The company has trade receivables and cash that arise directly from its operations.

The company has exposure to the following risks arising from the above financial instruments:

i. Credit risk; and
ii. Treasury risk (comprising both liquidity and market risk).

7 FINANCIAL INSTRUMENTS *continued*

(b) Financial risk management *continued*

An extensive description of this risk management framework of ScottishPower, and therefore the company, can be found in the most recent Annual Report and Accounts of SPL.

(i) Credit risk

Credit risk is the risk that a counterparty will not meet its contractual obligations under a financial instrument or customer contract, leading to a financial loss. The company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions.

The carrying amount of financial assets represent the maximum credit exposure to the company.

Credit risk management

The company is exposed to both settlement risk (defined as the risk of a counterparty failing to pay for 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).

Further details on the credit risk management strategy adopted for significant types of financial asset are set out below.

- Credit risk in respect of customers is mitigated by contracting with multiple counterparties and limiting exposure to individual counterparties to clearly defined limits based upon the risk of counterparty default.
- Credit risk from balances with banks and financial institutions is managed by ScottishPower's treasury department in accordance with Iberdrola's cash investment procedure. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty by Corporate Risk Management.

At 31 December 2018 and 2017, the company evaluated the concentration of risk with respect to financial assets as low, with no material concentration of credit risk in company arising from one particular counterparty.

Expected credit loss assessment

For trade receivables the company applies the simplified approach for calculation of ECLs.

Trade receivables

The company uses the simplified model approach to measure ECLs for trade receivables. The provision rates represent a lifetime ECL and are based on the Iberdrola group's historical loss experience and default rates.

The table below illustrates the ECL on trade receivables:

At 31 December 2018	0 - 6 months £m	Greater than 6 months £m	Total £m
Weighted Average Expected Loss Rate (%)	**1.8%**	**83.3%**	**2.8%**
Gross Carrying Value	**45.6**	**0.6**	**46.2**
Loss allowance	(0.8)	(0.5)	(1.3)
Net Carrying Amount	**44.8**	**0.1**	**44.9**

At 1 January 2018	0 - 6 months £m	Greater than 6 months £m	Total £m
Weighted Average Expected Loss Rate (%)	0.5%	66.7%	1.9%
Gross Carrying Value	40.4	0.9	41.3
Loss allowance	(0.2)	(0.6)	(0.8)
Net Carrying Amount	40.2	0.3	40.5

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the company.

Refer to the table on the following page reconciling the movement in the opening to the closing loss allowance.

Receivables due from Iberdrola group companies £9.3 million (2017 £9.3 million)

On initial application of IFRS 9, the company recognised an impairment allowance as at 1 January 2018 of less than £0.1 million. The movement in the ECL in the year to 31 December 2018 was also less than £0.1 million.

7 FINANCIAL INSTRUMENTS *continued*

(b) Financial risk management *continued*

(i) Credit risk continued

Cash

The company held cash of £17.1 million (2017 £11.7 million) at 31 December 2018. The cash deposits are held with banks and financial institution counterparties, which are rated BBB- to AAA, based on Standard & Poor's ratings. Impairment on cash deposits has been measured on a three month expected loss basis and reflects the short maturities of the exposures. The company considers that its cash deposits have low credit risk based on the external credit ratings of the counterparties. On initial application of IFRS 9, the company recognised an impairment allowance as at 1 January 2018 of less than £0.1 million. The loss allowance in the year to 31 December 2018 is less than £0.1 million.

Reconciliation of opening to closing loss allowance

The closing loss allowances for all financial assets measured at amortised cost, as at 31 December 2018 reconciles to the opening loss allowances as follows:

	£m
Balance at 31 December 2017 under IAS 39 (trade receivables)	0.5
Adjustment on initial application of IFRS 9	0.3
Balance at 1 January 2018 under IFRS 9	0.8
Increase in loss allowance recognised in the income statement	0.6
Utilisation of provision	(0.1)
At 31 December 2018	**1.3**

The overall increase in the loss allowance of £0.5 million for the year ended 31 December 2018 is principally the result of an increase in customers in liquidation.

(ii) Treasury risk

Treasury risk is comprised of liquidity risk and market risk. ScottishPower's cash management and short-term financing activity, and therefore that of the company, is integrated with Iberdrola's. The company produces short-term rolling cash-flow requirements and if necessary any required funding is obtained via ScottishPower's credit facilities already in place.

Treasury liquidity risk management

ScottishPower's liquidity position and short-term financing activities, and therefore that of the company, are integrated and aligned with Iberdrola's. Liquidity risk, the risk that the company will have insufficient funds to meet its liabilities, is managed by Iberdrola group Treasury, who are responsible for arranging banking facilities on behalf of ScottishPower. Scottish Power UK plc is the principal counterparty for the loan balances due by the company.

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

				2018			
Cash outflows	**2019 £m**	**2020 £m**	**2021 £m**	**2022 £m**	**2023 £m**	**2024 and thereafter £m**	**Total £m**
Loans and other borrowings	327.5	91.2	157.0	87.0	152.4	735.4	**1,550.5**
Payables*	144.8	0.1	-	-	-	-	**144.9**
	472.3	**91.3**	**157.0**	**87.0**	**152.4**	**735.4**	**1,695.4**

				2017			
Cash outflows	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 and thereafter £m	Total £m
Loans and other borrowings	96.3	237.3	90.2	155.8	86.0	883.6	1,549.2
Payables*	50.0	-	-	-	-	-	50.0
	146.3	237.3	90.2	155.8	86.0	883.6	1,599.2

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

7 FINANCIAL INSTRUMENTS *continued*

(b) Financial risk management *continued*

(ii) Treasury risk continued

Treasury liquidity risk management *continued*

The interest payments on variable interest rate loans and bond issues in the table on the previous page reflect market forward interest rates at the reporting date and these amounts may change as market interest rates change.

Treasury market risk management

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

Interest rate risk

In order to adequately manage and limit this risk, the Iberdrola group annually determines the desired structure of the debt between fixed and floating interest rate, taking into account the indexing of income either interest rate or price index. ScottishPower Treasury then take actions over the course of the year to work towards these desired Iberdrola group ratios. Actions to be carried out over the course of a year may include obtaining new sources of financing (at a fixed, floating or indexed rate) and/or utilising interest rate derivatives. The table below shows the debt structure of the company.

Interest rate analysis of debt	2018 £m	2017 £m
Fixed rate	758.1	812.8
Variable rate	499.8	410.0
	1,257.9	1,222.8

The company's borrowings are held at amortised cost. The reference interest rates for the floating rate borrowings are London Inter-Bank Offer Rate ("LIBOR") and Bank of England Base Rate ("Base").

The variable rate debt consists of £410.0 million (2017 £410.0 million) LIBOR debt and a £89.8 million (2017 £nil) loan linked to Base.

Sensitivity analysis on interest rate changes

The table below illustrates the impact on the annual interest rate charge considering various rate changes. The analysis assumes all other factors remain constant.

Debt category	Interest rate	Change in rate	Impact on interest rate charge 2018 £m	Impact on interest rate charge 2017 £m
LIBOR debt	LIBOR	+0.25%	1.0	1.0
		+0.50%	2.1	2.1
		-0.25%	(1.0)	(1.0)
		-0.50%	(2.1)	(2.1)
Short-term variable rate debt	Base	+0.25%	0.2	-
		+0.50%	0.4	-
		-0.25%	(0.2)	-
		-0.50%	(0.4)	-

8 SHARE CAPITAL

	2018 £m	2017 £m
Allotted, called up and fully paid shares:		
600,000,000 ordinary shares of 50p each (2017 600,000,000)	300.0	300.0

(a) Holders of these ordinary shares are entitled to dividends as declared from time to time; amounts on the capitalisation of profits and reserves; and notice and attendance at general meetings of the company, with every member entitled to one vote on a show of hands and on a poll one vote for every share held.

9 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SP MANWEB PLC

	Share capital £m	Share premium (Note (a)) £m	Other reserves (Note (b)) £m	Retained earnings (Note (c)) £m	Total £m
At 1 January 2017	300.0	3.3	6.0	681.6	990.9
Profit for the year attributable to equity holders of SP Manweb plc	-	-	-	80.4	80.4
Dividends	-	-	-	(72.0)	(72.0)
At 1 January 2018	300.0	3.3	6.0	690.0	999.3
Adjustments due to IFRS 9	-	-	-	(0.2)	(0.2)
Adjusted balance at 1 January 2018	300.0	3.3	6.0	689.8	999.1
Profit for the year attributable to equity holders of SP Manweb plc	-	-	-	76.2	76.2
Dividends	-	-	-	(96.7)	(96.7)
At 31 December 2018	**300.0**	**3.3**	**6.0**	**669.3**	**978.6**

(a) The share premium account represents consideration received for shares issued in excess of their nominal amount.
(b) The other reserve comprises the nominal value of the company's ordinary share capital purchased by the company in previous years.
(c) Retained earnings comprise the cumulative balance of profits and losses recognised in the financial statements as adjusted for transactions with shareholders, principally dividends.

10 DEFERRED INCOME

Year ended 31 December 2017	At 1 January 2017 £m	Disposals £m	Receivable during year £m	Released to income statement £m	At 31 December 2017 £m
Transfer of assets from customers	415.6	(3.5)	54.3	(13.8)	452.6

Year ended 31 December 2018	At 1 January 2018 £m	Receivable during year £m	Released to income statement £m	**At 31 December 2018 £m**
Transfer of assets from customers	452.6	25.5	(14.3)	**463.8**

(a) On first application of IFRS 15 on 1 January 2018, transfer of assets from customers is an IFRS 15 contract liability (refer to Note 15 (c)).

11 PROVISIONS

Year ended 31 December 2017	Note	At 1 January 2017 £m	At 31 December 2017 £m
Onerous contracts	(a)	0.9	0.9

Year ended 31 December 2018	Notes	At 1 January 2018 £m	Transfers (Note (c)) £m	New provisions £m	Utilised during year £m	Released during year £m	**At 31 December 2018 £m**
Onerous contracts	(a)	0.9	-	-	(0.1)	-	**0.8**
Insurance	(b)	-	-	0.5	-	-	**0.5**
Overtime and commission	(c)	-	1.3	0.6	-	(0.1)	**1.8**
		0.9	1.3	1.1	(0.1)	(0.1)	**3.1**

Analysis of total provisions	**2018 £m**	2017 £m
Non-current	**1.1**	0.8
Current	**2.0**	0.1
	3.1	0.9

11 OTHER PROVISIONS *continued*

(a) The provision for onerous contract costs relates to a property lease. The provision is expected to be utilised between 2019 and 2027.

(b) The provision for insurance principally represents the value of claims reserves. The provision is expected to be utilised between 2019 and 2020.

(c) The provision for overtime and commission comprises probable holiday pay entitlements under the Working Time Regulations arising from commission and overtime. It relates to employees whose contracts of service were transferred from Power Systems on 1 January 2018, as part of the change in the role of Power Systems. This provision amounting to £1.3 million was transferred to the company and an equivalent amount received as a cash inflow to the on demand group loan account. The provision is expected to be utilised during 2019.

12 LOANS AND OTHER BORROWINGS

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

Instrument	Notes	Interest rate*	Maturity	2018 £m	2017 £m
Loans with Iberdrola group companies - SPUK		Base + 1%	On demand	**89.8**	-
Loans with Iberdrola group companies - SPL		3.858%	29 January 2019	**75.0**	75.0
Loans with Iberdrola group companies - SPUK	(i), (ii)	3.416%	21 December 2022	**110.0**	165.0
Loans with Iberdrola group companies - SPUK	(i), (iii)	3.570%	20 December 2023	**66.0**	66.0
Loans with Iberdrola group companies - SPUK	(i), (iv)	2.821%	31 March 2025	**160.0**	160.0
£350 million euro-sterling bond	(v), (vi)	4.875%	20 September 2027	**347.1**	346.8
Loans with Iberdrola group companies - SPUK	(i), (vii)	LIBOR + 0.78%	20 December 2027	**300.0**	300.0
Loans with Iberdrola group companies - SPUK	(i)	LIBOR + 3.365%	28 January 2029	**110.0**	110.0
				1,257.9	1,222.8

*Base - Bank of England Base Rate; LIBOR - London Inter-Bank Offer Rate

Analysis of total loans and other borrowings	2018 £m	2017 £m
Non-current	**971.4**	1,168.1
Current	**286.5**	54.7
	1,257.9	1,222.8

(i) Under the conditions of the long-term loan agreements between the company and SPUK, the company has an option, without fee or penalty, to make a repayment in whole or in part, of the then outstanding loan principal, plus accrued interest thereon, by providing SPUK with written notice at least five business days before the intended repayment date.

(ii) The intercompany loan with SPUK that is repayable in December 2022, is repayable in equal instalments on a bi-annual basis. The repayment of £55.0 million that was due in 2018 is classified as current in the 2017 analysis above.

(iii) The intercompany loan with SPUK that is repayable in December 2023, is repayable in equal instalments on a bi-annual basis. The repayment of £22.0 million that is due in 2019 is classified as current in the 2018 analysis above.

(iv) The intercompany loan with SPUK that is repayable in March 2025, is repayable in equal instalments on a bi-annual basis. The repayment of £40.0 million that is due in 2019 is classified as current in the 2018 analysis above.

(v) This bond contains a 'Loss of licences' covenant that will require repayment of the outstanding amount should the company lose its relevant licences.

(vi) 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 ScottishPower at a higher redemption price (as determined by a financial advisor appointed by ScottishPower and Fiscal Agent) giving 30 to 60 days' notice. The bond is shown net of finance costs, with £(0.3) million (2017 £(0.3) million) being classified as current in the analysis above.

(vii) The intercompany loan with SPUK that is repayable in December 2027, is repayable in equal instalments on a bi-annual basis. The repayment of £60.0 million that is due in 2019 is classified as current in the 2018 analysis above.

(b) Borrowing facilities

The company has no undrawn committed borrowing facilities at 31 December 2018 (2017 £nil).

12 LOANS AND OTHER BORROWINGS *continued*

(c) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities			
	Loans and other borrowings (Current) £m	Loans and other borrowings (Non-current) £m	Interest payable (Current) (Note (i)) £m	Total £m
At 1 January 2017	165.8	922.8	16.4	1,105.0
(Decrease)/increase in amounts due to Iberdrola group companies (note (ii))	(166.1)	300.0	-	133.9
Interest paid	-	-	(40.4)	(40.4)
Total movements from financing cashflows	(166.1)	300.0	(40.4)	93.5
Other movements	55.0	(54.7)	40.0	40.3
Total liability-related movements	55.0	(54.7)	40.0	40.3
At 31 December 2017	54.7	1,168.1	16.0	1,238.8

	Liabilities			
	Loans and other borrowings (Current) £m	**Loans and other borrowings (Non-current) £m**	**Interest payable (Current) (Note (i)) £m**	**Total £m**
At 1 January 2018	**54.7**	**1,168.1**	**16.0**	**1,238.8**
Increase in amounts due to Iberdrola group companies (note (ii))	34.8	-	-	34.8
Interest paid	-	-	(42.0)	(42.0)
Total movements from financing cash flows	**34.8**	**-**	**(42.0)**	**(7.2)**
Other movements	197.0	(196.7)	41.4	41.7
Total liability-related movements	**197.0**	**(196.7)**	**41.4**	**41.7**
At 31 December 2018	**286.5**	**971.4**	**15.4**	**1,273.3**

(i) External interest payable of £4.8 million (2017 £4.8 million) and internal interest payable of £10.6 million (2017 £11.2 million) are included within Trade and other payables (refer to Note 13).

(ii) The cash outflow in the cash flow statement for 'Net increase/(decrease) in amounts due to/from Iberdrola group companies – current loans' of £59.1 million (2017 (£190.4) million) comprises an increase of £34.8 million (2017 decrease of £166.1 million) in current loans due to Iberdrola group companies (above) and a decrease of £24.3 million (2017 an increase of £24.3 million) in current loans receivable from Iberdrola group companies (included within Trade and other receivables - refer to Note 6).

13 TRADE AND OTHER PAYABLES

	Notes	2018 £m	2017 £m
Current trade and other payables:			
Payables due to Iberdrola group companies - trade		**65.6**	39.8
Payables due to Iberdrola group companies - interest		**10.6**	11.2
Payables due to Iberdrola group companies - other	(a)	**4.6**	4.6
Trade payables		**17.2**	3.9
Other taxes and social security		**3.9**	10.7
Payments received on account	(b)	**68.5**	58.4
Capital payables and accruals		**52.1**	-
Other payables	(a)	**10.1**	6.5
	(b)	**232.6**	135.1
Non-current other payables:			
Other payables		**0.1**	-
		0.1	-

13 TRADE AND OTHER PAYABLES *continued*

(a) The company utilises forms of collateral to manage its credit exposure in respect of the provision of network services. All collateral held is settled in cash. At 31 December 2018, the company held cash collateral of £6.9 million (2017 £6.2 million), of which £4.6 million (2017 £4.6 million) is payable to Iberdrola group companies.
(b) Trade and other payables includes £68.5 million of IFRS 15 contract liabilities (refer to Note 15 (c)).
(c) On 1 January 2018, as part of a change in the role of Power Systems, £34.1 million of trade and other payables was transferred to the company from Power Systems and an equivalent amount received as a cash inflow to the on demand group loan account.

14 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m	Other temporary differences £m	Total £m
At 1 January 2017	156.4	-	156.4
Charge to the income statement	8.2	-	8.2
At 1 January 2018	164.6	-	164.6
Adjustments due to IFRS 9	-	(0.1)	(0.1)
Adjusted balance at 1 January 2018	164.6	(0.1)	164.5
Charge to the income statement	9.5	(0.3)	9.2
At 31 December 2018	**174.1**	**(0.4)**	**173.7**

(a) At 31 December 2018, the company had unutilised capital losses of £12.6 million (2017 £12.8 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 17% on 1 April 2020. This reduces the tax rates expected to apply when temporary differences reverse and impacts the deferred tax charge.

15 REVENUE

The effect of the initial application of IFRS 15 on the Accounts is detailed in Note 1B2.1

(a) Disaggregation of revenue for the year ended 31 December 2018

	Total £m
Electricity distribution	**348.0**
Transfers of assets from customers	**14.3**
	362.3

All revenue is recognised over time and arises from operations within the UK.

(b) Accounting policies

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

(i) Electricity distribution

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

(ii) Transfers of assets from customers

Pursuant to the applicable industry regulations, the company occasionally receives contributions from its customers for the construction of grid connection facilities, or is assigned assets that must be used to connect those customers to a network. Both the cash received and the fair value of the facilities received are credited to Deferred income in the balance sheet (this is a contract liability). Revenue is subsequently recognised in line with the period over which the facilities are depreciated.

15 REVENUE *continued*

(c) Contract balances

	Notes	31 December 2018 £m	1 January 2018 £m
Receivables	(i)	**48.8**	48.7
Contract liabilities	(ii), (iii)	**(532.3)**	(511.0)

(i) Included within Trade and other receivables (refer to Note 6).
(ii) £463.8 million (1 January 2018 £452.6 million) of contract liabilities relates to the transfer of assets from customers which is recorded within Deferred income (refer to Note 10). The remainder is included with Trade and other payables (refer to Note 13).
(iii) The movement in the contract liabilities in the year comprises an increase in transfers of assets from customers and payment on account of £35.6 million less contract liabilities recognised as income in the year of £14.3 million
(iv) £0.6 million of impairment losses were recognised during the year on receivables arising from the company's contracts with customers.

16 EMPLOYEE INFORMATION

(a) Staff costs

	2018 £m	2017 £m
Wages and salaries	**46.5**	0.6
Social security costs	**5.0**	0.1
Pension and other costs	**11.5**	0.2
Total staff costs	**63.0**	0.9
Less: capitalised staff costs	**(46.8)**	-
Charged to the income statement	**16.2**	0.9

(i) The employee costs do not include the directors of the company as they do not have a contract of service with the company. The emoluments of all directors are included within the employee costs of other ScottishPower group companies. Details of directors' remuneration are set out in Note 24 (c).
(ii) On 1 January 2018, 904 employees had their contracts of service transferred from Power Systems to the company.

(b) Employee numbers

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

	Year end 2018	Average 2018	Year end 2017	Average 2017
Administrative staff	**233**	**236**	9	9
Operations	**665**	**672**	-	-
Total	**898**	**908**	9	9

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

	Year end 2018	Average 2018	Year end 2017	Average 2017
Total	**892**	**900**	9	9

(c) Pensions

The company's contributions payable in the year were £10.7 million (2017 £0.2 million). The company contributes to the ScottishPower group's defined benefit and defined contribution schemes in the UK and the contributions payable in the year reflect the contributions payable in respect of active participants in the group schemes who are employed by the company. Full details of these schemes are provided in the most recent Annual Report and Accounts of SPL. As at 31 December 2018, the deficit in ScottishPower's defined benefit schemes in the UK amounted to £512.7 million (2017 £564.8 million). The employer contribution rate for these schemes in the year ended 31 December 2018 was 45.0% - 48.0%.

17 TAXES OTHER THAN INCOME TAX

	2018 £m	2017 £m
Property taxes	22.4	19.9

18 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2018 £m	2017 Restated* £m
Property, plant and equipment depreciation charge	95.2	91.2
Charges and provisions, allowances and impairment of assets	0.2	0.4
	95.4	91.6

*Comparative figures have been restated (refer to Note 1B2.2).

19 FINANCE INCOME

	2018 £m	2017 £m
Interest receivable from Iberdrola group companies	0.9	-

20 FINANCE COSTS

	2018 £m	2017 £m
Interest on amounts due to Iberdrola group companies	24.2	22.9
Interest on other borrowings	17.5	17.4
	41.7	40.3

21 INCOME TAX

	2018 £m	2017 £m
Current tax:		
UK Corporation tax	8.5	9.9
Adjustments in respect of prior years	(0.2)	-
Current tax for the year	8.3	9.9
Deferred tax:		
Origination and reversal of temporary differences	9.3	9.2
Adjustments in respect of prior years	0.8	-
Impact of tax rate change	(0.9)	(1.0)
Deferred tax for the year	9.2	8.2
Income tax expense for the year	17.5	18.1

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

	2018 £m	2017 £m
Corporation tax at 19% (2017 19.25%)	17.8	19.0
Adjustments in respect of prior periods	0.6	-
Impact of tax rate change	(0.9)	(1.0)
Non-deductable expenses and other permanent differences	-	0.1
Income tax expense for the year	17.5	18.1

Legislation has been enacted to reduce the rate of UK Corporation Tax to 17% on 1 April 2020. This reduces the tax rates expected to apply when temporary differences reverse and impacts the deferred tax charge.

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2018

22 DIVIDENDS

	2018 pence per ordinary share	2017 pence per ordinary share	2018 £m	2017 £m
Interim dividend paid	**16.1**	12.0	**96.7**	72.0

23 FINANCIAL COMMITMENTS
Other contractual commitments

	2018						
	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 and thereafter £m	Total £m
Other contractual commitments	4.9	-	-	-	-	-	**4.9**

There were no contractual commitments as at 31 December 2017.

24 RELATED PARTY TRANSACTIONS
(a) Transactions and balances arising in the normal course of business

	2018			2017		
	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m
Types of transaction						
Sales and rendering of services	-	-	**57.0**	-	-	60.2
Purchases and receipt of services	-	-	**(68.1)**	-	-	(94.4)
Purchases of property, plant and equipment	-	-	-	-	-	(248.1)
Transfers of inventories (Note (i))	-	-	**(7.1)**	-	-	-
Transfers of trade and other payables (Note (i))	-	-	**34.1**	-	-	-
Transfers of provisions (Note (i))	-	-	**1.3**	-	-	-
Interest income	-	-	**0.9**	-	-	-
Interest costs	**(2.9)**	-	**(21.3)**	(2.9)	-	(20.0)
Dividends paid	-	**(96.7)**	-	-	(72.0)	-
Balances outstanding						
Loans receivable	-	-	-	-	-	24.3
Trade and other receivables	-	-	**9.3**	-	-	9.3
Loans payable	**(75.0)**	-	**(835.8)**	(75.0)	-	(801.0)
Trade and other payables	**(0.1)**	-	**(70.1)**	-	-	(44.4)
Interest payable	**(2.7)**	-	**(7.9)**	(2.7)	-	(8.5)

(i) On 1 January 2018, as part of a change in the role of Power Systems, £34.1 million of trade and other payables, £1.3 million of other provisions and £7.1 million of inventories was transferred to the company from Power Systems along with £28.3 million received as a cash inflow to the on demand group loan account.

(ii) During the year ended 31 December 2018, SPUK made pension contributions of £10.7 million on behalf of the company (2017 £0.2 million).

(iii) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received in relation to the above related party transactions.

24 RELATED PARTY TRANSACTIONS *continued*

(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 Energy Networks, it has not been possible to apportion the remuneration specifically in respect of services to this company. All twelve (2017 fourteen) of the key management personnel were remunerated by other ScottishPower group companies in both years.

	2018 £000	2017 £000
Short-term employee benefits	1,829	1,650
Post-employment benefits	220	345
Share-based payments	691	918
	2,740	2,913

(c) Directors' remuneration

The total remuneration of the directors that provided qualifying services to the company are shown below. As these directors are remunerated for their work for Energy Networks, it has not been possible to apportion the remuneration specifically in respect of services to this company. All six of the directors (2017 six) were remunerated by another ScottishPower group company during both years.

Executive directors	2018 £000	2017 £000
Aggregate remuneration in respect of qualifying services	1,223	1,095
Number of directors who exercised share options	2	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 scheme	1	2

Highest paid director	2018 £000	2017 £000
Aggregate remuneration	690	632
Accrued pension benefits	96	92

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

(d) Ultimate and immediate parent company

The immediate parent company is Scottish Power Energy Networks Holdings Limited ("SPENH"). The registered office of SPENH is Ochil House, 10 Technology Avenue, Hamilton International Technology Park, Blantyre, G72 0HT.

The directors regard Iberdrola, S.A. as the ultimate parent company, which is also the parent company of the largest group in which the results of the company are consolidated. The parent company of the smallest group in which the results of the company are consolidated is Scottish Power UK plc ("SPUK").

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

In addition to the parent undertakings disclosed above, the company's other related undertaking is disclosed in Note 4.

25 AUDITOR REMUNERATION

	2018 £m	2017 £m
Audit of the company's annual accounts and regulatory accounts	0.1	0.1

26 GOING CONCERN

The company's business activities are set out in the Strategic Report on pages 1 to 8.

The company has recorded a profit after tax in both the current year and previous financial year and the company's balance sheet shows that it has net current liabilities of £443.0 million and net assets of £978.6 million at its most recent balance sheet date.

The company is ultimately owned by Iberdrola, S.A. and it participates in the Iberdrola group's centralised treasury arrangements and so shares banking facilities with its parent companies and fellow subsidiaries. As a consequence, the company depends, in part, on the ability of the Iberdrola group to continue as a going concern. The directors have considered the company'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 the Iberdrola group does not have the ability to and will not continue to fund the company, should it become necessary, to enable it to continue in operational existence.

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