SCOTTISHPOWER ENERGY MANAGEMENT LIMITED
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2021

Registered No. SC215843

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CONTENTS

The directors present their Strategic Report on ScottishPower Energy Management Limited ("the Company") for the year ended 31 December 2021. This includes an overview of the Company's structure, strategic outlook including 2021 performance, and principal risks and uncertainties.

INTRODUCTION

The principal activities of the Company, registered company number SC215843, are the purchase of external supplies of electricity and gas for onward sale to customers, and the management of electricity purchased via renewable Power Purchase Agreements ("PPAs") from ScottishPower's Renewables business ("Renewables") and other external parties with wholesale market participants in the United Kingdom ("UK"). These activities are performed on behalf of ScottishPower's Energy Retail business ("Energy Retail"). The Company also optimises its gas storage assets. These activities 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 Scottish Power Retail Holdings Limited ("SPRH"). Scottish Power Limited ("SPL") is the UK holding company of the Scottish Power Limited Group ("ScottishPower") of which the Company is a member.

The Company is part of ScottishPower's Energy Wholesale business ("Energy Wholesale"). The Energy Wholesale business continues to focus on managing ScottishPower's exposure to the UK wholesale electricity and gas markets for Energy Retail and Renewables.

STRATEGIC OUTLOOK

Operating review

The Company manages ScottishPower's exposure to the UK wholesale electricity and gas markets for Energy Retail and Renewables. In 2021, unprecedented increases in wholesale costs resulted in energy suppliers across the retail market collapsing, however, the Company continues to hedge this commodity price exposure to minimise the impact from increased wholesale prices on ScottishPower.

The Company has focused on meeting the commodity trading requirements of Energy Retail and Renewables. The Company also supports Energy Retail in delivering a range of green retail domestic fixed-term products and supports the Renewables business by advising on long-term commodity price trends which assists the construction of new wind farms, and provides a route to market for new technologies. It also continued to optimise the value of its gas storage facility.

2021 performance

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

	Revenue*		Operating profit*		Capital investment**	
	2021	2020	2021	2020	2021	2020
Financial key performance indicators	£m	£m	£m	£m	£m	£m
ScottishPower Energy Management Limited	3,888.8	2,406.2	5.0	3.1	2.3	2.7

* Revenue and Operating profit presented within the Income statement on page 14.
** Capital investment for 2021 is presented within Notes 3 and 4 on page 25.

Revenue increased by £1,482.6 million to £3,888.8 million in 2021. This was primarily due to higher commodity derivative revenue from the impact of significantly increased commodity prices year on year and greater demand for gas and electricity from Energy Retail. The higher commodity derivative revenue is linked to the level of hedging activity required to effectively manage the procurement of gas and electricity on behalf of Energy Retail.

An operating profit of £5.0 million was recorded in 2021 which is a £1.9 million increase from 2020. This is principally due to the Company's gas storage facility generating a £2.5 million increase in gross margin, a £1.2 million increase in income from other operating results offset by a £1.4m rise in net expected credit losses ("ECLs") on trade and other receivables.

Capital investment reduced by £0.4 million to £2.3 million mainly reflecting a reduction in spending on plant in the course of construction in the year.

During the year there was a significant increase of £766.7m in derivative financial instruments, driven by increases in market prices of power and gas. Correspondingly, collateral, which is primarily driven by margin provided to the Company in relation to these derivatives, increased by £234.1m.

Outlook for 2022 and beyond

For 2022 and beyond, the Company will continue to contribute towards the management of new, flexible assets being commissioned by Renewables and the delivery of greener energy for Energy Retail. It will also continue to optimise the value of its gas storage facility.

COVID-19

As the COVID-19 crisis has developed and ScottishPower's response has evolved, it has been committed to taking all necessary measures to help to protect the safety and wellbeing of its employees, its customers and the communities it serves. ScottishPower, Energy Wholesale and so the Company, has been working closely with government departments,

STRATEGIC OUTLOOK *continued*
The Office of Gas and Electricity Markets ("Ofgem"), and industry bodies to ensure that they continue to follow the latest advice.

At a ScottishPower level, several measures were implemented to ensure it is well positioned to respond to the significant challenges posed by COVID-19. These include ongoing reviews of business continuity, IT resilience, supply chain operations, and the safety and wellbeing of critical and non-critical employees.

Financial instruments
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 rate policy for ScottishPower and how it manages the related risks are included in the most recent Annual Report and Accounts of SPL.

The Company's derivatives comprise commodity derivatives and forward foreign exchange contracts. The Company uses commodity forward (fixed-price/fixed-volume) contracts to hedge its exposure to commodity price risk (the variability in cash flows associated with changes in the market price of electricity and natural gas). Refer to Note 6 for further information.

PRINCIPAL RISKS AND UNCERTAINTIES
To deliver its strategy, ScottishPower, Energy Wholesale and so the Company, are required to conduct business in a manner benefitting customers through balancing cost and risk, while delivering shareholder value and protecting its 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 ScottishPower's risk management practices can be found in the most recent Annual Report and Accounts of SPL.

The principal risks and uncertainties of ScottishPower relevant to the Company, and those specific to the Company, that may impact current and future operational and financial performance and the management of these risks are described below:

REGULATORY AND POLITICAL RISK	
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.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

FINANCIAL RISKS	
RISK	RESPONSE
Impacts arising from market and regulatory reactions to events including COVID-19 and Brexit. These could include: increased volatility on the value of Sterling and foreign currencies; movement in the market price of electricity and gas; and in the longer term, there could be positive or negative changes in the UK economy. In light of the outbreak of war in Ukraine during early 2022, ScottishPower, and therefore the Company, continues to assess the impact of this on commodity prices, foreign exchange rates and the global supply chain through its market risk management policies noted above and continued engagement with suppliers.	In addition to monitoring ongoing developments, ScottishPower, and so the Company, has specific procedures in place to manage these key market risks. Further details of the Treasury risk management policy is included in the most recent Annual Report and Accounts of SPL (refer to Note 6). No material operational issues have arisen to date or are expected, however ScottishPower will continue to monitor the situation and put mitigating actions in place if and when appropriate.
The credit deterioration of commodity trading counterparties.	ScottishPower monitor the creditworthiness of all commodity trading counterparties on a daily basis. Any deterioration in creditworthiness may lead to reductions in allocated credit limits, restrictions in trading activities or in some cases requests for collateral, either in the form of cash or a guarantee from a suitable entity.

BUSINESS RISKS	
RISK	RESPONSE
The risk that Iberdrola's, ScottishPower's, and therefore the Company's strategy or operations have an unacceptable impact on the environment and on national and international targets to tackle climate change, or that climate change has an unacceptable impact on operations. The impacts of climate change include: the risks of transition (regulatory, market, demand variations), physical risks (increase in temperatures) and greater competition for financial resources.	Iberdrola's, ScottishPower's, and so the Company's, commitment to tackle climate change is reflected in the Company's strategy. The potential impact from climate change factors on operations is mitigated through consideration of temperature and demand trends as part of demand forecasting employed by the Company. Furthermore, ScottishPower is fully engaged with the UK Government and Ofgem on regulatory policy change in relation to climate change targets that may impact on the Company. Further details of Iberdrola's, ScottishPower's, and so the Company's, key measures to mitigate climate change risks are set out in the most recent Annual Report and Accounts of SPL. Overall, the opportunities deriving from the decarbonisation of the global economy outweigh the risks. For further information, please refer to Iberdrola's latest Integrated Report and Sustainability Report. In addition, Iberdrola's Climate Change policy is available at www.Iberdrola.com.
Inability to efficiently hedge the exposure to power and gas prices due to the complexity of the price cap pricing mechanism.	Continuous assessment of the wholesale energy markets and constant monitoring of the impact of market movements across seasons.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

OPERATIONAL RISKS	
RISK	RESPONSE
A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.	ScottishPower, and so the Company, has certified management systems in place to deliver activities as safely as possible. In addition, a ScottishPower Health and Safety function exists and provides specialist services and support for the businesses, and so the Company, in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes, is established throughout ScottishPower, which aims to ensure not only continuing legal compliance but also to drive towards best practice in all levels of health and safety operations.
Breach in cyber security and unwanted infiltration of ScottishPower's IT infrastructure by internal and external parties impacting key infrastructure, networks or core systems.	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 ScottishPower and the Company's employees and contractors as to how behaviour can reduce this risk. Embedding cyber security in all projects where appropriate.

ENGAGING WITH STAKEHOLDERS

References to "ScottishPower" apply fully to Energy Wholesale, and therefore the Company.

The importance of engaging with stakeholders

As part of the Iberdrola Group, ScottishPower is developing a responsible and sustainable energy model which focuses on the wellbeing of people, the protection of the environment, and the economic and social progress in the communities in which ScottishPower operates. ScottishPower strongly believes that effective and meaningful engagement with stakeholders, especially employees, is key to promoting its success and values.

Meaningful engagement with stakeholder groups supports the ethos of section 172 of the Companies Act 2006 which states that directors should have regard to stakeholder interests when discharging their duty to promote, in good faith, the success of the Company for the benefit of its members as a whole. Details of how ScottishPower, Energy Wholesale, and so the Company, engages with its stakeholders, and how these activities influence the Company's operations, are set out below.

Key stakeholders

ScottishPower, and therefore Energy Wholesale and the Company, have four key stakeholder categories: employees and energy customers; government and regulators; suppliers and contractors; and community and environment.

Behind these stakeholders are millions of people, and thousands of institutions, organisations and groups. All of them, with their decisions and opinions, influence ScottishPower and they are also affected by ScottishPower's activities. In addition, these stakeholders interact with each other, creating a universe of relationships that ScottishPower needs to manage in order to achieve a better understanding of its operating environment and to deliver a more sustainable performance across its activities.

Shareholders are also important to the Company and ScottishPower. All shareholder management activities are carried out on ScottishPower's behalf by its ultimate parent company, Iberdrola, which is listed on the Madrid Stock exchange. Iberdrola is committed to dialogue, proximity and actions in favour of shareholders. Iberdrola is one of the first companies in the world, to formalise a Shareholder Engagement Policy focusing upon two-way interaction with the shareholders in order to forge a sense of belonging and to encourage their engagement in the corporate life of Iberdrola. Iberdrola's Shareholder Engagement Policy is published at https://www.iberdrola.com/corporate-governance/governance-sustainability-system/corporate-governance-policies/shareholder-engagement-policy

ENGAGING WITH STAKEHOLDERS *continued*

EMPLOYEES AND ENERGY CUSTOMERS

Employees

ScottishPower employs approximately 5,700 employees, working across a range of roles. The employees make a real difference in determining how successfully ScottishPower operates. The creativity, innovation and individuality of ScottishPower's employees enables ScottishPower to build on its future capability to operate effectively in a competitive market, and continue to have aspirations which are challenging and rewarding. ScottishPower respects and recognises the importance of individuality as part of its ongoing commitment to promoting a culture where individuality is celebrated. ScottishPower also understands that being a diverse organisation goes beyond having legally compliant policies and practices; it includes a focus on creating an innovative, integrated organisation where people feel valued, inspiring them to perform at their best.

Further details as to how ScottishPower, and so the Company, engages with its employees are provided in the most recent Annual Report and Accounts of SPL.

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 ScottishPower, and therefore the Company, addresses health and safety requirements can be found in the most recent Annual Report and Accounts of SPL.

Modern Slavery Statement

The term 'modern slavery' covers both slavery and human trafficking. ScottishPower, Energy Wholesale, and so the Company, is committed to human and labour rights and to eliminating modern slavery that could in any way be connected to its business. In accordance with the Modern Slavery Act 2015, ScottishPower has produced its own Modern Slavery Statement, which was approved by the board of directors of SPL. This statement is published on the ScottishPower website at: https://www.scottishpower.com/pages/scottishpowers_modern_slavery_statement.aspx.

Energy customers

The Company's success depends on its ability to understand and meet the needs of its customers, and engagement is key to its success in this rapidly changing environment. The Company performs all trading with external markets for electricity and gas on behalf of Energy Retail with wholesale market participants in the UK as well as the management of electricity from renewable PPAs, including those from Renewables.

GOVERNMENT AND REGULATORS

Governments and regulators play a central role in shaping the energy sector. ScottishPower, and therefore the Company, engages with them directly and through trade associations, responding to issues of concern and providing expertise to support policy development. Through this engagement, ScottishPower, and therefore the Company, aims to contribute to the delivery of a UK energy system that functions in the interests of customers now, and in the future, including achievement of the UK and Scottish Governments' net zero decarbonisation targets.

In the course of the year, ScottishPower has committed significant resource in its capacity as a principal sponsor to supporting the UK Government in delivering the climate change conference, the Conference of the Parties ("COP26") in Glasgow, highlighting priorities for decarbonising the energy sector and achieving a just transition. ScottishPower continues to work with governments on their policies for future support for renewables and new technologies such as green hydrogen.

The Company is also subject to the requirements of the European Market Infrastructure Regulation ("EMIR"), as a non-financial counterparty. Prior to 31 December 2020, this was via the European Union ("EU") regulation on Over-The-Counter ("OTC") derivatives, central counterparties and EMIR Trade Repositories. From 1 January 2021, EU EMIR was 'onshored' into UK domestic law by virtue of the European Union (Withdrawal) Act 2018 to become UK EMIR. The regulation requires counterparties, who have entered into derivative contracts, to externally report these to an authorised Trade Repository, and to implement risk management standards for all bilateral OTC derivatives.

SUPPLIERS AND CONTRACTORS

As part of its mission for a better future, quicker, ScottishPower are always looking for new suppliers and contractors, and for ways to improve its working relationships with existing suppliers and contractors. ScottishPower's suppliers have a key role to play in the delivery of the projects and services that ScottishPower is undertaking to provide a low-carbon future for the UK. ScottishPower, and therefore the Company, aims to develop and maintain strong relationships across its supply base with a focus on health and safety, quality, cost and sustainability.

ENGAGING WITH STAKEHOLDERS *continued*

As part of ScottishPower, the Company's engagement with its suppliers and contractors is driven by the decisions, policies and procedures in place at a ScottishPower level. Further details as to how ScottishPower, Energy Wholesale, and so the Company, engages with its supply chain are provided in the most recent Annual Report and Accounts of SPL.

COMMUNITY AND ENVIRONMENT

ScottishPower, and therefore the Company, continually strives to be a trusted, respected and integrated part of the community, by operating with integrity, transparency, and working closely within the community to build relationships. ScottishPower aims to ensure it conducts its activities responsibly and makes a positive contribution to society. As key stakeholders, engaging with communities is essential to delivering ScottishPower's objectives.

ScottishPower and therefore the Company is committed to reducing its environmental footprint by: reducing emissions to air, land and water and preventing environmental harm; minimising energy consumption and use of natural and man made resources; sourcing material resources responsibly, cutting waste and encouraging re-use and recycling; and protecting natural habitats and restoring biodiversity.

Further details as to how ScottishPower, and so the Company, engages with communities and manages its impact on the environment are provided in the most recent Annual Report and Accounts of SPL.

INNOVATION

Living with the sustained and significant impacts of the pandemic in 2021, it has never been more crucial that ScottishPower continues to grow and evolve to be the energy company of the future. Providing the critical services customers demand and ensuring those most vulnerable are not left behind during the transition to net zero is at the heart of everything ScottishPower does. By embracing innovative technologies, adopting new ways of working and collaborating with new partners, ScottishPower, Energy Wholesale, and so the Company, lead by example in making sure clean, affordable energy is available to all.

Further details on the ScottishPower innovation activities relevant to Energy Wholesale, and so the Company, are provided in the most recent Annual Report and Accounts of SPL.

SECTION 172 STATEMENT

Statement by the directors in performance of their statutory duties in accordance with section 172 of the Companies Act 2006

The Companies (Miscellaneous) Reporting Regulations 2018 requires the directors of ScottishPower Energy Management Limited to give a statement which describes how the directors have had regard to the matters set out in section 172(1) of the Companies Act 2006 when discharging their duty under that section.

The directors acknowledge and understand their duties and responsibilities, including that, under section 172 of the Companies Act 2006, a director of a company must act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

a) the likely consequences of any decision in the long-term;
b) the interests of the company's employees;
c) the need to foster the company's business relationships with suppliers, customers and others;
d) the impact of the company's operations on the community and the environment;
e) the desirability of the company maintaining a reputation for high standards of business conduct; and
f) the need to act fairly as between members of the company

The delivery of the strategy of Energy Wholesale (headed by SPRH) of which the Company is a member, requires Energy Wholesale to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting the performance and reputation of Energy Wholesale by prudently managing risks inherent in the business. In carrying out this strategy, the directors' duties under section 172 of the Companies Act 2006 have been considered.

SECTION 172 STATEMENT *continued*

The directors strongly believe that effective and meaningful engagement with stakeholders and employees is key to promoting the success of the Company. Details of the Company's key stakeholders and how the Company engages with them are as follows:

- Customers: details of how the Company engages with its customers are explained in the 'Customers' sub-section of the Strategic Report, on page 5.
- Employees: details of how Energy Wholesale, and so the Company, engages with its employees are set out in the 'Employees' sub-section of the Strategic Report, on page 5.
- Community and environment: details of how Energy Wholesale, and so the Company, engages with communities are set out in the 'Community and environment' sub-section of the Strategic Report, on page 6.
- Suppliers: details of how Energy Wholesale, and so the Company, engages with its suppliers are set out in the 'Suppliers and contractors' sub-section of the Strategic Report, on page 5.
- Government and regulators: details of how Energy Wholesale, and so the Company, engages with governments and regulators are set out in the 'Government and regulators' sub-section of the Strategic Report, on page 5.

In addition, a statement in relation to the Company's interaction with its shareholders is described in the introduction to the 'Engaging with stakeholders' section of the Strategic Report on page 4.

The directors, both individually and together as a board, consider that the decisions taken during the year ended 31 December 2021 in discharging the function of the Company's board of directors ("the Board") were in conformance with their duty under section 172 of the Companies Act 2006.

The Board are assisted in considering key stakeholders as part of the decision-making process by including stakeholder considerations in board papers as appropriate, and board papers are carefully reviewed and considered by all directors.

ON BEHALF OF THE BOARD

Valerie Sim
Director
22 September 2022

The directors present their report and audited Accounts for the year ended 31 December 2021.

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 7:

- information on financial risk management and policies;
- information regarding future developments of the Company's business;
- information in relation to innovation activities; and
- information on employee regulations and policies.

STREAMLINED ENERGY AND CARBON REPORTING

The Company is exempt under section 20A of Part 7A of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 from the requirements to present disclosures concerning greenhouse gas emissions, energy consumption and energy efficiency action as such disclosures relating to the SPL Group, of which the Company is a part, are presented in the most recent Annual Report and Accounts of SPL.

RESULTS AND DIVIDENDS

The net profit for the year amounted to £5.0 million (2020 £1.2 million). No dividend was paid during the year (2020 nil).

DIRECTORS

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

Julián Calvo Moya
Douglas Ness
Carlos Pombo Jiménez
Neil Stainton

Douglas Ness resigned on 30 March 2022 and Valerie Sim was appointed on 12 April 2022.

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 ANNUAL REPORT AND ACCOUNTS

The directors are responsible for preparing the Annual Reports 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 UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101").

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, reliable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF ANNUAL REPORT AND ACCOUNTS *continued*

The directors are responsible for the maintenance and integrity of the corporate and financial information relating to the Company that is included on the ScottishPower website. Legislation in the UK governing the preparation and dissemination of the financial statements differs from legislation in other jurisdictions.

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.

AUDITOR

KPMG LLP was re-appointed as the auditor of the Company for the year ended 31 December 2022.

ON BEHALF OF THE BOARD

Valerie Sim
Director
22 September 2022

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SCOTTISHPOWER ENERGY MANAGEMENT LIMITED

Opinion
We have audited the financial statements of ScottishPower Energy Management Limited ("the company") for the year ended 31 December 2021 which comprise the Statement of financial position, Income statement, Statement of comprehensive income, Statement of changes in equity, 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 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; 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 FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

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 a period of at least twelve months from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how these risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect
Identifying and responding to risks of material misstatement due to fraud
To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and internal audit and inspection of policy documentation as to the company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board meeting minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

Fraud and breaches of laws and regulations – ability to detect *continued*

Identifying and responding to risks of material misstatement due to fraud continued

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets/ recent revisions to guidance/ our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue consists entirely of routine, non-complex transactions which are subject to systematic processing and do not require significant judgments.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of noncompliance throughout the audit.

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

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

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: employment law, health and safety, anti-bribery and environmental protection legislation recognising the regulated nature of the company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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:

- 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 and 9, 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 members, 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 members 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 members, as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Williamson

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

22 September 2022

SCOTTISHPOWER ENERGY MANAGEMENT LIMITED
STATEMENT OF FINANCIAL POSITION
at 31 December 2021

	Notes	2021 £m	2020 Restated* £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	3	8.8	8.4
Property, plant and equipment	4	16.3	17.1
Property, plant and equipment in use		16.2	16.5
Property, plant and equipment in the course of construction		0.1	0.6
Right-of-use assets	5	0.6	0.7
Non-current financial assets		278.6	33.8
Derivative financial instruments	6	278.6	33.8
Non-current trade and other receivables	7	-	0.1
TOTAL NON-CURRENT ASSETS		304.3	60.1
CURRENT ASSETS			
Inventories	8	13.1	3.4
Current trade and other receivables	7	1,391.5	392.3
Current financial assets		2,382.9	315.4
Derivative financial instruments	6	2,382.9	315.4
TOTAL CURRENT ASSETS		3,787.5	711.1
TOTAL ASSETS		4,091.8	771.2
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		1,039.0	253.2
Share capital	9, 10	50.0	50.0
Hedge reserve	10	930.0	149.2
Retained earnings	10	59.0	54.0
TOTAL EQUITY		1,039.0	253.2
NON-CURRENT LIABILITIES			
Non-current provisions	11	1.1	1.4
Other provisions		1.1	1.4
Bank borrowings and other non-current financial liabilities		133.9	4.5
Derivative financial instruments	6	133.9	4.5
Non-current lease liabilities	5	0.6	0.6
Deferred tax liabilities	12	225.0	37.7
TOTAL NON-CURRENT LIABILITIES		360.6	44.2
CURRENT LIABILITIES			
Current provisions	11	0.2	-
Bank borrowings and other current financial liabilities		1,777.2	196.0
Loans and other borrowings	13	200.0	35.0
Derivative financial instruments	6	1,577.2	161.0
Current lease liabilities	5	0.1	0.1
Current trade and other payables	14	908.5	277.4
Current tax liabilities		6.2	0.3
TOTAL CURRENT LIABILITIES		2,692.2	473.8
TOTAL LIABILITIES		3,052.8	518.0
TOTAL EQUITY AND LIABILITIES		4,091.8	771.2

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

Approved by the Board and signed on its behalf on 22 September 2022.

Valerie Sim
Director

The accompanying Notes 1 to 24 are an integral part of the Statement of financial position at 31 December 2021.

SCOTTISHPOWER ENERGY MANAGEMENT LIMITED
INCOME STATEMENT
for the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Revenue	15	3,888.8	2,406.2
Procurements		(3,879.7)	(2,399.6)
GROSS MARGIN		9.1	6.6
Staff costs	16	(6.7)	(6.3)
Capitalised staff costs	16	-	0.1
External services		(16.4)	(16.8)
Other operating results		23.6	22.4
Net operating income/(costs)		0.5	(0.6)
Taxes other than income tax	17	(0.8)	(0.8)
GROSS OPERATING PROFIT		8.8	5.2
Net expected credit losses on trade and other receivables		(1.0)	0.4
Depreciation and amortisation charge, allowances and provisions	18	(2.8)	(2.5)
OPERATING PROFIT		5.0	3.1
Finance income	19	2.0	0.2
Finance costs	20	(0.4)	(1.3)
PROFIT BEFORE TAX		6.6	2.0
Income tax	21	(1.6)	(0.8)
NET PROFIT FOR THE YEAR		5.0	1.2

Net profit for both years is wholly attributable to the equity holder of ScottishPower Energy Management 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 2021.

SCOTTISHPOWER ENERGY MANAGEMENT LIMITED

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2021

	Note	2021 £m	2020 £m
NET PROFIT FOR THE YEAR		5.0	1.2
OTHER COMPREHENSIVE INCOME			
Items that may be subsequently reclassified to the Income statement:			
Cash flow hedges:			
Change in the value of cash flow hedges	10	972.7	403.6
Tax relating to cash flow hedges	10	(191.9)	(73.4)
		780.8	330.2
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		785.8	331.4

Total comprehensive income for both years is wholly attributable to the equity holder of ScottishPower Energy Management Limited.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2021

	Share capital £m	Hedge reserve £m	Retained earnings £m	Total £m
At 1 January 2020	50.0	(181.0)	52.8	(78.2)
Total comprehensive income for the year	-	330.2	1.2	331.4
At 1 January 2021	50.0	149.2	54.0	253.2
Total comprehensive income for the year	-	780.8	5.0	785.8
At 31 December 2021	50.0	930.0	59.0	1,039.0

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 2021.

1 BASIS OF PREPARATION

A COMPANY INFORMATION

ScottishPower Energy Management Limited, registered company number SC215843, is a private company limited by shares, incorporated in Scotland and its registered office is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD.

B BASIS OF PREPARATION

B1 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 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 are prepared on the historical cost basis apart from certain financial instruments which are measured at fair value.

The Accounts have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the Company has applied the recognition, measurement and disclosure requirements of international accounting standards ("IAS") as adopted by the UK ("UK-adopted IAS") including newly effective IAS for the year ended 31 December 2021 (refer to Note 1C2). As per Note 1C1, on transition from IAS as adopted by the European Union ("EU-adopted IAS") to UK-adopted IAS on 31 December 2020, the standards in force under both regimes were identical. However, in applying FRS 101, the Company has made amendments where necessary in order to comply with the Companies Act 2006 and has set out below where FRS 101 disclosure exemptions have been taken.

In these Accounts, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- certain disclosures regarding revenue;
- comparative period reconciliations for property, plant and equipment and intangible assets;
- disclosures in respect of transactions with wholly owned subsidiaries of Iberdrola, S.A.;
- disclosures in respect of capital management;
- the effects of new but not yet effective IAS pronouncements;
- disclosures in respect of the compensation of key management personnel; and
- the preparation of a Statement of cash flows and the related notes (applied for the first time in the financial statements for the year ended 31 December 2021).

As the consolidated financial statements of Iberdrola, S.A. include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of certain disclosures required by IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instruments: Disclosures'.

B2 VOLUNTARY CHANGES IN PRESENTATION

B2.1 CHANGE TO PRESENTATION OF TRADE AND OTHER RECEIVABLES NOTE

In prior years, the Company included external operational collateral within Trade receivables and accrued income. Effective from 1 January 2021, as part of a Group-wide review of ScottishPower collateral balances, the classification of this collateral within the note was reviewed and the directors concluded that external operational collateral should be recorded within Other receivables. This is a voluntary change in accounting policy resulting in the restatement of the prior year comparatives. The 2020 Trade and other receivables note has therefore been adjusted to decrease Trade receivables and accrued income by £20.0 million and increase Other receivables by £20.0 million. These changes are deemed to provide more useful information to users of the financial statements. No other aspects of the financial statements are affected by the change.

B2.2 CHANGE TO STATEMENT OF FINANCIAL POSITION

Effective from 1 January 2021, the Company modified the format of its Statement of financial position in line with Iberdrola Group policy to reclassify interest payable from Current trade and other payables to current Loans and other borrowings. This change is deemed to provide more useful information to users of the financial statements and bring the Company into line with industry practice. This is a voluntary change in accounting policy resulting in the restatement of the prior year comparatives. Therefore, in the 2020 Statement of financial position, Current trade and other payables has been reduced by £1.2 million and current Loans and other borrowings increased by £1.2 million. This restatement has had no impact on the net assets position shown on the Statement of financial position or the net profit for the year shown in the Income statement.

1 BASIS OF PREPARATION *continued*

B BASIS OF PREPARATION *continued*

B3 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 7.

The Statement of financial position presents net current assets of £1,095.3 million as at 31 December 2021. The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Company is part of ScottishPower which is a significant component of Iberdrola, one of the world's largest integrated utilities. The Company participates in a UK treasury function operated by its intermediate parent company, SPL. The UK treasury function works closely with Iberdrola to manage the Company's funding requirements through the global treasury function.

Since September 2021, increases in wholesale costs have resulted in suppliers across the energy retail market collapsing. ScottishPower, and so Company, is also monitoring the situation in Ukraine and continually assessing the risk this presents for energy prices. The Company continues to hedge the commodity price exposure of ScottishPower to minimise the impact from increased wholesale prices during this period of uncertainty.

For the purposes of the directors' assessment of the Company's going concern position, and to satisfy them of the Company's ability to pay its liabilities as they fall due, the directors have prepared a cash flow forecast to December 2023, including the cash flow of longer-term strategies and projects. The cash flow forecast takes account of severe but plausible downsides.

The cash flow forecast indicates that the Company's existing resources are sufficient to enable it to trade and pay its liabilities as they fall due for the forecast period.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least one year from the date of approval of the financial statements and therefore have prepared the aforementioned financial statements on a going concern basis.

C ACCOUNTING STANDARDS

C1 IMPACT OF BREXIT

After the end of the Brexit transition period (31 December 2020), the UK ceased to be subject to EU law. Under the European Union (Withdrawal) Act 2018, all existing IAS adopted by the EU at that time were 'frozen' into UK law thus considered as in force in the UK at the end of the transition period. Adoptions, interpretations and amendments of IAS endorsed by the EU after the transition period will no longer apply in the UK. Since the end of the transition period, UK-registered companies must use UK-adopted IAS. At the end of the transition period, those standards were identical to the EU-adopted IAS in force on that date, but subsequently the UK has established its own endorsement process to adopt UK-adopted IAS, interpretations and amendments of IAS. For the year ended 31 December 2020, UK companies therefore had the option to use any standards which had been adopted for use within the UK in addition to the frozen EU-adopted IAS.

In line with the above, the Accounts for the year ended 31 December 2020 were prepared in accordance with the 'frozen' IAS as adopted by the EU in accordance with the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019. The Accounts for financial year beginning 1 January 2021, have been prepared in accordance with UK-adopted IAS.

C2 IMPACT OF NEW IFRS

As noted above, these Accounts have been prepared in accordance with UK-adopted IAS. In preparing these Accounts, the Company has applied all relevant IASs, International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations Committee interpretations ("IFRICs") (collectively referred to as IAS) that have been adopted by the UK as of the date of approval of these Accounts and that are mandatory for the financial year ended 31 December 2021.

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

C2 IMPACT OF NEW IFRS *continued*

For the year ended 31 December 2021, the Company has applied the following amendments for the first time:

Standard	Notes
• Amendments to IFRS 16 'Leases: Covid-19-Related Rent Concessions' and 'Covid-19-Related Rent Concessions beyond 30 June 2021'	(a), (b)
• Amendments to IFRS 9 'Financial Instruments'; IAS 39 'Financial Instruments: Recognition and Measurement'; IFRS 7 'Financial Instruments: Disclosures'; IFRS 4 'Insurance Contracts'; and IFRS 16 'Leases': 'Interest Rate Benchmark Reform – Phase 2'	(b)
• Amendments to IFRS 4 'Insurance Contracts: Extension of the Temporary Exemption from Applying IFRS 9'	(b)

(a) The first-noted amendment to IFRS 16 makes available a practical expedient around rent concessions affecting payments originally due on or before 30 June 2021 and was applied by the Company on 1 January 2021. The latter amendment extends the time that the practical expedient is available and is effective for periods commencing on or after 1 April 2021.

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

2 JUDGEMENTS, ESTIMATION UNCERTAINITIES AND PRINCIPAL ACCOUNTING POLICIES

In determining and applying accounting policies, judgement is often required in respect of items which have a significant effect on the reported amounts of assets, liabilities, income and expenses recognised in the financial statements. Other than those involving estimates, the Company has no such judgements. At 31 December 2021, there were no assumptions made about the future and other major sources of estimation uncertainty which have significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

ScottishPower, Energy Wholesale and so the Company, considers that the impact of climate change risk and opportunities does not create any additional estimation uncertainty.

The principal accounting policies applied in preparing the Company's Accounts are set out below:

A REVENUE
B PROCUREMENTS
C INTANGIBLE ASSETS
D PROPERTY, PLANT AND EQUIPMENT
E LEASED ASSETS
F IMPAIRMENT OF INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND LEASED ASSETS
G FINANCIAL INSTRUMENTS
H INVENTORIES
I RETIREMENT BENEFITS
J OTHER OPERATING RESULTS
K FOREIGN CURRENCY
L TAXATION

A REVENUE

The Company recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods and services. All revenue is wholly attributable to the principal activities of the Company.

(a) Supply of wholesale electricity and gas

The Company's performance obligations are the supply of wholesale electricity and/or gas to both customers who are internal and external to ScottishPower. Both these performance obligations are satisfied over time as the customer simultaneously receives and consume the benefits of the Company's performance as it supplies wholesale electricity and gas. The customers benefit from the Company's service as the service is provided and therefore cost (an input method) is used to measure progress towards complete satisfaction of the performance obligation. This is appropriate as all costs are recharged to the customers. Therefore revenue is recognised as the costs are incurred at the contracted rate.

(b) Supply of Renewable Obligation Certificates ("ROCs")

The supply of ROCs to customers who are internal to ScottishPower 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 legal title has passed to the customer, at the unit rate specified in the contract.

2 JUDGEMENTS, ESTIMATION UNCERTAINITIES AND PRINCIPAL ACCOUNTING POLICIES *continued*

A REVENUE *continued*

(c) Other revenue

Other revenues are recognised based on the consideration specified in the relevant contract with the customers, 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 the control is transferred to the customer based on the performance obligations in the contract.

B PROCUREMENTS

Procurements comprises the value of units of wholesale energy purchased from the external market on behalf of Iberdrola Group companies during the year and excludes Value Added Tax. Costs are recorded on an accruals basis.

C INTANGIBLE ASSETS

The costs of acquired computer software, such as licences, are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation of acquired computer software is on a straight-line basis over their operational lives, which is generally up to seven years.

Costs directly attributable to 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 developed computer software costs is over periods of up to seven years.

The Company holds a licence for the operation of its plant. This licence is stated at cost and depreciated on a straight-line basis over the estimated useful life of 28 years.

D PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and depreciated on a straight-line basis over the estimated operational lives of the assets once commissioned. Property, plant and equipment includes capitalised employee costs, interest and other directly attributable costs. 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 reporting date.

Land and cushion gas are not depreciated. The main depreciation periods used by the Company are as set out below:

	Years
Gas storage facilities	10 - 35
Other facilities and other items of property, plant and equipment	4 - 5

E LEASED ASSETS

A contract is, or contains a lease if, at inception, the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16 'Leases'.

An identified asset will be specified explicitly or implicitly in the contract, and will be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, the asset is not identified.

A contract conveys the right to control the use of an identified asset if the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use, and the customer has the right to direct the use of the asset. The customer has this right when they have the decision-making rights that are most relevant to changing how and for what purpose the asset is used. Where this is predetermined, the customer has the right to direct the use of the asset if either they have the right to operate the asset or they designed the asset in a way that predetermines how and for what purposes it will be used.

The Company has elected not to separate non-lease components and thus accounts for the lease and non-lease components in a contract as a single lease component.

2 JUDGEMENTS, ESTIMATION UNCERTAININITIES AND PRINCIPAL ACCOUNTING POLICIES *continued*

E LEASED ASSETS *continued*

E1 LESSEE

As a lessee, the Company recognises a right-of-use asset at the lease commencement date measured initially at cost. This comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset, or restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date over the shorter of the useful life of the underlying asset and the lease term. The right-of-use asset is reduced by any impairment losses and adjusted for certain remeasurements of the lease liability. The Company presents right-of-use assets within Non-current assets in the Statement of financial position and the deprecation charge is recorded within Depreciation, amortisation and provisions in the Income statement.

The lease liability recognised at the commencement date is measured initially at the present value of the lease payments that are not paid at that date. Where the rates implicit in the leases cannot be readily determined, the liabilities are discounted using the Company's incremental borrowing rate, being the currency-specific interest rate that would be incurred on a loan, with similar terms, to purchase a similar asset. The incremental borrowing rates will be updated annually and applied to leases commencing in the subsequent year. Therefore, the lease liability is measured at amortised cost using the effective interest rate method. Lease payments included in the measurement of the lease liability comprise fixed payments (including in substance fixed payments); variable lease payments that depend on an index or a rate initially measured using the index or rate at the commencement date; lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless the Company is reasonably certain not to do so.

The lease liability is remeasured when there is a change in the future lease payments arising from a change in the index or rate, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. This change in the lease liability will result in a corresponding adjustment to the carrying amount of the right-of-use asset, or in profit or loss if the carrying amount of the right-of-use asset is zero.

The Company presents lease liabilities separately in the Statement of financial position; the discount on the liabilities unwinds over the term of the lease and is charged to Finance costs in the Income statement.

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

At each reporting date, the Company reviews the carrying amount of its intangible assets, property, plant and equipment, leased assets 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 (the greater of its value-in-use and its fair value less costs to sell) is estimated in order to determine the extent of the impairment loss (if any). In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money, the risks specific to the asset and lease liabilities under IFRS 16.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. 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. Any impairment is recognised in the Income statement in the period in which it is identified. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been recognised, net of depreciation or amortisation, if no impairment loss had been recognised.

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 FINANCIAL ASSETS

G1.1 CLASSIFICATION

Financial assets, excluding derivative financial assets, are classified as amortised cost. The classification of financial assets depends on the Company's business model for managing them to generate cash flows.

2 JUDGEMENTS, ESTIMATION UNCERTAINITIES AND PRINCIPAL ACCOUNTING POLICIES *continued*

G FINANCIAL INSTRUMENTS *continued*

G1 FINANCIAL ASSETS *continued*

G1.1 CLASSIFICATION *continued*

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 but 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.

Financial assets are only subsequently reclassified when the Company changes its business model for managing them. Reclassifications are effective from the first day of the first reporting period following the change in business model. Such reclassifications are expected to be infrequent.

G1.2 RECOGNITION AND MEASUREMENT

(a) Initial recognition and measurement

Trade receivables are initially recognised when they originate. All other financial assets are initially recognised when the Company becomes party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. The exception is trade receivables without a significant financing component which are measured at the transaction price determined under IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15").

(b) Subsequent measurement and gains and losses

Financial assets classified as amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by expected credit losses ("ECLs"). Interest income, foreign exchange gains and losses, and net ECLs are recognised in the Income statement. Any gain or loss on derecognition is also recognised in the Income statement.

(c) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when either the rights to receive cash flows from the asset have expired; or there is no reasonable expectation of recovering all, or a portion of, the contractual cash flows.

(d) Impairment of financial assets

(i) Measurement of ECLs

The Company recognises an allowance for ECLs for all financial assets. ECLs are a probability-weighted estimate of credit losses. The Company has adopted the simplified ECL model for its trade receivables and the general ECL model for all other financial assets measured at amortised cost.

In applying the simplified model, loss allowances for trade receivables are measured at an amount equal to a lifetime ECL. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for, where possible, forward-looking factors specific to the debtors and the economic environment. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and those the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

ECLs for all other financial assets are recognised using the general model which works as follows:

- for credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses resulting from default events that are considered possible within the shorter of the next twelve months and the life of the financial asset (a twelve-month ECL); and
- for credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

2 JUDGEMENTS, ESTIMATION UNCERTAINITIES AND PRINCIPAL ACCOUNTING POLICIES *continued*

G FINANCIAL INSTRUMENTS *continued*

G1 FINANCIAL ASSETS *continued*

G1.2 RECOGNITION AND MEASUREMENT *continued*

(d) Impairment of financial assets *continued*

(i) Measurement of ECLs *continued*

As an exception to the general model, if the credit risk of a financial instrument is low at the reporting date, management can measure impairment using a twelve-month ECL and so it does not have to assess whether a significant increase in credit risk has occurred. In order for this operational simplification to apply, the financial instrument has to meet the following requirements:

- it has a low risk of default;
- the borrower is considered, in the short-term, to have a strong capacity to meet its obligations; and
- the lender expects, in the longer term, that adverse changes in economic and business conditions might, but will not necessarily, reduce the ability of the borrower to fulfil its obligations.

The Company considers financial assets to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company considers this to be BBB- or higher per rating agency Standard & Poor's. Therefore, all of the Company's other financial assets are considered to have low credit risk at both the beginning and end of the reporting period.

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 amount in full (before taking into account any credit enhancements held by the Company); or
- the financial asset is more than 90 days past due.

(ii) Credit-impaired financial assets

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

G2 FINANCIAL LIABILITIES

G2.1 CLASSIFICIATION

Financial liabilities, excluding derivative financial liabilities, are classified as amortised cost.

G2.2 RECOGNITION AND MEASUREMENT

(a) Initial recognition and measurement

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) Subsequent measurement and gains and losses

Financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in the Income statement. Any gain or loss on derecognition is also recognised in the Income statement.

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

(c) Derecognition

The Company derecognises a financial liability when the obligation under that liability is discharged, 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, the original liability is derecognised and a new liability recognised. The difference in their respective carrying amounts is recognised in the Income statement.

G2.3 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

2 JUDGEMENTS, ESTIMATION UNCERTAINITIES AND PRINCIPAL ACCOUNTING POLICIES *continued*

G FINANCIAL INSTRUMENTS *continued*

G3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

G3.1 DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments, such as forward foreign currency contracts and forward commodity contracts, to hedge its foreign currency and commodity price risks. Derivatives are carried as financial assets and financial liabilities when their fair values are positive and negative respectively.

The gain or loss on remeasurement to fair value is recognised immediately in the Income statement unless the derivative is subject to hedge accounting. Where the derivative is subject to hedge accounting, the recognition of any gain or loss depends on the nature of hedge accounting applied (refer to Note 2G3.2).

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

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 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; and
- the hedge ratio of the relationship is the same as that resulting from the quantity of the hedged item and the quantity of the hedging instrument that the Company uses to hedge that quantity of hedged item.

The accounting for cash flow hedges is set out at Note 3G3.2.

G3.2 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 determined to be an effective hedge is recognised directly in equity and forms part of the hedge reserve. The ineffective portion of the change in fair value of the hedging instruments is recognised in the Income statement within Procurements for hedges of underlying operations. If the cash flow hedge relates to an underlying transaction which results in the recognition of a non-financial asset, the associated gains or losses on the derivative (previously recognised in equity) are recognised in the initial measurement of the asset arising from the hedged transaction.

The Company discontinues hedge accounting when the hedge instrument expires or is sold, terminated or exercised, or when the hedge relationship no longer qualifies for hedge accounting. In the case of cash flow hedging, any gain or loss that has been recognised in equity remains there until the forecast transaction occurs. If the transaction is no longer expected to occur, the gain or loss previously deferred in equity is recognised in the Income statement.

G3.3 VALUATION OF FINANCIAL INSTRUMENTS

In those circumstances where IFRS 9 requires financial instruments to be recognised in the Statement of financial position at fair value, the Company's valuation strategies for derivatives 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 they are complex combinations of standard and 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.

Despite current market volatility in commodity prices, given the use of the robust valuation strategies described above, there are no assumptions made about the future and no major sources of estimation uncertainty that could have a significant risk of resulting in a material adjustment to the carrying amount of derivative financial instruments in the next financial year. In line with the fair value hierarchy of IFRS 7 'Financial Instruments: Disclosures', all commodity derivatives are classified as Level 2 i.e. all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

2 JUDGEMENTS, ESTIMATION UNCERTAINITIES AND PRINCIPAL ACCOUNTING POLICIES *continued*

H INVENTORIES

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

I RETIREMENT BENEFITS

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

J OTHER OPERATING RESULTS

Other operating results is principally comprised of recharges to other Iberdrola Group companies for the operating costs of purchasing electricity and gas on their behalf.

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 reporting date, with exchange gains and losses recognised in the Income statement.

L TAXATION

Assets and liabilities for current tax are calculated using the tax rates that have been enacted, or substantively enacted, at the reporting 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 Statement of financial position 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 expected to be settled, or the asset realised based on tax rates and laws enacted, or substantively enacted, at the reporting 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 recognised in equity and is shown in the Statement of comprehensive income.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Income statement except to the extent that it relates to items recognised directly in equity or shown in the Statement of comprehensive income, in which case it is recognised directly in equity or shown in the Statement of comprehensive income. For income tax arising on dividends, the related tax is recognised in the Income statement, Statement of comprehensive income, or in equity consistently with the transactions that generated the distributable profits.

3 INTANGIBLE ASSETS

Year ended 31 December 2021	Computer software (Note (a)) £m	Licences £m	Total £m
Cost:			
At 1 January 2021	14.0	9.5	23.5
Additions	2.4	-	2.4
Disposals	(3.5)	-	(3.5)
At 31 December 2021	12.9	9.5	22.4
Amortisation:			
At 1 January 2021	10.5	4.6	15.1
Amortisation for the year	1.7	0.3	2.0
Disposals	(3.5)	-	(3.5)
At 31 December 2021	8.7	4.9	13.6
Net book value:			
At 31 December 2021	4.2	4.6	8.8
At 1 January 2021	3.5	4.9	8.4

(a) The cost of fully amortised computer software still in use at 31 December 2021 was £5.3 million (2020 £7.9 million).

4 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment

Year ended 31 December 2021	Note	Gas storage facilities £m	Other items of property, plant and equipment (Note (a)) £m	Plant in the course of construction £m	Total £m
Cost:					
At 1 January 2021		35.6	1.0	0.6	37.2
Additions	(b)	(0.1)	-	-	(0.1)
Transfers from plant in the course of construction to plant in use		0.5	-	(0.5)	-
Disposals		(0.1)	-	-	(0.1)
At 31 December 2021		35.9	1.0	0.1	37.0
Depreciation:					
At 1 January 2021		20.1	-	-	20.1
Charge for the year		0.6	0.1	-	0.7
Disposals		(0.1)	-	-	(0.1)
At 31 December 2021		20.6	0.1	-	20.7
Net book value:					
At 31 December 2021		15.3	0.9	0.1	16.3
At 1 January 2021		15.5	1.0	0.6	17.1

The net book value of property plant and equipment at 31 December 2021 is analysis as follows:

	£m	£m	£m	£m
Property, plant and equipment in use	15.3	0.9	-	16.2
Property, plant and equipment in the course of construction	-	-	0.1	0.1
	15.3	0.9	0.1	16.3

(a) Other items of property, plant and equipment principally comprises computer equipment and land.
(b) Negative additions in 2021 represent a downward revision to the capitalised provision within the year (refer to Note 11).
(c) Included within the cost of property, plant and equipment at 31 December 2021 are assets in use not subject to depreciation, being land and cushion gas, of £7.0 million (2020 £7.0 million).

5 LEASING

The Company leases land. Information about leases for which the Company is a lessee is presented below.

(a) Nature of leases

Land

The Company holds agreements to lease land, primarily for operational assets, with typical lease terms running up to 35 years. Certain agreements can be terminated with appropriate notice, generally up to twelve months.

Extension options

Certain leases contain extension options exercisable by the Company at the end of the non-cancellable contract period or an agreed point before that date; the terms can be extended by up to 25 years. Where practicable, the Company seeks to include extension options in leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. At lease commencement, the Company will assess whether it is reasonably certain to exercise the extension options and reassesses this if there is a significant event or change in circumstances within its control.

Other information

The Company has not committed to any leases that have not yet commenced. The Company has no contracts containing residual value guarantee, no leases subject to significant restrictions or covenants and no sale and leaseback transactions.

(b) Right-of-use assets

Year ended 31 December 2020	Land £m
Cost:	
At 1 January 2020 and 31 December 2020	0.8
Depreciation:	
At 1 January 2020 and 31 December 2020	0.1
Net book value:	
At 1 January 2020 and 31 December 2020	0.7

Year ended 31 December 2021	Land £m
Cost:	
At 1 January 2021 and 31 December 2021	0.8
Depreciation:	
At 1 January 2021	0.1
Charge for the year	0.1
At 31 December 2021	0.2
Net book value:	
At 31 December 2021	0.6
At 1 January 2021	0.7

(i) There are no right-of-use assets measured at revalued amounts.

5 LEASING *continued*

(c) Lease liabilities

The following table sets out a maturity analysis of non-derivative lease liabilities, showing the undiscounted payments to be made after the reporting date.

	2021 £m	2020 £m
Less than one year	0.1	0.1
One to five years	0.3	0.3
More than five years	0.5	0.5
Total undiscounted lease liabilities at 31 December	0.9	0.9
Finance cost	(0.2)	(0.2)
Total discounted lease liabilities	0.7	0.7

Analysis of total lease liabilities		
Non-current	0.6	0.6
Current	0.1	0.1
Total	0.7	0.7

During both 2021 and 2020, interest on lease liabilities of less than £0.1 million was charged to the Income statement.

Details of ScottishPower's, and so the Company's, management strategy for liquidity risks inherent in the Company's lease liability can be found in the most recent Annual Report and Accounts of SPL.

(d) Total cash outflow for leases

	2021 £m	2020 £m
Total cash outflow for leases	(0.1)	-

6 FINANCIAL INSTRUMENTS

The Company holds certain financial instruments which are measured in the Statement of financial position at fair value as detailed below.

	Derivative financial instruments £m
At 1 January 2020	(207.0)
Recorded in Income statement	2.2
Early settlement of derivatives	(15.1)
Recorded in Cash flow hedge reserve	403.6
At 1 January 2021	183.7
Recorded in Income statement	8.8
Early settlement of derivatives	(214.8)
Recorded in Cash flow hedge reserve	972.7
At 31 December 2021	950.4

The £972.7 million recorded in the Cash flow hedge reserve during 2021 (2020 £403.6 million) is principally driven by increases in the market price of commodities.

Derivative financial instruments

The Company's derivatives comprise commodity derivatives and forward foreign exchange contracts. The Company uses commodity forward (fixed-price/fixed-volume) contracts to hedge its exposure to commodity price risk (the variability in cash flows associated with changes in the market price of electricity, natural gas and until the last quarter of 2020, carbon allowances). Forward foreign exchange contracts are used to hedge foreign currency risk associated with holding Euro collateral. The Euro collateral is required due to spot power trading.

6 FINANCIAL INSTRUMENTS *continued*

Derivative financial instruments *continued*

The critical terms of the commodity derivatives must align with the hedged items to qualify for hedge accounting. For such items the Company designates the entire value of the commodity forward in the hedge relationship. When cash flow hedge accounting is applied, the Company defers in equity the fair value changes of open derivative positions until the period in which the forecast transactions occur. Some commodity forward contracts and the foreign currency forwards do not satisfy the strict requirements for hedge accounting and are accounted for as trading derivatives.

Changes in the fair value of any commodity derivative instrument that does not qualify for hedge accounting is recognised immediately in the Income statement and is included in Gross margin. Changes in the fair value of the foreign currency forwards is recognised in the Income statement within Finance income and costs.

The table below illustrates the timing of the notional amount of commodity derivatives which qualify for hedge accounting.

	Notional amount of hedging instrument (maturity profile) £million				
At 31 December 2021	1 year	2 years	3 years	4 years	Total
Commodity forwards	2,198.5	412.4	78.8	4.5	2,694.2

The future cash flows on derivative instruments (including commodity derivatives) may be different from the amounts in the table as interest rates and exchange rates or the relevant conditions underlying the calculation change.

7 TRADE AND OTHER RECEIVABLES

	Notes	2021 £m	2020 Restated* £m
Current receivables:			
Receivables due from Iberdrola Group companies - trade		610.1	245.6
Receivables due from Iberdrola Group companies - loans	(a)	313.7	-
Receivables due from Iberdrola Group companies - other	(b)	-	76.7
Receivables due from Iberdrola Group companies - interest		1.8	-
Trade receivables and accrued income		225.5	37.0
Prepayments		0.2	0.4
Other tax receivables		11.9	12.6
Other receivables	(c)	228.3	20.0
	(d)	1,391.5	392.3
Non-current receivables:			
Prepayments		-	0.1

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

(a) Loans receivable due from Iberdrola Group companies are repayable on demand and earn interest at Bank of England base rate ("Base") plus 1%.
(b) This balance represented receivables due from Iberdrola Group companies as part of a contractual renegotiation.
(c) During 2021, the Company agreed an amendment to its existing terms and conditions with its commodities derivative clearer which included an initial deposit margin facility of £200.0 million (refer to Note 13(a)). This deposit is included within Other receivables at 31 December 2021. The remaining £28.3m (2020 £20.0 million) represents operational collateral used to mitigate credit risk with derivative counterparties. The Company also utilises letters of credit to mitigate credit risk. At 31 December 2021, letters of credit posted amounted to £77.0 million (2020 £16.0 million).
(d) The table below provides information about IFRS 15 contract balances included within Trade and other receivables:

	2021 £m	2020 £m
Receivables	835.6	256.6

(i) A charge of £1.0 million (2020 a credit of £(0.4) million) of net expected credit losses were recognised during the year on receivables and contract assets arising from the Company's contracts with customers.

8 INVENTORIES

	2021 £m	2020 £m
Fuel stocks	13.1	3.4

Inventories with a value of £3.5 million (2020 £8.6 million) were recognised as an expense during the year.

9 SHARE CAPITAL

	2021 £m	2020 £m
Allotted, called up and fully paid shares:		
50,000,000 ordinary shares of £1 each (2020 50,000,000)	50.0	50.0

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

10 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY

	Share capital £m	Hedge reserve (Note (a)) £m	Retained earnings (Note (b)) £m	Total £m
At 1 January 2020	50.0	(181.0)	52.8	(78.2)
Profit for the year attributable to equity holder of the Company	-	-	1.2	1.2
Changes in the value of cash flow hedges	-	403.6	-	403.6
Tax on items relating to cash flow hedges	-	(73.4)	-	(73.4)
At 1 January 2021	50.0	149.2	54.0	253.2
Profit for the year attributable to equity holder of the Company	-	-	5.0	5.0
Changes in the value of cash flow hedges	-	972.7	-	972.7
Tax relating to cash flow hedges	-	(191.9)	-	(191.9)
At 31 December 2021	50.0	930.0	59.0	1,039.0

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

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

11 PROVISIONS

Year ended 31 December 2020	Note	At 1 January 2020 £m	New provisions £m	At 31 December 2020 £m
Decommissioning and environmental	(a)	1.2	0.2	1.4

Year ended 31 December 2021	Note	At 1 January 2021 £m	New provisions £m	At 31 December 2021 £m
Decommissioning and environmental	(a)	1.4	(0.1)	1.3

Analysis of total provisions	2021 £m	2020 £m
Non-current	1.1	1.4
Current	0.2	-
	1.3	1.4

(a) The decommissioning and environmental provision is expected to be fully utilised by 2034. The reduction of £0.1 million resulted from a downward reassessment of future estimated decommissioning costs (refer to Note 4(b)).

12 DEFERRED TAX

Deferred tax (assets)/liabilities are provided in the Accounts is as follows:

	Notes	Property, plant and equipment £m	Derivative financial instruments £m	Other temporary differences £m	Total £m
At 1 January 2020		1.0	(37.0)	(0.2)	(36.2)
Charge to the Income statement	(a)	0.2	0.2	0.1	0.5
Recorded in the Statement of comprehensive income	(a)	-	73.4	-	73.4
At 1 January 2021		1.2	36.6	(0.1)	37.7
Credit to the Income statement	(b)	0.3	(4.8)	(0.1)	(4.6)
Recorded in the Statement of comprehensive income	(b)	-	191.9	-	191.9
At 31 December 2021		1.5	223.7	(0.2)	225.0

(a) Legislation was previously enacted to reduce the UK rate of Corporation Tax to 17% as from 1 April 2020. Accordingly, the deferred tax balances as at 1 January 2020 were measured at the 17% rate, this being the tax rate enacted at that time, and the rate temporary differences were expected to reverse at. Further legislation which was substantively enacted on 17 March 2020 under The Provisional Collection of Taxes Act 1968 maintained the 19% UK Corporation Tax rate. The 19% rate applied from 1 April 2020. This rate change decreased the 31 December 2020 deferred tax liability by £3.1 million.

(b) Legislation was enacted on 10 June 2021 under the Finance Act 2021 that will increase the UK Corporation Tax rate to 25% from 1 April 2023. Accordingly, the deferred tax balances at 1 January 2021 have been increased by £7.3 million to reflect the rate that the temporary differences are expected to reverse at.

13 LOANS AND OTHER BORROWINGS

Analysis of loans and other borrowings by instrument and maturity

Instrument	Note	Interest rate**	Maturity	2021 £m	2020 Restated* £m
Credit facility - initial margin	(a)	0.60%	On demand	200.0	-
Loans with Iberdrola Group companies		Base + 1%	On demand	-	33.8
Accrued interest due to Iberdrola Group companies			On demand	-	1.2
				200.0	35.0

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

** Base – Bank of England Base Rate

(a) During 2021, the Company agreed an amendment to its existing terms and conditions with its commodities derivative clearer which included an initial deposit margin facility of £200.0 million, this was fully utilised as at 31 December 2021. The utilisation of this deposit facility has been reflected in the Statement of financial position as detailed in the table below:

Analysis of total loans and other borrowings	2021 £m	2020 £m
Current trade and other receivables – other receivables (refer to Note 7(c))	200.0	-
Current loans and other borrowings – credit facility - initial margin	(200.0)	-
Net assets	-	-

14 TRADE AND OTHER PAYABLES

	Notes	2021 £m	2020 Restated* £m
Current trade and other payables:			
Payables due to Iberdrola Group companies - trade		11.3	1.2
Payables due to Iberdrola Group companies - other	(a)	-	76.7
Trade payables	(b)	641.5	175.8
Other taxes and social security		0.2	0.1
Capital payables and accruals		0.9	0.4
Collateral	(c)	253.8	22.4
Other payables		0.8	0.8
		908.5	277.4

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

(a) In the prior year this balance represented payables due to Iberdrola Group companies as part of a contractual renegotiation.

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

(c) The collateral balance in both the current and prior year relates to collateral held with commodity derivative counterparties. Collateral support agreements are used to manage credit exposure to commodity price changes and include margining for trading with exchanges. The increase in the balance from prior year is predominantly due to the increase in the market price of gas in 2021. The Company also utilsies letters of credit to mitigate credit risk. At 31 December 2021 letters of credit held amounted to £1.0 million (2020 £6.0 million).

15 REVENUE

Disaggregation of revenue

	2021 £m	2020 £m
Commodity derivative income	2,188.6	1,033.9
Supply of wholesale electricity	924.5	572.6
Supply of wholesale gas	632.1	667.8
Supply of ROCs	143.6	131.9
	3,888.8	2,406.2

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

16 EMPLOYEE INFORMATION

(a) Staff costs

	2021 £m	2020 £m
Wages and salaries	4.7	4.5
Social security costs	0.5	0.5
Pension and other costs	1.5	1.3
Total staff costs	6.7	6.3
Less: capitalised staff costs	-	(0.1)
Charged to the Income statement	6.7	6.2

(b) Employee numbers

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

	Average 2021	Average 2020
Administrative staff	48	51
Operations	19	18
Total	67	69

(c) Retirement benefits

The Company's contributions payable in the year were £1.4 million (2020 £1.2 million). The Company contributes to ScottishPower's defined benefit and defined contribution schemes in the UK and the contributions payable in the year reflect the contributions payable in respect of active participants in the group schemes who are employed by the Company. Full details of these schemes are provided in the most recent Annual Report and Accounts of SPL. As at 31 December 2021, the net surplus in the ScottishPower defined benefit schemes in the UK amounted to £192.2 million (2020 deficit of £558.6 million). The employer contribution rate for these schemes in the year ended 31 December 2021 was 47.9% to 51.0%.

17 TAXES OTHER THAN INCOME TAX

	2021 £m	2020 £m
Property taxes	0.8	0.8

18 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2021 £m	2020 £m
Property, plant and equipment depreciation charge	0.7	0.7
Right-of-use asset depreciation charge	0.1	-
Intangible asset amortisation charge	2.0	1.8
	2.8	2.5

19 FINANCE INCOME

	2021 £m	2020 £m
Interest on bank and other deposits	-	0.1
Interest receivable from Iberdrola Group companies	1.8	-
Foreign exchange gains	-	0.1
Fair value and other gains on financing derivatives	0.2	-
	2.0	0.2

20 FINANCE COSTS

	2021 £m	2020 £m
Interest on amounts due to Iberdrola Group companies	-	1.2
Interest on other borrowings	0.2	-
Foreign exchange losses	0.1	-
Fair value and other losses on financing derivatives	0.1	0.1
	0.4	1.3

21 INCOME TAX

	2021 £m	2020 £m
Current tax:		
UK Corporation Tax charge on profit for the year	6.2	0.3
Current tax for the year	6.2	0.3
Deferred tax:		
Origination and reversal of temporary differences	(4.9)	0.2
Adjustments in respect of prior years	-	0.1
Impact of tax rate change on opening deferred tax balance	0.3	0.2
Deferred tax for the year	(4.6)	0.5
Income tax expense for the year	1.6	0.8

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

	2021 £m	2020 £m
Corporation Tax at 19% (2020 19%)	1.3	0.4
Adjustments in respect of prior years	-	0.1
Impact of tax rate change on opening deferred tax balance	0.3	0.2
Non-deductible expenses and other permanent differences	-	0.1
Income tax expense for the year	1.6	0.8

Legislation was previously enacted to reduce the UK rate of Corporation Tax to 17% as from 1 April 2020. Accordingly, the deferred tax balances as at 1 January 2020 were measured at the 17% rate, this being the tax rate enacted at that time, and the rate temporary differences were expected to reverse at. Further legislation which was substantively enacted on 17 March 2020 under The Provisional Collection of Taxes Act 1968 maintained the 19% UK Corporation Tax rate. The 19% rate applied from 1 April 2020. This rate change increased the 31 December 2020 deferred tax liability by £0.2 million.

Legislation was enacted on 10 June 2021 under the Finance Act 2021 that will increase the UK Corporation Tax rate to 25% from 1 April 2023. Accordingly, the deferred tax balances at 1 January 2021 have been increased by £0.3 million to reflect the rate that the temporary differences are expected to reverse at.

22 FINANCIAL COMMITMENTS

Contractual commitments

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

2021	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 and thereafter £m	Total £m
Long-term energy purchase contract commitments	3,028.5	389.6	89.5	6.1	-	-	3,513.7
Contractual commitments	120.2	3.0	3.0	3.0	3.1	6.6	138.9

2020	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2026 and thereafter £m	Total £m
Long-term energy purchase contract commitments	1,239.3	242.8	77.8	16.3	-	-	1,576.2
Contractual commitments	46.4	19.1	2.9	2.9	3.0	9.7	84.0

23 RELATED PARTY TRANSACTIONS

(a) Transactions and balances arising in the normal course of business (excluding wholly owned subsidiaries of Iberdrola, S.A.)

	2021	2020
	Other Iberdrola Group companies £m	Other Iberdrola Group companies £m
Types of transaction		
Sales and rendering of services	0.3	0.3

(b) Directors' remuneration

The total remuneration of the directors who provided qualifying services to the Company are shown below. As these directors are remunerated for their work for the group headed by SPRH, it has not been possible to apportion the remuneration specifically in respect of services to this Company. Of the four directors (2020 four), two (2020 two) were remunerated directly by the Company. The remaining directors were remunerated by other Iberdrola Group companies in both years.

	2021 £000	2020 £000
Aggregate remuneration in respect of qualifying services	336	295
Number of directors who exercised share options	2	2
Number of directors accruing retirement benefits under a defined benefit scheme	2	2

Highest paid director	2021 £000	2020 £000
Aggregate remuneration	194	157
Accrued pension benefit	27	26

(i) The highest paid director exercised share options during both years.

(c) Immediate and ultimate parent company

The immediate parent company is SPRH. Copies of the accounts of SPRH may be obtained from its registered office at 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 ScottishPower UK plc ("SPUK").

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

The Company has no other related undertakings in addition to the parent undertakings disclosed above.

24 AUDITOR'S REMUNERATION

	2021 £m	2020 £m
Audit of the Company's annual accounts	0.4	0.4