

ScottishPower Consolidated Segmental Statement

for the year ended 31 December 2013

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



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Independent auditor's report to Scottish Power UK plc and its Licensed entities



We have audited the accompanying statement (the 'Consolidated Segmental Statement' or 'CSS') of Scottish Power UK plc and its Licensed entities (as listed in footnote ⁽ⁱ⁾) which comprises the Introduction, Consolidated Segmental Statement, Basis of Preparation, Reconciliation of CSS Revenue and EBIT to the Annual Report and Accounts of Scottish Power UK plc, Questionnaire on Business Functions and Appendices A and B, in accordance with the terms of our agreement dated 4 April 2014. The CSS has been prepared by the directors of Scottish Power UK plc and its Licensed entities based on the requirements of Standard Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Gas and Electricity Supply Licences and the associated Guidelines issued by Ofgem (together, the 'Licences') and the basis of preparation on pages 5 to 8.

Directors' responsibility for the CSS

Directors are responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 5 to 8 and for such internal control as directors determine is necessary to enable the preparation of the CSS that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the CSS based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the CSS is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the CSS. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the CSS, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the CSS in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our audit also includes evaluating the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the CSS.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the CSS of Scottish Power UK plc and its Licensed entities for the year ended 31 December 2013 is prepared, in all material respects, in accordance with;

- (i) the requirements of Standard Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Gas and Electricity Supply Licences and the associated Guidelines issued by Ofgem; and
- (ii) the basis of preparation on pages 5 to 8.

Basis of accounting and restriction on distribution and use

Without modifying our opinion, we draw attention to pages 5 to 8 of the CSS which describes the basis of preparation. The CSS is prepared to assist Scottish Power UK plc and its Licensed entities to meet the requirements of the Regulator Ofgem rather than in accordance with a generally accepted accounting framework. The CSS should therefore be read in conjunction with both the Licences and the basis of preparation on pages 5 to 8. This basis of preparation is not the same as segmental reporting under IFRS. As a result, the CSS may not be suitable for another purpose.

This report, including our conclusions, has been prepared solely for the Directors of Scottish Power UK plc and its Licensed entities as a body in accordance with the agreement between us, to assist the Directors in reporting on the CSS to the Regulator Ofgem. We permit this report to be displayed on the Scottish Power website ⁽ⁱⁱ⁾ http://www.scottishpower.com/pages/company_reporting.asp to enable the directors to show that they have addressed the governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law we do not accept responsibility to anyone other than the Directors as a body and Scottish Power UK plc and its Licensed entities for our work or this report except where terms are expressly agreed between us in writing.

Other matter

Comparative information relating to the year ended 31 December 2012 is unaudited.

A handwritten signature in black ink, appearing to read "Ernst & Young LLP".

Ernst & Young LLP
16 April 2014
Glasgow

(i) ScottishPower Energy Retail Limited, ScottishPower Generation Limited, ScottishPower (DCL) Limited, ScottishPower (SCPL) Limited, Scottish Power Renewables UK Limited, Celpower Limited and Morecambe Wind Limited.

(ii) The maintenance and integrity of the Scottish Power website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the CSS since it was initially presented on the web site.

Introduction

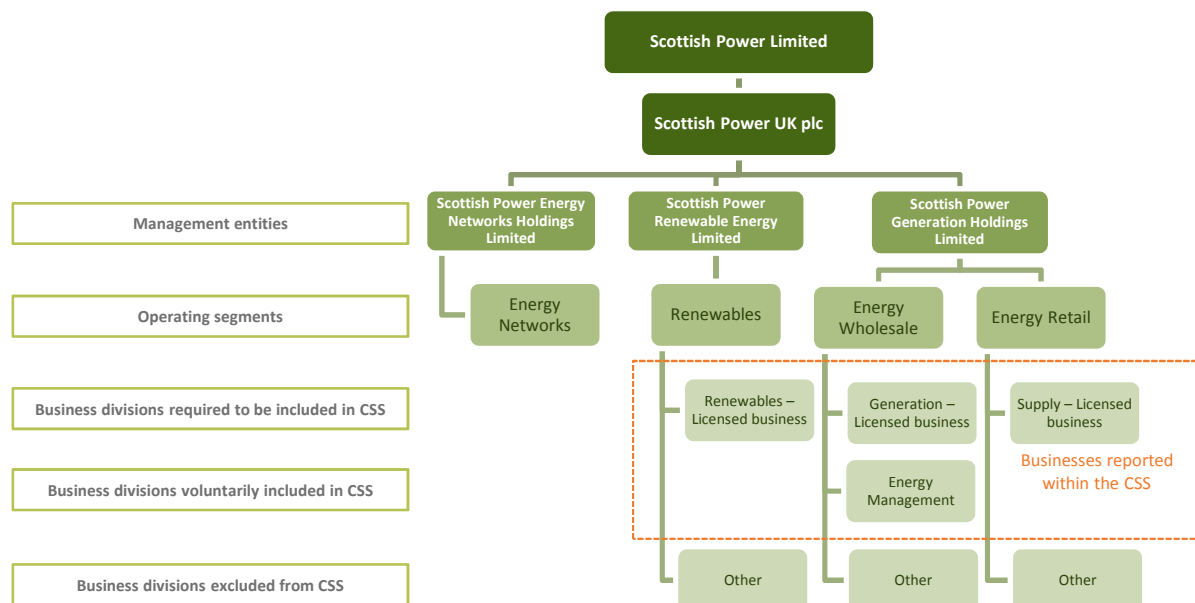
This CSS and associated regulatory information is presented in accordance with Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences (“the Conditions”).

The CSS and supporting information has been prepared by the Directors of Scottish Power UK plc (“SPUK”) in accordance with the Conditions stated above and the associated guidelines issued by Ofgem. The CSS has been derived from and reconciled to the Annual Report and Accounts of SPUK for the year ended 31 December 2013, which have been prepared in accordance with International Accounting Standards, International Financial Reporting Standards and International Financial Reporting Interpretations Committee Interpretations (collectively referred to as IFRS) as adopted by the European Union.

ScottishPower Operational and Management Reporting Structure

The diagram below outlines the operational and management reporting structure of ScottishPower. ScottishPower is defined as Scottish Power Limited (“SPL”) and its subsidiaries. SPL is the United Kingdom (“UK”) parent company of the Great Britain and Ireland operations (“GB&I operations”) of Iberdrola S.A. (“Iberdrola”). The intermediate UK parent company, SPUK, acts principally as the immediate holding company for all GB&I operations. For the purpose of the CSS, “the group” is defined as SPUK and its subsidiaries.

In accordance with the disclosure requirements of IFRS, the Annual Report and Accounts of SPUK reports the financial results of the operating segments outlined below and, in the interest of improved transparency, voluntarily reports the financial results of the business divisions. This disclosure is provided on a voluntary basis to increase transparency and to demonstrate the alignment of the operating segments and business divisions in the Annual Report and Accounts of SPUK with those reported in the CSS for the year ended 31 December 2013.



The group’s operating segments and business divisions are defined as follows:

Operating Segment	Business Division	Business Division Description
Energy Networks	Energy Networks	The transmission and distribution business within the group.
Renewables	Renewables – Licensed business	The Great Britain licensed activity of the Renewables operating segment, which develops and operates renewable generation plant, other than hydro-electric generation plant.
	Other	The non-licensed activity of the Renewables operating segment, which includes generation activity outside Great Britain and the impact of the amortisation of the fair value attributed to the Renewables operating segment when purchased by Iberdrola during 2007.
Energy Wholesale	Generation – Licensed business	The licensed activity of the Energy Wholesale operating segment, which owns and operates coal, gas and hydro-electric generation plant.
	Energy Management	The non-licensed activities of the Energy Wholesale operating segment, responsible for wholesale market sales and purchases for the Generation and Supply licensed business divisions, which is further defined on page 5.
	Other	The other non-licensed activity of the Energy Wholesale operating segment, which includes the group’s waste water treatment facility.
Energy Retail	Supply – Licensed business	The licensed activity of the Energy Retail operating segment responsible for the supply of electricity and gas to domestic and business customers.
	Other	The non-licensed activity of the Energy Retail operating segment, which includes the group’s Energy Services activities.

Introduction *continued*

ScottishPower Operational and Management Reporting Structure *continued*

SPUK is the intermediate holding company of all Licensed entities within ScottishPower. The individual supply and generation licences are held in legal entities reported within the Annual Report and Accounts of SPUK for the year ended 31 December 2013. The individual supply and generation licences held within SPUK are as follows:

Licensed entities	Licence	Business Division	Ownership
ScottishPower Energy Retail Limited	Supply	Supply – Licensed business	100%
ScottishPower Generation Limited	Generation	Generation – Licensed business	100%
ScottishPower (DCL) Limited	Generation	Generation – Licensed business	100%
ScottishPower (SCPL) Limited	Generation	Generation – Licensed business	100%
Scottish Power Renewables UK Limited	Generation	Renewables – Licensed business	100%
Morecambe Wind Limited	Generation	Renewables – Licensed business	50%
Celtpower Limited ¹	Generation	Renewables – Other	50%

The segmental results of the operating segments of SPUK for the year ended 31 December 2013 and those of the business divisions defined above are disclosed in the Annual Report and Accounts for SPUK for the year ended 31 December 2013 and can be found at http://www.scottishpower.com/pages/company_reporting.asp

For information purposes the segmental results for 2013 reported within the Annual Report and Accounts of SPUK for the year ended 31 December 2013 have been included within Appendix B of this document.

¹ Although Celtpower Limited requires a generation licence, it is excluded from the CSS because it is not considered an 'Affiliate' under the Conditions. This is explained further on page 5.

Consolidated Segmental Statement for the year ended 31 December 2013



		GENERATION			SUPPLY					ENERGY MANAGEMENT
		ScottishPower Generation	ScottishPower Renewables	Aggregate Generation	Electricity		Gas		Aggregate Supply	ScottishPower Energy Management
					Domestic	Non-domestic	Domestic	Non-domestic		
Total revenue	£m	1,213.3	261.5	1,474.8	1,804.2	887.6	1,411.9	15.3	4,119.0	6,370.3
Revenue from sales of electricity and gas	£m	1,213.3	261.5	1,474.8	1,804.2	887.6	1,411.9	15.3	4,119.0	6,370.3
Other revenue	£m	-	-	-	-	-	-	-	-	-
Total operating costs	£m	(1,167.4)	(64.9)	(1,232.3)	(1,663.9)	(860.8)	(1,394.4)	(15.6)	(3,934.7)	(6,354.7)
Direct fuel costs	£m	(970.6)	-	(970.6)	(795.4)	(489.9)	(856.1)	(7.8)	(2,149.2)	(6,330.8)
Direct costs	£m	(120.1)	(61.3)	(181.4)	(691.7)	(325.7)	(376.3)	(2.6)	(1,396.3)	-
Network costs	£m	(89.0)	(20.6)	(109.6)	(453.9)	(221.1)	(308.8)	(2.6)	(986.4)	-
Environmental and social obligation costs	£m	(0.4)	-	(0.4)	(237.8)	(104.6)	(67.5)	-	(409.9)	-
Other direct costs	£m	(30.7)	(40.7)	(71.4)	-	-	-	-	-	-
Indirect costs	£m	(76.7)	(3.6)	(80.3)	(176.8)	(45.2)	(162.0)	(5.2)	(389.2)	(23.9)
WACO F/E/G	£/MWh, p/th	49.1	-	42.4	58.5	56.3	70.0	62.9	N/A	N/A
EBITDA	£m	45.9	196.6	242.5	140.3	26.8	17.5	(0.3)	184.3	15.6
DA	£m	(132.7)	(57.6)	(190.3)	(2.6)	(0.2)	(1.8)	-	(4.6)	(2.4)
EBIT	£m	(86.8)	139.0	52.2	137.7	26.6	15.7	(0.3)	179.7	13.2
Volume	TWh, Mtherm	16.4	2.6	19.0	13.6	8.7	1,223.0	12.4	N/A	N/A
				Supply EBIT margin	7.6%	3.0%	1.1%	-2.0%	4.4%	
				Supply PAT margin					3.8%	

2012 Summarised CSS - Unaudited

		GENERATION			SUPPLY				ENERGY MANAGEMENT	
		ScottishPower Generation	ScottishPower Renewables	Aggregate Generation	Electricity		Gas		Aggregate Supply	ScottishPower Energy Management
					Domestic	Non-domestic	Domestic	Non-domestic		
Total revenue	£m	1,183.8	197.3	1,381.1	1,617.7	947.2	1,232.3	18.4	3,815.6	5,919.1
EBIT	£m	3.0	91.4	94.4	41.1	40.2	87.4	6.8	175.5	2.8
				Supply EBIT margin	2.5%	4.2%	7.1%	37.0%	4.6%	
				Supply PAT margin					3.6%	

Glossary of terms

WACOF/E/G	The weighted average cost of fuel, electricity and gas is calculated by dividing 'Direct fuel costs' by 'Volume'. For ScottishPower Generation, the WACOF represents the weighted average input cost of coal, gas and emissions, shown as £/MWh, and is calculated after deducting £165.8 million of fuel costs in relation to electricity purchased directly from the Supply business as outlined on page 6, as the associated volumes are not produced by assets operated by ScottishPower Generation.
	For the Supply business, the WACOE/G represents the weighted average cost of procuring electricity and gas on the wholesale market, shown as £/MWh (electricity) and p/therm (gas), and comprises the costs of wholesale gas and electricity, transmission and distribution losses, the energy component of Reconciliation by Difference ("RBD") costs and the costs associated with balancing and shaping.
EBITDA	Earnings before interest, tax, depreciation and amortisation, calculated by subtracting total operating costs from total revenue.
DA	Depreciation and amortisation.
EBIT	Earnings before interest and tax, calculated by subtracting depreciation and amortisation from EBITDA.
Supply EBIT margin	EBIT profit margin for the Aggregate Supply business expressed as a percentage, calculated by dividing EBIT by total revenue and multiplying by 100.
PAT	Profit after tax, calculated by subtracting interest and tax from EBIT.
Supply PAT margin	Profit after tax ("PAT") margin for the Aggregate Supply business expressed as a percentage, calculated by dividing PAT by total revenue and multiplying by 100.
Volume	Volumes for the Supply business segments are supplier volumes at the meter point, i.e. net of losses; volume for Aggregate Generation is the volume of electricity produced by assets operated by Aggregate Generation, that can actually be sold on the wholesale market, i.e. after losses up to the point where electricity is received under the Balancing and Settlement Code. For ScottishPower Generation's pumped storage station, the production volume included is net of volumes purchased for pumping.

Basis of Preparation

The CSS presents a segmental analysis of ScottishPower's Aggregate Generation and Aggregate Supply licensed activities and provides information relating to the revenues, costs and profits of these activities in order to enhance the transparency within the energy market for both consumers and other stakeholders.

These statements have been prepared by the Directors of Scottish Power UK plc ("SPUK") and its Licensed entities in accordance with Standard Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences and the associated Guidelines issued by Ofgem and the basis of preparation contained herein.

The financial data provided has been taken from the Relevant Licensees' and Affiliate's (as defined in the Conditions) financial information for the year ended 31 December 2013, included within the Annual Report and Accounts of SPUK for the year ended 31 December 2013, which has been prepared under IFRS.

In order to aid comparability, a summarised 2012 CSS has been provided as a voluntary disclosure. The 2012 CSS is unaudited.

For clarity, the following should be noted:

Aggregate Generation

- The financial results have been included for all GB activities which require a generation licence, other than Celtpower Limited as explained below.
- ScottishPower Renewables holds an equity investment in an 80% subsidiary, Coldham Windfarm Limited. This company generates electricity, however, it is exempt from holding a generation license as it is classed as a 'Small Generator'. Therefore the financial results of this company have been excluded from the CSS. The group's share of EBIT for this company for 2013 is £0.4 million.
- ScottishPower Renewables holds an equity investment in a 50% joint venture, Celtpower Limited. However, the financial results of this company have been excluded from the CSS because this company is not considered an 'Affiliate' under the Conditions. The group's share of EBIT for this company for 2013 is £1.2 million.
- ScottishPower Renewables owns wind farms located in Northern Ireland and the Republic of Ireland. However, the financial results of these wind farms have been excluded from the CSS because they do not constitute licensed activities within Great Britain. The EBIT of these wind farms for 2013 is £9.1 million.

Aggregate Supply

- The financial results have been included for all GB activities which require a supply licence.
- The financial results relating to Energy Services (boiler and radiator care) have been excluded from the Aggregate Supply business as this does not constitute a licensed activity.

Energy Management

- Energy Management is a non-licensed business. However, information has been provided on a voluntary basis in order to enhance transparency within the CSS.
- The Energy Management business performs all trading with external markets for electricity, gas, coal and emissions allowances on behalf of ScottishPower Generation and the Aggregate Supply businesses. All trading for ScottishPower Generation and Aggregate Supply is undertaken to hedge their physical requirements and is ring-fenced in separate trading books for each business. In addition, Energy Management undertakes limited proprietary and gas storage activities on its own behalf. These are held separate from ScottishPower Generation and Aggregate Supply. The profits of Energy Management are the result of all proprietary activities undertaken by Energy Management on its own behalf, all gas storage activities, the pricing of the long term gas contracts as described on pages 6 and 7, and the costs of running the Energy Management operations.

Pricing for electricity and gas

The pricing relationship between the Energy Management, ScottishPower Generation and Aggregate Supply businesses is that of market prices, and prices under long term gas contracts as described on pages 6 and 7. No transfer pricing is therefore required between the Energy Management, ScottishPower Generation and Aggregate Supply businesses as all prices are reflective of actual prices transacted.

Internal transactions are undertaken by Energy Management between the businesses, with the majority of these internal transactions being sales of electricity from the ScottishPower Generation business to the Aggregate Supply business. Where there is a corresponding equal and opposite position in the ScottishPower Generation and Aggregate Supply businesses then an automated internal transaction takes place overnight, and is priced at the prior day's closing market price for the relevant period. This allows internal demand and supply to be met, at market prices for the relevant period, before trading in the market. All other internal transactions are priced at the prevailing market price for the relevant period at the point the transaction is made.

All external transactions with the market for each business are at the prevailing market price at the time of transaction. The market prices at the time of procurement may differ from the price prevailing at the time of supply.

No internal service charges are levied on the ScottishPower Generation or Aggregate Supply businesses in respect of the trading services provided by the Energy Management business.

Basis of Preparation *continued*

Revenues

ScottishPower Generation

'Revenue from sales of electricity and gas' comprises the sales value of electricity and other related services 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.

Pricing

Generation revenue comprises five key components, which are priced as follows:

- the sale of energy, both to the market and to other Iberdrola group companies as described on page 5;
- revenue in respect of balancing activities, ancillary services and constraint management, which are allocated in full directly to Generation, and are priced at the agreed contract price;
- sales of energy, heat and steam from Combined Heat and Power ("CHP") plant to external customers, which are at the agreed contract price;
- sales of Renewable Obligation Certificates ("ROCs") and Levy Exemption Certificates ("LECs") made from the Generation business to the Aggregate Supply business. ROCs are priced at the buy-out price plus the associated recycle payment. LECs are priced at the relevant price for each period; and
- revenue received by embedded generating sites from the Aggregate Supply business, which is at the published rate for the relevant periods.

ScottishPower Renewables

'Revenue from sales of electricity and gas' comprises the sales value of electricity, ROCs and LECs and other related services supplied to the Aggregate Supply business 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 be sold on the wholesale market and are recorded on industry-wide trading and settlement systems. The majority of these revenues arise from transactions with ScottishPower companies.

Pricing

The majority of Renewables revenues arise from internal transactions with the Aggregate Supply business. These transactions are charged under internal Renewable Power Purchase Agreements, which are annually indexed to open market-based prices.

Revenue in respect of balancing activities, ancillary services and constraint management are priced at the agreed contract price.

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 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 impact of tariff discounts given to customers under the Legacy Spend element of the Warm Home Discount programme; the costs of other elements of this programme and of other social obligations are included within 'Direct costs'.

Energy Management

'Revenue from sales of electricity and gas' comprises the sales value of energy supplied to (a) the ScottishPower Generation and Aggregate Supply businesses and (b) the external market during the year, and excludes Value Added Tax. In addition, Energy Management performs limited proprietary and gas storage activities on its own behalf. All revenue is earned within Great Britain.

Direct fuel costs

ScottishPower Generation

'Direct fuel costs' comprise the delivered cost of fuel (coal, gas and electricity), which includes imbalance charges from external parties charged at the cost incurred, the Carbon Price Floor, and the cost of emissions for oxides of nitrogen, sulphur dioxide and the purchased allowances required to be surrendered under the EU Emission Trading Scheme ("EU ETS") for carbon dioxide (CO₂).

Pricing

The pricing for electricity and gas is outlined on page 5.

A proportion of gas procured for Generation is delivered from a long term gas contract, which is priced at the contract price with the counterparty, plus a premium (retained by Energy Management) to reflect the price paid by Iberdrola in acquiring the right to the contract as part of the acquisition of ScottishPower, and the impact of hedging of contract price indexation.

Additionally, for electricity, Generation purchases renewable output from both internal and external parties via the Aggregate Supply business at the contract price incurred. For 2013, the value of these purchases was £165.8 million. Further, a small volume of electricity imports in relation to CHP plants are procured from the Aggregate Supply business at the market price.

Basis of Preparation *continued*

Direct fuel costs *continued*

ScottishPower Generation *continued*

Pricing continued

Coal is required only by Generation. It is procured for Generation by Energy Management, and is charged to Generation when consumed. The price charged is the weighted average cost of the coal stock which reflects the actual cost incurred. This therefore comprises physical coal purchases, the impact of coal swaps procured to hedge the price of coal deliveries, Carbon Price Floor, foreign exchange ("FX") hedging, and all transportation costs to bring the coal to the station.

CO₂ emissions allowances are only required by Generation; these are procured for Generation by Energy Management and are charged to Generation at the cost incurred including the impact of FX hedging. Generation was allocated 14,966 tonnes of free emissions allowances in relation to a small CHP plant in 2013, compared to 10,184,934 tonnes in 2012.

Aggregate Supply Business

'Direct fuel costs' comprise the cost of wholesale electricity and gas procured for the Aggregate Supply business (including volume losses), the energy component of RBD costs and imbalance costs.

Pricing

The pricing for electricity and gas are outlined on page 5.

In the case of gas, there is also a significant volume purchased through long term contracts. These volumes are used by Supply gas customers, and are at the contract price with the counterparty, plus a premium (retained by Energy Management) to reflect the price paid by Iberdrola in acquiring the right to the contracts as part of the acquisition of ScottishPower, and the impact of hedging of contract price indexation.

The Aggregate Supply business purchases electricity, together with the associated ROCs and LECs under internal and external Renewable Power Purchase Agreements. The electricity element is sold to the ScottishPower Generation business at the price paid, resulting in a neutral financial impact for the Aggregate Supply business.

Balancing costs and the energy element of RBD costs are incurred by Energy Management and recharged to the Aggregate Supply business at the actual cost incurred. All other costs are directly allocated to the Aggregate Supply business as incurred by ScottishPower.

Energy Management

'Direct fuel costs' comprise the value of energy purchased for the ScottishPower Generation and Aggregate Supply businesses from the external market and trading in respect of limited proprietary and gas storage activities, and excludes Value Added Tax.

Direct costs

In order to provide consumers with an accurate understanding of the costs drivers behind energy bills, direct costs disclosed within the CSS have been broken down into the following categories: Network costs, Environmental and social obligation costs and Other direct costs.

Aggregate Generation Business

- Network costs comprise balancing charges from National Grid ("BSUOS"), gas transportation charges, electricity transmission and distribution network charges.
- Environmental and social obligation costs comprise the costs associated with the CRC Energy Efficiency Scheme.
- Other direct costs comprise operational costs and maintenance costs.

Aggregate Supply Business

- Network costs comprise BSUOS costs (recharged from Energy Management at the actual cost incurred), gas transportation charges, electricity transmission and distribution network charges, the transport element of RBD costs and costs associated with the Assistance for Areas with High Electricity Distribution Costs scheme (these costs are allocated directly to the segment to which they relate).
- Environmental and social costs comprise the costs of ROCs (allocated to the segments based on sales volume), LECs (allocated to the non-domestic segment), Feed in Tariffs ("FITs") (allocated to the segments based on sales volume), the Energy Companies Obligation ("ECO"), Warm Home Discount, completion costs for the Carbon Emissions Reduction Target ("CERT") and the Community Energy Saving Programme ("CESP") (all allocated to the domestic segment), and the costs associated with the CRC Energy Efficiency Scheme (allocated to the segments based on customer numbers).

To further improve transparency, an analysis of energy related government obligations (including environmental and social costs) is included on a voluntary basis within Appendix A.

Basis of Preparation *continued*

Indirect costs

Aggregate Generation Business

Indirect costs are head office costs, staff costs, the costs of centralised services² provided by Iberdrola group companies and other costs that are not directly incurred for operations and maintenance, which includes costs for non-operational plant.

Energy Management

Indirect costs are head office costs, staff costs and the costs of centralised services² provided by Iberdrola group companies.

Aggregate Supply Business

Indirect costs are the costs of billing, metering, customer service, bad debt and debt collection, support services, sales and marketing, staff costs and the costs of centralised services² provided by Iberdrola group companies. Where it is not possible to allocate these costs directly to a particular customer segment (domestic/non-domestic) or fuel category (gas/electricity), they are allocated using a costing model based on customer numbers, transactional volumes and employee activity.

Depreciation and amortisation

For the Aggregate Supply Business, depreciation and amortisation costs are allocated to the segments based on customer numbers.

Non-recurring items

In line with Ofgem's guidelines, mark to market adjustments, profits or losses on disposal, restructuring costs and impairment charges that have been identified as such in the Annual Report and Accounts of SPUK have been excluded from the CSS. Additional non-recurring items such as insurance receipts have also been excluded in line with Ofgem's guidelines, as the directors believe that these items do not reflect the company's day-to-day activities relating to that year of operations. Details of these are included in Appendix B on pages 12 and 13.

Reconciliation to audited Group accounts

A reconciliation of the Revenue and EBIT in the CSS to the Annual Report and Accounts of SPUK has been provided on page 9.

² Centralised services are HR, IT, finance and legal costs and other head office costs. Where these costs can be identified as being directly attributable to the Aggregate Generation, Aggregate Supply or Energy Management businesses, those costs are recharged directly to that business. Non-directly attributable costs are allocated across ScottishPower's businesses using costing models based on employee numbers, revenue, operating profits and net assets.

Reconciliation of CSS Revenue and EBIT
to the Annual Report and Accounts of Scottish Power UK plc
for the year ended 31 December 2013



		GENERATION			SUPPLY	ENERGY MANAGEMENT
		ScottishPower Generation	ScottishPower Renewables	Aggregate Generation	Aggregate Supply	ScottishPower Energy Management
Revenue per CSS	£m	1,213.3	261.5	1,474.8	4,119.0	6,370.3
Revenue per SPUK Annual Report and Accounts	£m	1,213.3	261.5	1,474.8	4,119.0	6,370.3
EBIT per CSS	£m	(86.8)	139.0	52.2	179.7	13.2
EBIT per SPUK Annual Report and Accounts	£m	(86.8)	139.0	52.2	179.7	13.2

See Appendix B and Note 6 of the Annual Report and Accounts of SPUK for further details.

Questionnaire on business functions

The table below outlines where the responsibility for each business function resides:

Business function	Aggregate Generation	Aggregate Supply Business	Energy Management
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 ³	P/L	P/L	F
Responsible for implementing hedging policy / makes decisions to buy/sell energy ³	P/L	P/L	F
Interacts with wider market participants to buy/sell energy ³	P/L	P/L	F
Holds unhedged positions (either short or long) ³	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) ³	P/L	P/L	F
Matches own generation with own supply ^{3,4}	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 ³	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

³ For each of these business functions, Energy Management undertakes actions for both the ScottishPower 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.

⁴ ScottishPower Generation is not scheduled to meet retail demand. Internal transactions are performed between the ScottishPower Generation and Aggregate Supply businesses where the trading positions offset and is explained further on page 5.

Appendix A - Analysis of Energy Related Government Obligations for the years ended 31 December 2013 and 2012



The tables below provide an analysis of the costs of energy related government obligations for both the Aggregate Generation and Aggregate Supply businesses for the years ended 31 December 2013 and 31 December 2012. This information has been provided on a voluntary basis to further improve transparency.

Year ended 31 December 2013

	GENERATION			SUPPLY				
	ScottishPower Generation	ScottishPower Renewables	Aggregate Generation	Electricity		Gas		Aggregate Supply
				Domestic	Non- domestic	Domestic	Non- domestic	
Renewables Obligation Certificates (ROCs)	£m	-	-	(108.6)	(69.5)	-	-	(178.1)
Levy Exemption Certificates (LECs)	£m	-	-	-	(13.1)	-	-	(13.1)
Feed in Tariffs (FITs)	£m	-	-	(30.7)	(22.0)	-	-	(52.7)
Energy Companies Obligation (ECO)	£m	-	-	(80.9)	-	(55.3)	-	(136.2)
Warm Home Discount (WHD)	£m	-	-	(15.7)	-	(10.8)	-	(26.5)
Carbon Emissions Reduction Target (CERT)	£m	-	-	(1.3)	-	(0.9)	-	(2.2)
Community Energy Saving Programme (CESP)	£m	-	-	(0.5)	-	(0.4)	-	(0.9)
CRC Energy Efficiency Scheme	£m	(0.4)	-	(0.1)	-	(0.1)	-	(0.2)
Environmental and social obligation costs per CSS	£m	(0.4)	-	(237.8)	(104.6)	(67.5)	-	(409.9)
Carbon Price Floor* (included within Direct fuel costs in the CSS)	£m	(34.3)	-	(34.3)	-	-	-	-
Total energy related government obligations	£m	(34.7)	-	(237.8)	(104.6)	(67.5)	-	(409.9)

Year ended 31 December 2012 (unaudited)

	GENERATION			SUPPLY				
	ScottishPower Generation	ScottishPower Renewables	Aggregate Generation	Electricity		Gas		Aggregate Supply
				Domestic	Non- domestic	Domestic	Non- domestic	
Renewables Obligation Certificates (ROCs)	£m	-	-	(79.8)	(55.9)	-	-	(135.7)
Levy Exemption Certificates (LECs)	£m	-	-	-	(25.9)	-	-	(25.9)
Feed in Tariffs (FITs)	£m	-	-	(34.5)	-	-	-	(34.5)
Warm Home Discount (WHD)	£m	-	-	(11.7)	-	(6.9)	-	(18.6)
Carbon Emissions Reduction Target (CERT)	£m	-	-	(62.7)	-	(36.8)	-	(99.5)
Community Energy Saving Programme (CESP)	£m	(26.8)	(0.5)	(27.3)	(20.9)	(12.3)	-	(33.2)
CRC Energy Efficiency Scheme	£m	(1.0)	-	(1.0)	(0.1)	(0.1)	-	(0.2)
Environmental and social obligation costs per CSS	£m	(27.8)	(0.5)	(209.7)	(81.8)	(56.1)	-	(347.6)
Total energy related government obligations	£m	(27.8)	(0.5)	(209.7)	(81.8)	(56.1)	-	(347.6)

*Carbon Price Floor is calculated and paid to HMRC based on fuel deliveries received at generating stations in line with the relevant legislation. Coal delivered is not consumed immediately and therefore the tax is included in the coal stock value and charged to the income statement as coal is consumed as part of the WACOF. Gas is consumed immediately and the tax is charged to the income statement at the point of delivery. The value quoted for Carbon Price Floor excludes the cost of purchasing emissions allowances under the EU ETS.

Appendix B – Extract from the Annual Report and Accounts of Scottish Power UK plc for the year ended 31 December 2013



6 BUSINESS SEGMENT REPORTING

(a) Operating segments and business divisions

The classification of the group's operating segments for management reporting purposes are based on a combination of factors, principally differences in products and services and the regulatory environment in which each business operates.

For management reporting purposes the group is currently organised into four operating segments, Energy Networks, Energy Wholesale, Energy Retail and Renewables, as detailed in Note 1 of the Accounts. In order to comply with the requirements of IFRS 8 'Operating Segments', the group therefore reports its operating segments on this basis and the measure of profit used for the purpose of reporting to the Chief Operating Decision Maker ("CODM") is profit from operations as per the consolidated income statement. All revenue and profit from operations arise from operations within Great Britain and Ireland.

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

The group's operating segments and business divisions are as follows:

Operating segment	Business division	Business division description
Energy Networks	<i>Energy Networks</i>	The transmission and distribution business within the group.
Energy Wholesale	<i>Generation – Licensed business¹</i>	The licensed activity of the Energy Wholesale operating segment, which owns and operates coal, gas and hydro-electric generation plant.
	<i>Energy Management¹</i>	The non-licensed activities of the Energy Wholesale operating segment, responsible for wholesale market sales and purchases for the Generation and Supply licensed business divisions.
	<i>Other</i>	The other non-licensed activity of the Energy Wholesale operating segment which includes the results of the group's waste water treatment facility.
Energy Retail	<i>Supply – Licensed business¹</i>	The licensed activity of the Energy Retail operating segment responsible for the supply of electricity and gas to domestic and business customers.
	<i>Other</i>	The non-licensed activity of the Energy Retail operating segment which includes the group's Energy Services activities.
Renewables	<i>Renewables – Licensed business¹</i>	The Great Britain licensed activity of the Renewables operating segment, which develops and operates renewable generation plant, other than hydro-electric generation plant.
	<i>Other</i>	The non-licensed activity of the Renewables operating segment, which includes generation activity outside Great Britain and the impact of the amortisation of the fair value attributed to the Renewables operating segment when purchased by Iberdrola during 2007. Refer to Note 34 for further information.

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

(b) Revenue by operating segment and business division

(i) Revenue by operating segment

Revenue by operating segment for the year ended 31 December 2013

Operating segment	External revenue £m	Inter-segment revenue £m	Total revenue £m
Energy Networks	830.5	212.2*	1,042.7
Energy Wholesale	3,263.5	2,467.8	5,731.3
Energy Retail	4,112.9	20.4	4,133.3
Renewables	23.8	257.5	281.3
Elimination of inter-segment revenue			(2,957.9)
			8,230.7

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

Appendix B – Extract from the Annual Report and Accounts of
Scottish Power UK plc for the year ended 31 December 2013



(ii) Additional Information – Revenue by business division

Revenue by business division for the year ended 31 December 2013

Operating segment	Business division	External revenue £m	Inter-segment revenue £m	Total revenue £m
Energy Networks		830.5	212.2	1,042.7
	Generation – Licensed business	101.6	1,111.7	1,213.3
	Energy Management	3,161.9	3,208.4	6,370.3
	<i>Elimination of internal segmental revenue</i>	–	(1,852.3)	(1,852.3)
Energy Wholesale		3,263.5	2,467.8	5,731.3
	Supply – Licensed business	4,098.6	20.4	4,119.0
	Other	14.3	–	14.3
Energy Retail		4,112.9	20.4	4,133.3
	Renewables – Licensed business	10.1	251.4	261.5
	Other	13.7	6.1	19.8
Renewables		23.8	257.5	281.3
	Elimination of inter-segment revenue			(2,957.9)
Total				8,230.7

(c) Profit/(loss) from operations by operating segment and business division

(i) Profit/(loss) from operations by operating segment

Profit/(loss) from operations by operating segment for the year ended 31 December 2013

Operating segment	Profit/(loss) from operations reported to the CODM £m
Energy Networks	591.4
Energy Wholesale	(156.6)
Energy Retail	164.4
Renewables	106.9
Total	706.1

(ii) Additional information – Profit/(loss) from operations by business division

Profit/(loss) from operations by business division for the year ended 31 December 2013

Operating segment	Business division	Profit/ (loss) from operations reported to the CODM £m	Non-recurring items (Note (iii)) £m	Certain remeasurements (Note (iv)) £m	Adjusted profit/ (loss) from operations as per regulatory licence requirements* £m
Energy Networks		591.4	(9.7)	–	581.7
	Generation – Licensed business	(198.6)	76.6	35.2	(86.8)
	Energy Management	40.5	–	(27.3)	13.2
	Other	1.5	–	–	1.5
Energy Wholesale		(156.6)	76.6	7.9	(72.1)
	Supply – Licensed business	159.7	20.0	–	179.7
	Other	4.7	–	–	4.7
Energy Retail		164.4	20.0	–	184.4
	Renewables – Licensed business	134.9	4.1	–	139.0
	Other	(28.0)	–	–	(28.0)
Renewables		106.9	4.1	–	111.0
Unallocated		–	(3.4)	–	(3.4)
Total		706.1	87.6	7.9	801.6

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

(iii) Non-recurring items

In the year ended 31 December 2013 the following non-recurring items were recorded:

Provisions for restructuring and other liabilities: On review of the group's provisions as at 31 December 2013, restructuring provisions and associated pension costs of £38.9 million were recognised. In addition, the group released £18.3 million of costs associated with various regulatory reviews and other contractual obligations for which provisions were no longer required.

Impairment and non-current asset write-offs: During the year ended 31 December 2013, the group recognised an impairment charge of £82.1 million in relation to the goodwill associated with Rye House power station (refer to Note 7 for further details). In addition, the group recognised impairment charges of £4.1 million in relation to the cancellation of certain development costs and £10.6 million for assets no longer in use which were written off to the income statement.

Taxes other than income tax: During the year, the group recognised a refund of £18.7 million following a resolution of a negotiation with the Scottish Assessors Association on historical property taxes. A refund of £2.0 million for property taxes was also recognised following the closure of Cockerzie power station in 2012.

Operating income: During the year, the group recognised £7.0 million of non-recurring income on settlement of outstanding insurance claims.

Staff costs: During the year, the group recognised a refund of employee insurance premiums of £2.1 million.

(iv) Certain remeasurements

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