# SCOTTISHPOWER ENERGY MANAGEMENT LIMITED
# ANNUAL REPORT AND ACCOUNTS
# for the year ended 31 December 2022

Registered No. SC215843

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CONTENTS

## SCOTTISHPOWER ENERGY MANAGEMENT LIMITED
## STRATEGIC REPORT

The directors present their Strategic Report on ScottishPower Energy Management Limited ("the Company") for the year ended 31 December 2022.

### 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 renewables Power Purchase Agreements ("PPAs") from the Scottish Power Limited Group's ("ScottishPower") 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.

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 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, and the optimisation of gas storage.

Notwithstanding net liabilities of £329.7 million, the Accounts are prepared on a going concern basis. Refer to Note 1B2 for further details.

### STRATEGIC OUTLOOK

#### Operating review

The Company continues to focus on managing ScottishPower's exposure to the UK wholesale electricity and gas markets for Energy Retail and Renewables. The Company has contributed to ScottishPower's navigation of the volatile energy markets through its trading strategies, in addition to ensuring the continued security of gas supply through optimal utilisation of its gas storage facility.

The Company continues to purchase forward Energy Retail power and gas requirements and sell forward Renewables' power generation, to provide price certainty in an environment where commodity markets have continued to experience substantial price increases and price volatility. Considering the current commodity market status, the Company has had to optimise its credit and collateral positions with market counterparties. This commodity market volatility resulted in significant year-on-year movements in the Statement of financial position. Refer to 'Statement of financial position' section on the following page for further details.

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.

#### 2022 performance

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

| | Revenue* | | Operating profit* | | Capital investment** | |
|---|---|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| **Financial key performance indicators** | **£m** | £m | **£m** | £m | **£m** | £m |
| ScottishPower Energy Management Limited | **7,918.4** | 3,888.8 | **52.3** | 5.0 | **3.8** | 2.3 |

* Revenue and Operating profit presented within the income statement on page 17.
** Capital investment for 2022 is presented within Notes 3 and 4 on page 27.

Revenue increased by £4,029.6 million to £7,918.4 million in 2022. This was primarily due to the impact of unprecedented increases in commodity prices year-on-year generating higher revenues from commodity derivatives and from both the supply of electricity and gas to 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.

Operating profit of £52.3 million was recorded in 2022, an increase of £47.3 million from the previous year. This primarily reflected an increase in gross margin of £48.6 million. Whilst revenues increased, so too did procurements (mainly higher energy costs) increasing by £3,981.0 million to £7,860.7 million in 2022, however the Company's gas storage facility generated a £48.0 million increase in gross margin.

Capital investment increased by £1.5 million to £3.8 million mainly reflecting an increase in spending on computer software.

**STRATEGIC OUTLOOK** *continued*

**Statement of financial position**

Net assets of the Company decreased by £1,368.7 million in the year to a net liability position of £329.7 million. This reflects the impact of the statutory profit of £43.5 million offset by £1,412.2 million of hedge reserve movements.

The unprecedented rise in energy costs in the latter part of 2021 continued throughout most of 2022. This commodity market volatility resulted in significant year-on-year movements in the Statement of financial position. The 2021 net derivative financial asset position of £950.4 million decreased by £1,748.7 million resulting in a net liability of £798.3 million at 31 December 2022. This decrease reflects both the delivery of commodity derivative assets during 2022 and movements in the value of derivatives for future delivery. This market volatility is also reflected in the gross movement in the cash flow hedge reserve of £1,783.2 million.

Current trade and other receivables increased by £469.8 million to £1,861.3 million. Trade receivables and accrued income (including trade receivables due from Iberdrola group companies) increased by £460.8 million primarily as a result of higher revenues. Other receivables increased by £318.9 million largely due to a £529.0 million increase in collateral posted as a result of commodity price movements offset by a £200.0 million fall in the commodities derivative clearer initial margin facility. There was also a reduction a in loans receivables from Iberdrola Group companies of £313.7 million.

Loans and other borrowings increased by £761.7 million reflecting an increase of £961.7 million in loans and interest payable due to Iberdrola Group companies offset by a reduction of £200.0 million in an initial deposit margin facility with the Company's commodity derivative clearer. This facility was not in use at 31 December 2022.

**Outlook for 2023 and beyond**

For 2023 and beyond, the Company will continue to assist with 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.

**Financial instruments**

The Company utilises derivative financial instruments comprising commodity derivatives and forward foreign exchange contracts.

The Company uses commodity forward (fixed-price/fixed-volume) contracts to hedge its exposure to energy market risk. Energy market risk is the risk of variability in cash flows associated with changes in the market price of electricity and gas. Refer to Note 6 for further information.

The Company's other financial instruments include Trade and other receivables (largely with Iberdrola Group companies), Trade and other payables and Loans and other borrowings. The Company has exposure to Credit risk and Treasury risk (comprising both liquidity and market risk) arising from these financial instruments.

Credit risk is the risk that a counterparty will not meet its contractual obligations under a financial instrument or customer contract, leading to a financial loss. Credit risk is mitigated by limiting exposure to individual counterparties based upon the risk of counterparty default. Credit risk associated with commodity derivatives is considered to be with counterparties in related energy industries, financial institutions operating in energy markets, or fellow Iberdrola Group companies. At the counterparty level, the Company employs specific eligibility criteria in determining appropriate limits for each prospective counterparty, and supplements this with netting and collateral agreements including margining, guarantees and letters of credit where appropriate. Credit risk from Iberdrola Group companies is considered to be low as no Iberdrola Group company has a credit rating lower than BBB+ (in line with Standards & Poor's external credit ratings).

Liquidity risk is the risk that the Company will have insufficient funds to meet its liabilities and market risk is the risk of loss that results from changes in market rates (e.g. interest rates). Both of these are managed by ScottishPower's Treasury department, who are responsible for arranging banking facilities on behalf of the Company. The Company produces short-term rolling cash flow requirements and if necessary any required funding is obtained via ScottishPower credit facilities already in place.

**PRINCIPAL RISKS AND UNCERTAINTIES**

To deliver its strategy, ScottishPower, and therefore the Company, conducts 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 the Company, that may impact current and future operational and financial performance and the management of these risks are described on the following pages.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

| RISK | RESPONSE |
|---|---|
| **Regulatory and political**<br>Compliance with regulatory obligations especially in the context of 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. |
| Structural uncertainty resulting from unprecedented volatility in wholesale energy prices and regulatory market interventions. | As required, the Company provides wholesale market data and analysis to help ensure ScottishPower's regulatory responses result in fair regulations with outcomes that reflect the realities and practicalities of wholesale market operations. |
| **Global financial market volatility**<br>Impacts arising from market and regulatory reactions to events including the Ukraine war. As well as positive or negative changes in the UK economy, these could include increased volatility on the value of Sterling and foreign currencies and the movement in the market price of electricity and gas and the associated impact on collateral requirements on trading positions. | 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. In addition to monitoring ongoing developments, the Company has specific procedures in place to manage these key market risks. The Company adheres to a ScottishPower treasury risk management policy (comprising foreign currency, liquidity and interest rate risk) to hedge financial risks which is discussed further in in the Financial instruments section of the Strategic report on page 2 and within Note 6. Consideration has also been given to appropriate levels of collateral due to current market conditions (refer to Note 9). |
| **Climate change**<br>The risk that the Company's operations have a significant impact on the environment and on national and international targets to tackle climate change.<br><br>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. | The Company's commitment to tackle climate change is reflected in its strategy (i.e. contributing towards the management of new, flexible assets being commissioned by Renewables and the delivery of greener energy products for Energy Retail.)<br><br>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. |

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

| RISK | RESPONSE |
|---|---|
| **Health and safety**<br>A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment. | The Company has certified management systems in place to deliver activities as safely as possible. A ScottishPower Health and Safety function also exists and provides specialist services and support for the Company in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes is established, which aims to ensure not only continuing legal compliance but also to drive towards best practice in all levels of health and safety operations. |
| **Cyber security**<br>The Company operates within an environment where there is the presence of sophisticated and opportunistic cyber security threat actors motivated to identify and take advantage of flaws and weaknesses in the Company's cyber security defences. The Company, in alignment with UK Regulation, takes the protection of its data and the provision of its essential services very seriously. The Company, as part of ScottishPower, continues to invest significantly in its people, processes, and technologies to enhance its capabilities to prevent, detect and respond to security threats.<br><br>The main risks are related to operational technology used to manage the management of energy, or physical safety systems (fire protection, CCTV, alarm reception centres); information technology ("IT") that enables the Company to operate critical services; the confidentiality, integrity, and availability of key information assets; and cyber security risks impacting reputation. | The Company continues to focus on its enterprise security risks through enhanced internal governance, complemented by the adoption of a three lines of defence model with clear roles and responsibilities established across ScottishPower and therefore the Company.<br><br>These risks are manged in accordance with the basic principles defined in internal cyber security rules promoting the safe handling of data, use of IT and communications systems, use of operational technology systems and assets, and other cyber assets, reinforcing detection, prevention, defence, and response capabilities against possible attacks.<br><br>The Iberdrola Group has specific insurance against cyber risks, under the terms allowed by the insurance market, which is revised and updated periodically in view of the rapid evolution and wide variety of cyber risks.in view of the rapid evolution and wide variety of cyber risks. |
| **Financial**<br>The credit deterioration of commodity trading counterparties. | ScottishPower's Corporate Risk Team support the Company in monitoring 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. |

## ENGAGING WITH STAKEHOLDERS

### The importance of engaging with stakeholders

The Company strongly believes that effective and meaningful engagement with stakeholders, especially employees, is key to promoting its success and values. Meaningful engagement with these 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 the Company, engages with its stakeholders, and how these activities influence the Company's operations, are set out on the following pages.

**ENGAGING WITH STAKEHOLDERS** *continued*

**Key stakeholders**

The Company, has five key stakeholder categories: employees, customers, government and regulators, suppliers and contractors, and community and environment.

Behind these stakeholders are many people, institutions, organisations and groups. All of them, with their decisions and opinions, influence the Company, and they are also affected by the Company's activities. In addition, these stakeholders interact with each other, creating a universe of relationships that the Company 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 important to the Company. The Company's relationship with its shareholders is governed by the Company's Articles of Association and provisions of the Governance and Sustainability System which apply to the Company and the Group, of which the Company is a member. As the Company is ultimately wholly-owned by Iberdrola, all ultimate shareholder management activities are carried out by Iberdrola in accordance with its own Shareholder Engagement Policy as published at www.iberdrola.com.

EMPLOYEES

As at 31 December 2022, the Company had 60 employees, working across a range of roles. The employees make a real difference in determining how successfully the Company operates. The creativity, innovation and individuality of the Company's employees enables it to build on its future capability to operate effectively in a competitive market, and continue to have aspirations which are challenging and rewarding. The Company respects and recognises the importance of individuality as part of its ongoing commitment to promoting a culture where individuality is celebrated. The Company 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.

As part of ScottishPower, the Company's engagement with its employees is driven by the decisions, policies and procedures in place at a ScottishPower level. The directors of the Company ensure that in applying these ScottishPower decisions, policies and procedures they are meeting their duties to the Company.

Details of the following areas in relation to employee engagement which apply fully to the Company are provided in the most recent Annual Report and Accounts of SPL:

- employment regulation;
- training;
- employee feedback and consultation;
- inclusion and diversity;
- rewards and benefits;
- health and safety; and
- employee health and wellbeing.

**Modern Slavery Statement**

The term 'modern slavery' covers both slavery and human trafficking. 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 is subject to annual approval by the board of directors of SPL. This statement is published at: www.scottishpower.com / 'Sustainability' / 'Sustainable business' / 'ScottishPower's Modern Slavery Statement'.

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 so 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, 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.

ENGAGING WITH STAKEHOLDERS *continued*

The Company is also subject to the requirements of the European Market Infrastructure Regulation ("EMIR"), as a non-financial counterparty. 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 Over-The-Counter ("OTC") derivatives.

SUPPLIERS AND CONTRACTORS

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. The directors of the Company ensure that in applying these ScottishPower decisions, policies and procedures they are meeting their duties to the Company.

The Company aims to develop and maintain strong relationships across its supply base with a focus on health and safety, quality, cost and sustainability. The Company expects its suppliers to operate to a high standard including working in an ethical and sustainable manner, and it has a range of policies that all suppliers must adhere to, including the ScottishPower Code of Ethics.

COMMUNITY AND ENVIRONMENT

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. The Company is committed to being a good neighbour throughout all its operations to ensure the benefits are realised in local areas by helping to create local employment and enabling improvements to local infrastructure and services.

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.

The Company assists with the management of new, flexible assets being commissioned by Renewables and the delivery of greener energy products for Energy Retail.

**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 they consider, 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 Company's strategy, requires it to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting the performance and reputation of the Company 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 of the Company, and how it engages with them are as follows:

- **Customers:** details of how the Company engages with its customers are explained in the 'Customers' section of the Strategic Report, on page 5. During the year, the Company's board of directors ("the Board") noted that its key customer was ScottishPower Energy Retail Limited, an affiliated company on behalf of which the Company performed all electricity and gas trading with UK wholesale market participants, recognised that stakeholder engagement was key to its success in a rapidly changing environment.
- **Employees:** the Company, engages with its employees are set out in the 'Employees' section of the Strategic Report, on page 5. During the year, the Board considered and approved the adoption by the Company of ScottishPower's 2022 Modern Slavery Statement.
- **Communities and the environment:** details of how the Company, engages with communities and considers the environment are set out in the 'Community and environment' section of the Strategic Report, on page 6. During the year, the Board recognised that the Company was committed to reducing its environmental footprint by reducing emissions, minimising energy consumption and the use of natural and man made resources, as well as cutting waste.
- **Suppliers and contractors:** details of how the Company, engages with its suppliers are set out in the 'Suppliers and contractors' section of the Strategic Report, on page 6. During the year, the Board considered and approved a new governance and delegated authority framework in relation to the signing of contracts.
- **Government and regulators:** details of how the Company, engages with governments and regulators are set out in the 'Government and regulators' section of the Strategic Report, on page 5. During the year, the Board noted that the Company was subject to the requirements of the UK EMIR to implement risk management standards for bilateral OTC derivatives.

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 5.

The directors, both individually and together as a board, consider that the decisions taken during the year ended 31 December 2022 in discharging the function of the Board were in conformance with their duty under section 172 of the Companies Act 2006.

The Board is 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 S.

**Valerie Sim**
**Director**
**20 September 2023**

## SCOTTISHPOWER ENERGY MANAGEMENT LIMITED
## DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2022.

**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; 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 £43.5 million (2021 £5.0 million). No dividend was paid during the year (2021 nil).

**CORPORATE GOVERNANCE**

**Statement regarding the corporate governance arrangements of the ScottishPower Retail Holdings Limited Group ("SPRH Group")**

As required by the Companies (Miscellaneous) Reporting Regulations 2018, the directors of the Company have set out as follows a statement of the corporate governance arrangements of the Company.

The ultimate parent of the Company is Iberdrola, S.A., which is listed on the Madrid stock exchange. The Company, which is part of the Energy Wholesale business (headed by SPRH), does not apply a corporate governance code on the basis that it, as part of the Energy Wholesale business, adheres to the rules and principles of the SPRH Group as they have been set by the board of directors of SPRH ("the SPRH Board"), in accordance with the terms of reference of the SPRH Board and the Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation ("the Group Governance Framework"), all of which are based on widely recognised good governance recommendations ("the SPRH Group corporate governance system"). Those rules and principles of the SPRH Group corporate governance system that applied to the Company as part of the Energy Wholesale business during 2022 are set out as follows:

- The SPRH Board's terms of reference are published on www.spretailholdings.com under 'Corporate Governance'.
- The Group Governance Framework is published on on www.scottishpower.com ("the SPL Corporate website") under 'Corporate Governance'/ 'Governance and Sustainability System'/'Corporate Governance'.

**Corporate governance system**

The Company is governed by the Board, which consisted of four directors at 31 December 2022 who bring a broad range of skills and experience to the Company. The Board is regulated in accordance with the Company's Articles of Association.

In discharging its responsibilities and in the exercise of its decision-making powers, and in accordance with the Company's Articles of Association, the Board has, in accordance with the Group Governance Framework, adhered to the SPRH Group corporate governance system which applies to the Company as part of the SPRH Group. The SPRH Group corporate governance system includes the internal corporate rules (including the Purpose and Values of the Iberdrola Group, the Code of Ethics, corporate policies and other internal codes and procedures) that make up the corporate governance system of ScottishPower and, ultimately, of the Iberdrola group.

**Board composition**

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

| | |
|---|---|
| Julián Calvo Moya | |
| Valerie Sim | (appointed 12 April 2022) |
| Douglas Ness | (resigned 30 March 2022) |
| Carlos Pombo Jiménez | |
| Neil Stainton | |

At the date of this report, there have been no changes to the composition of the Board since year end.

**CORPORATE GOVERNANCE** *continued*

There is no separate appointments committee within the SPRH Group. Instead, appointment matters relevant to the SPRH Group, and so the Company, are dealt with in accordance with an internal group procedure for approving proposed appointments or removals of directors at companies in which the Iberdrola Group holds an interest, and reviewed by the Iberdrola, S.A. Appointments Committee ("IAC"). The IAC has a function to report on the process of selection of directors and senior managers of the Iberdrola Group companies.

**Purpose and values**

The structure of the Company is set out in the Strategic Report. During 2022, the Board has taken into account the purpose and values of the Iberdrola Group and the Code of Ethics which are published on www.spretailholdings.com under 'Corporate Governance'. These documents define and promote the purpose, values and culture of the Company and the SPRH Group.

**Director responsibilities**

The directors are fully aware on their duties under the Companies Act 2006, including as set out in section 172 of the same. The primary responsibility of the Board is to supervise and make decisions as required in relation to the activities of the Company's business and the SPRH group, all as part of the Energy Wholesale business, in accordance at all times with the Energy Wholesale business corporate governance system and the provisions of all applicable legislation and regulations.

The SPRH Board has the responsibility of carrying out the day-to-day management and effective administration, and for the ordinary control, of the Energy Wholesale business overall.

Further relevant information on the administrative, management and supervisory bodies of the boards of the Company's parents, as they are pertinent to the Energy Wholesale business and the Company, are described in the sections below.

**Opportunity and risk**

The delivery of the SPRH group's strategy requires the SPRH group 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 risk inherent in the business.

To maintain this strategic direction, the Energy Wholesale business develops and implements risk management policies and procedures and promote a robust control environment at all levels of the organisation. Details of the applicable risk policies are published on www. spretailholdings.com under 'Corporate Governance'.

During 2022, the governance structure was supported by the risk policies of the SPRH group. The risk assessment team and independent group risk management function supported the Board in the execution of due diligence and risk management, as described in the 'Principal risks and uncertainties' section of the Strategic Report.

**Remuneration**

The directors of the Company are subject to an annual evaluation of their performance in respect of their executive responsibilities as part of the performance management framework which is in place throughout the SPRH group.

There is no separate remuneration committee within the SPRH Group. Instead, remuneration matters relevant to the SPRH Group, and so the Company, are dealt in accordance with the aforementioned performance management framework and reviewed by the Iberdrola, S.A. Remuneration Committee ("IRC"). The IRC has a function to report on the remuneration of directors and senior managers of the Iberdrola Group companies.

**Stakeholders**

The Board fully recognises that effective and meaningful engagement with stakeholders is key to promoting the success of the Company. The details of key stakeholders, why they are important to the Company, and how it engages with its stakeholders are an integral part of its strategic goals and are described in the Strategic Report.

**Administrative, management and supervisory bodies**

*Scottish Power Limited Board ("SPL Board")*

The primary responsibilities of the SPL Board, which has its own management team, include disclosing, implementing, and ensuring compliance with the policies, strategies and general guidelines of ScottishPower overall, in accordance at all times with the provisions of all applicable legislation and regulations.

The SPL Board comprised the Chairman, José Ignacio Sánchez Galán, and nine other directors as at 31 December 2022. José Ignacio Sánchez Galán is also the Executive Chairman of Iberdrola.

**CORPORATE GOVERNANCE** *continued*

The directors of the SPL Board were:

| | |
|---|---|
| José Ignacio Sánchez Galán | Chairman, internal, non-executive director |
| Lord Kerr of Kinlochard GCMG | Vice-chairman, external, non-executive director (resigned as Vice-chairman and director 21 March 2022) |
| Professor Sir James McDonald | Vice-chairman, external, non-executive director (appointed Vice-chairman 21 March 2022) |
| Keith Anderson | Chief Executive Officer |
| Wendy Jacqueline Barnes | External, non-executive director |
| Iñigo Fernández de Mesa Vargas | External, non-executive director |
| Professor Dame Anne Glover | External, non-executive director (appointed 21 March 2022) |
| Rt Hon. Claire O'Neill | External, non-executive director (appointed 21 March 2022) |
| Daniel Alcain López | Internal, non-executive director |
| Gerardo Codes Calatrava | Internal, non-executive director |
| José Sainz Armada | Internal, non-executive director |

Rt Hon. Claire O'Neill resigned on 17 January 2023.

Meetings of the SPL Board were held on six occasions during the year under review. Attendance by the directors was as follows:

| | |
|---|---|
| José Ignacio Sánchez Galán | Attended six meetings |
| Lord Kerr of Kinlochard GCMG | Attended two meetings |
| Professor Sir James McDonald | Attended six meetings |
| Keith Anderson | Attended six meetings |
| Wendy Jacqueline Barnes | Attended six meetings |
| Iñigo Fernández de Mesa Vargas | Attended six meetings |
| Professor Dame Anne Glover | Attended four meetings |
| Rt Hon. Claire O'Neill | Attended four meetings |
| Daniel Alcain López | Attended six meetings |
| Gerardo Codes Calatrava | Attended six meetings |
| José Sainz Armada | Attended six meetings |

The terms of reference of the SPL Board are published on the SPL Corporate website (www.scottishpower.com) under 'Corporate Governance' /'Governance and Sustainability System'/'Corporate Governance'.

*Scottish Power Limited Audit and Compliance Committee ("SP ACC")*

The SP ACC, a permanent internal body, has an informative and consultative role, without executive functions, with powers of information, assessment and presentation of proposals to the SPL Board within its scope of action, which is governed by the Articles of Association of SPL and by the terms of reference of the SP ACC.

The SP ACC's responsibilities include:

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

The SP ACC's terms of reference are published on the SPL Corporate website under 'Corporate Governance'/'Governance and Sustainability System'/'Corporate Governance'.

**CORPORATE GOVERNANCE** *continued*

*Membership and attendance*

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

| Director | Notes | SP ACC attendance |
|---|---|---|
| Professor Sir James McDonald, (Chairman, external, non-executive director) | (i) | Attended one meeting |
| Iñigo Fernández de Mesa Vargas (Chairman, external, non-executive director) | (ii) | Attended five meetings |
| Wendy Jacqueline Barnes (External, non-executive director) | (iii) | Attended four meetings |
| Rt Hon. Claire O'Neill (External, non-executive director) | (iv) | Attended three meetings |
| Daniel Alcaín López (Internal, non-executive director) | | Attended five meetings |

(i) Resigned 20 March 2022.
(ii) Appointed Chairman 21 March 2022.
(iii) Appointed 21 March 2022.
(iv) Appointed 21 March 2022, and subsequently resigned on 17 January 2023.

In addition to the attendance set out above, the ScottishPower Control and Administration Director, Director of Internal Audit, the Compliance Director and the Risk Director normally attend, by invitation, all meetings of the SP ACC. Other members of senior management are also invited to attend as appropriate. During the year under review, the external auditor attended (in part) four meetings of the SP ACC.

*Matters considered by the SP ACC during 2022*

The issues that the SP ACC specifically addressed are detailed in its report which is published on the SPL Corporate website under 'Corporate Governance'/'Board of Directors'.

*ScottishPower Management Committee ("SPMC")*

The SPMC is a permanent internal body, which was established by the SPL Board to provide an informative and coordinating role for the activities of ScottishPower. In accordance with the corporate governance arrangements of ScottishPower and the separation of regulated activities, the SPMC does not exercise any executive function as a decision-making body. The SPMC meets weekly and receives regular information on the activities of ScottishPower in order to support the corporate functions and lines of business in understanding the local, legal, regulatory and market specifics in the UK and in order to assist the ScottishPower Chief Executive Officer ("CEO") in the performance of his duties. The CEO defines the composition of the SPMC, having regard to the duties assigned thereto. Those persons that the CEO deems appropriate may also attend its meetings as invitees, either regularly or at a specific meeting.

*SPRH Board*

The SPRH Board is responsible for the effective management of the Energy Retail and Wholesale business division, in accordance with the strategy of the Energy Retail and Wholesale business. The SPRH Board meets regularly and reviews strategy, operational performance and risk issues on behalf of the Energy Retail and Wholesale business.

The SPRH Board comprised the Chairman, Aitor Moso Raigoso, and four other directors as at 31 December 2022. The directors and their attendance at SPRH board meetings held during the period under review (five meetings) are shown below:

| Director | SPRH Board attendance |
|---|---|
| Aitor Moso Raigoso (Chairman, internal, non-executive director) | Attended five meetings |
| Andrew Ward (CEO) | Attended five meetings |
| Nicola Connelly (Internal, non-executive director) | Attended five meetings |
| David Gracia Fabre (Internal, non-executive director) | Attended five meetings |
| Marion Shepherd Venman (Internal, non-executive director) | Attended five meetings |

The terms of reference of the SPRH Board together with the rest of the SPRH Governance and Sustainability System approved by the SPRH Board, are published on www.spretailholdings.com under 'Corporate Governance'.

**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.

## SCOTTISHPOWER ENERGY MANAGEMENT LIMITED
## DIRECTORS' REPORT *continued*

**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 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.

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 ending 31 December 2023.

**ON BEHALF OF THE BOARD**

Valerie Sim

**Valerie Sim**
**Director**
**20 September 2023**

## 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 2022 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 2022 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").

The entity requires support from other group entities: the business model is such that other group companies rely upon the company to facilitate the optimisation of energy and gas supplies and purchases. Consequently, the company is considered an integral part of the group. We inspected letters received by the directors indicating the group's intention to provide this support, examined financial statements/internally provided projections to assess its ability to provide this support over the period of the audited entity's going concern assessment, and assessed the business reasons why the group may or may not choose to provide this support.

We considered whether the going concern disclosure in note 1B2 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and dependencies.

We assessed the completeness of the going concern disclosure.

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.

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

**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 12, 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.

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

**20 September 2023**

## SCOTTISHPOWER ENERGY MANAGEMENT LIMITED
## STATEMENT OF FINANCIAL POSITION
## at 31 December 2022

| | Notes | 2022 £m | 2021 £m |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| **Intangible assets** | 3 | **10.2** | 8.8 |
| **Property, plant and equipment** | 4 | **15.7** | 16.3 |
| Property, plant and equipment in use | | 15.6 | 16.2 |
| Property, plant and equipment in the course of construction | | 0.1 | 0.1 |
| **Right-of-use assets** | 5 | **0.6** | 0.6 |
| **Non-current financial assets** | | **243.7** | 278.6 |
| Derivative financial instruments | 6 | 243.7 | 278.6 |
| **Deferred tax assets** | 7 | **149.3** | - |
| **TOTAL NON-CURRENT ASSETS** | | **419.5** | 304.3 |
| **CURRENT ASSETS** | | | |
| **Inventories** | 8 | **31.4** | 13.1 |
| **Current trade and other receivables** | 9 | **1,861.3** | 1,391.5 |
| **Current financial assets** | | **1,177.0** | 2,382.9 |
| Derivative financial instruments | 6 | 1,177.0 | 2,382.9 |
| **TOTAL CURRENT ASSETS** | | **3,069.7** | 3,787.5 |
| **TOTAL ASSETS** | | **3,489.2** | 4,091.8 |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| **Of shareholders of the parent** | | **(329.7)** | 1,039.0 |
| Share capital | 10, 11 | 50.0 | 50.0 |
| Hedge reserve | 11 | (482.2) | 930.0 |
| Retained earnings | 11 | 102.5 | 59.0 |
| **TOTAL EQUITY** | | **(329.7)** | 1,039.0 |
| **NON-CURRENT LIABILITIES** | | | |
| **Non-current provisions** | 12 | **0.9** | 1.1 |
| **Bank borrowings and other non-current financial liabilities** | | **54.3** | 133.9 |
| Derivative financial instruments | 6 | 54.3 | 133.9 |
| **Non-current lease liabilities** | 5 | **0.6** | 0.6 |
| **Deferred tax liabilities** | 7 | **-** | 225.0 |
| **TOTAL NON-CURRENT LIABILITIES** | | **55.8** | 360.6 |
| **CURRENT LIABILITIES** | | | |
| **Current provisions** | 12 | **0.2** | 0.2 |
| **Bank borrowings and other current financial liabilities** | | **3,126.4** | 1,777.2 |
| Loans and other borrowings | 13 | 961.7 | 200.0 |
| Derivative financial instruments | 6 | 2,164.7 | 1,577.2 |
| **Current lease liabilities** | 5 | **0.1** | 0.1 |
| **Current trade and other payables** | 14 | **624.3** | 908.5 |
| **Current tax liabilities** | | **12.1** | 6.2 |
| **TOTAL CURRENT LIABILITIES** | | **3,763.1** | 2,692.2 |
| **TOTAL LIABILITIES** | | **3,818.9** | 3,052.8 |
| **TOTAL EQUITY AND LIABILITIES** | | **3,489.2** | 4,091.8 |

Approved by the Board and signed on its behalf on 20 September 2023.

Valerie

**Valerie Sim**
Director

The accompanying Notes 1 to 24 are an integral part of the Statement of financial position at 31 December 2022.

# SCOTTISHPOWER ENERGY MANAGEMENT LIMITED
## INCOME STATEMENT
## for the year ended 31 December 2022

| | Notes | 2022 £m | 2021 £m |
|---|---|---|---|
| Revenue | 15 | 7,918.4 | 3,888.8 |
| Procurements | | (7,860.7) | (3,879.7) |
| **GROSS MARGIN** | | **57.7** | 9.1 |
| Staff costs | 16 | (6.1) | (6.7) |
| External services | | (21.6) | (16.4) |
| Other operating results | | 26.5 | 23.6 |
| **Net operating (costs)/income** | | **(1.2)** | 0.5 |
| **Taxes other than income tax** | 17 | **(0.4)** | (0.8) |
| **GROSS OPERATING PROFIT** | | **56.1** | 8.8 |
| Net expected credit losses on trade and other receivables | | (0.8) | (1.0) |
| Depreciation and amortisation charge, allowances and provisions | 18 | (3.0) | (2.8) |
| **OPERATING PROFIT** | | **52.3** | 5.0 |
| Finance income | 19 | 3.6 | 2.0 |
| Finance costs | 20 | (3.6) | (0.4) |
| **PROFIT BEFORE TAX** | | **52.3** | 6.6 |
| Income tax | 21 | (8.8) | (1.6) |
| **NET PROFIT FOR THE YEAR** | | **43.5** | 5.0 |

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 2022.

## SCOTTISHPOWER ENERGY MANAGEMENT LIMITED
## STATEMENT OF COMPREHENSIVE INCOME
## for the year ended 31 December 2022

| | Note | 2022 £m | 2021 £m |
|---|---|---|---|
| **NET PROFIT FOR THE YEAR** | | **43.5** | 5.0 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| **Items that may be subsequently reclassified to the income statement:** | | | |
| Cash flow hedges: | | | |
| Change in the value of cash flow hedges | 11 | **(1,783.2)** | 972.7 |
| Tax relating to cash flow hedges | 11 | **371.0** | (191.9) |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR** | | **(1,412.2)** | 780.8 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **(1,368.7)** | 785.8 |

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 2022

| | Share capital £m | Hedge reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|
| 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 1 January 2022 | 50.0 | 930.0 | 59.0 | 1,039.0 |
| Total comprehensive income for the year | - | (1,412.2) | 43.5 | (1,368.7) |
| **At 31 December 2022** | **50.0** | **(482.2)** | **102.5** | **(329.7)** |

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 2022.

## 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 FRS 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") in conformity with the requirements of the Companies Act 2006 including newly effective IAS for the year ended 31 December 2022 (refer to Note 1C). In applying FRS 101, the Company has made amendments where necessary in order to comply with the Companies Act 2006.

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 intangible assets and property, plant and equipment;
- 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.

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 GOING CONCERN

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The principal activities of the Company are the purchase of external supplies of electricity and gas for onward sale to customers, and the management of electricity purchased via renewables PPAs from Renewables and other external parties with wholesale market participants in the UK. These activities are performed on behalf of Energy Retail. The Company also optimises its gas storage assets. These activities take place within the group headed by Scottish Power UK plc ("the SPUK Group". ScottishPower UK plc ("SPUK"), the Company's intermediate parent company, is itself a subsidiary of Iberdrola, S.A., the ultimate parent undertaking. The Company's cash flows are therefore dependent on the continuation of these operations and have been considered as part of the SPUK Group's cash flow forecasts, on which the directors of the SPUK Group have performed an assessment of reasonably possible downsides.

To meet its working capital requirements, the Company participates in a UK centralised treasury function operated by the Company's intermediate parent company SPL, the parent company of SPUK. At 31 December 2022, the Company had a loan payable of £958.5 million with SPL. ScottishPower's treasury function works closely with Iberdrola to manage the Company's funding requirements.

There has been no indication that these arrangements may change. The directors have performed a going concern assessment which indicates that, in the case of reasonably possible downsides, the Company will require additional funds, through funding from SPUK, to meet its liabilities as they fall due for at least one year from the date of approval of these financial statements.

SPUK has indicated its intention to make available such funds as are needed by the Company, in the event this is required. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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 these financial statements and, therefore, have prepared these financial statements on a going concern basis.

**1 BASIS OF PREPARATION** *continued*

C IMPACT OF NEW IFRS

As noted on the previous page, these Accounts have been prepared in accordance with UK-adopted IAS. In preparing these Accounts, the Company has applied all relevant standards and interpretations 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 2022.

For the year ended 31 December 2022, the Company has applied the following amendments for the first time:

| Standard | Note |
|---|---|
| • Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract'. | (a) |
| • Amendments to IFRS 3 'Business Combinations: Reference to the Conceptual Framework' | (a) |
| • Amendments to IAS 16 'Property, Plant and Equipment: Proceeds before Intended Use' | (a) |
| • Annual Improvements to IFRS Standards 2018-2020 Cycle | (a) |

(a) 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 and estimation 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. Management considers significant judgements and estimates to be those with a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year due to the inherent uncertainty regarding estimates and assumptions. As at 31 December 2022, the Company applied no such significant judgements or estimates.

**Non-significant judgement and estimates in applying the Company's accounting policies - Consideration of climate change**

The impact of climate change on the financial statements, including the risk identified in the Strategic Report, has been considered. No material impact on the judgements and estimates made in the preparation of the financial statements has been identified. This consideration focused on the Company's going concern position, including the cash flow prepared for the directors' assessment referred to in Note 1B2.

Additionally, consideration has been given to any estimates over the longer term which should be disclosed to allow for an understanding of the financial statements. The Company has no estimates of this nature to disclose.

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

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

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

### A 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.

### B 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 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 is 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 |

### C 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' ("IFRS 16").

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.

### C1 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.

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

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.

### D 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 and leased 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.

### E 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.

### E1 FINANCIAL ASSETS

#### E1.1 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.

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.

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

E1.2 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).

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.

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

**(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.

E2 FINANCIAL LIABILITIES

E2.1 CLASSIFICIATION

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

E2.2 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.

E2.3 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.

E3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

E3.1 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 2E3.2).

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 2E3.2.

E3.2 CASH FLOW HEDGES

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

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

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. For hedges that relate to an underlying transaction which results in recognition of a financial asset or a liability, amounts deferred in equity are recognised in the Income statement in the same period in which the hedged item affects it.

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.

### E3.3 VALUATION OF FINANCIAL INSTRUMENTS

In those circumstances where IFRS 9 'Financial Instruments' ("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.

### F INVENTORIES

Inventories, comprising gas, 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.

### G 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 year.

### H 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) Commodity derivative income**

The accounting for Commodity derivative income is set out at Note 2E3.2.

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

**(b) 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.

**(c) 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.

I 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.

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. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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.

## 3 INTANGIBLE ASSETS

| Year ended 31 December 2022 | Computer software (Note (a)) £m | Licences £m | Total £m |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January 2022 | 12.9 | 9.5 | 22.4 |
| Additions | 3.6 | - | 3.6 |
| Disposals | (0.7) | - | (0.7) |
| **At 31 December 2022** | **15.8** | **9.5** | **25.3** |
| **Amortisation:** | | | |
| At 1 January 2022 | 8.7 | 4.9 | 13.6 |
| Amortisation for the year | 1.8 | 0.4 | 2.2 |
| Disposals | (0.7) | - | (0.7) |
| **At 31 December 2022** | **9.8** | **5.3** | **15.1** |
| **Net book value:** | | | |
| **At 31 December 2022** | **6.0** | **4.2** | **10.2** |
| At 1 January 2022 | 4.2 | 4.6 | 8.8 |

(a) The cost of fully amortised computer software still in use at 31 December 2022 was £5.8 million (2021 £5.3 million).

## 4 PROPERTY, PLANT AND EQUIPMENT

### Movements in property, plant and equipment

| Year ended 31 December 2022 | Gas storage facilities £m | Other items of property, plant and equipment in use (Note (a)) £m | Plant in the course of construction £m | Total £m |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 January 2022 | 35.9 | 1.0 | 0.1 | 37.0 |
| Additions | - | - | 0.4 | 0.4 |
| Reassessment of decommissioning asset (Note (b)) | (0.2) | - | - | (0.2) |
| Transfers from plant in the course of construction to plant in use | 0.4 | - | (0.4) | - |
| **At 31 December 2022** | **36.1** | **1.0** | **0.1** | **37.2** |
| **Depreciation:** | | | | |
| At 1 January 2022 | 20.6 | 0.1 | - | 20.7 |
| Charge for the year | 0.8 | - | - | 0.8 |
| **At 31 December 2022** | **21.4** | **0.1** | **-** | **21.5** |
| **Net book value:** | | | | |
| **At 31 December 2022** | **14.7** | **0.9** | **0.1** | **15.7** |
| At 1 January 2022 | 15.3 | 0.9 | 0.1 | 16.3 |

**The net book value of property plant and equipment at 31 December 2022 is analysed as follows:**

| | £m | £m | £m | £m |
|---|---|---|---|---|
| Property, plant and equipment in use | 14.7 | 0.9 | - | 15.6 |
| Property, plant and equipment in the course of construction | - | - | 0.1 | 0.1 |
| | **14.7** | **0.9** | **0.1** | **15.7** |

(a) Other items of property, plant and equipment in use principally comprises computer equipment and land.
(b) Reassessment of decommissioning asset represents a downward revision to the capitalised provision within the year (refer to Note 12).
(c) Included within the cost of property, plant and equipment at 31 December 2022 are assets in use not subject to depreciation, being land of £0.7 million (2021 £0.7 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 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 |

| **Year ended 31 December 2022** | Land £m |
|---|---|
| **Cost:** | |
| **At 1 January 2022 and 31 December 2022** | **0.8** |
| **Depreciation:** | |
| **At 1 January 2022 and 31 December 2022** (Note (ii)) | **0.2** |
| **Net book value:** | |
| **At 1 January 2022 and 31 December 2022** | **0.6** |

(i) There are no right-of-use assets measured at revalued amounts.
(ii) The depreciation charge for the year ended 31 December 2022 was less than £0.1 million.

### (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.

| | **2022 £m** | 2021 £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 |

5 LEASING *continued*

| Analysis of total lease liabilities | 2022 £m | 2021 £m |
|---|---|---|
| Non-current | 0.6 | 0.6 |
| Current | 0.1 | 0.1 |
| **Total** | **0.7** | 0.7 |

During both 2022 and 2021, interest on lease liabilities of less than £0.1 million was charged to the Income statement.

Details of ScottishPower's, and therefore 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**

| | 2022 £m | 2021 £m |
|---|---|---|
| **Total cash outflow for leases** | **(0.1)** | (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 2021 | 183.7 |
| Recorded in Income statement | 8.8 |
| Early settlement of derivatives | (214.8) |
| Recorded in Cash flow hedge reserve | 972.7 |
| At 1 January 2022 | 950.4 |
| Recorded in Income statement | (9.9) |
| Early settlement of derivatives | 44.4 |
| Recorded in Cash flow hedge reserve | (1,783.2) |
| **At 31 December 2022** | **(798.3)** |

The £1,783.2 million recorded as a decrease in the Cash flow hedge reserve during 2022 (2021 £972.7 million increase) reflects both the delivery of commodity derivative assets during 2022 and movements in the value of derivatives for future delivery. The significant movement from prior year is 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 and natural gas). 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.

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 Finance costs.

## 6 FINANCIAL INSTRUMENTS *continued*

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 2022** | **1 year** | **2 years** | **3 years** | **4 years** | **Total** |
| Commodity forwards | 3,790.5 | 596.2 | 41.7 | 2.3 | **4,430.7** |

The future cash flows on derivative instruments may be different from the amounts in the table above as commodity prices and exchange rates or the relevant conditions underlying the calculation change.

## 7 DEFERRED TAX

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

| | Note | Property, plant and equipment £m | Derivative financial instruments £m | Other temporary differences £m | Total £m |
|---|---|---|---|---|---|
| At 1 January 2021 | | (1.2) | (36.6) | 0.1 | (37.7) |
| (Charge)/credit to the Income statement | (a) | (0.3) | 4.8 | 0.1 | 4.6 |
| Recorded in the Statement of comprehensive income | (a) | - | (191.9) | - | (191.9) |
| At 1 January 2022 | | (1.5) | (223.7) | 0.2 | (225.0) |
| Credit to the Income statement | | - | 3.0 | 0.3 | 3.3 |
| Recorded in the Statement of comprehensive income | | - | 371.0 | - | 371.0 |
| **At 31 December 2022** | | **(1.5)** | **150.3** | **0.5** | **149.3** |

(a) 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 were increased by £7.3 million to reflect the rate that the temporary differences are expected to reverse at.

## 8 INVENTORIES

| | **2022 £m** | 2021 £m |
|---|---|---|
| Fuel stocks | **31.4** | 13.1 |

Inventories with a value of £30.0 million (2021 £3.5 million) were recognised as an expense during the year.

## 9 TRADE AND OTHER RECEIVABLES

| | Notes | **2022 £m** | 2021 £m |
|---|---|---|---|
| **Current receivables:** | | | |
| Receivables due from Iberdrola Group companies - trade | | **1,203.8** | 610.1 |
| Receivables due from Iberdrola Group companies - loans | (a) | - | 313.7 |
| Receivables due from Iberdrola Group companies - interest | | - | 1.8 |
| Trade receivables and accrued income | | **92.6** | 225.5 |
| Prepayments | | **0.2** | 0.2 |
| Other tax receivables | | **17.5** | 11.9 |
| Other receivables | (b) | **547.2** | 228.3 |
| | (c) | **1,861.3** | 1,391.5 |

(a) Loans receivable due from Iberdrola Group companies were repayable on demand and earned interest at Bank of England base rate ("Base") plus 1%.

(b) Collateral support agreements are used to manage credit exposure to commodity price changes and include margining for trading with exchanges. Current other receivables comprises collateral of £529.0 million (2021 £nil) with the Company's principal commodity derivatives clearer, £18.4 million (£28.3 million) in other operational collateral offset by £0.2 million (2021 £nil) of ECLs (refer to Note 20). The collateral balance in 2021 was a payable (refer to Note 14). The movement from prior year is due to changes in the market price of commodities. During 2021, the Company agreed amendment to its terms and conditions with its commodities derivative clearer which included an initial deposit margin facility of £200.0 million. However, this facility was not in use at 31 December 2022. At 31 December 2022, letters of credit posted amounted to £1,032.0 million (2021 £77.0 million), £870.0 million (2021 £nil) of which related to a letter of credit posted with the Company's commodity derivative clearer.

## 9 TRADE AND OTHER RECEIVABLES *continued*

(c) The table below provides information about IFRS 15 contract balances included within Trade and other receivables:

| | 2022 £m | 2021 £m |
|---|---|---|
| Receivables | 1,296.4 | 835.6 |

(i) A charge of £0.8 million (2021 £1.0 million) of net ECLs were recognised during the year on receivables and contract assets arising from the Company's contracts with customers.

## 10 SHARE CAPITAL

| | 2022 £m | 2021 £m |
|---|---|---|
| **Allotted, called up and fully paid shares:** | | |
| 50,000,000 ordinary shares of £1 each (2021 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.

## 11 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 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 on items relating to cash flow hedges | - | (191.9) | - | (191.9) |
| At 1 January 2022 | 50.0 | 930.0 | 59.0 | 1,039.0 |
| Profit for the year attributable to equity holder of the Company | - | - | 43.5 | 43.5 |
| Changes in the value of cash flow hedges | - | (1,783.2) | - | (1,783.2) |
| Tax relating to cash flow hedges | - | 371.0 | - | 371.0 |
| **At 31 December 2022** | **50.0** | **(482.2)** | **102.5** | **(329.7)** |

(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.

## 12 PROVISIONS

| Year ended 31 December 2021 | Note | At 1 January 2021 £m | Reassessment of decommissioning costs £m | At 31 December 2021 £m |
|---|---|---|---|---|
| Decommissioning costs | (a) | 1.4 | (0.1) | 1.3 |

| **Year ended 31 December 2022** | Note | At 1 January 2022 £m | Reassessment of decommissioning costs £m | **At 31 December 2022 £m** |
|---|---|---|---|---|
| Decommissioning costs | (a) | 1.3 | (0.2) | **1.1** |

| **Analysis of total provisions** | 2022 £m | 2021 £m |
|---|---|---|
| Non-current | 0.9 | 1.1 |
| Current | 0.2 | 0.2 |
| | 1.1 | 1.3 |

## 12 PROVISIONS *continued*

(a) The provision for decommissioning costs is the discounted future estimated costs of decommissioning the Company's gas storage facilities. It is expected to be utilised between 2023 and 2034. The reduction of £0.2 million (2021 £0.1 million) resulted from a downward reassessment of future estimated decommissioning costs (refer to Note 4). The decrease in 2022 resulted largely from an increase in the discount rates used in the calculations. The discount rates applied are based on UK treasury bonds with maturities which are similar to the expected decommissioning date. The increase in the discount rate more than offset the rise in the short to medium-term inflation rate.

## 13 LOANS AND OTHER BORROWINGS

### Analysis of loans and other borrowings by instrument and maturity

| Instrument | Note | Interest rate* | Maturity | 2022 £m | 2021 £m |
|---|---|---|---|---|---|
| Credit facility - initial margin | (a) | 0.60% | On demand | - | 200.0 |
| Loans with Iberdrola Group companies | | Base + 1% | On demand | 958.5 | - |
| Accrued interest due to Iberdrola Group companies | | | | 3.2 | - |
| | | | | 961.7 | 200.0 |

* 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 but was not in use at 31 December 2022.

## 14 TRADE AND OTHER PAYABLES

| | Notes | 2022 £m | 2021 £m |
|---|---|---|---|
| **Current trade and other payables:** | | | |
| Payables due to Iberdrola Group companies - trade | | 1.7 | 11.3 |
| Trade payables | (a) | 620.0 | 641.5 |
| Other taxes and social security | | 0.1 | 0.2 |
| Capital payables and accruals | | 1.7 | 0.9 |
| Collateral | (b) | - | 253.8 |
| Other payables | | 0.8 | 0.8 |
| | | 624.3 | 908.5 |

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

(b) The collateral balance in the prior year relates to collateral held with commodity derivative counterparties. The collateral balance in the current year is a receivable and is included within Other receivables (refer to Note 9). The movement from prior year is due to changes in the market price of commodities. Collateral support agreements are used to manage credit exposure to commodity price changes and include margining for trading with exchanges. The Company also utilsies letters of credit to mitigate credit risk. At 31 December 2022 letters of credit held amounted to £6.0 million (2021 £1.0 million).

## 15 REVENUE

### Disaggregation of revenue

| | 2022 £m | 2021 £m |
|---|---|---|
| Commodity derivative income | 4,020.2 | 2,188.6 |
| Supply of wholesale electricity | 2,103.9 | 924.5 |
| Supply of wholesale gas | 1,581.9 | 632.1 |
| Supply of ROCs | 212.4 | 143.6 |
| | 7,918.4 | 3,888.8 |

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

## 16 EMPLOYEE INFORMATION

### (a) Staff costs

| | 2022 £m | 2021 £m |
|---|---|---|
| Wages and salaries | 4.3 | 4.7 |
| Social security costs | 0.5 | 0.5 |
| Pension and other costs | 1.3 | 1.5 |
| **Charged to the income statement** | **6.1** | 6.7 |

### (b) Employee numbers

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

| | Average 2022 | Average 2021 |
|---|---|---|
| Administrative staff | 43 | 48 |
| Operations | 19 | 19 |
| **Total** | **62** | 67 |

### (c) Retirement benefits

The Company's contributions payable in the year were £1.2 million (2021 £1.4 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 SPUK, the intermediate holding company and the sponsoring company of the retirement benefit schemes. As at 31 December 2022, the surplus in ScottishPower's defined benefit schemes in the UK amounted to £240.0 million (2021 £192.2 million surplus). The employer contribution rate for these schemes in the year ended 31 December 2022 was 52.9%-53.4%.

## 17 TAXES OTHER THAN INCOME TAX

| | 2022 £m | 2021 £m |
|---|---|---|
| Property taxes | **0.4** | 0.8 |

## 18 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

| | 2022 £m | 2021 £m |
|---|---|---|
| Property, plant and equipment depreciation charge | **0.8** | 0.7 |
| Right-of-use asset depreciation charge | - | 0.1 |
| Intangible asset amortisation charge | **2.2** | 2.0 |
| | **3.0** | 2.8 |

## 19 FINANCE INCOME

| | 2022 £m | 2021 £m |
|---|---|---|
| Interest on bank and other deposits | **3.3** | - |
| Interest receivable from Iberdrola Group companies | - | 1.8 |
| Foreign exchange gains | **0.2** | - |
| Fair value and other gains on financing derivatives | **0.1** | 0.2 |
| | **3.6** | 2.0 |

## 20 FINANCE COSTS

| | 2022 £m | 2021 £m |
|---|---|---|
| Interest on amounts due to Iberdrola Group companies | 3.1 | - |
| Interest on other borrowings | - | 0.2 |
| ECLs on financial assets | 0.2 | - |
| Foreign exchange losses | - | 0.1 |
| Fair value and other losses on financing derivatives | 0.3 | 0.1 |
| | 3.6 | 0.4 |

## 21 INCOME TAX

| | 2022 £m | 2021 £m |
|---|---|---|
| Current tax: | | |
| UK Corporation Tax charge on profit for the year | 12.1 | 6.2 |
| **Current tax for the year** | 12.1 | 6.2 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | (2.0) | (4.9) |
| Impact of tax rate change on opening deferred tax balance | - | 0.3 |
| Impact of tax rate change on current year charge | (1.3) | - |
| **Deferred tax for the year** | (3.3) | (4.6) |
| **Income tax expense for the year** | 8.8 | 1.6 |

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

| | 2022 £m | 2021 £m |
|---|---|---|
| Corporation Tax at 19% (2021 19%) | 9.9 | 1.3 |
| Impact of tax rate change on opening deferred tax balance | - | 0.3 |
| Impact of tax rate change on current year charge | (1.3) | - |
| Non-deductible expenses and other permanent differences | 0.2 | - |
| **Income tax expense for the year** | 8.8 | 1.6 |

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 were 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.

| 2022 | 2023 £m | 2024 £m | 2025 £m | 2026 £m | 2027 £m | 2028 and thereafter £m | Total £m |
|---|---|---|---|---|---|---|---|
| Long-term energy purchase contract commitments | 4,482.4 | 402.6 | 61.1 | 4.1 | - | - | 4,950.2 |
| Contractual commitments | 45.4 | 3.4 | 3.4 | 3.5 | 3.6 | 3.7 | 63.0 |

| 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 |

## 23 RELATED PARTY TRANSACTIONS

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

| | 2022 Other Iberdrola Group companies £m | 2021 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 five directors (2021 four), two (2021 two) were remunerated directly by the Company. The remaining directors were remunerated by other Iberdrola Group companies in both years.

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Aggregate remuneration in respect of qualifying services | **307** | 336 |
| Number of directors who exercised share options | **3** | 2 |
| Number of directors who received shares under a long-term incentive scheme | **1** | - |
| Number of directors accruing retirement benefits under a defined benefit scheme | **3** | 2 |

| **Highest paid director** | 2022 £000 | 2021 £000 |
|---|---|---|
| Aggregate remuneration | **148** | 194 |
| Accrued pension benefit | **29** | 27 |

(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 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

| | 2022 £m | 2021 £m |
|---|---|---|
| Audit of the Company's annual accounts | **0.5** | 0.4 |