

East Anglia TWO Offshore Windfarm

Funding Statement

Applicant: East Anglia TWO Limited
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Glossary of Terminology

Applicant	East Anglia TWO Limited.
Cable sealing end compound	A compound which allows the safe transition of cables between the overhead lines and underground cables which connect to the National Grid substation.
Cable sealing end (with circuit breaker) compound	A compound (which includes a circuit breaker) which allows the safe transition of cables between the overhead lines and underground cables which connect to the National Grid substation.
Construction consolidation sites	Compounds associated with the onshore works which may include elements such as hard standings, lay down and storage areas for construction materials and equipment, areas for vehicular parking, welfare facilities, wheel washing facilities, workshop facilities and temporary fencing or other means of enclosure.
Construction operation and maintenance platform	A fixed offshore structure required for construction, operation, and maintenance personnel and activities.
Development area	The area comprising the onshore development area and the offshore development area (described as the 'order limits' within the Development Consent Order).
East Anglia TWO project	The proposed project consisting of up to 75 wind turbines, up to four offshore electrical platforms, up to one construction, operation and maintenance platform, inter-array cables, platform link cables, up to one operational meteorological mast, up to two offshore export cables, fibre optic cables, landfall infrastructure, onshore cables and ducts, onshore substation, and National Grid infrastructure.
East Anglia TWO windfarm site	The offshore area within which wind turbines and offshore platforms will be located.
European site	Sites designated for nature conservation under the Habitats Directive and Birds Directive, as defined in regulation 8 of the Conservation of Habitats and Species Regulations 2017 and regulation 18 of the Conservation of Offshore Marine Habitats and Species Regulations 2017. These include candidate Special Areas of Conservation, Sites of Community Importance, Special Areas of Conservation and Special Protection Areas.
Evidence Plan Process (EPP)	A voluntary consultation process with specialist stakeholders to agree the approach to the EIA and the information required to support HRA.
Horizontal directional drilling (HDD)	A method of cable installation where the cable is drilled beneath a feature without the need for trenching.
HDD temporary working area	Temporary compounds which will contain laydown, storage and work areas for HDD drilling works.

Inter-array cables	Offshore cables which link the wind turbines to each other and the offshore electrical platforms, these cables will include fibre optic cables.
Jointing bay	Underground structures constructed at intervals along the onshore cable route to join sections of cable and facilitate installation of the cables into the buried ducts.
Landfall	The area (from Mean Low Water Springs) where the offshore export cables would make contact with land, and connect to the onshore cables.
Link boxes	Underground chambers within the onshore cable route housing electrical earthing links.
Meteorological mast	An offshore structure which contains metrological instruments used for wind data acquisition.
Mitigation areas	Areas captured within the onshore development area specifically for mitigating expected or anticipated impacts.
Marking buoys	Buoys to delineate spatial features / restrictions within the offshore development area.
Monitoring buoys	Buoys to monitor <i>in situ</i> condition within the windfarm, for example wave and metocean conditions.
National electricity grid	The high voltage electricity transmission network in England and Wales owned and maintained by National Grid Electricity Transmission
National Grid infrastructure	A National Grid substation, cable sealing end compounds, cable sealing end (with circuit breaker) compound, underground cabling and National Grid overhead line realignment works to facilitate connection to the national electricity grid, all of which will be consented as part of the proposed East Anglia TWO project Development Consent Order but will be National Grid owned assets.
National Grid overhead line realignment works	Works required to upgrade the existing electricity pylons and overhead lines (including cable sealing end compounds and cable sealing end (with circuit breaker) compound) to transport electricity from the National Grid substation to the national electricity grid.
National Grid overhead line realignment works area	The proposed area for National Grid overhead line realignment works.
National Grid substation	The substation (including all of the electrical equipment within it) necessary to connect the electricity generated by the proposed East Anglia TWO project to the national electricity grid which will be owned by National Grid but is being consented as part of the proposed East Anglia TWO project Development Consent Order.

National Grid substation location	The proposed location of the National Grid substation.
Natura 2000 site	A site forming part of the network of sites made up of Special Areas of Conservation and Special Protection Areas designated respectively under the Habitats Directive and Birds Directive.
Offshore cable corridor	This is the area which will contain the offshore export cables between offshore electrical platforms and landfall.
Offshore development area	The East Anglia TWO windfarm site and offshore cable corridor (up to Mean High Water Springs).
Offshore electrical infrastructure	The transmission assets required to export generated electricity to shore. This includes inter-array cables from the wind turbines to the offshore electrical platforms, offshore electrical platforms, platform link cables and export cables from the offshore electrical platforms to the landfall.
Offshore electrical platform	A fixed structure located within the windfarm area, containing electrical equipment to aggregate the power from the wind turbines and convert it into a more suitable form for export to shore.
Offshore export cables	The cables which would bring electricity from the offshore electrical platforms to the landfall. These cables will include fibre optic cables.
Offshore infrastructure	All of the offshore infrastructure including wind turbines, platforms, and cables.
Offshore platform	A collective term for the construction, operation and maintenance platform and the offshore electrical platforms.
Onshore cable corridor	The corridor within which the onshore cable route will be located.
Onshore cable route	This is the construction swathe within the onshore cable corridor which would contain onshore cables as well as temporary ground required for construction which includes cable trenches, haul road and spoil storage areas.
Onshore cables	The cables which would bring electricity from landfall to the onshore substation. The onshore cable is comprised of up to six power cables (which may be laid directly within a trench, or laid in cable ducts or protective covers), up to two fibre optic cables and up to two distributed temperature sensing cables.
Onshore development area	The area in which the landfall, onshore cable corridor, onshore substation, landscaping and ecological mitigation areas, temporary construction facilities (such as access roads and construction consolidation sites), and the National Grid Infrastructure will be located.
Onshore infrastructure	The combined name for all of the onshore infrastructure associated with the proposed East Anglia TWO project from landfall to the connection to the national electricity grid.

Onshore preparation works	Activities to be undertaken prior to formal commencement of onshore construction such as pre-planting of landscaping works, archaeological investigations, environmental and engineering surveys, diversion and laying of services, and highway alterations.
Onshore substation	The East Anglia TWO substation and all of the electrical equipment within the onshore substation and connecting to the National Grid infrastructure.
Onshore substation location	The proposed location of the onshore substation for the proposed East Anglia TWO project.
Platform link cable	Electrical cable which links one or more offshore platforms. These cables will include fibre optic cables.
Safety zones	A marine area declared for the purposes of safety around a renewable energy installation or works / construction area under the Energy Act 2004.
Scour protection	Protective materials to avoid sediment being eroded away from the base of the foundations as a result of the flow of water.
Transition bay	Underground structures at the landfall that house the joints between the offshore export cables and the onshore cables.

Table of Contents

Funding Statement	1
1 Introduction	1
2 The Company	2
3 Funding Claims for Compensation (including Blight)	4
4 Funding for Blight	5
5 Conclusions	6
Annex 1	7
Proposed Funding Agreement	7
Annex 2	22
Accounts for ScottishPower Renewables Limited 2018	22
Annex 3	69
Property Cost Estimate Statement from Dalcour Maclaren	69

Funding Statement

1 Introduction

1. East Anglia TWO Limited (the “Applicant”) (Company Number 11121842), the applicant for the proposed East Anglia TWO Offshore Windfarm Order (the “Order”) is a subsidiary of ScottishPower Renewables (UK) Limited (Company Number NI028425). ScottishPower Renewables (UK) Limited is hereafter referred to as the “Company”.
2. The Applicant is a company created specifically for promoting, developing, constructing and operating the East Anglia TWO offshore windfarm (“the Project”) for which the Order is sought.
3. The application for the Project is for an offshore generating station of up to 75 wind turbines together with associated development which includes up to four offshore electrical platforms, an offshore construction, operation and maintenance platform, a meteorological mast and offshore electrical infrastructure and onshore infrastructure to provide a grid connection between the offshore electrical platforms and a new onshore substation at Grove Wood, Friston and the National Grid infrastructure. As the Project comprises a Nationally Significant Infrastructure Project under the Planning Act 2008, the Applicant is applying to the Secretary of State for the Order to provide it with the consents, powers and authorisations required to construct and operate the Project. The Applicant is defined in the draft Order as the “undertaker” and will be the corporate body vested with the powers provided for in the Order.
4. The application for the Order includes a request that powers of compulsory acquisition be granted. Accordingly and in accordance with Regulation 5(2)(h) of the Infrastructure (Applications: Prescribed Forms and Procedure) Regulations 2009 a Funding Statement is required to be submitted with the application for development consent.

2 The Company

5. The Company is an indirect wholly owned subsidiary of Iberdrola, S.A., a Spanish public listed company (“Iberdrola”).
6. Iberdrola is a global, publicly listed energy holding company, with more than 150 years of contributing to the development of the energy sector, and providing safe and reliable energy supply to its customers. Iberdrola is also involved in a number of other activities including new energy sources, engineering, construction, telecommunication and information systems, real estate and customer value-added services.
7. Iberdrola is one of the world’s top utility holding companies. It is listed on the Madrid Stock Exchange (IBE: MC) and its share performance is included in the computation of the Spanish IBEX 35 index, with a shareholder base made up largely of international investors.
8. The Company is at the forefront of the development of the renewables industry and is contributing towards providing cost effective energy security for the UK, reducing greenhouse gas emissions and maximising economic opportunities through investment in the UK.
9. The Company and its group is helping to drive Iberdrola’s ambition of being the ‘Utility of the Future’ and, as of 2019, has 40 operational onshore and offshore windfarms in the UK producing over 2,000MW of clean energy. The Company manages all of these operational sites through the innovative and world leading control centre at Whitelee Windfarm, Glasgow.
10. The consolidated accounts for the year ended 31 December 2018 stated total fixed assets of £2,016.3m for the Company. The last published accounts for the Company are at Annex 2 to this Statement.
11. Through the reputation, experience and support of the Company, the Applicant will have the ability if necessary to finance or procure the financial resources to fund the works to be authorised by the Order, subject to final Board authority. The Company has the experience and reputation to enable such funds to be procured.
12. The Applicant intends to secure funding for the construction of the Project after the Order is granted, the tender process is complete for the major construction contracts and the investment case has been satisfied. Once these criteria are met the Applicant will request a final investment decision which will irrevocably commit funding. The Applicant is incentivised to develop a commercially viable project, given the significant development funds that have already been spent on the Project, which will meet its long term objectives (and those of its

shareholder) to increase renewable energy generation capacity. This approach is the standard model for development of capital intensive generation assets.

13. Funding for the Project could be provided using a number of different standard models, or using a combination of these models. The main models are providing funds from:
 - The capital reserves of the parent companies (balance sheet);
 - Parent company finance (company debt); or
 - Directly from an external lender (project finance).
14. The Secretary of State can be satisfied that, as a result of the Company's experience and reputation, funds are likely to be available to meet the capital expenditure for:
 - The cost of the Project;
 - The cost of acquiring the land identified in the Order;
 - The cost of compensation otherwise payable in accordance with the Order.
15. The Company has substantial net assets, as well as positive track records in the field of renewable energy development. It should be noted that the Company could, by itself, secure the required funding for the Project. This would include all likely compensation liabilities resulting from the exercise of compulsory acquisition powers (set out in more detail in Sections 3 and 4, and in the draft form of agreement which is attached to this Funding Statement at Annex 1 ("the Agreement")).
16. The arrangements for funding compensation to landowners are explained in section 3.

3 Funding Claims for Compensation (including Blight)

17. The Applicant has been advised by specialist chartered surveyors, Dalcour Maclaren that the total property cost estimates for the acquisition of the required interests in land should not exceed £12.21 million. Dalcour Maclaren are a firm of Chartered Surveyors providing property consultancy services exclusively to the utility and infrastructure sector, and have developed cost estimates on behalf of a number of Nationally Significant Infrastructure Projects. See Annex 3 for a statement from Dalcour Maclaren containing this advice.
18. The Applicant and the Company will shortly enter into the Agreement, which will be in substantially the same form as attached to this Funding Statement at Annex 1.
19. In clause 4 of the Agreement, the Company undertakes to put the Applicant in funds for the payments of legitimately claimed compensation by a class of persons listed in the Agreement, or to pay the agreed or awarded funds direct to the relevant claimant.
20. The Agreement specifically states that the persons of the class specified in the Agreement in Schedule 3 may, through the provisions of the Contracts (Rights of Third Parties) Act 1999 enforce the obligation upon the Company to place the Applicant in funds to pay compensation for expropriation, injurious affection and claims under Part 1 of the Land Compensation Act 1973, if such claims are valid and appropriately made. It should be noted that the Applicant does not anticipate that any claims under Part 1 of the Land Compensation Act 1973 will arise.
21. A cap on liability of £12.21 million is included in the Agreement. This cap is subject to indexation and is based on the advice received by the Applicant from Dalcour Maclaren on the likely level of compensation due to claimants for the compulsory acquisition of interests in their land.
22. As a result of this mechanism, the Examining Authority and Secretary of State can be assured that sufficient funding for payment of compensation will be available to the Applicant if compulsory acquisition powers are provided in the Order being sought by the Applicant.

4 Funding for Blight

23. It is not anticipated that successful claims for statutory blight will arise as a result of the promotion of the Order. Should claims for blight arise before it is known whether the Project will proceed, the costs of meeting blight claims that are upheld will be met from the capital reserves of the Applicant or the Company. Funding for blight claims made in advance of the making of the Order is provided for in the Agreement between those parties referred to above (see clause 3.1 and Schedule 2 Part 3). For blight claims validly made subsequent to the Order being made the Agreement will also apply.

5 Conclusions

24. Appropriate funding for liabilities for compensation arising from the acquisition of land and rights, the creation of new rights and for blight will be available where compensation is legitimately claimed. If the Applicant is unable to pay such compensation then the Company will put the Applicant in funds to enable it so to do, in accordance with the Agreement.
25. The Applicant will be able to secure appropriate funds both for compensation to landowners and for the construction of the Project. For this project, the Company will be the party providing the necessary Funding Agreement.
26. The Secretary of State can therefore be satisfied both that funding is likely to be available for claims for compensation by landowners and also that the Project is soundly backed and there is no reason to believe that, if the Order is made, the Project will not proceed.

Annex 1

Proposed Funding Agreement



SHEPHERD+ WEDDERBURN

East Anglia TWO Limited
East Anglia TWO Offshore Windfarm
Funding Agreement

CONTENTS

Clause	Page Number
1. Definitions And Interpretation	2
2. General Interpretation	5
3. Conditionality And Limitation	5
4. Covenants as to Compensation Payments by the Parent Co to the Applicant	6
5. Third Parties	6
6. Assignment And Novation	6
7. Indexation	7
8. No Waiver	7
9. Confidentiality	8
10. Notices	9
11. Anti-Bribery And Anti-Corruption	9
12. Entire Agreement	10
13. Severability	10
14. Choice of Law And Jurisdiction	10
15. Counterparts	10

DATED

- (1) **East Anglia TWO Limited**, a company incorporated in England and Wales (company number 11121842) whose registered office is at 3rd Floor, 1 Tudor Street, London EC4Y OAH (the “**Applicant**”);
- (2) **ScottishPower Renewables (UK) Limited** a company registered in Northern Ireland (company number NI028425) whose registered office is at The Soloist, 1 Lanyon Place, Belfast BT1 3LP (the “**Parent Co**”).

RECITALS

- A. The Applicant is seeking a DCO to authorise the construction of the Development.
- B. Powers to acquire the Specified Third Party Interests are sought in the Application.
- C. It is necessary for the Specified Third Party Interests to be acquired by the Applicant in order for the Development to be carried out.
- D. The sole shareholder of the Applicant is the Parent Co.

The Parent Co has agreed to fund 100% (one hundred percent) of the full Compensation and Costs of the acquisition of the Specified Third Party Interests on the terms of this Deed in the event of the Applicant failing to settle a Claim following it being agreed or determined by the Lands Tribunal.

1. Definitions And Interpretation

- 1.1 Unless the contrary intention applies, the following definitions apply:

“1990 Act”	the Town and Country Planning Act 1990;
“Affiliate”	in relation to any party, an entity which is the ultimate holding company or a parent undertaking of that party or a subsidiary undertaking of such ultimate holding company or parent undertaking and for the purpose of such definition "parent undertaking" and "subsidiary undertaking" shall have the meanings ascribed to them in Section 1162(2) of the Companies Act 2006 as amended provided always that: (i) for the purpose of determining if an entity is a subsidiary undertaking within Section 1162(2), the existence of any security over any shares in an entity which would otherwise be a subsidiary undertaking shall be ignored; and (ii) with regard to the Applicant, its affiliates shall be deemed to include the Parent Co and its respective Affiliates (as hereinbefore defined);
“Agreement Period”	the period from and including the date of this Deed to and including the later of (a) the day after the Part 1 Claim Limitation Date or (b) the date the last Claim that is made before the relevant Limitation Date is settled;
“Application”	the application for the DCO to authorise the construction operation and maintenance of the Development known as the East Anglia TWO Offshore Windfarm;
“Blight Notice”	any valid blight notice served on the Applicant under the provisions of Sections 149 -171 of the 1990 Act in respect of any Specified Third Party Interest;
“Claim”	a valid claim for compensation by a Specified Third Party under one or more of the Relevant Causes of Action in relation to the DCO and/or the Development;

"Compensation"	the amounts properly due to be paid to a Specified Third Party arising as a result of a successful Claim and determined in accordance with the Compensation Code and including statutory interest thereon calculated with the Compensation Code;
"Compensation Code"	the statutory regime including (without limitation) the Land Compensation Act 1961, Compulsory Purchase Act 1965, Land Compensation Act 1973, Town and Country Planning Act 1990, Planning and Compensation Act 1991 and Planning and Compulsory Purchase Act 2004 and the case law governing compensation payments, liability to pay, and calculations arising from acquisition of land and/or rights or extinguishment overriding or other interference with rights by or under threat of compulsory acquisition pursuant to the powers contained in the DCO;
"Compulsory Acquisition Actions"	service of a Notice to Treat and/or the vesting of land pursuant to a Vesting Declaration or the overriding and extinguishment or other interference with rights in land;
"Confidential Information"	shall mean all analyses, computer files (whether or not reduced to written form), compilations, memoranda, notes, reports, studies, data, drawings, films, information and documentation of all kinds (including, without limitation, copies, extracts and summaries thereof and all other material containing or based in whole or in part on any such information whichever party may have prepared the same) disclosed by the Disclosing Party or its Affiliates in connection with this Deed (the " Purpose ") in whatsoever form whether written, oral, electronically or otherwise, directly or indirectly to the Receiving Party or which comes into the possession or knowledge of the Receiving Party as a result of the Purpose, or the relationship of the parties hereto arising from this Deed, and whether before or after the date of this Deed;
"Costs"	the costs, liabilities and expenses that reasonably may be included in a Claim as specified in Schedule 1 and which are reasonably and properly incurred by a Specified Third Party;
"DCO"	the development consent order made pursuant to the Application;
"Development"	the nationally significant infrastructure project known as the East Anglia TWO Offshore Windfarm;
"Disclosing Party"	any party who may have disclosed or may further disclose Confidential Information to a Receiving Party;
"Index"	the Retail Prices Index provided that during any period where no such index exists, the index which replaces the same or is the nearest equivalent thereto (which shall be agreed by the parties to this Deed or, in

	default of agreement, fixed by the President for the time being of the Law Society on the application of any party) shall be used;
"Index Linked"	adjusted in proportion to any increase in the Index between the date of this Deed and the date the particular payment is made calculated in accordance with Clause 7.1;
"Lands Tribunal"	the Lands Chamber of the Upper Tribunal;
"Limitation Date"	the date on which, if a reference is made to the Lands Tribunal, it could be defended by the Applicant on the ground that the relevant period for such a claim has expired and the Limitation Act 1980 applies so as to time-bar the claim;
"Notice to Treat"	a notice to acquire land and/or rights served under the powers in the DCO and Section 5 of the Compulsory Purchase Act 1965;
"Order Land"	the land shown on the land plan which is within the limits of land to be acquired or used and described in the book of reference;
"Part 1 Claim Limitation Date"	the date seven years and one day after the Relevant Date
"Part 1 Claims"	claims for compensation for depreciation of land as a result of public works under Part 1 of the Land Compensation Act 1973;
"Qualifying Interest"	an interest in land affected by the Development as a result of: <ul style="list-style-type: none"> (a) its inclusion as Order Land in the DCO; (b) its inclusion as Order Land within the Application and subsequently the subject of a Blight Notice; (c) being affected by the use of the Development and fulfilling the requirements for a Claim under Part 1 of the Land Compensation Act 1973;
"Receiving Party"	any party to whom a Disclosing Party may have disclosed or may further disclose Confidential Information;
"Relevant Cause of Action"	the statutory provisions relating to claims listed in Parts 1, 2 and 3 of Schedule 2 that relate to the Order Land;
"Relevant Date"	the date on which the Development is first used for the purpose of generating electricity for export into the distribution and or transmission network;
"Relevant Requirements"	all applicable laws, regulations, codes and guidance relating to anti-bribery and anti-corruption, including, but not limited to, the Bribery Act 2010;
"Relevant Valuation Date"	in relation to each Relevant Cause of Action, the date specified as being the Relevant Valuation Date in the relevant Part of Schedule 2;

“Specified Date”	the date on which a Claim is made under this Deed by a Specified Third Party;
“Specified Third Party”	that class of persons holding Specified Third Party Interests at the Relevant Valuation Date and as are further described in Schedule 3;
“Specified Third Party Interests”	those interests in the Order Land or Part 1 Claims held by Specified Third Parties who have from time to time a Claim in relation to the Development;
“Statutory Interest”	interest on any compensation calculated in accordance with the Acquisition of Land (Rate of Interest after Entry) Regulations 1995;
“Vesting Declaration”	a general vesting declaration made under the powers in the DCO and pursuant to the Compulsory Purchase (Vesting Declarations) Act 1981;
“Working Days”	days on which clearing banks in the City of London are (or would be but for a strike, lock out or other stoppage affecting particular banks or banks generally) open during banking hours, excluding for the avoidance of doubt Saturdays and Sundays and bank or other public holidays.

2. General Interpretation

Unless there is something in the subject or context which is inconsistent:

- 2.1 words importing the neuter gender only shall include the masculine or feminine gender (as the case may be) and words importing the masculine gender only shall include the feminine gender and vice versa;
- 2.2 words importing the singular number only shall include the plural number and vice versa;
- 2.3 words importing persons shall include firms, companies and corporations and vice versa;
- 2.4 any reference to a statute (whether or not specifically named in this Deed) shall include any amendment or re-enactment of it for the time being in force and shall include all instruments, orders, plans, regulations, bye-laws, permissions and directions for the time being made issued or given under it or deriving validity from it;
- 2.5 references to a clause or paragraph or schedule is, unless the context otherwise requires, to a clause or paragraph or schedule in this Deed and the index, the clause, paragraph and schedule titles or headings, and the recitals appearing in this Deed are for reference only and shall not affect the construction of this Deed; and
- 2.6 words denoting an obligation on a party to do an act, matter or thing include an obligation to procure that it be done.

3. Conditionality And Limitation

- 3.1 The Provisions of Clause 4 as they relate to the Claims described in Part 3 of Schedule 2 shall not be binding on the Parent Co until the Application has first been submitted to the Secretary of State by the Applicant;
- 3.2 The provisions of Clause 4 as they relate to the Claims described in Part 1 of Schedule 2 shall not be binding on the Parent Co until each of the following has occurred:
 - 3.2.1 the DCO has been made; and
 - 3.2.2 Compulsory Acquisition Actions have been taken by the Applicant.
- 3.3 The obligations in Clause 4 as they relate to Part 1 Claims shall not bind the Parent Co until each of the following has occurred:

- 3.3.1 the Relevant Date; and
- 3.3.2 twelve calendar months have elapsed following the Relevant Date.
- 3.4 Save for Part 1 Claims (to which the provisions of Clause 3.5 shall instead apply) the obligations in Clause 4 shall not be enforceable against the Parent Co in relation to any Claim after the Limitation Date if such Claim has not been communicated to the Applicant or (if such Claim has been communicated to the Applicant) no reference relating to that Claim has been made to the Lands Tribunal before the day immediately following the Limitation Date;
- 3.5 The obligations in Clause 4 shall not be enforceable against the Parent Co in relation to any Claim as referred to in Part 2 of Schedule 2 after the Part 1 Claim Limitation Date if such claim has not been communicated to the Applicant or (if such Claim has been communicated to the Applicant) no reference relating to that Claim has been made to the Lands Tribunal before the day immediately following the Part 1 Claim Limitation Date.

4. Covenants as to Compensation Payments by the Parent Co to the Applicant

- 4.1 If the Applicant agrees in writing or is required (by court order Lands Tribunal award or other legally binding process) to pay an amount to a Specified Third Party in satisfaction of a Claim, the Parent Co shall, within 20 Working Days of receipt of a written demand from the Applicant pay 100% (one hundred percent) of the agreed or assessed amount of the Claim to the Specified Third Party on behalf of the Applicant or, in the absence of a demand from the Applicant, within 20 Working Days of receipt of a valid written demand from the relevant Specified Third Party, pay the sum so due to be paid to it to the Specified Third Party on and subject to the terms of this Deed;
- 4.2 Statutory Interest shall be payable on any sum due under Clause 4.1 in accordance with the Compensation Code;
- 4.3 The Parent Co shall not be obliged to make any payment pursuant to Clause 4.1 to the extent that the Specified Third Party has previously been paid such amount in respect of the relevant Claim;
- 4.4 The Parent Co shall not be obliged to make any payment pursuant to Clause 4.1 to the extent that such payment results in the total sum paid under Clause 4.1 exceeding £12.21 million (the "Cap") which shall be Index Linked. The Parent Co shall be liable for 100% (one hundred percent) of any payment required to be made pursuant to Clause 4.1 subject to the Cap;
- 4.5 Save as expressly provided for in this Deed, the Parent Co covenants with the Applicant not to determine its obligations to the Applicant under this Deed during the Agreement Period;
- 4.6 Save as expressly provided for in this Deed, the Applicant covenants with the Parent Co not to determine or waive the Parent Co's obligations to the Applicant under this Deed during the Agreement Period.

5. Third Parties

- 5.1 The provisions of Clause 4 and 6 of this Deed (together with this Clause 5) shall be enforceable by Specified Third Parties pursuant to the Contracts (Rights of Third Parties) Act 1999 (provided always that a Specified Third Party shall only be entitled to enforce the provisions of Clause 4 in relation to Claims against the Applicant by that Specified Third Party);
- 5.2 Subject to Clause 5.1, a person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 and the parties do not intend that any such third party rights are created by this Deed.

6. Assignment And Novation

- 6.1 Despite the provisions of Section 2(1) of the Contract (Rights of Third Parties) Act 1999, no party shall be required to seek the consent of any Specified Third Party to any assignment, parting with, dealing with or novation of any right or obligation under this Deed where Clause 6.2 applies;

- 6.2 The parties agree, for the benefit of each other and the Specified Third Parties, that each of the Parent Co and the Applicant shall be entitled to assign their rights under this Deed, in whole or in part (or to novate their rights and obligations under this Deed) if:
- 6.2.1 in the case of the assignment or novation of this Deed by the Applicant, such assignment is to a person to whom the Secretary of State has authorised under the DCO, or provided a consent in accordance with the DCO, to receive a transfer of the powers in the DCO;
- 6.2.2 in the case of the assignment or novation of this Deed by the Parent Co, either:
- (a) the assignment or novation is to a person (whether within a group company of the Parent Co or otherwise) which is of a broadly equivalent, or better, financial standing to the Parent Co at the time that the assignment or novation is made (and in determining the financial standing of the proposed assignee, regard shall be had to the strength of any relevant parent company support and any credit facilities in place for the benefit of the proposed assignee); or
 - (b) if not within (a) above in the event that the assignment or novation is to a person which is not of a broadly equivalent, or better, financial standing to the Parent Co at the time that the assignment or novation is made:
 - (i) the consent of all Specified Third Parties which are identifiable as Specified Third Parties or would qualify as such if the Relevant Valuation Date was (for the purposes of this clause only) deemed to be the date on which the consent of the relevant Specified Third Party interest to the intended assignment or novation is sought (if any) at the date of the proposed assignment or novation has been obtained in writing; or
 - (ii) a bank guarantee or bond has previously been secured in favour of all of the Specified Third Parties who are identifiable as Specified Third Parties or would qualify as such if the Relevant Valuation Date was (for the purposes of this clause only) deemed to be the date on which the bank guarantee is secured, to cover any outstanding Claims which have been made but not yet settled or which could be validly made at the date that the bank guarantee or bond is secured up to the maximum amount of the Cap and which can be called upon by the Specified Third Parties and in which case no consent of the Specified Third Parties shall be required prior to such assignment or novation taking effect.

7. Indexation

- 7.1 The Cap shall be adjusted by the application of the formula $A = B \times C/D$ where:
- A is the sum actually payable on the Specified Date;
- B is the original Cap mentioned in this Deed;
- C is the value of the Index for the month before the Specified Date;
- D is the value of the Index for the month before the date of this Deed; and
- C/D is equal to or greater than 1.

8. No Waiver

- 8.1 No failure or delay on the part of any of the parties hereto to exercise any right or remedy under this Deed shall be construed or operated as a waiver thereof nor shall any single or partial exercise of any right or remedy as the case may be. The rights and remedies provided in this Deed are cumulative and are not exclusive of any rights or remedies provided by law.

9. Confidentiality

- 9.1 The Receiving Party shall:
- 9.1.1 maintain the Disclosing Party's (and its Affiliates') Confidential Information in confidence and shall exercise in relation thereto no lesser security measures and degree of care than that which the Receiving Party applies to its own confidential information;
 - 9.1.2 not without the prior written consent of the Disclosing Party, which shall not be unreasonably withheld or delayed, disclose the Confidential Information, other than to such of its directors or in board communications, to officers or employees or those of its Affiliates who need to know it for the Purpose, or to the Receiving Party's lawyers, accountants, bankers and other professional advisers or consultants who need to know it for advising in relation to the Purpose and provided that, (a) such disclosure is made under obligations of confidentiality on terms substantially the same as those contained herein, or (b) such employees, officers and directors are obliged by their contracts of employment or service not to disclose the same;
 - 9.1.3 not use or permit the use of the Confidential Information disclosed to it pursuant to this Deed other than for or in connection with the Purpose;
 - 9.1.4 not permit the disclosure and shall use its reasonable endeavours to prevent the disclosure of Confidential Information to or by any third party, without the Disclosing Party's prior consent in writing therefore; and
 - 9.1.5 not copy, reproduce or reduce to writing any material part of the Confidential Information except as may be reasonably necessary for the Purpose;
- 9.2 The obligations and restrictions provided in Clause 9.1 above shall not apply to Confidential Information that is:
- 9.2.1 now or becomes public knowledge otherwise than by breach of this Deed by the Receiving Party;
 - 9.2.2 lawfully in the possession of the Receiving Party prior to receipt from the Disclosing Party and was not previously acquired by the Receiving Party from the Disclosing Party under an obligation of confidence;
 - 9.2.3 lawfully disclosed to the Receiving Party by a third party without breach by the Receiving Party or such third party of any obligation of confidentiality or non-use towards the Disclosing Party;
 - 9.2.4 required to be disclosed by order of a court of a competent jurisdiction or to any government department or any governmental or regulatory agency or pursuant to the rules of any recognised stock exchange but only to the extent that disclosure thereto is compellable by law, provided always that wherever possible the Disclosing Party shall be given by the Receiving Party not less than two (2) days' prior notice of any action which it reasonably believes may result in any such requirement and the Receiving Party shall consult with the Disclosing Party in respect thereof;
 - 9.2.5 required to be disclosed to such extent required for any judicial, arbitration or determinative procedure provided always that wherever possible the Disclosing Party shall be given by the Receiving Party not less than two (2) working days' notice of the requirement for such disclosure and details of the related procedure, and the Receiving Party shall consult with the Disclosing Party in respect thereof; or
 - 9.2.6 required to be disclosed to such extent required to a Specified Third Party;
- 9.3 The Disclosing Party reserves all rights in the Confidential Information and no rights or obligations other than those expressly recited herein are granted or to be implied from this Deed, in particular, no licence is hereby granted directly or indirectly under any patent, invention, discovery, copyright or other intellectual or industrial property right now or in the future held, made, obtained or licensable by the Disclosing Party;

- 9.4 On termination of this Deed for any reason, the Receiving Party shall on the written request of the Disclosing Party return and/or destroy all Confidential Information and certify in writing to the Disclosing Party that it has complied with such request. Provided, however, that the Receiving Party shall not be required to deliver up or destroy material prepared by or on behalf of the Receiving Party for the Purpose which contains or is based in whole or in part on the Confidential Information, nor to the extent that the making and retention of such Confidential Information is required by law or required as part of the Receiving Party's internal governance procedures, nor to deliver up or to destroy any hard drive, computer system or other electronic media storage device containing Confidential Information;
- 9.5 The Disclosing Party makes no representation or warranty as to the accuracy or completeness of the Confidential Information which is provided by or on behalf of the Disclosing Party to the Receiving Party and the Disclosing Party shall have no liability to the Receiving Party resulting from the use of such Confidential Information, any such use being at the risk of the Receiving Party;
- 9.6 Without prejudice to any other rights or remedies that the Disclosing Party may have, the parties acknowledge and agree that damages may not be an adequate remedy for any breach by a party (including, without limitation, its directors, officers, employees, affiliates, lawyers, accountants, bankers and other professional advisors) of the provisions of this Deed. Each party will be entitled to seek the remedies of injunction, specific performance or other equitable relief (or their equivalent in any other jurisdiction) for any threatened or actual breach of the provisions of this Deed by any of the other parties, including, without limitation, its directors, officers, employees, affiliates, lawyers, accountants, bankers and other professional advisors. Any breach of this Deed by the Receiving Party's directors, officers, employees, affiliates, lawyers, accountants, bankers and other professional advisors, shall be deemed to be a breach by the Receiving Party.

10. Notices

- 10.1 Any notice, acknowledgement, approval, consent or other document to be given or sent under this Deed may be delivered personally or sent by first class post or (subject to Clause 10.2) by such other method as (under the law in force at the time) is a proper form and mode of service for formal legal proceedings to the party to be served at that party's address appearing in this Deed or such other address as that party may notify to the other;
- 10.2 Notwithstanding Clause 10.1, electronic mail or any other similar form of communication (however called) is not a valid form of service or means of formal communication for the purposes of this Deed;
- 10.3 Any such notice or document shall be deemed to have been served:
- 10.3.1 if delivered, or faxed (unless notification is received by the sender that the fax has not been transmitted or received by the receiving terminal), at the time of delivery; and
- 10.3.2 if posted, at the expiration of 48 hours after the envelope containing the notice is put in the post.
- 10.4 A notice is to be treated as properly given if compliance is made with the provisions of section 196 of the Law of Property Act 1925 (as amended by the Recorded Delivery Service Act 1962);
- 10.5 A notice to be given under this Deed may be given by the relevant party's solicitors.

11. Anti-Bribery And Anti-Corruption

- 11.1 Each party shall:
- 11.1.1 comply with all Relevant Requirements; and
- 11.1.2 have and shall maintain in place throughout the term of this Deed, and enforce where appropriate, its own policies and procedures to comply with the Relevant

Requirements, including but not limited to adequate procedures under the Bribery Act 2010.

- 11.2 For the purpose of this Clause 11, the meaning of adequate procedures shall be determined in accordance with section 7(2) of the Bribery Act 2010 (and any guidance issued under section 9 of that Act).

12. Entire Agreement

- 12.1 This Deed embodies and sets forth the entire agreement of the parties and supersedes all prior oral or written agreements, representations, warranties, understandings or arrangements relating to the subject matter of this Deed. None of the parties shall be entitled to rely on any agreement, representation, warranty understanding or arrangement which is not expressly set forth in this Deed.

13. Severability

- 13.1 If any provision of this Deed or the application of such provision shall be held to be illegal or unenforceable the remainder of this Deed shall be unaffected thereby.

14. Choice of Law And Jurisdiction

- 14.1 This Deed and any dispute or claim arising out of or in connection with it or its subject matter, existence, negotiation, validity, termination or enforceability (including, but not limited to, any non-contractual disputes or claims) shall be governed by and construed in all respects in accordance with English law. The parties hereby submit to the exclusive jurisdiction of the English courts.

15. Counterparts

- 15.1 This Deed may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Deed.

This Agreement is executed and delivered as a deed on the date first written above

SCHEDULE 1
The Costs

1. Subject to the terms of this Deed, the Costs comprise:
 - 1.1. any costs, fees or expenses which the Applicant is ordered to or otherwise obliged to pay to any Specified Third Party in the course of or as a result of any proceedings relating to the DCO and its implementation;
 - 1.2. compensation for the acquisition of a Specified Third Party Interest, including the value of the land or rights, severance, injurious affection, disturbance and other matters not directly based on the value of land and as specified in Schedule 2;
 - 1.3. compensation properly payable to a Specified Third Party Interest having the legal benefit of any rights or interests in the Site interfered with as a consequence of the exercise of compulsory purchase powers or vesting of land and/or rights in the Applicant;
 - 1.4. compensation for the acquisition of any other land which is acquired by the Applicant following the service of a notice served pursuant to Section 8 of the Compulsory Purchase Act 1965, including the value of the land or rights, severance, injurious affection, disturbance and other matters not directly based on the value of land.
 - 1.5. any advance payments made pursuant to Section 52 of the Land Compensation Act 1973 in respect of any interests referred to in paragraphs 1.2 -1.4;
 - 1.6. loss payments due pursuant to Part III of the Land Compensation Act 1973;
 - 1.7. disturbance payments made pursuant to Section 37 of the Land Compensation Act 1973;
 - 1.8. compensation pursuant to Section 20 of the Compulsory Purchase Act 1965;
 - 1.9. stamp duty land tax and land registry fees arising out of the acquisition of any interest referred to in paragraphs 1.2-1.4 and the vesting of such interests in the Applicant and stamp duty land tax thereon, if any;
 - 1.10. any costs awarded to any Specified Third Party by the Lands Chamber of the Upper Tribunal;
 - 1.11. any compensation to any Specified Third Party payable pursuant to section 8 of the Human Rights Act 1998.
2. The following provisions shall apply to the Costs:
 - 2.1. Costs counted under one head shall not, to that extent, be counted under another;
 - 2.2. Costs do not include any expenditure which has been incurred or ascertained otherwise than in accordance with the provisions of this Deed;
3. Costs may not be recovered under this Deed if they are capable of being recovered under any other form of agreement order or process.

SCHEDULE 2
Relevant Cause of Action

Part 1

Compulsory Acquisition Claim

A: Land Clauses Consolidation Act 1845

B: Land Compensation Act 1961

C: Compulsory Purchase Act 1965

D: Land Compensation Act 1973 (with the exception of Part 1)

The Relevant Valuation Date for the above Claims shall be determined in accordance with Section 5A of the Land Compensation Act 1961, save for claims under Section 10 of the Compulsory Purchase Act 1965 for which the Relevant Valuation Date shall be the date the right or covenant to which that Claim relates is first acquired by the Applicant or extinguished by statutory process.

Part 2

Part 1 Claims

E: Claims pursuant to Part 1 of the Land Compensation Act 1973 for depreciation caused by the use of public works on the Site.

The Relevant Valuation Date for claims under this Part shall be the Relevant Date.

Part 3

F: The Town and Country Planning Act 1990 Part 6, Chapter 2 and Schedule 13

The Relevant Valuation Date for such claims shall be the date of the service of a Blight Notice.

G: Human Rights Act 1998, Section 8

The Relevant Valuation Date for such claims shall be the date on which the Relevant Cause of Action first arises.

SCHEDULE 3
THE SPECIFIED THIRD PARTIES

The Specified Third Parties are:

- 1 In relation to a Relevant Cause of Action listed under Part 1 of Schedule 2 the person who has a Claim as a result of their being a Qualifying Person as defined in Section 12 of the Acquisition of Land Act 1981 and holding an interest in the Order Land on the Relevant Valuation Date; or (in relation to a Claim under Section 10 of the Compulsory Purchase Act 1965) held a right that was extinguished or interfered with on the Relevant Date.
- 2 In relation to a Relevant Cause of Action under Part 2 of Schedule 2 the person who on the Relevant Date held a Qualifying Interest and also met the requirements of a valid claim under Part 1 of the Land Compensation Act 1973.
- 3 In relation to a Relevant Cause of Action made under Part 3 of Schedule 2 a person holding a Qualifying Interest and satisfying the requirements of a “qualifying interest” pursuant to Section 149(2) of the 1990 Act on the date the blight notice to which the Claim refers was served.

Annex 2

Accounts for ScottishPower Renewables Limited 2018

SCOTTISHPOWER RENEWABLES (UK) LIMITED
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2018

Registered No. NI028425



SCOTTISHPOWER RENEWABLES (UK) LIMITED
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2018

CONTENTS

STRATEGIC REPORT	1
DIRECTORS' REPORT	6
INDEPENDENT AUDITOR'S REPORT	10
BALANCE SHEET	12
INCOME STATEMENT	13
STATEMENT OF COMPREHENSIVE INCOME	14
STATEMENT OF CHANGES IN EQUITY	14
CASH FLOW STATEMENT	15
NOTES TO THE ACCOUNTS	16

SCOTTISHPOWER RENEWABLES (UK) LIMITED STRATEGIC REPORT

The directors present an overview of ScottishPower Renewables (UK) Limited's business structure, 2018 performance and strategic outlook including principal risks and uncertainties.

STRATEGIC OUTLOOK

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

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

On 1 January 2018, as part of a Renewables reorganisation, the company's immediate parent, SPREL, transferred all 367 of its employees to the company.

The company is part of ScottishPower's Renewables business ("Renewables") responsible for the origination, development, construction and operation of renewable energy generation plants, predominantly onshore wind, with a large and growing presence in offshore wind, and the consideration of emerging renewable technologies and innovations such as battery storage. Renewables continues to engage with the UK Government on plans for future investments in renewable generation and the electricity system, including flexibility and energy storage.

Renewables has a successful track record as a developer of onshore wind farms with a conversion rate of megawatt ("MW") capacity from planning to consent of over 90%. The business is the leading developer of onshore wind farms in the UK with a current onshore operating capacity of over 1,900 MW).

Renewables continues to explore development opportunities for further growth of onshore wind. Renewables has also published a number of reports in 2018 highlighting the cost of capital benefits of a market stabilisation Contract for Difference ("CfD") supporting the delivery of low cost green, clean power to consumers as well as another presenting the economic, employment and industrial benefits to the UK of future onshore wind deployment. Renewables believes that a government-facilitated competitive CfD auction could provide the optimal route to market for the most cost-effective electricity for consumers across Great Britain. Renewables is therefore actively involved in a number of power purchase agreement ("PPA") processes to provide this cost-effective energy to business customers.

Whilst UK Ministers continue to recognise onshore wind is an important part of a low carbon generation mix, the ongoing challenging political climate means it is unlikely there will be any change allowing onshore wind to participate in CfD auctions any time soon. Government advisers, including the Committee on Climate Change and the National Infrastructure Commission, have also highlighted the importance of low cost options, such as onshore wind, as part of the low carbon generation mix if future carbon reduction targets are to be achieved. Renewable generation technologies continue to innovate and this has resulted in substantial cost reduction in recent years for both onshore and offshore wind, as well as Solar Photovoltaic ("PV").

The UK Government's commitment to proceed with the 2019 CfD process for 'less established' renewable technologies follows the second CfD allocation round of September 2017 which delivered strike prices for projects set to deliver in 2022/23 at £57.50 per megawatt hour (2012 prices); a 50% reduction against the previous CfD auction held in 2015.

The UK Treasury's 2017 Autumn Budget introduced a new Control for Low Carbon Levies which set out that there would be no new funds for CfDs (beyond the £557 million referred to above) until the overall burden of low carbon generation support costs started to fall (probably after 2025 based on current forecasts). However, given the strike price achieved in the 2017 auction, the remaining £557 million could fund a large programme of renewables in the years to come.

The potential impact of Brexit on the Renewables business and so the company is considered on pages 3 and 4 of the Strategic Report.

SCOTTISHPOWER RENEWABLES (UK) LIMITED

STRATEGIC REPORT *continued*

OPERATIONAL PERFORMANCE

The following tables provide key information relating to the company's financial and non-financial 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
ScottishPower Renewables (UK) Limited	423.6	363.6	232.0	166.3	44.0	97.3

* Revenue and operating profit as presented on page 13.

** Capital investment as presented in Notes 3 and 4 on pages 27 and 28.

Revenue increased by £60.0 million to £423.6 million in 2018 reflecting higher energy and Renewable Obligation Certificate ("ROC") prices as well as higher electricity output as a result of increased average operating capacity.

Operating profit increased by £65.7 million to £232.0 million in 2018. This was primarily driven by the increase in revenue, as well as a reduction in net operating expenses of £21.0 million, due to the receipt of various insurance and liquidated damage claims. Offsetting these favourable movements have been increases in costs of procurements, taxes other than income tax and depreciation, largely as a result of increased activity in the year.

Capital investment decreased by £53.3 million to £44.0 million in 2018. This movement is principally the result of a reassessment of the capitalised estimated decommissioning costs for the wind power plant assets.

Non-financial key performance indicators	Notes	2018	2017
Plant output (GWh)	(a)	3,756	3,536
Generating capacity (MW)	(b)	1,910	1,907
Availability	(c)	95%	95%

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

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

(c) Availability is a measure of how effective the business is at ensuring wind generating plant is available and ready to generate.

LIQUIDITY AND CASH MANAGEMENT

Net debt

Net cash flows from operating activities increased by £86.2 million to £282.2 million for the year (refer to cash flow statement on page 15). As detailed in the table below, overall net debt decreased by £48.5 million to £1,023.7 million.

Analysis of net debt	Note	2018 £m	2017 £m
Loans payable to Iberdrola group companies (including joint venture)	(a)	(1,023.7)	(1,072.2)

(a) Loans payable to Iberdrola group companies (refer to Note 11 on page 37).

Capital and debt structure

The company is funded by a combination of debt and equity. All equity is held by SPREL. SPL grants the majority of loan facilities to the company.

Treasury services are provided by SPL. ScottishPower has a risk policy within treasury and financing which is designed to ensure that the company's exposure to variability of cash flows and asset values due to fluctuations in market interest rates and exchange rates are minimised and managed at acceptable risk levels. Further details of the treasury and interest policy for ScottishPower and how it manages them is included in Note 6.

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.

SCOTTISHPOWER RENEWABLES (UK) LIMITED

STRATEGIC REPORT *continued*

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.

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 risks considered 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 the company operates.	In addition to monitoring ongoing developments related to Brexit the treasury risk management policy is in place to hedge financial risks which are the most prevalent in the short term. Any longer term impact on the UK economy and its impact on 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 prior to the UK leaving the EU. 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. Contingency arrangements being set up for offshore workers.
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.

SCOTTISHPOWER RENEWABLES (UK) LIMITED

STRATEGIC REPORT *continued*

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

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. Variation in market views on this last factor is likely to manifest itself in movements (up or down) in the value of Sterling and inflation, which is likely to have impacts on most ScottishPower businesses, except to the extent that these can be hedged.

ScottishPower, and therefore the company, will continue to monitor the impact of Brexit and take appropriate action to protect the 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 in Note 6.

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 interventions outside established regulatory frameworks.	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained and public backing is secured for the necessary investment in the UK energy system. Providing stakeholders with evidence of the risks of ad hoc intervention in markets.
A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.	ScottishPower's Health and Safety function provides specialist services and support for the businesses in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes, is established throughout ScottishPower, which 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.

SCOTTISHPOWER RENEWABLES (UK) LIMITED

STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

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

RENEWABLES	
RISK	RESPONSE
Concerns about affordability of renewable generation having an impact on chances of success in a competitive auction process.	<p>Actions to reduce allocation risk, including engagement with the UK Government regarding access and parameters of the CfD mechanism.</p> <p>Working to optimise Renewables' portfolio of assets and approach to development to ensure high performing and competitive assets will be able to participate in future auctions.</p>
Limited route to market for new onshore wind.	Engagement with national and local government to influence and inform policy regarding the role of onshore wind (including life extension and repowering) in the future generation mix to ensure optimal levels of deployment, particularly in Scotland. In addition, exploration of new routes to market such as private and corporate PPAs continues.
The potential for plant performance issues reducing availability.	Proactive technical assessments and monitoring of key risk areas associated with wind turbine performance, diversification of the service and maintenance model where reliance is placed on framework agreement for key activities, optimising service and maintenance activities to ensure each activity is appropriate based on operational knowledge. In addition, co-ordination with the procurement team in negotiating terms and conditions with turbine suppliers and independent operations and maintenance service providers to ensure plant performance is optimised.
Failure to deliver large and complex projects on time and within budget.	ScottishPower and Iberdrola have a strong track record in delivering large scale engineering projects and have gained significant experience from developing the West of Duddon Sands ("WODS") and Wiking offshore wind farms. Risks are further reduced by using established and experienced suppliers and advisors along with robust financial management including appropriate foreign exchange hedging.

ON BEHALF OF THE BOARD



Heather Chalmers White
Director

17 June 2019

SCOTTISHPOWER RENEWABLES (UK) LIMITED

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 the Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 5:

- 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 £197.8 million (2017 £139.3 million). A dividend of £150.0 million was paid during the year (2017 £76.4 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. A more extensive description of ScottishPower's innovation themes can be found in the most recent Annual report and Accounts of SPL.

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 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.

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 the UK Government has taken to introduce legislation on gender pay gap reporting.

SCOTTISHPOWER RENEWABLES (UK) LIMITED

DIRECTORS' REPORT *continued*

EMPLOYEES *continued*

Inclusion and diversity continued

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. ScottishPower published its most recent Modern Slavery Statement in May 2018 which was approved by the Board of Directors of Scottish Power Limited and signed by Keith Anderson, Chief Executive Officer.

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

SCOTTISHPOWER RENEWABLES (UK) LIMITED

DIRECTORS' REPORT *continued*

DIRECTORS

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

Keith Anderson	(resigned 2 May 2018)
Jonathan Cole	
Kenneth Peberdy	(resigned 23 March 2018)
Roy Scott	
Lindsay McQuade	(appointed 5 September 2018)

Roy Scott resigned on 31 January 2019. Heather Chalmers White was appointed on 15 February 2019.

DIRECTORS' INDEMNITY

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

The directors are responsible for preparing the Annual 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 EU 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 these 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 the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

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.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
DIRECTORS' REPORT *continued*

AUDITOR

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

ON BEHALF OF THE BOARD



Heather Chalmers White
Director

17 June 2019

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

Opinion

We have audited the financial statements of ScottishPower Renewables (UK) Limited ("the company") for the year ended 31 December 2018 which comprise the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, and related notes, including the accounting policies in Note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of 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 have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the valuation of property, plant and equipment and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going Concern

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

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

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

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

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

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBER OF SCOTTISHPOWER RENEWABLES (UK) LIMITED *continued*

Strategic report and directors' report *continued*

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.


Auditor's responsibilities

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

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

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

This report is made solely to the company's 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.



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

21 June 2019

SCOTTISHPOWER RENEWABLES (UK) LIMITED
BALANCE SHEET
at 31 December 2018

	Notes	2018 £m	2017 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	3	0.7	0.5
Property, plant and equipment		1,843.5	1,897.4
Property, plant and equipment in use	4	1,828.1	1,878.2
Property, plant and equipment in the course of construction	4	15.4	19.2
Financial assets		170.9	170.9
Investments in subsidiaries	5	160.9	160.9
Investments in jointly controlled entities and associates	5	9.5	9.5
Other investments	5	0.5	0.5
Trade and other receivables	7	1.9	-
NON-CURRENT ASSETS		2,017.0	2,068.8
CURRENT ASSETS			
Trade and other receivables	7	199.9	150.1
Financial assets		-	2.1
Derivative financial instruments	6	-	2.1
CURRENT ASSETS		199.9	152.2
TOTAL ASSETS		2,216.9	2,221.0
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		804.6	759.6
Share capital	8, 9	673.6	673.6
Hedge reserve	9	-	2.6
Retained earnings	9	131.0	83.4
TOTAL EQUITY		804.6	759.6
NON-CURRENT LIABILITIES			
Provisions	10	133.0	149.7
Bank borrowings and other financial liabilities		700.0	700.0
Loans and other borrowings	11	700.0	700.0
Trade and other payables	13	1.0	-
Deferred tax liabilities	12	167.0	160.0
NON-CURRENT LIABILITIES		1,001.0	1,009.7
CURRENT LIABILITIES			
Provisions	10	0.1	-
Bank borrowings and other financial liabilities		323.7	372.2
Loans and other borrowings	11	323.7	372.2
Trade and other payables	13	52.2	56.9
Current tax liabilities		35.3	22.6
CURRENT LIABILITIES		411.3	451.7
TOTAL LIABILITIES		1,412.3	1,461.4
TOTAL EQUITY AND LIABILITIES		2,216.9	2,221.0

Approved by the Board and signed on its behalf on 17 June 2019.


Heather Chalmers White
Director

The accompanying Notes 1 to 24 are an integral part of the balance sheet as at 31 December 2018.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
INCOME STATEMENT
for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Revenue	14	423.6	363.6
Procurements		(36.8)	(29.8)
GROSS MARGIN		386.8	333.8
NET OPERATING EXPENSES		(55.6)	(76.6)
Net personnel expenses		(31.8)	-
Staff costs	15	(33.0)	-
Capitalised staff costs	15	1.2	-
Net external expenses		(23.8)	(76.6)
External services		(92.9)	(81.5)
Other operating income		69.1	4.9
Taxes other than income tax	16	(17.5)	(15.8)
GROSS OPERATING PROFIT		313.7	241.4
Depreciation and amortisation charge, allowances and provisions	17	(81.7)	(75.1)
OPERATING PROFIT		232.0	166.3
Dividends received		35.8	19.5
Finance costs	18	(28.3)	(15.9)
PROFIT BEFORE TAX		239.5	169.9
Income tax	19	(41.7)	(30.6)
NET PROFIT FOR THE YEAR		197.8	139.3

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

All results relate to continuing operations.

The accompanying Notes 1 to 24 are an integral part of the income statement for the year ended 31 December 2018.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Note	2018 £m	2017 £m
NET PROFIT FOR THE YEAR		197.8	139.3
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the income statement:			
Cash flow hedges:			
Change in the value of cash flow hedges	9	(3.2)	(15.4)
Tax relating to cash flow hedges	9	0.6	2.9
OTHER COMPREHENSIVE INCOME FOR THE YEAR		(2.6)	(12.5)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		195.2	126.8

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

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

	Ordinary share capital £m	Hedge reserve £m	Retained earnings £m	Total £m
At 1 January 2017	513.6	15.1	20.5	549.2
Total comprehensive income for the year	-	(12.5)	139.3	126.8
Share capital issued	160.0	-	-	160.0
Dividends	-	-	(76.4)	(76.4)
At 1 January 2018	673.6	2.6	83.4	759.6
Adjustments due to IFRS 9 (refer to Note 1B1.2)	-	-	(0.2)	(0.2)
Adjusted balance at 1 January 2018	673.6	2.6	83.2	759.4
Total comprehensive income for the year	-	(2.6)	197.8	195.2
Dividends	-	-	(150.0)	(150.0)
At 31 December 2018	673.6	-	131.0	804.6

The accompanying Notes 1 to 24 are an integral part of the statement of comprehensive income and the statement of changes in equity for the year ended 31 December 2018.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
CASH FLOW STATEMENT
for the year ended 31 December 2018

	2018 £m	2017 £m
Cash flows from operating activities		
Profit before tax	239.5	169.9
Adjustments for:		
Depreciation, amortisation and impairment	80.7	75.1
Change in provisions	0.1	-
Finance income and costs	28.3	15.9
Shareholding income	(35.8)	(19.5)
Changes in working capital:		
Change in trade and other receivables	(52.0)	(37.9)
Change in trade payables and derivative financial instruments	6.9	(26.3)
Income taxes paid	(21.3)	(0.7)
Dividends received	35.8	19.5
Net cash flows from operating activities (i)	282.2	196.0
Cash flows from investing activities		
Investments in intangible assets	(0.5)	(0.2)
Investments in property, plant and equipment	(64.9)	(117.3)
Proceeds from disposal of property, plant and equipment	17.0	-
Net investment in non-current investments	-	(160.0)
Repayment of capital	-	2.0
Net cash flows from investing activities (ii)	(48.4)	(275.5)
Cash flows from financing activities		
Decrease in amounts due to Iberdrola group companies - current loans payable	(51.5)	(692.6)
Increase in amounts due to Iberdrola group companies - non-current loans payable	-	700.0
Cash inflows from borrowings (including loan with joint venture)	3.0	-
Share capital issued	-	160.0
Dividends paid to company's equity holder	(150.0)	(76.4)
Interest paid	(35.3)	(11.5)
Net cash flows from financing activities (iii)	(233.8)	79.5
Net increase in cash and cash equivalents (i)+(ii)+(iii)	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	-	-

The accompanying Notes 1 to 24 are an integral part of the cash flow statement for the year ended 31 December 2018.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS
31 December 2018

1 BASIS OF PREPARATION

A. COMPANY INFORMATION

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

B. BASIS OF PREPARATION OF THE ACCOUNTS

The company is required by law to prepare Accounts and to deliver them to the Registrar of Companies. The Accounts 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 ScottishPower Renewables (UK) Limited as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. The company is exempt under Section 400 of the Companies Act 2006 from the requirements to prepare consolidated Accounts as it and its subsidiary undertakings are included by full consolidation in the consolidated Accounts of Iberdrola, S.A. (refer to Note 22(d) for the registered office).

B1. 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 is described below.

B1.1 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.

B1.2 EFFECT OF INITIAL APPLICATION OF IFRS 9

IFRS 9 'Financial Instruments' 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.

With the exception of hedge accounting, which the company applied prospectively, 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 initial application of IFRS 9 on the opening balances at 1 January 2018.

	Adjustment 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)

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

1 BASIS OF PREPARATION *continued*

B. BASIS OF PREPARATION OF THE ACCOUNTS *continued*

B1 EFFECT OF INITIAL APPLICATION OF IFRS 15 AND IFRS 9 *continued*

B1.2 EFFECT OF INITIAL APPLICATION OF IFRS 9 *continued*

(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, with the exception of hedge accounting, 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, excluding derivatives, into the following categories:

- financial assets held at amortised cost; and
- financial assets at FVTPL.

A description of these categories of financial assets can be found in Note 2G1.1.

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 £m	New carrying value under IFRS 9 £m
Derivative financial instruments	Fair value-hedging instrument	Fair value-hedging instrument	(i)	2.1	2.1
Current receivables	Loans and receivables	Amortised cost	(ii), (iii)	135.4	135.1
Other investments	Available for sale	FVTPL	(iv)	0.5	0.5
Total financial assets				138.0	137.7

(i) Derivative financial instruments continue to be held at fair value.

(ii) Current receivables comprise trade receivables (including accrued income) and trade receivables due from Iberdrola group companies. Refer to Notes 6(a) and 7.

(iii) 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 footnote (b) overleaf).

(iv) The company has irrevocably elected that other investments existing at the time of the initial application of IFRS 9 should be classified as FVTPL where changes in fair value are recognised under Finance costs. Previously revaluation surpluses and deficits were recognised in the statement of comprehensive income.

Refer to Note 6 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.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the company. Most financial assets continue to be valued at amortised cost and derivative financial instruments continue to be valued at fair value as was the case under the previously applied IAS 39.

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 and derivative financial instruments (for derivatives that are used as hedging instruments (refer to footnote (c) overleaf)).

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 2G1.2.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

1 BASIS OF PREPARATION *continued*

B. BASIS OF PREPARATION OF THE ACCOUNTS *continued*

B1 EFFECT OF INITIAL APPLICATION OF IFRS 15 AND IFRS 9 *continued*

B1.2 EFFECT OF INITIAL APPLICATION OF IFRS 9 *continued*

(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 2G1.1).

The company applies the simplified model for the calculation of ECLs. 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. The loss allowance is measured at an amount equal to a lifetime ECL.

Additional information about how the company measures the allowance for impairment is described in Note 6. 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)	
Additional impairment recognised at 1 January 2018 on:	
Receivables as at 31 December 2017	0.3
Loss allowance at 1 January 2018 under IFRS 9	0.3

(c) Hedge accounting

The company has elected to apply the new general hedge accounting model in IFRS 9. This requires the company to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The company uses forward contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to non-financial asset purchases.

There has been no change to the accounting treatment of forward exchange contracts used to hedge non-financial asset purchases. At the date of initial application, all of the company's existing hedging relationships were eligible to be treated as *continuing hedging relationships*. For an explanation of how the company applies hedge accounting under IFRS 9, see Note 2G1.3.

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)

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

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 1B1.1 for further information.
- (d) Refer to Note 1B1.2 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.

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.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

1 BASIS OF PREPARATION *continued*

C. ACCOUNTING STANDARDS *continued*

C2 IMPACT OF FUTURE IMPLEMENTATION OF IFRS 16 *continued*

Within its ordinary business activities, the company enters into agreements whereby it obtains the right to use land owned by third parties to carry out activities such as the construction, operation and maintenance of renewable energy generation facilities, as well as 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, for 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 be 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 £7.6 million was recognised in 2018 (refer to Note 4(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 under IFRS 16. 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 £0.5 million as noted below for the different types of underlying assets:

Estimated total lease liability as at 1 January 2019	£m
Vehicles	0.5
Land	-
Total	0.5

(i) The value of the land lease liability is less than £0.1 million.

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 2.50% and 4.94%.

In comparing the future minimum lease payments under non-cancellable operating leases under the scope of IAS 17 as at 31 December 2018 (refer to Note 4(b)) to 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; specifically leases relating to wind farms; and the application of different discount rate assumptions.

Under IAS 17, the majority of lease agreements for land on which wind generation facilities are located, are designated as operating leases. On the initial application of IFRS 16, in line with the Iberdrola group, the company has concluded that the majority of these agreements do not contain a lease in accordance with the criteria of IFRS 16 previously described. This interpretation of the application of IFRS 16 is based on international practice in the scope of the initial application of the IFRS 16. However, the accounting treatment of agreements permitting the shared use of the underlying asset under IFRS 16 is subject to revision based on future interpretations. The company will follow future discussions on the matter in order to confirm the reasonableness of the accounting treatment adopted.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

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, there are 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. INTANGIBLE ASSETS (COMPUTER SOFTWARE)
- D. PROPERTY, PLANT AND EQUIPMENT
- E. LEASED ASSETS
- F. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS
- G. FINANCIAL INSTRUMENTS
- H. TAXATION
- I. DECOMMISSIONING COSTS
- J. INVESTMENTS
- K. FOREIGN CURRENCIES
- L. 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 in relation to contracts with customers is provided in Note 14. The effect of the initial application of IFRS 15 is disclosed in Note 1B1.1.

B. PROCUREMENTS

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

C. INTANGIBLE ASSETS (COMPUTER SOFTWARE)

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

D. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and is generally depreciated on a straight-line basis over the estimated operational lives of the assets. Property, plant and equipment includes capitalised employee costs, interest and other directly attributable costs. Borrowing costs directly attributable to the acquisition, construction or production of major qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Reviews 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 as set out below:

	Years
Wind farms	24 - 40
Distribution facilities	24 - 40
Other items of property, plant and equipment	4 - 12

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

E. LEASED ASSETS

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

The 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.

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

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

G. FINANCIAL INSTRUMENTS

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

G1. ACCOUNTING POLICIES UNDER IFRS 9

G1.1 FINANCIAL ASSETS

(a) Recognition and initial measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost or FVTPL. This categorisation determines whether and where any restatement for fair value is recognised.

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). Other investments are valued at fair value at the balance sheet date except where it is not possible to obtain a fair value for unquoted investments in which case they are valued at cost and assessed for impairment.

(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.

All other financial assets within the company not classified at amortised cost are measured at FVTPL.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

G. FINANCIAL INSTRUMENTS *continued*

G1. ACCOUNTING POLICIES UNDER IFRS 9 *continued*

G1.1 FINANCIAL ASSETS *continued*

(b) Classification and subsequent measurement *continued*

(ii) *Subsequent measurement and gains and losses*

Financial assets at amortised cost – these assets 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.

Financial assets at FVTPL – these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses including any interest or dividend income, are recognised in the income statement. The company has irrevocably decided that equity instruments existing at the time of the initial application of IFRS 9 should be classified as FVTPL. The company's financial assets held at FVTPL therefore include Other investments.

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 6. 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 historical credit loss experience and where possible readily available forecast information.

The company considers a financial asset to be in default when:

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

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. 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.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

G. FINANCIAL INSTRUMENTS *continued*

G1. ACCOUNTING POLICIES UNDER IFRS 9 *continued*

G1.2 FINANCIAL LIABILITIES

(a) Recognition and initial measurement

The company's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments. 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, excluding derivative financial instruments, are classified as measured at amortised cost.

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.

G1.3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

(a) Derivative financial instruments

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

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

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

Under IFRS 9 the hedge documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

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

Hedge accounting is applied when certain conditions required by IFRS 9 are met. The accounting for cash flow hedges is discussed at (b) below.

(b) Cash flow hedges

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

The portion of gain or loss of the hedging instrument that was determined to be an effective hedge is recognised directly in equity and forms part of the hedge reserve. When the cash flow hedge relates to an underlying transaction which results in the recognition of a non-financial asset, the associated gains or losses on the derivative that had previously been recognised in equity are recognised in the initial measurement of the asset arising from the hedged transaction.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

G. FINANCIAL INSTRUMENTS *continued*

G1. ACCOUNTING POLICIES UNDER IFRS 9 *continued*

G1.3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING *continued*

(b) Cash flow hedges *continued*

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

(c) Valuation of financial instruments

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, the details of which are described in Note 6.

G2. ACCOUNTING POLICIES UNDER IAS 39

As detailed in Note 1B1.2 on 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 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.
- (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 except where the loan or borrowing is a hedged item in an effective fair value hedging relationship (see G4 Hedge Accounting).

The company enters into treasury-related derivatives to manage its financial risk. IAS 39 requires all derivatives to be recognised on the balance sheet at fair value. Unrealised gains or losses on remeasurement of derivatives are reported in the income statement except when hedge accounting is applied (see G3 below).

G3. HEDGE ACCOUNTING

Hedge accounting is applied when certain conditions required by IAS 39 are met. The categories of hedge accounting are consistent with those of IFRS 9.

G3.1 CASH FLOW HEDGES

The accounting treatment for cash flow hedges is consistent with IFRS 9.

G3.2 HEDGE EFFECTIVENESS

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

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

G. FINANCIAL INSTRUMENTS *continued*

G3. HEDGE ACCOUNTING *continued*

G3.3 DISCONTINUING HEDGE ACCOUNTING

Both the circumstances that cause hedge accounting to be discontinued and the accounting treatment of such hedges are consistent with IFRS 9.

G4. VALUATION OF FINANCIAL INSTRUMENTS

Valuation of financial instruments held at fair value is consistent with IFRS 9.

G5. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

This is consistent with the policy under IFRS 9.

H. TAXATION

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

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

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

I. DECOMMISSIONING COSTS

Provision is made, on a discounted basis, for the estimated decommissioning costs at the end of the producing lives of the company's wind farms. Capitalised decommissioning costs are depreciated over the useful lives of the related assets. The unwinding of the discount is included within Finance costs.

J. INVESTMENTS

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

K. FOREIGN CURRENCIES

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

L. 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.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

3 INTANGIBLE ASSETS

	Computer software £m
Year ended 31 December 2017	
Cost:	
At 1 January 2017	3.2
Additions	0.2
At 31 December 2017	3.4
Amortisation:	
At 1 January 2017	2.6
Amortisation for the year	0.3
At 31 December 2017	2.9
Net book value:	
At 31 December 2017	0.5
At 1 January 2017	0.6
	Computer software £m
Year ended 31 December 2018	
Cost:	
At 1 January 2018	3.4
Additions	0.5
At 31 December 2018	3.9
Amortisation:	
At 1 January 2018	2.9
Amortisation for the year	0.3
At 31 December 2018	3.2
Net book value:	
At 31 December 2018	0.7
At 1 January 2018	0.5

(a) The cost of fully amortised intangible assets still in use at 31 December 2018 was £2.7 million (2017 £2.1 million).

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

4 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

	Wind power plants £m	Distribution facilities £m	Other items of property, plant and equipment in use (Note (i)) £m	Plant in progress (Note (ii)) £m	Total £m
Year ended 31 December 2017					
Cost:					
At 1 January 2017	1,952.4	175.1	7.2	243.5	2,378.2
Additions	29.4	-	1.1	66.6	97.1
Transfers from in progress to plant in use	281.5	9.4	-	(290.9)	-
Transfers	(10.3)	10.3	-	-	-
Disposals	(0.1)	-	-	-	(0.1)
Impairment (Note (iii))	(1.4)	-	-	-	(1.4)
At 31 December 2017	2,251.5	194.8	8.3	19.2	2,473.8
Depreciation:					
At 1 January 2017	468.9	32.7	1.5	-	503.1
Depreciation for the year	69.1	4.5	0.2	-	73.8
Transfers	(6.6)	6.6	-	-	-
Disposals	(0.1)	-	-	-	(0.1)
Impairment (Note (iii))	(0.4)	-	-	-	(0.4)
At 31 December 2017	530.9	43.8	1.7	-	576.4
Net book value:					
At 31 December 2017	1,720.6	151.0	6.6	19.2	1,897.4
At 1 January 2017	1,483.5	142.4	5.7	243.5	1,875.1

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

Property, plant and equipment in use	1,720.6	151.0	6.6	-	1,878.2
Property, plant and equipment in the course of construction	-	-	-	19.2	19.2
	1,720.6	151.0	6.6	19.2	1,897.4

	Wind power plants £m	Distribution facilities £m	Other items of property, plant and equipment in use (Note (i)) £m	Plant in progress (Note (ii)) £m	Total £m
Year ended 31 December 2018					
Cost:					
At 1 January 2018	2,251.5	194.8	8.3	19.2	2,473.8
Additions (Note (iv))	(19.0)	-	2.0	60.5	43.5
Transfers from in progress to plant in use	46.5	1.8	-	(48.3)	-
Disposals	(1.5)	-	-	(16.0)	(17.5)
Impairment (Note (iii))	(1.6)	-	-	-	(1.6)
At 31 December 2018	2,275.9	196.6	10.3	15.4	2,498.2
Depreciation:					
At 1 January 2018	530.9	43.8	1.7	-	576.4
Depreciation for the year	74.3	4.6	0.3	-	79.2
Disposals	(0.5)	-	-	-	(0.5)
Impairment (Note (iii))	(0.4)	-	-	-	(0.4)
At 31 December 2018	604.3	48.4	2.0	-	654.7
Net book value:					
At 31 December 2018	1,671.6	148.2	8.3	15.4	1,843.5
At 1 January 2018	1,720.6	151.0	6.6	19.2	1,897.4
The net book value of property, plant and equipment at 31 December 2018 is analysed as follows:					
Property, plant and equipment in use	1,671.6	148.2	8.3	-	1,828.1
Property, plant and equipment in the course of construction	-	-	-	15.4	15.4
	1,671.6	148.2	8.3	15.4	1,843.5

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

4 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 land and IT equipment.
- (ii) The category 'Plant in progress' principally comprises wind power plants in the course of construction.
- (iii) The impairment charge of £1.2 million for 2018 and £1.0 million for 2017 comprised the write-off of operational wind assets following fire damage. The charges are included within the Depreciation and amortisation charge, allowances and provisions line in the income statement.
- (iv) The reduction of £19.0 million in the wind power plant assets in 2018 resulted from a reassessment of future estimated decommissioning costs.
- (v) Interest of £1.0 million on the funding attributable to major capital projects was capitalised during 2017 at a rate of 1.5%. No interest was capitalised during 2018.
- (vi) Included within Other operating income in the income statement for the year ended 31 December 2018 is nil (2017 £1.7 million) relating to compensation receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.
- (vii) The cost of fully depreciated property, plant and equipment still in use at 31 December 2018 was £1.4 million (2017 £1.2 million).
- (viii) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land of £6.1 million (2017 £4.8 million).

(b) Operating lease arrangements

	2018	2017
	£m	£m
(i) Operating lease payments		
Minimum lease payments under operating leases recognised as an expense in the year	7.6	8.1
Contingent based operating lease rents recognised as an expense in the year	7.8	1.8
	15.4	9.9

	2018	2017
	£m	£m
(ii) Operating lease commitments		
Within one year	8.4	7.8
Between one and five years	31.5	28.7
More than five years	120.0	79.3
	159.9	115.8

(c) Capital commitments

	2018	2017
	£m	£m
Contracted but not provided	7.4	28.4

5 INVESTMENTS

(a) Movements in investments

	Notes	Subsidiary undertakings shares £m	Jointly controlled entities £m	Other investments £m	Total £m
At 1 January 2017		0.9	11.5	0.5	12.9
Additions	(i)	160.0	-	-	160.0
Repayment of capital	(ii)	-	(2.0)	-	(2.0)
At 1 January 2018 and 31 December 2018		160.9	9.5	0.5	170.9

- (i) On 11 December 2017, the company subscribed for and was allotted an additional 160,000,000 ordinary shares of £1 each in ScottishPower Renewables (WODS) Limited for a consideration of £160.0 million.
- (ii) On 10 November 2017, the company's 50% joint venture, East Anglia Offshore Wind Limited ("EAOW") repaid share capital of £2.0 million to the company.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

5 INVESTMENTS *continued*

(b) Subsidiaries and joint ventures

The subsidiaries and joint ventures of the company at 31 December 2018 are as set out below:

The subsidiaries and joint ventures of the company at 31 December 2018 are as set out below.					
Name	Principal activities	Registered office and country of incorporation (Note (i))	Equity interest in ordinary shares		Notes
			2018	2017	
Subsidiaries					
Coldham Windfarm Limited	Operation of an onshore wind farm	(A)	80%	80%	
East Anglia One Limited	Development and construction of offshore wind farm	(B)	100%	100%	
East Anglia One North Limited	Development of offshore wind farm	(B)	100%	100%	(ii)
East Anglia Three Limited	Development of offshore wind farm	(B)	100%	100%	
East Anglia Two Limited	Development of offshore wind farm	(B)	100%	100%	(ii)
ScottishPower Renewables (WODS) Limited	Operation of an offshore wind farm	(C)	100%	100%	
Joint ventures					
Celtpower Limited	Operation of an onshore wind farm	(A)	50%	50%	
East Anglia Offshore Wind Limited	Commercial operation of offshore meteorological masts	(B)	50%	50%	
Morecambe Wind Limited	Provision of operational services	(D)	50%	50%	(iii)

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

- (A) 3 Prenton Way, Prenton, CH43 3ET, England
- (B) 3rd Floor, 1 Tudor Street, London, EC4Y 0AH, England
- (C) 320 St. Vincent Street, Glasgow, G2 5AD, Scotland
- (D) 5 Howick Place, London, SW1P 1WG, England

(ii) East Anglia One North Limited and East Anglia Two Limited were incorporated on 21 December 2017.

(iii) The investment in Morecambe Wind Limited is an indirect holding.

(iv) All entities are direct holdings of the company unless otherwise stated.

6 FINANCIAL INSTRUMENTS

The effect of initially applying IFRS 9 on the company's Accounts is detailed in Note 1B1.2. Due to the transition method chosen, comparative information has not been presented 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 that are within the scope of IFRS 9.

		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							
				Fair value hedging instrument			Fair value hedging instrument
Derivative financial instruments	(i)	-	-		2.1	2.1	Loans and Receivables
Receivables	(ii)	185.2	185.2	Amortised cost	135.4	135.4	Receivables
Other investments		0.5	0.5	FVTPL	0.5	0.5	Available for sale
Financial liabilities							
							Loans and Receivables
Loans and other borrowings	(iii)	(1,023.7)	(1,103.6)	Amortised cost	(1,072.2)	(1,189.4)	Loans and Receivables
Payables	(ii)	(52.4)	(52.4)	Amortised cost	(56.9)	(56.9)	Receivables

The carrying amount of these financial instruments is calculated as set out in Note 2G. 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) Further detail on derivative financial instruments is disclosed in Note 6(c).

(ii) Balances outwith the scope of IFRS 7 and IFRS 9 have been excluded, namely prepayments, other tax receivables and other taxes and social security.

(iii) The fair value of all other loans and borrowings is calculated using a discounted cash flow.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

6 FINANCIAL INSTRUMENTS *continued*

(b) Measurement of financial instruments

The company holds certain financial instruments which are measured in the balance sheet at fair value as detailed in Note 6(a) above. The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

In both the current and prior year, all other investments held by the company are Level 1. In both the current and prior year, all derivatives held by the company are Level 2.

Level 2 foreign exchange derivatives comprise forward foreign exchange contracts. Forward foreign exchange contracts are fair valued using forward exchange rates that are quoted in an active market.

The company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. There were no transfers in the current or prior year.

(c) Analysis of carrying value of derivative financial instruments

	2018				2017			
	Assets		Liabilities		Assets		Liabilities	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
	£m	£m	£m	£m	£m	£m	£m	£m
Hedging derivatives								
Exchange rate hedges								
Cash flow hedge								
- Foreign exchange rate	-	-	-	-	2.1	-	-	-

(d) 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 and other receivables that arise directly from its operations. The company also holds other investments and enters into derivative contracts.

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

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

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), foreign exchange transactions and other financial instruments.

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

The company is exposed to both settlement risk (defined as the risk of a counterparty failing to pay for energy and/or services which have been delivered), as well as replacement risk (defined as the risk of incurring additional costs in order to replace a sale or purchase contract following a counterparty default).

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

6 FINANCIAL INSTRUMENTS *continued*

(d) Financial risk management *continued*

(i) Credit risk *continued*

Credit risk management

Credit risk in respect of external 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 Iberdrola group companies is considered to be low as no Iberdrola group company has a credit rating lower than BBB+ (in line with Standard and Poor's external credit ratings).

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.

Trade receivables (including receivables from Iberdrola group companies)

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:

	Ageing of trade receivables		Total
	0-6	Greater	
	months	than 6	
At 31 December 2018	£m	£m	£m
Weighted Average Expected Loss Rate (%)	0.2%	0.2%	0.2%
Gross Carrying value	57.8	127.7	185.5
Loss allowance	(0.1)	(0.2)	(0.3)
Net carrying value	57.7	127.5	185.2

	Ageing of trade receivables		Total
	0-6	Greater	
	months	than 6	
As at 1 January 2018	£m	£m	£m
Weighted Average Expected Loss Rate (%)	0.4%	0.2%	0.2%
Gross Carrying value	26.4	109.0	135.4
Loss allowance	(0.1)	(0.2)	(0.3)
Net carrying value	26.3	108.8	135.1

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 below reconciling the movement in the opening to the closing loss allowance.

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:

	Trade receivables £m
Balance as at 31 December 2017 under IAS 39	-
Adjustment on initial application of IFRS 9	0.3
Balance as at 1 January 2018 under IFRS 9	0.3
Movement in loss allowance recognised in the income statement	-
At 31 December 2018	0.3

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

6 FINANCIAL INSTRUMENTS *continued*

(d) Financial risk management *continued*

(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 Limited is the principal counterparty for the loan balances due to the company.

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

Financial liabilities

2018							
	2019	2020	2021	2022	2023	2024 and thereafter	Total
Cash outflows	£m	£m	£m	£m	£m	£m	£m
Loans and other borrowings	349.7	21.4	21.4	21.4	21.4	785.4	1,220.7
Payables*	46.1	0.4	0.3	0.3	-	-	47.1
	395.8	21.8	21.7	21.7	21.4	785.4	1,267.8

2017							
	2018	2019	2020	2021	2022	2023 and thereafter	Total
Cash outflows	£m	£m	£m	£m	£m	£m	£m
Derivative financial instruments	19.4	-	-	-	-	-	19.4
Loans and other borrowings	407.5	21.4	21.4	21.4	21.4	806.8	1,299.9
Payables*	42.3	-	-	-	-	-	42.3
	469.2	21.4	21.4	21.4	21.4	806.8	1,361.6

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

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

The future cash flows on derivative instruments may be different from the amounts in the table as interest rates and exchange rates or the relevant conditions underlying the calculation change. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

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 and foreign currency 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 overleaf shows the debt structure of the company.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

6 FINANCIAL INSTRUMENTS *continued*
(d) Financial risk management *continued*
(ii) Treasury risk *continued*
Interest rate risk *continued*
Interest rate analysis of debt

	2018 £m	2017 £m
Fixed rate	700.0	700.0
Variable rate	323.7	372.2
	1,023.7	1,072.2

The company's borrowings are held at amortised cost. The reference interest rates for the floating rate borrowings is the Bank of England Base Rate ("Base"). The variable rate debt consists of a £323.7 million (2017 £372.2 million) 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 in 2018 £m	Impact on interest rate charge in 2017 £m
Short-term variable rate debt	Base	+0.25%	0.8	0.9
		+0.50%	1.6	1.9
		-0.25%	(0.8)	(0.9)
		-0.50%	(1.6)	(1.9)

Foreign currency risk

The company is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which purchases are denominated. The currency in which transactions are primarily denominated is Euro. ScottishPower board policy stipulates that there should be no significant exposure to foreign currency balances and therefore Treasury will hedge all foreign exchange payments/contracts which have a (cumulative) value greater than a sterling equivalent of a quarter of a million pounds.

Hedging of foreign currency risk

The company uses foreign currency forwards to hedge its exposure to foreign currency risk. Under the company's policy the critical terms of the forwards must align with the hedged items. The company enters into foreign currency forwards in relation to asset purchases. For such items the company designates the entire value of the foreign currency forward in the hedge relationship.

The table below illustrates the timing of the notional amount of the hedging instrument and the average forward price of the hedging instrument.

As at 31 December 2018	Notional amount of hedging instrument (maturity profile) £m	Average forward price (exchange rate) (GBP:EUR)
EUR	1 year 1.2	1 year 1.14

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

6 FINANCIAL INSTRUMENTS *continued*

(d) Financial risk management *continued*

(ii) Treasury risk *continued*

Foreign currency risk *continued*

Foreign exchange rate cash flow hedges

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

For an analysis of the split of the carrying value of foreign exchange contracts please refer to Note 6(c).

The amounts relating to foreign exchange rate derivatives designated as cash flow hedges during the year are detailed in the table below.

		2018 Hedging derivatives £m	2017 Hedging derivatives £m
	Notes		
Notional amount		1.2	39.0
Carrying amount - asset	(a)	-	2.1
Changes in the value of the hedging instrument recognised in Other comprehensive income	(b)	2.1	13.4
Amount reclassified from cash flow hedge reserve to balance sheet	(c)	(4.1)	(30.2)

(a) The carrying amount of derivative assets is recorded within Derivative financial instruments.

(b) This is consistent with the change in the fair value of the hedging instrument used to calculate ineffectiveness.

(c) The amount reclassified from the cash flow hedge to balance sheet is included within Property, plant and equipment in the course of construction in both years

The amounts at the reporting date relating to foreign exchange items designated as hedged items were as follows.

	Change in fair value used for calculating hedge ineffectiveness		Cash flow hedge reserve balance	
	2018 £m	2017 £m	2018 £m	2017 £m
Line item in the Accounts in which the hedged item is/will be included				
Property, plant and equipment in the course of construction	(2.1)	(13.4)	-	3.2

The company determines that the economic relationship between the hedging instrument (the foreign exchange rate forward contract) and the hedged item (asset purchase) will virtually always achieve 100% effectiveness. This is because the company compares movements in the fair value of the expected highly probable forecast foreign currency cash flows, with movements in the fair value of the expected changes in cash flows from the hedging instrument. Forecast future foreign currency cash flows are largely based upon contractual obligations.

Ineffectiveness will arise if the trade has been cancelled, in which case there would be no future transaction.

Hedge assessment on foreign currency derivatives

Hedge assessment on foreign currency derivatives is done prospectively to verify that the forecast transactions are still highly probable of occurring (for cash flow hedges) as well as retrospectively, to assess the effectiveness in the period under review. Prospective assessment is performed using sensitivity analysis and critical terms matching.

Sensitivity analysis on foreign currency cash flows

No sensitivity analysis has been performed in relation to changes in foreign exchange rates as almost all foreign currency purchases are hedged. Therefore there is immaterial financial exposure. Any movement in the value of the hedged item would be compensated for by movement in the value of the hedging instrument.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

7 TRADE AND OTHER RECEIVABLES

	Note	2018 £m	2017 £m
Current receivables:			
Receivables due from Iberdrola group companies - trade		174.6	129.6
Receivables due from jointly controlled entities - prepayments		2.0	3.0
Trade receivables (including accrued income)	(a)	10.6	5.8
Prepayments		8.7	8.9
Other tax receivables		4.0	2.8
		199.9	150.1
Non-current receivables:			
Prepayments		1.9	-

(a) Information about the company's exposure to credit and market risks, and impairment losses for trade receivables are included in Note 6.

(b) Trade and other receivables includes £180.7 million of IFRS 15 receivables (refer to Note 15(c)).

8 SHARE CAPITAL

	2018 £m	2017 £m
Allotted, called up and fully paid shares:		
673,630,347 ordinary shares of £1 each (2017 673,630,347)	673.6	673.6

(a) The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

9 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF SCOTTISHPOWER RENEWABLES (UK) LIMITED

	Share capital (Note (a)) £m	Hedge reserve (Note (b)) £m	Retained earnings (Note (c)) £m	Total £m
At 1 January 2017	513.6	15.1	20.5	549.2
Profit for the year attributable to equity holder of ScottishPower	-	-	139.3	139.3
Changes in the value of cash flow hedges	-	(15.4)	-	(15.4)
Tax relating to cash flow hedges	-	2.9	-	2.9
Share capital issued	160.0	-	-	160.0
Dividends	-	-	(76.4)	(76.4)
At 1 January 2018	673.6	2.6	83.4	759.6
Adjustments due to IFRS 9	-	-	(0.2)	(0.2)
Adjusted balance at 1 January 2018	673.6	2.6	83.2	759.4
Profit for the year attributable to equity holder of ScottishPower	-	-	197.8	197.8
Changes in the value of cash flow hedges	-	(3.2)	-	(3.2)
Tax relating to cash flow hedges	-	0.6	-	0.6
Dividends	-	-	(150.0)	(150.0)
At 31 December 2018	673.6	-	131.0	804.6

(a) On 11 December 2017 the company issued 160,000,000 ordinary shares of £1 each to its immediate parent, SPREL, for a total consideration of £160.0 million.

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

(c) Retained earnings comprises the cumulative balance of profits and losses recognised in the accounts as adjusted for transactions with shareholders, principally dividends.

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

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

9 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF SCOTTISHPOWER RENEWABLES (UK) LIMITED *continued*

	Foreign exchange rate hedges £m	Tax effect £m	Total £m
Cash flow hedges			
At 1 January 2017	18.6	(3.5)	15.1
Effective cash flow hedges recognised	14.8	(2.8)	12.0
Removed from equity and recognised in carrying amount of hedged items	(30.2)	5.7	(24.5)
At 1 January 2018	3.2	(0.6)	2.6
Effective cash flow hedges recognised	0.9	(0.2)	0.7
Removed from equity and recognised in carrying amount of hedged items	(4.1)	0.8	(3.3)
At 31 December 2018	-	-	-

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

	2018 £m	2017 £m
Less than 1 year	-	2.6

10 PROVISIONS

	Note	At 1 January 2017 £m	New provisions £m	Unwinding of discount £m	At 31 December 2017 £m
Year ended 31 December 2017					
Decommissioning and environmental	(a)	118.0	29.4	2.3	149.7
	Notes	At 1 January 2018 £m	New provisions £m	Unwinding of discount £m	At 31 December 2018 £m
Year ended 31 December 2018					
Decommissioning and environmental	(a)	149.7	(19.0)	2.3	133.0
Other	(b)	-	0.1	-	0.1
		149.7	(18.9)	2.3	133.1

	2018 £m	2017 £m
Analysis of total provisions		
Non-current	133.0	149.7
Current	0.1	-
	133.1	149.7

(a) The provision for decommissioning is the discounted future estimated costs of decommissioning the company's wind farms. The decommissioning is expected to occur in the years between 2019 and 2057. The reduction of £19.0 million in the provision in 2018 resulted from a reassessment of future estimated costs.

(b) The other category is not sufficiently material to warrant separate disclosure.

11 LOANS AND OTHER BORROWINGS

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

Instrument	Interest rate*	Maturity	2018 £m	2017 £m
Loans with Iberdrola group companies	Base + 1%	On demand	320.7	372.2
Loan with joint venture	Base + 1%	On demand	3.0	-
Loans with Iberdrola group companies	3.05% fixed	20 December 2027	700.0	700.0
			1,023.7	1,072.2

* Base - Bank of England rate

	2018 £m	2017 £m
Analysis of total loans and other borrowings		
Non-current	700.0	700.0
Current	323.7	372.2
	1,023.7	1,072.2

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

11 LOANS AND OTHER BORROWINGS *continued*

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

	Liabilities			Total £m
	Loans and other borrowings (Current)	Loans and other borrowings (Non-current)	Interest payable (Current)	
	£m	£m	£m	
At 1 January 2017	1,064.8	-	11.5	1,076.3
(Decrease)/increase in amounts due to Iberdrola group companies	(692.6)	700.0	-	7.4
Interest paid	-	-	(11.5)	(11.5)
Total movements from financing cashflows	(692.6)	700.0	(11.5)	(4.1)
Other movements	-	-	14.6	14.6
Total liability-related movements	-	-	14.6	14.6
At 31 December 2017	372.2	700.0	14.6	1,086.8

	Liabilities			Total £m
	Loans and other borrowings (Current)	Loans and other borrowings (Non-current)	Interest payable (Current)	
	£m	£m	£m	
At 1 January 2018	372.2	700.0	14.6	1,086.8
Decrease in amounts due to Iberdrola group companies	(51.5)	-	-	(51.5)
Cash inflows from borrowings	3.0	-	-	3.0
Interest paid	-	-	(35.3)	(35.3)
Total movements from financing cash flows	(48.5)	-	(35.3)	(83.8)
Other movements	-	-	26.0	26.0
Total liability-related movements	-	-	26.0	26.0
At 31 December 2018	323.7	700.0	5.3	1,029.0

(c) Borrowing facilities

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

12 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m	Derivative financial instruments £m	Other temporary differences £m	Total £m
At 1 January 2017	149.0	3.5	-	152.5
Charge to the income statement	10.4	-	-	10.4
Recorded in the statement of comprehensive income	-	(2.9)	-	(2.9)
At 1 January 2018	159.4	0.6	-	160.0
Adjustments due to IFRS 9	-	-	(0.1)	(0.1)
Adjusted balance at 1 January 2018	159.4	0.6	(0.1)	159.9
Charge/(credit) to the income statement	7.8	-	(0.1)	7.7
Recorded in the statement of comprehensive income	-	(0.6)	-	(0.6)
At 31 December 2018	167.2	-	(0.2)	167.0

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.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

13 TRADE AND OTHER PAYABLES

	2018 £m	2017 £m
Current trade and other payables:		
Payables due to Iberdrola group companies - trade	5.7	12.8
Payables due to Iberdrola group companies - capital	1.5	2.1
Payables due to Iberdrola group companies - interest	5.3	14.6
Payables due to jointly controlled entities - trade	3.5	2.3
Trade payables -	23.7	15.7
Other taxes and social security	0.8	-
Capital payables and accruals	7.6	9.4
Other payables	4.1	-
	52.2	56.9
Non-current other payables:		
Other payables	1.0	-
	1.0	-

14 REVENUE

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

	Total £m
Supply of electricity	155.2
Supply of Renewable Obligation Certificates ("ROCs")	196.8
Other	71.6
	423.6

All revenue arises from operations within the UK and the Republic of Ireland. Revenue arising outside the UK is not deemed material enough to disclose separately. Revenue from the supply of ROCs is recognised at a point in time; all other revenue is recognised over time.

(b) Accounting policy

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) Supply of electricity

The supply of electricity is a performance obligation satisfied over time because the customer consumes the benefits of the electricity at the same time as it is supplied. Volume is used to measure progress towards complete satisfaction of the performance obligation as this represents the transfer of electricity to the customer. Revenue is therefore recognised based on the number of units supplied at the unit rate specified in the contract. Units are based on energy volumes that can be sold on the wholesale market and are recorded on wind farm meters and industry-wide trading and settlement systems. Invoices are typically raised monthly in arrears and settled within the same month.

(ii) Supply of ROCs

The supply of ROCs is a performance obligation satisfied at a point in time. Revenue is recognised at the point the customer obtains control of the ROC, which is when the associated electricity is generated, at the unit rate specified in the contract. Invoices are raised annually and typically settled within a month.

(iii) Other

Other revenues are recognised based on the consideration specified in a contract with a customer, to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur in the future. The company recognises revenue either at a specific point in time or over a period of time based on when control is transferred to the customer based on the performance obligations in the contract.

(c) Contract balances

		31 December 2018 £m	1 January 2018 £m
	Note		
Receivables	(i)	180.7	135.1

(i) Included within Trade and other receivables (refer to Note 7).

(ii) No impairment losses were recognised during the year on receivables and contract assets arising from the company's contracts with customers.

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

15 EMPLOYEE INFORMATION

(a) Staff costs

	2018 £m	2017 £m
Wages and salaries	24.7	-
Social security costs	2.9	-
Pension and other costs	5.4	-
Total staff costs	33.0	-
Less: capitalised staff costs	(1.2)	-
Charged to the income statement	31.8	-

On 1 January 2018, as part of a Renewables reorganisation, the company's immediate parent, SPREL, transferred all 367 of its employees to the company.

(b) Employee numbers

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

	Year end 2018	Average 2018	Year end 2017	Average 2017
Administrative staff	74	69	-	-
Operations	321	306	-	-
Total	395	375	-	-

The year end and average numbers of employees of full-time equivalent staff employed by the company, including executive directors where appropriate, were:

	Year end 2018	Average 2018	Year end 2017	Average 2017
Total	391	372	-	-

16 TAXES OTHER THAN INCOME TAX

	2018 £m	2017 £m
Property taxes	17.5	15.8

17 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2018 £m	2017 £m
Property, plant and equipment depreciation charge	79.2	73.8
Intangible asset amortisation	0.3	0.3
Charges and provisions, allowances and impairment of assets	2.2	1.0
	81.7	75.1

18 FINANCE COSTS

	2018 £m	2017 £m
Interest on amounts due to Iberdrola group companies	26.0	14.6
Unwinding of discount on provisions	2.3	2.3
	28.3	16.9
Capitalised interest	-	(1.0)
	28.3	15.9

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

19 INCOME TAX

	2018 £m	2017 £m
Current tax:		
UK Corporation tax	35.4	22.6
Adjustments in respect of prior years	(1.4)	(2.4)
Current tax charge for the year	34.0	20.2
Deferred tax:		
Origination and reversal of temporary differences	7.2	10.6
Adjustments in respect of prior years	1.2	1.0
Impact of tax rate change	(0.7)	(1.2)
Deferred tax for the year	7.7	10.4
Income tax charge for the year	41.7	30.6

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%)	45.5	32.7
Adjustments in respect of prior periods	(0.2)	(1.4)
Impact of tax rate change	(0.7)	(1.2)
Non-deductible expenses and other permanent differences	(2.9)	0.5
Income tax charge for the year	41.7	30.6

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.

20 DIVIDENDS

	2018 pence per ordinary share	2017 pence per ordinary share	2018 £m	2017 £m
Interim dividend paid	22.3	11.3	150.0	76.4

21 FINANCIAL COMMITMENTS

2018						
	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 and thereafter £m
Other contractual commitments	20.2	6.4	2.4	2.4	2.4	41.0
						74.8
2017						
	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 and thereafter £m
Other contractual commitments	20.6	6.7	2.4	2.4	2.4	42.3
						76.8

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

22 RELATED PARTY TRANSACTIONS

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

	2018				
	UK parent (SPL) £m	Immediate parent (SPREL) £m	Other Iberdrola group companies £m	Subsidiaries £m	Jointly controlled entities £m
Types of transaction					
Sales and rendering of services	-	-	375.1	32.6	0.2
Purchases and receipt of services	-	-	(38.5)	-	(3.9)
Interest costs	(26.0)	-	-	-	-
Changes in the value of cash flow hedge reserve	(3.2)	-	-	-	-
Dividends received	-	-	-	35.8	-
Dividends paid	-	(150.0)	-	-	-
ECLs recognised in respect of					
Trade receivables	-	-	-	-	-
Balances outstanding					
Trade and other receivables	-	0.5	147.5	26.6	2.0
Derivative financial assets	-	-	-	-	-
Loans payable	(1,020.7)	-	-	-	(3.0)
Trade and other payables	-	(2.1)	(3.5)	(0.1)	(3.5)
Capital payables	-	-	(1.5)	-	-
Interest payable	(5.3)	-	-	-	-
ECLs on					
Trade receivables	-	-	-	(0.2)	-
	2017				
	UK parent (SPL) £m	Immediate parent (SPREL) £m	Other Iberdrola group companies £m	Subsidiaries £m	Jointly controlled entities £m
Types of transaction					
Sales and rendering of services	-	-	302.8	12.3	-
Purchases and receipt of services	-	(19.3)	(23.5)	-	(4.2)
Interest costs	(14.6)	-	-	-	-
Changes in the value of cash flow hedge reserve	(15.4)	-	-	-	-
Dividends received	-	-	-	19.5	-
Dividends paid	-	(76.4)	-	-	-
Balances outstanding					
Trade and other receivables	-	-	127.4	2.2	3.0
Derivative financial assets	2.1	-	-	-	-
Loans payable	(1,072.2)	-	-	-	-
Trade and other payables	-	(8.9)	(3.9)	-	(2.3)
Capital payables	-	-	(2.1)	-	-
Interest payable	(14.6)	-	-	-	-

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

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

22 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 (2017 all) of the key management personnel are remunerated for their work for Renewables, it has not been possible to apportion the remuneration specifically in respect of services to this company. All six (2017 five) of the key management personnel were remunerated by another Renewables company during both years.

	2018 £m	2017 £m
Short-term employee benefits	1,140	1,262
Post-employment benefits	231	184
Termination benefits	652	-
Share-based payments	835	857
	2,858	2,303

(c) Directors' remuneration

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

	2018 £m	2017 £m
Executive directors		
Aggregate remuneration in respect of qualifying services	1,164	1,287
Aggregate contributions payable to a defined contribution pension scheme	27	26
Aggregate compensation for loss of office	652	-
Number of directors who exercised share options	3	3
Number of directors who received shares under a long-term incentive scheme	5	4
Number of directors accruing retirement benefits under a defined benefit scheme	3	2
Number of directors accruing retirement benefits under a defined contribution scheme	1	1

	Note	2018 £m	2017 £m
Highest paid director			
Aggregate remuneration		507	557
Accrued pension benefit	(i)	96	77

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

(d) Ultimate parent company

The immediate parent company is SPREL. The registered office of SPREL is 320 St. Vincent Street, Glasgow, G2 5AD.

The directors regard Iberdrola, S.A. (incorporated in Spain) as the ultimate parent company, which is also the parent company of the largest group in which the results of the company are consolidated. 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. (incorporated in Spain) may be obtained from Iberdrola, S.A., at its registered office, Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain. Copies of the consolidated Accounts of SPUK may be obtained from ScottishPower UK plc, at its registered office, 320 St. Vincent Street, Glasgow, G2 5AD.

In addition to the company's parent undertakings disclosed above, the company's other related undertakings are disclosed in Note 5.

23 AUDITOR REMUNERATION

	2018 £000	2017 £000
Audit of the company's annual Accounts	28	29

SCOTTISHPOWER RENEWABLES (UK) LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2018

24 GOING CONCERN

The company's business activities together with the factors likely to affect its future development and position are set out in the Strategic Report on pages 1 to 5.

The company has recorded a profit after tax in both the current and previous financial years and the company's balance sheet shows that it has net current liabilities of £211.4 million and net assets of £804.6 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.

Annex 3

Property Cost Estimate Statement from Dalcour Maclaren



**DALCOUR
MACLAREN**

Property Cost Estimate Report

Client: Scottish Power Renewables
Project: East Anglia TWO Offshore Wind Farm
Date: 1st July 2019

Project Name:	East Anglia TWO Offshore Wind Farm
Scheme Number	180477
Version	v.1

Prepared by:	
Name	Andrew Barker

Contents

Introduction	4
Background	4
Project Experience	4
Limits or Exclusions of Liability	4
Methodology	6
Valuation of Property Interests	6
Value of the Land Taken	6
Acquisition of Freehold Land	7
Acquisition of Land Rights	7
Compensation arising from Temporary Works	7
Injurious Affection	8
Severance	8
Blight	9
Stamp Duty Land Tax and VAT	9
Claims arising under Section 10 of the Compulsory Purchase Act 1965 and Part 1 of the Land Compensation Act 1973	9
Contingency and Interest	10
Third Party Professional Fees	10
VALUATION ASSUMPTIONS AND EXCLUSIONS	12
General Assumptions	12
Exclusions	13
Conclusion	14
Property Cost Estimate	14

Introduction

Background

This Property Cost Estimate (PCE) has been produced for Funding Statement purposes in accordance with instructions from **East Anglia TWO Offshore Wind Farm Limited** (the ‘Applicant’) in respect of **East Anglia TWO North Offshore Wind Farm** (The “Project”).

The Project is a new offshore wind farm that the Applicant is proposing to develop in the North Sea, off the East Norfolk coast. It involves a new offshore and onshore cable route to connect into the National Grid a proposed new substation at Friston in Suffolk.

During construction the onshore cable corridor will have a standard working width of 32 metres that may be wider in certain locations due to complex crossings, obstructions or storage areas, along the 9km onshore cable route. This equates to a total area required for construction in the region of 180 hectares including an allowance for severed areas. The width of the area over which permanent rights will be required for the onshore cables is approximately 20 metres.

The advice relates to compensation arising from the compulsory acquisition of land and rights, together with other statutory claim liabilities arising out of the Project and is based on a detailed assessment of anticipated claims.

Project Experience

Dalcour Maclaren has represented the Project since our instruction in early 2018. Consultations and negotiations with land interests affected by the onshore cable route, the onshore substation and Construction Compounds have been ongoing throughout this period. The Dalcour Maclaren team has an excellent working knowledge of the proposed cable route and associated sites and all plots have been assessed against the Funding Statement requirements.

Limits or Exclusions of Liability

This report is confidential to the party to whom it is addressed for the specific purpose to which it refers and no responsibility whatsoever is accepted to any third parties.

To the best of our knowledge, all information provided within this report is accurate and has been based on the technical and construction information provided by the Applicant and the land take required for all plots contained within the DCO application. Should any of the information we have used to form our opinions or the scope of the work change then we reserve the right to revisit our assessment.

The PCE provides an indication of the compensation for the entire cable route on a holistic basis. Given the nature of the information available and enquiries made, this estimate should not be relied upon to inform the valuation of individual interests or for the purposes of negotiation.

A cautious approach has been taken in the assessment of the required funding in light of the requirement to justify that the Applicant is capable of meeting the financial needs of the project.

Methodology

Valuation of Property Interests

For the purposes of providing this assessment we have relied on the following general methodology: The acquisitions of all property interests are progressed under the powers of compulsory purchase and the Compensation Code will apply.

- Compensation is payable in accordance with the Market Value Rules as established by the Code and set out in Section 5 of the Land Compensation Act 1961.
- The Valuation Date for all estimates is May 2019.
- Government guidance on the compulsory purchase process, which was updated this year, provides guidance to acquiring authorities and sets an expectation that compulsory purchase should only be used as a last resort. This encourages negotiation of property interests by agreement in advance of compulsory purchase. It will be beneficial for the Applicant to demonstrate its progress in this regard during the Development Consent Order process.
- Any property acquired in the shadow of compulsory purchase should still attract compensation payments and costs should be similar whether acquisition is before or after the CPO.

Value of the Land Taken

The PCE assesses the required funding associated with the acquisition of land and rights using extensive experience of other similar projects.

Dalcour Maclaren has advised the Applicant on the compensation arising from the compulsory acquisition of land and rights and is based on a detailed assessment of anticipated claims. Whilst that advice is confidential, the approach is explained within this report.

This report sets out an estimate of the total contingent liability for the acquisition of land and rights to be acquired by the Project for the purpose of delivering the onshore works element. This assessment outlines the likely Heads of Claim associated with a project of this nature, if rights are acquired via the grant of DCO should voluntary negotiations be unsuccessful and the associated financial figure that may be required as payment to all landowners, occupiers and third parties affected by the Project.

The following claim items will be considered in this assessment;

- Acquisition of land rights (and imposition of restrictions) and freehold land
- Crop Loss
- Disturbance compensation arising from temporary works
- Third party Professional Fees
- Severance and Injurious Affection
- Blight
- Claims arising under Section 10 of the Compulsory Purchase Act 1965
- Claims arising under Part 1 of the Land Compensation Act 1973

The relevant legislation covering the claim items listed above has also been considered in this assessment including Compulsory Purchase Act 1965, Land Compensation Act 1961 and 1973 and the Planning Act 2008.

Any figures for the above claim items are based on professional judgement and experience of similar schemes.

The values provided represent a current view, rather than a projected view, and allow for existing use values and, where relevant, potential development values.

Acquisition of Freehold Land

It is proposed that the freehold of plots will be acquired for the Substation, to include any landscaping, mitigation and permanent accesses. The value of those plots has been assessed by reviewing the open market value of the land in its existing use, but disregarding the fact that the land is being compulsorily acquired. Consideration has been given as to whether any hope value might exist. Disturbance costs associated with the freehold acquisitions have also been included.

Acquisition of Land Rights

It is proposed that permanent rights and land will be acquired to install, access, inspect, maintain, repair, alter, renew, replace the cables. Permanent rights will also be sought for certain mitigation land and utilities required to service the substation. New rights and land will be acquired on behalf of National Grid Electricity Transmission in relation to the diverted 400kV overhead line and NGET substation. Disturbance costs associated with the acquisition of Land Rights have also been included.

Compensation arising from Temporary Works

- Compensation for loss or injury will arise as a consequence of temporary occupation of land for the undertaking of temporary works for the cable installation, substation construction, overhead line diversion, and other associated works including road widening, visibility splays and drainage.

- The compensation is assessed having measured the extent of the Order Land over each holding, the nature of the works involved and the existing land uses.
- The estimate covers loss of crops, business losses, losses associated with above ground structures, reinstatement costs and extra field workings, temporary site compounds, claimants justified time and loss of subsidies and grants. Loss of subsidies includes all losses associated with the Basic Payment Scheme (BPS) being the governments rural grants and payments in support of the farming industry.
- A contingency sum of 10% has been added to allow for losses sustained after the Valuation Date.
- Our understanding of the likely impact on businesses is still incomplete due to minimal evidence being presented to date and, in consequence, general assumptions have been made and an assessment has been included in the PCE.
- The assessment does not include the cost of any physical mitigation works which will be undertaken by the Applicant.

Injurious Affection

Injurious affection is the depreciation in the value of the land retained by the owner as a result of the proposed construction on, and use of, other land acquired from that owner for the Project. It is the impact of the whole of the proposed scheme that is to be considered not just the effect on the area acquired from the owner. Compensation is claimable potentially both for the construction of the works and their subsequent use.

An assessment has been made where the project may depreciate the value of property, which includes residential properties close to the substations and diverted section of overhead line. The valuation takes into account the open market value of the relevant property and the estimated depreciated value caused directly by the Project.

It is considered that the most likely claims for injurious affection may arise from those residential properties which are in close proximity to the substations at Friston. A review of these properties has been undertaken and a general assessment made of potential impacts on a graduated basis dependent on the distance from the overhead line.

A review has also been undertaken of businesses which are affected and an assessment has also been made of possible sterilization / loss of development potential.

Severance

Severance occurs when the land, or land over which rights are to be acquired, contributes to the value of the land which is retained so that, when severed from it, the retained land loses value. In this instance, the majority of land along the route is agricultural and, once the underground cables are installed, it is considered that there should be no permanent severance of land.

An assessment has been made where land is severed either permanently or temporarily as a direct result of the Project, in particular around the proposed substations. The valuation takes into account the open market value of the relevant property before and after any permanent severance.

An allowance has been made for temporary severance as a result of the Project and is included as part of the disturbance compensation figure.

Blight

Blight claims allow a qualifying owner to call for their land to be acquired early i.e.; before the acquiring authority would otherwise take it.

For a blight notice to be accepted and compensation to be payable, it must be supported by evidence that the claimant has made reasonable endeavours to sell the land or property in question and that the claimant has been unable to do so or could do so only at a price substantially lower than that for which it might reasonably have been expected to sell.

Throughout the course of consultations and negotiations with all landowners and occupiers along the route, we have not been made aware of:

- any attempts to sell any of the affected land or property that has resulted in the land or property only being able to be disposed of at a significantly lower value or
- any parties intending to serve a Blight Notice.

To ensure that the funding assessment caters for any 'blight risk' properties, we have included a contingent liability for Blight claims. However, our assessment suggests the likelihood of blight claims being received is low.

Stamp Duty Land Tax and VAT

The Applicant, as the Acquiring Authority, may be liable for any SDLT or VAT arising as a consequence of the property transfers.

No allowance is made for any VAT in this estimate.

Stamp Duty Land Tax is only payable where property is acquired for a value in excess of £150,000. We have applied the prevailing rates of 2% for acquisition values between £150,000 and £250,000 and 5% on any balance over £250,000.

Claims arising under Section 10 of the Compulsory Purchase Act 1965 and Part 1 of the Land Compensation Act 1973

Section 10 of the Compulsory Purchase Act (CPA) 1965 provides an entitlement to compensation, subject to meeting certain criteria, to the owners of property who suffer damage to their property as a result of the execution of works. This entitlement arises where no land is taken from the owner and

equates to a restricted form of nuisance claim. Claimants can include those whose rights or easements over land are interfered with as a result of the works (for example, a right of way over land being occupied for the Project). The basis of valuation is as set out in this report under the heading, General Assumptions.

Based on the information provided to date, we are only aware of a small number of rights which might give rise to a valid and quantifiable claim. We recognise that, even with detailed referencing information, no absolute guarantee can be given that there are no other rights which could be affected in such a way as to give rise to a justified claim. It is further recognised that, should rights exist, they may be interrupted during construction, e.g. a restriction or temporary interruption to a designated right of way, and as such a claim for temporary injurious affection could arise. However, it is assumed that, as far as possible, alternative arrangements will be made to mitigate the impact on any rights.

The view taken, therefore, is that the likelihood of valid and sustainable claims being made under s10 CPA 1965 is moderately low. We do, however, provide an allowance for such costs as a contingency within the PCE.

Responsible authorities may be liable, under Part 1 of the Land Compensation Act 1973, to pay compensation for the depreciation in the value of an interest in land which is attributable to the use of public works where no land has been taken from the claimant. Compensation is limited to depreciation in the market value of the qualifying interest caused by the use of the land or works but only in so far as that depreciation is attributable to “physical factors”.

It is our opinion that the likelihood of successful or substantial claims is low based on the particular physical factors which will arise from the use of the works and the distance of the works from potential claimants.

Whilst the risk of such claims remains low, we have provided an allowance for such costs as part of the contingency within the PCE.

Contingency and Interest

In view of the level of information available to us at this stage, a general contingency of 10% has been added to all items included in the estimate. Additionally, because of the phasing of the payments, compound interest has also been added at a rate of 2% per annum through to 2026, being the estimated timescale for construction.

Third Party Professional Fees

Claimants are entitled to reimbursement of professional costs incurred in connection with the claim for compensation and transfer of their interest to the acquiring authority. Our figures include an allowance for the costs of surveyors and solicitors representing the claimants. This may vary on a

case by case basis, but overall a 10% contingency has been applied to cover possible additional costs.

The Applicant's professional costs are not included in the PCE.

No allowance has been made for costs in the event of dispute resolution or for Upper Tribunal (Lands Chamber) costs.

VALUATION ASSUMPTIONS AND EXCLUSIONS

General Assumptions

- The estimate has been prepared on the basis of Current Market Value which would be payable in the event of the Applicant acquiring land and rights under the terms of the DCO rather than by voluntary agreement. Associated disturbance is included.
- The estimate relies on assessments of buildings from vantage points and internal property inspections have not been undertaken. In addition, further research has been completed via the internet, media, aerial and ground photography and from investigations into comparable local valuation evidence.
- No allowance has been made for any Incentive Payments which would otherwise be payable for voluntary agreements (subject to meeting various criteria).
- Land values are based on open market land values in the region.
- We have not generally investigated planning history unless otherwise stated in this report. Our figures reflect existing use value rather than any other value although, where appropriate we have considered potential development values or values associated with potential alternative uses.
- No account has been taken in the estimate of the risk of sterilisation of Minerals which are potentially available for commercial extraction. The level of risk is considered to be low.
- We understand that there may be some closures and diversions of the public highway. No allowance has been made for any potential claims for compensation other than where there are associated losses caused to businesses.
- The assessment does not include the cost of any physical mitigation or reinstatement works which will be undertaken by the Applicant. These costs form part of the budget which the Applicant, as Acquiring Authority, have allocated for the likely property and land costs of implementing the Project under the DCO.
- The figures are inflated by 2% per annum for a period of 8 years through to 2026.
- A 10% contingency has been applied throughout.
- The Valuation Date for assessment of compensation is assumed to be May 2019. It should be noted that the figures stated in the estimate may require revision.

Exclusions

Costs for the following property or interest types have not been included within the PCE:

- Operational highways, railway, rivers and other infrastructure.
- Utility apparatus including but not limited to sub-stations, sewage treatment works, pumping stations, masts and tanks.

Conclusion

Property Cost Estimate

This is an estimate carried out using the information available to date as set out earlier in this report. If required, the estimate can be revised to maintain accuracy as more information becomes available.

It is our opinion that compensation to secure the necessary interests, rights and make payment of compensation is in accordance with the figures set out in the table below:

Item	Net Value (£m)	Contingency @ 10% (£m)	Interest (£m)	TOTAL (£m)
Acquisition of Freehold Land	£3.351	£0.335	£0.508	£4.194
Acquisition of Land Rights	£1.210	£0.107	£0.162	£1.340
Compensation arising from Temporary Works	£2.115	£0.211	£0.321	£2.647
Severance & Injurious Affection	£2.150	£0.215	£0.326	£2.691
Third party Professional Fees	£0.705	£0.071	£0.107	£0.883
Blight	£0.045	£0.004	£0.001	£0.049
Claims arising under Section 10 of the Compulsory Purchase Act 1965	£0.110	£0.011	£0.017	£0.138
Claims arising under Part 1 of the Land Compensation Act 1973	£0.181	£0.018	£0.027	£0.226
Business Loss Claims	£0.033	£0.003	0.005	£0.041
TOTAL	£9.895	£0.975	£1.473	£12.209

In completing this Property Cost Estimate we have maintained a consistency throughout based on our methodology and valuation assumptions and exclusions. In light of the limited knowledge associated with the construction programme, we have included a contingency so that it can be stated that our estimate of property cost is **£12.21 million (Twelve Million Two Hundred and Ten Thousand Pounds)**.



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