

# **ScottishPower Segmental Generation and Supply Statements for the year ended 31 December 2011**

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



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# Consolidated Segmental Statement

## for the year ended 31 December 2011

|   | Unit         | ScottishPower           | ScottishPower           | Aggregate        | Electricity supply |                | Gas supply     |               | Aggregate        |
|---|--------------|-------------------------|-------------------------|------------------|--------------------|----------------|----------------|---------------|------------------|
|   |              | Generation <sup>1</sup> | Renewables <sup>2</sup> |                  | generation         | Domestic       | Non-domestic   | Domestic      |                  |
|   |              | 2011                    | 2011                    | business         | 2011               | 2011           | 2011           | 2011          | business         |
|   |              | 2011                    | 2011                    | 2011             | 2011               | 2011           | 2011           | 2011          | 2011             |
| <b>Total revenue</b>                      | £m           | <b>1,677.0</b>          | <b>172.0</b>            | <b>1,849.0</b>   | <b>1,489.1</b>     | <b>844.4</b>   | <b>1,026.4</b> | <b>17.9</b>   | <b>3,377.8</b>   |
| Revenue from sales of electricity and gas | £m           | 1,677.0                 | 172.0                   | 1,849.0          | 1,489.1            | 844.4          | 1,026.4        | 17.9          | 3,377.8          |
| Other revenue                             | £m           | -                       | -                       | -                | -                  | -              | -              | -             | -                |
| <b>Total operating costs</b>              | £m           | <b>(1,389.0)</b>        | <b>(41.6)</b>           | <b>(1,430.6)</b> | <b>(1,616.6)</b>   | <b>(835.2)</b> | <b>(908.6)</b> | <b>(11.4)</b> | <b>(3,371.8)</b> |
| Direct fuel costs                         | £m           | (1,241.4)               | -                       | (1,241.4)        | (969.4)            | (537.8)        | (497.5)        | (5.2)         | (2,009.9)        |
| Other direct costs                        | £m           | (63.4)                  | (38.2)                  | (101.6)          | (438.4)            | (254.8)        | (255.9)        | (3.0)         | (952.1)          |
| Indirect costs                            | £m           | (84.2)                  | (3.4)                   | (87.6)           | (208.8)            | (42.6)         | (155.2)        | (3.2)         | (409.8)          |
| WACO F/E/G                                | £/MWh, p/th  | 61.2                    | -                       | 56.2             | 78.2               | 57.2           | 53.6           | 34.7          | NA               |
| <b>EBITDA</b>                             | £m           | <b>288.0</b>            | <b>130.4</b>            | <b>418.4</b>     | <b>(127.5)</b>     | <b>9.2</b>     | <b>117.8</b>   | <b>6.5</b>    | <b>6.0</b>       |
| Depreciation and amortisation             | £m           | (119.5)                 | (39.4)                  | (158.9)          | (0.7)              | -              | (0.4)          | -             | (1.1)            |
| <b>EBIT</b>                               | £m           | <b>168.5</b>            | <b>91.0</b>             | <b>259.5</b>     | <b>(128.2)</b>     | <b>9.2</b>     | <b>117.4</b>   | <b>6.5</b>    | <b>4.9</b>       |
| Volume                                    | TWh, Mtherms | 20.3                    | 1.7                     | 22.1             | 12.4               | 9.4            | 928.2          | 15.0          | NA               |

1 ScottishPower Generation comprises the generation belonging to wholly owned subsidiaries of ScottishPower.

2 ScottishPower Renewables comprises the licensed generation activity of the ScottishPower Renewables business. From 1 January 2011 to 10 July 2011, ScottishPower Renewables was an 80% owned subsidiary of Iberdrola S.A. (ScottishPower's holding company). On 11 July 2011, ScottishPower Renewables became a 100% owned subsidiary of Iberdrola S.A.. From 1 January 2011 to 10 July 2011, 80% of the relevant revenues and costs are shown and from 11 July 2011 to 31 December 2011, 100% of the relevant revenues and costs are shown.

# Definitions

## Revenues

### ScottishPower Generation

'Revenue from sales of electricity and gas' comprises the sales value of electricity and other related services<sup>1</sup> supplied to Iberdrola group companies and external customers during the year and excludes Value Added Tax. Revenue from the sale of electricity is the value of units supplied during the year. Units are based on energy volumes that can actually be sold on the wholesale market and are recorded on industry-wide trading and settlement systems. All revenue is earned wholly within Great Britain.

Generation revenue includes all ancillary services, balancing mechanism and constraint management revenues.

#### *Transfer pricing methodology*

The majority of generation revenues arise from internal transactions with other ScottishPower group companies. These transactions are charged based on open market prices at the time of transfer, which are consistent with the group's hedging policies. These prices include adjustments for the profile of running and also the risks relating to market liquidity and unscheduled plant outages.

### ScottishPower Renewables

'Revenue from sales of electricity and gas' comprises the sales value of electricity, Renewable Obligation Certificates and Levy Exemption Certificates to Iberdrola group companies and external customers during the year and excludes Value Added Tax. Revenue from the sale of electricity is the value of units supplied during the year. Units are based on energy volumes that can actually be sold on the wholesale market and are recorded on industry-wide trading and settlement systems. The revenues in the segmental accounts exclude revenues arising from a 15MW windfarm in the Republic of Ireland and 41.9MW capacity in Northern Ireland, thus all revenue included in the segmental accounts is earned within Great Britain and the majority of these revenues arise from transactions with ScottishPower group companies.

#### *Transfer pricing methodology*

The majority of renewable revenues arise from internal transactions with other ScottishPower group companies. These transactions are charged under internal Renewable Power Purchase Agreements, which are periodically indexed to open market-based prices, with appropriate discounts.

### Aggregate Supply Business

'Revenue from sales of electricity and gas' comprises the sales value of energy supplied to customers during the year, and excludes Value Added Tax. Revenue from the sale of electricity and gas is the value of units supplied during the year and includes an estimate of the value of units

### Aggregate Supply Business *continued*

supplied to customers between the date of their last meter reading and the year end, based on external data supplied by the electricity and gas market settlement processes.

All revenue is earned wholly within Great Britain and is stated after deducting the credits and discounts made under the Legacy Spend element of the Warm Home Discount programme; the costs of other elements of this programme are included within indirect costs.

## Direct fuel costs

### ScottishPower Generation

'Direct fuel costs' represents the cost of fuel (coal, gas and power) and the cost of emissions, including the purchased allowances required to be surrendered under the EU Emission Trading Scheme (ETS). During 2011, ScottishPower Generation was allocated 10,184,934 tonnes of free emissions allowances.

#### *Transfer pricing methodology*

The cost of power<sup>2</sup> and gas consumed is based on open market prices at the time of transfer. Procurement of these is consistent with the group's hedging policies, and the prices include adjustments for the risks relating to market liquidity and unscheduled plant outages. The cost of coal is based on a weighted average cost. The transfer price of purchased emissions allowances is the cost of the externally procured allowances less the revenue from any allowances sold.

#### *Other direct fuel costs*

The remainder of the power and gas cost arises predominantly from imbalance charges from external parties.

### Aggregate Supply Business

'Direct fuel costs' represents the cost of power and gas procured from other Iberdrola group companies. Power is also purchased under Renewable Power Purchase Agreements with external and other Iberdrola group companies. In addition, external imbalance charges are also incurred.

#### *Transfer pricing methodology*

The cost of power and gas consumed is based on open market prices at the time of transfer. Procurement of these are consistent with the group's hedging policies, and the prices include adjustments for changes in demand and shape and also the risks relating to market liquidity. In the case of gas, the price also includes a significant component priced according to the group's long term purchase contracts. Power purchased under internal Renewable Power Purchase Agreements is periodically indexed to open market-based prices, with appropriate discounts.

1 Generation revenue includes income from Hydro and Combined Heat and Power plants for the sale of Renewable Obligation Certificates and/or Levy Exemption Certificates to Iberdrola group companies and external customers.

2 Generation internal transfer price arrangements for power relates to the power cost required to operate the Cruachan pump storage facility; these prices take account of the profile of pumping demand.

## Definitions – continued

### Other direct costs

#### ScottishPower Generation

The *'other direct costs'* reflect any additional direct costs of the generation of electricity i.e. balancing charges from National Grid (BSUOS), operational costs, maintenance costs and the costs of participating in the Community Energy Savings Programme ("CESP").

#### ScottishPower Renewables

The *'other direct costs'* reflect any additional direct costs of the generation of electricity i.e. balancing charges from National Grid (BSUOS), operational costs and maintenance costs.

#### Aggregate Supply Business

The *'other direct costs'* of the Aggregate Supply business reflect

- (a) the costs associated with transmitting units of energy through the electricity transmission and distribution networks, the gas transportation network, and other costs directly related to customer energy consumption;
- (b) the costs of participating in CESP and the Carbon Emissions Reduction Target ("CERT") programme;
- (c) the cost of acquiring Renewable Obligation Certificates (where costs are allocated to the segments based on sales volumes), Levy Exemption Certificates (where costs are allocated to the non-domestic segment), fulfilling other related obligations, and;
- (d) the costs associated with Feed-In Tariffs (FITs), which are allocated to the domestic segment.

### Indirect costs

#### ScottishPower Generation

The *'indirect costs'* of the business include costs such as Generation head office costs, staff costs, non operational plant costs, and the costs of centralised services<sup>1</sup> provided by Iberdrola group companies.

Other operating income, such as insurance claim proceeds, has been netted within indirect costs.

#### ScottishPower Renewables

The *'indirect costs'* of the business include costs such as head office costs and non operational plant costs. The cost of centralised services provided by Iberdrola group companies were incurred based on a fixed price service level agreement.

Other operating income has been netted within indirect costs.

#### Aggregate Supply Business

The *'indirect costs'* reflect the costs of billing, metering, customer service, debt collection, support services, sales and marketing, staff costs, and the costs of centralised services<sup>1</sup> provided by Iberdrola group companies. The cost of social initiatives, other than the credits and discounts made under the Legacy Spend element of the Warm Home Discount programme, are also included in indirect costs.

Other operating income, such as customer fees and meter operator income has been netted within indirect costs.

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1 The majority of central service costs are directly allocated where they can be identified as attributable to a particular business. The remainder of central service costs, are allocated across the group's businesses based on a basket of indicators, including employee numbers, revenue, operating profits and net assets.

# Reconciliation to the Consolidated Statutory Accounts of Iberdrola S.A.

for the year ended 31 December 2011

## NOTE 1: REVENUE

|  |           |      | Deregulated –<br>United Kingdom | Renewable –<br>United Kingdom |
|--|-----------|------|---------------------------------|-------------------------------|
|  | Footnotes | Unit |                                 |                               |
| <b>Segmental revenue per Iberdrola S.A. Annual Report and Accounts (EUR)</b> | (i)       | €m   | <b><u>€7,810.3</u></b>          | <b><u>€237.4</u></b>          |
| <b>Segmental revenue per Iberdrola S.A. Annual Report and Accounts (GBP)</b> | (ii)      | £m   | <b><u>£6,778.2</u></b>          | <b><u>£206.0</u></b>          |
| <b>Adjustments</b>   |           |      |                                 |                               |
| Revenue for entities outwith licensed segment                                | (iii)     | £m   | (3,298.7)                       | (37.0)                        |
| Internal trading eliminations  | (iv)      | £m   | 1,765.2                         | -                             |
| Income statement reclassifications   | (v)       | £m   | -                               | 3.0                           |
| <b>Excluded items</b>  |           |      |                                 |                               |
| Trading activities – gas contracts   | (vi)      | £m   | (189.9)                         | -                             |
| <b>Total revenue per the Consolidated Segmental Statement</b>                |           | £m   | <b>5,054.8</b>                  | <b>172.0</b>                  |
| Allocated per the consolidated segmental statement:                          |           |      |                                 |                               |
| Generation business  |           | £m   | 1,677.0                         | 172.0                         |
| Aggregate Supply business  |           | £m   | 3,377.8                         | -                             |
| <b>Total</b>   |           | £m   | <b>5,054.8</b>                  | <b>172.0</b>                  |

The footnotes associated with the note above can be found on the following page.

## Reconciliation to the Consolidated Statutory Accounts of Iberdrola S.A. for the year ended 31 December 2011

### NOTE 1: REVENUE *continued*

- (i) *'Segmental revenue per Iberdrola S.A. Annual Report and Accounts'* is the statutory disclosure of Iberdrola's segments required under IFRS 8: *Operating Segments* within Note 7 of the Iberdrola S.A. Annual Report and Accounts 2011. The Deregulated – United Kingdom segment represents the electricity generation and sales business carried out by the group in the United Kingdom. The Renewable – United Kingdom segment represents the renewable energy activities carried out by the group in the United Kingdom.
- (ii) The average exchange rate for the year ended 31 December 2011 was £/€ 0.86785.
- (iii) *'Revenue for entities outwith licensed segment'*, the Deregulated - United Kingdom segment and the Renewable – United Kingdom segment within the Iberdrola S.A. Annual Report and Accounts includes revenue for entities which are not part of either the ScottishPower licensed generation business or the ScottishPower licensed supply business and so are not included in the Consolidated Segmental Statement.
- (iv) *'Internal trading eliminations'*, the segmental revenue numbers disclosed within the Iberdrola S.A. Accounts for both the Deregulated – United Kingdom segment and the Renewable – United Kingdom segment eliminate internal trading within these individual segments. This is added back for reconciliation purposes as the total of the Generation business and the Aggregate Supply business per the Consolidated Statement does not eliminate internal trading.
- (v) *'Income statement reclassifications'*, for the purpose of the Consolidated Segmental Statement, the balancing services income which was classified within other operating income in the subsidiary statutory accounts of ScottishPower Renewables has been reclassified to revenue.
- (vi) *'Trading activities – gas contracts'*, certain trading activities have been excluded from the consolidated revenue as per the Iberdrola S.A. Accounts in preparing the Consolidated Statement. This is because these activities are not part of the licensed generating activity and are not considered in the scheduling of generation assets. The exclusion of these activities will better facilitate a clearer comparison of the licensed generating activities. This deduction is for the value of sales associated with the gas purchase contracts acquired on acquisition of CCGTs in England and Wales during 2004. As noted on page 2, the benefit of this procurement is included in the Aggregate Supply business and the adjustment is needed to prevent that same benefit also being accounted for in the generation segment.

## Reconciliation to the Consolidated Statutory Accounts of Iberdrola S.A. for the year ended 31 December 2011

### NOTE 2: EBIT

|  |           |      | Deregulated –<br>United Kingdom | Renewable –<br>United Kingdom |
|--|-----------|------|---------------------------------|-------------------------------|
|  | Footnotes | Unit |                                 |                               |
| <b>Segmental operating profit (EBIT) per Iberdrola S.A. Annual Report and Accounts (EUR)</b> | (i)       | €m   | <b>€(294.9)</b>                 | <b>€82.7</b>                  |
| <b>Segmental operating profit (EBIT) per Iberdrola S.A. Annual Report and Accounts (GBP)</b> | (ii)      | £m   | <b>£(255.9)</b>                 | <b>£71.8</b>                  |
| <b>Adjustments</b>   |           |      |                                 |                               |
| EBIT for entities outwith licensed segment   | (iii)     | £m   | 57.5                            | (12.0)                        |
| Iberdrola purchase price allocation  | (iv)      | £m   | 144.3                           | 26.1                          |
| Allocation of corporate overheads for licensed segment                                       | (v)       | £m   | (25.3)                          | -                             |
| <b>Excluded items</b>  |           |      |                                 |                               |
| Trading activities – gas contracts   | (vi)      | £m   | (33.5)                          | -                             |
| Trading activities – mark to market  | (vi)      | £m   | 97.4                            | -                             |
| Non-recurring costs  | (vii)     | £m   | 188.9                           | 5.1                           |
| <b>Total EBIT per the Segmental Generation and Supply Statement</b>                          |           | £m   | <b>173.4</b>                    | <b>91.0</b>                   |
| Allocated per business:  |           |      |                                 |                               |
| Generation business  |           | £m   | 168.5                           | 91.0                          |
| Aggregate Supply business  |           | £m   | 4.9                             | -                             |
| <b>Total</b>   |           | £m   | <b>173.4</b>                    | <b>91.0</b>                   |

The footnotes associated with the note above can be found on the following page.



## Reconciliation to the Consolidated Statutory Accounts of Iberdrola S.A. for the year ended 31 December 2011

### NOTE 2: EBIT *continued*

- (i) *'Segmental operating profit per Iberdrola S.A. Annual Report and Accounts'* is the statutory disclosure of Iberdrola's segments required under IFRS 8: *Operating Segments* within Note 7 of the Iberdrola S.A. Annual Report and Accounts 2011. The Deregulated – United Kingdom segment represents the electricity generation and sales businesses carried out by the group in the United Kingdom. The Renewable – United Kingdom segment represents the renewable energy activities carried out by the group in the United Kingdom.
- (ii) The average exchange rate for the year ended 31 December 2011 was £/€ 0.86785.
- (iii) *'EBIT for entities outwith licensed segment'*, the Deregulated - United Kingdom segment and the Renewable – United Kingdom segment within the Iberdrola S.A. Accounts includes EBIT for entities which are not part of either the ScottishPower licensed generation business or the ScottishPower licensed supply business and so are not included in the Consolidated Segmental Statement.
- (iv) *'Iberdrola purchase price allocation'*, The Deregulated - United Kingdom segment and the Renewable – United Kingdom segment includes results which relate to the unwind of the fair value adjustments recognised by Iberdrola S.A. following the acquisition of ScottishPower in April 2007. These results have been excluded from the Consolidated Segmental Statement as they are not considered part of the ScottishPower licensed generation business or the ScottishPower licensed supply business.
- (v) *'Allocation of corporate overheads for licensed segment'*, for the purpose of group reporting corporate overheads are allocated to a separate segment. The Licensed business share of these costs has been reallocated for the purpose of the Consolidated Segmental Statement, and relates principally to the costs of IT, HR, Finance and Legal functions. No such adjustment is made in respect of the Renewables segment because corporate costs were charged to that business under a fixed price contract rather than by allocation.
- (vi) Certain trading activities have been excluded from the consolidated revenue as per the Iberdrola S.A. Accounts in preparing the Consolidated Segmental Statement. This is because these activities are not part of the licensed generating activity and are not considered in the scheduling of generation assets. The exclusion of these activities will better facilitate a clearer comparison of the licensed generating activities. The deduction for *'Trading activities - gas contracts'* relates to the value of underlying sales and purchases associated with the gas purchase contracts acquired on acquisition of CCGTs in England and Wales during 2004. As noted on page 2, the benefit of this procurement is included in the Aggregate Supply business and the adjustment is needed to prevent that same benefit also being accounted for in the generation segment. The deduction for *'Trading activities – mark to market'* relates to the Mark to Market gains and losses associated with these gas contracts.
- (vii) *'Non-recurring costs'*, in order to provide a clear and consistent presentation of underlying performance, costs of an exceptional and non-recurring nature have been excluded from the Consolidated Segmental Statement. The £188.9 million of non-recurring costs within the Deregulated segment includes net impairment charges of £158.5 million and restructuring and other costs of £30.4 million and the £5.1 million of non-recurring costs within the Renewable segment relates to impairment charges.

## Questionnaire on Business Functions for the year ended 31 December 2011

| Business function   | Generation | Aggregate Supply Business | Another part of the business <sup>1</sup> |
|---|------------|---------------------------|---|
| Operates and maintains generation assets  | ✓          |                           |   |
| Responsible for scheduling decisions  | P/L        |                           | F   |
| Responsible for interactions with the Balancing Market  | P/L        |                           | F   |
| Responsible for determining hedging policy <sup>2</sup>                                       | P/L        | P/L                       | F   |
| Responsible for implementing hedging policy / makes decisions to buy/sell energy <sup>2</sup> | P/L        | P/L                       | F   |
| Interacts with wider market participants to buy/sell energy <sup>2</sup>                      | P/L        | P/L                       | F   |
| Holds unhedged positions (either short or long) <sup>2</sup>                                  | P/L        | P/L                       | F   |
| Procures fuel for generation  | P/L        |                           | F   |
| Procures allowances for generation  | P/L        |                           | F   |
| Holds volume risk on positions sold (either internal or external) <sup>2</sup>                | P/L        | P/L                       | F   |
| Matches own generation with own supply <sup>2</sup>   | P/L        | P/L                       | F   |
| Forecasts total system demand   |            |                           | F   |
| Forecasts wholesale price   |            |                           | F   |
| Forecasts customer demand   |            |                           | F   |
| Determines retail pricing and marketing strategies  |            | ✓                         |   |
| Bears shape risk after initial hedge until market allows full hedge <sup>2</sup>              | P/L        | P/L                       | F   |
| Bears short term risk for variance between demand and forecast                                |            | P/L                       | F   |

Key: ✓ Function resides and profits/losses are recorded  
**F** Function resides  
**P/L** Profits/losses are recorded

- 1 ScottishPower has a separate Energy Management function which does not form part of the Generation and Aggregate Supply segments. Energy Management performs the majority of business functions listed above including: determine and implement all hedging strategies, making scheduling decisions and performing all external trading activities. The results of this trading activity are allocated to the Generation and Aggregate Supply segments in accordance with the relevant transfer pricing methodology.
- 2 For each of these business functions, Energy Management undertakes actions for both the Generation and Aggregate Supply segments. The profit/loss consequences of each action accrue to the relevant segment or segments for which the action was performed.

