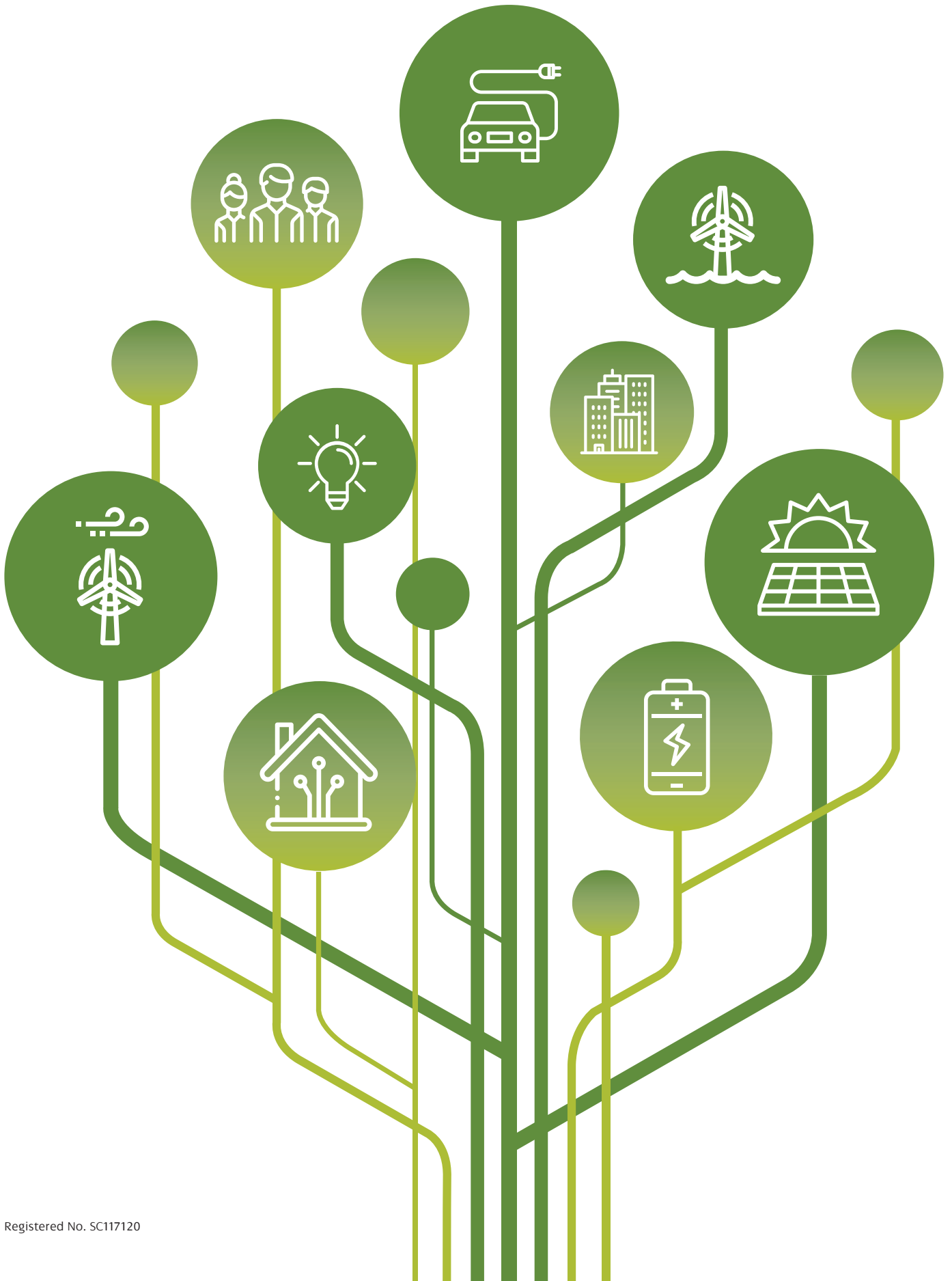




SCOTTISHPOWER

SCOTTISH POWER UK PLC
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2021



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Some of the statements contained herein are forward looking statements about Scottish Power UK plc and its subsidiaries, and Iberdrola, S.A.'s strategic plans. Although Scottish Power UK plc and Iberdrola, S.A. believe that the expectations reflected in such statements are reasonable, the statements are not guarantees as to future performance and undue reliance should not be placed on them.

Group Strategic Report for the year ended 31 December 2021

The directors present their Strategic Report on the Scottish Power UK plc Group ("the Group") for the year ended 31 December 2021. This includes an overview of the Group's structure, 2021 performance and strategic outlook including principal risks and uncertainties. References to 'ScottishPower' below apply fully to the Scottish Power UK plc Group.

SCOTTISHPOWER TODAY

ScottishPower: creating a better future, quicker, by delivering a low-carbon future for the UK

WHO WE ARE

Scottish Power UK plc ("the Company"), registered company number SC117120, acts as the holding company of the Scottish Power UK plc Group ("the Group"), whose activities comprise the generation, transmission and distribution of electricity, energy management and the supply of electricity and gas principally in the United Kingdom ("UK"). The Company is a wholly-owned subsidiary of Iberdrola, S.A. ("Iberdrola"), one of the largest utility companies in the world and a leader in renewable energy.

Scottish Power Limited is the UK holding company of the Scottish Power Limited Group ("The ScottishPower Group") of which the Company is a member.

The three divisions operated by the Group during the year were Energy Networks, Renewables, and Energy Retail and Wholesale, which are owned by their respective Head of Business Sub-holding companies: Scottish Power Energy Networks Holdings Limited ("SPENH"), ScottishPower Renewable Energy Limited ("SPREL"), and Scottish Power Retail Holdings Limited ("SPRH").

The Head of Business Sub-holding companies have their own boards of directors with the necessary autonomy to carry out the day-to-day management and effective administration of their division.

Further information regarding the corporate governance and board structure of ScottishPower is set out in the Corporate Governance section of the Directors' Report on page 39.

OUR ACTIVITIES

The Group has three operating divisions:

Energy Networks

Energy Networks is responsible for three regulated electricity network businesses in the UK. These businesses are 'asset-owner companies', holding the regulated assets and electricity transmission and distribution licences of the Group, and are regulated monopolies. They own and operate the network of cables and power lines transporting electricity to around 3.5 million connected customers in the Central Belt and South of Scotland, Cheshire, Merseyside, North Shropshire and North Wales.

Renewables

Renewables is responsible for the origination, development, construction and operation of renewable energy generation plants, principally onshore and offshore wind, with a growing presence in renewable technologies and innovations such as battery storage and solar. Renewables' ambitious growth plans include expansion of our existing onshore wind portfolio harnessing our 6.6 gigawatts ("GW") pipeline, investing in new large-scale solar deployment and innovative grid storage systems including batteries. The division operates the East Anglia One ("EA1") offshore wind farm and is developing the East Anglia Hub ("EA Hub") in the Southern North Sea off the East Anglian coast. Renewables' 41 wind farms produce over 2,800 megawatts ("MW") of clean, renewable energy which supplies around 2.1 million homes.

Energy Retail and Wholesale

Energy Retail is responsible for the supply of electricity and gas to almost five million domestic and business customers throughout the UK, including customer registration, billing and handling enquiries in respect of these services. Energy Retail is also responsible for the associated metering activity, including the smart meter installation programme, and managing the Group's smart solutions activities. Furthermore, in 2020, the Group created a Hydrogen department to begin working with businesses to seek appropriate green hydrogen solutions. This is a pioneering strategic move to support the UK's efforts to achieve 'net zero' by 2050.

Energy Wholesale is responsible for managing the Group's exposure to the UK wholesale electricity and gas markets for Energy Retail and Renewables and the optimisation of gas storage.

2021 financial highlights

REVENUE
£5,349.7m

(2020 £5,164.0m)

OPERATING PROFIT
£720.4m

(2020 £991.8m)¹

CAPITAL INVESTMENT²
£999.0m

(2020 £1,308.5m)

NET DEBT³
£4,534.3m

(2020 £5,380.8m)¹

¹ Operating profit and Net debt have been restated (refer to Note 2A2).

² Additions to Intangible assets and Property, plant and equipment.

³ As detailed in the 'Liquidity and cash management' section on page 23.

OUR PURPOSE, VALUES, STRATEGY AND ROLE

Iberdrola and ScottishPower are “committed to an energy model that prioritises the wellbeing of people and the preservation of the planet.”

OUR PURPOSE

Shaping the future of energy in the UK

We are the first integrated energy utility in the UK to have 100% of its generation of electricity derived from renewable energy sources. Our focus is on wind energy, smart grids, and driving the change to a cleaner, electric future. We are playing a leading role in the delivery of a clean, low-carbon system for the UK, currently investing the equivalent of £6 million every working day between 2020 to 2025 to create a better future, quicker.

With our future plans to invest significantly in renewables generation and the electricity network infrastructure that will support the green transition, we are well-placed to contribute to the UK achieving its net zero ambitions. In November 2020, as part of the €75 billion investment programme announced by Iberdrola, we set out plans for £10 billion of investment in clean energy by 2025. Under these plans, we expect to extend significantly our existing renewable generation capacity. In October 2021, a further announcement was made to invest £6 billion in developing the EA Hub offshore wind complex, which is, through ScottishPower, Iberdrola’s biggest investment anywhere in the world and one of the largest offshore wind projects worldwide.

In November 2021, the UK hosted the United Nations (“UN”) Climate Change Conference, the Conference of the Parties (“COP26”), in our home city of Glasgow. We are proud to be a COP26 Principal Partner and to have participated in the event, which brought together delegates from countries across the world to agree to commitments for initiatives on deforestation, green finance and coal mitigation. Alongside representatives of Iberdrola, we conducted a wide-ranging programme of events with international counterparts, industry representatives and wider stakeholders in order to highlight the importance of delivering faster progress towards net zero. These events included the participation of Mr Ignacio Galan, the Chairman of ScottishPower and Chairman and Chief Executive Officer (“CEO”) of Iberdrola, in the Powering Past Coal Alliance event on the main stage of COP26 as well as events on the importance of a green energy transition. Other events included a session with the UK Prime Minister, Rt Hon Boris Johnson MP, to highlight the importance of innovation in the energy industry and a roundtable with the directly elected Metro Mayor of the Liverpool City Region, Steve Rotheram, and the Mayor of West Yorkshire, Tracy Brabin, on the importance of tailored regional responses to the net zero challenge. (Refer to ‘Environment’ section of the Strategic Report for further details on COP26).

Delivering a better future, quicker for everyone

From our pioneering renewables developments more than 20 years ago to becoming the first integrated energy company to generate entirely from renewables, we’re proud to be at the forefront of delivering the green energy revolution in the UK. We are committed to speeding up the transition to cleaner electric transport, improving air quality and, over time, helping to reduce energy bills.

As part of Iberdrola, one of the world’s largest integrated utility companies and a global leader in wind energy, we believe in developing an energy model that prioritises the wellbeing of people and the preservation of the planet. Recognising the importance of taking care of the environment and people’s health, we want to offer society our experience in addressing these urgent social needs through our work on the decarbonisation and electrification of the economy as a whole, using renewable energy sources, efficient energy storage, smart grids and digitisation.

We share Iberdrola’s purpose and values, and this is the bridge that connects the communities we serve with our growing Group. We are dedicated to the purpose of building together, each day, a healthier, more accessible energy model, based on electricity.

OUR VALUES

Our values rest on continuing to develop as a leading, global and sustainable group in the 21st century. To meet our purpose, we are founded on the following three corporate values that define the Group’s identity and form the foundation of our strategy.

Sustainable Energy (“Sustainable”)

We are pioneers of renewable energy. We seek to inspire others by creating economic, social and environmental value wherever we are now and looking to the future. We put this value into action by continually putting safety first, respecting the environment, and acting ethically, rationally and responsibly to meet our commitments.

Integrating Force (“Collaborative”)

We are an energetic and responsible force for change. Through working together, we build and grow talent to achieve our common goals and purpose. We put this value into action by sharing knowledge and information; working together with our employees, suppliers and customers; and by breaking the mould and encouraging diversity.

Driving Force (“Dynamic”)

We bring about efficient change, big and small, through constantly challenging ourselves and our processes. We innovate to deliver continuous improvement. We put this value into action by asking how we can do things more simply or efficiently, coming up with ideas and leading innovation, and anticipating our customers’ needs.

OUR STRATEGY

Our strategy is to create value from investment in networks, renewable energy generation and retail to help our customers realise a better future, quicker, under the pillars of our strategic values.

Our key strategic goals include:

- investing in networks to make them smarter and more resilient, and creating a platform for the UK’s sustainable electric future;
- investing in renewable energy generation, principally onshore and offshore wind, solar and battery storage, to address the climate emergency and reduce the cost of electricity generation;

Group Strategic Report for the year ended 31 December 2021

OUR PURPOSE, VALUES, STRATEGY AND ROLE *continued*

- creating a fair, transparent, competitive and financially stable retail market where customers are protected from reckless and irresponsible practices and are in control of their energy usage through digitisation and smart metering;
- supporting and guiding customers through their journey to be more efficient in their energy consumption, and helping them to decarbonise their domestic or business energy consumption;
- designing and delivering an energy system to facilitate and encourage the growth of electric vehicles (“EVs”) and clean heating solutions to improve air quality and tackle climate change; and
- facilitating the decarbonisation of sectors of the economy that are challenging to electrify, such as heavy industry and heavy transport, through the development and application of green hydrogen solutions.

In November 2020, in support of this strategy, we set out plans to invest £10 billion in the UK by 2025 in network infrastructure, clean energy generation and storage, and smart solutions and green hydrogen opportunities. The £10 billion plan includes:

- investing more than £4.5 billion in our electricity networks to facilitate the drive for more renewable generation and to support the decarbonisation of transport and heating;
- investing £3.7 billion to double our existing renewable generation capacity (currently 2.8 GW) by building at least a further 2.4 GW by 2025 – enough to power up to two million homes; and
- investing more than £1 billion up to 2025 in supporting customers’ transition to an all-electric future through the completion of the smart metering programme, as well as investments in green hydrogen.

This plan will support the creation of more than 7,000 green jobs in local supply chains across the UK. In August 2021, our Networks business announced its largest recruitment drive in 20 years, helping to make the green recovery a reality and support the UK in meeting its climate change targets.

OUR ROLE

In the wider legislative, regulatory and commercial context in which we operate, our commitment to playing a leading role in the UK’s contribution to combating climate change has been reflected in a number of significant developments during 2021. Building on the publication of the UK Prime Minister’s Ten Point Plan for a Green Industrial Revolution issued in November 2020, we have contributed actively to the development of thinking in a range of significant areas of policy, including the UK Government’s Heat and Buildings Strategy and Net Zero Strategy, which were published in October 2021.

As the only energy company in the UK with a role across the entire energy value chain of generation and storage, transmission and distribution, and supply to domestic and business customers, we are uniquely placed to make an active and distinctive contribution to these policy debates. Across all areas of our business, we contend that the pace of change needs to become quicker and we need to ensure everyone benefits from the green transition – a theme drawn out in the publication of our Just Transition Strategy in November 2021.

In September 2021, we announced a significant new partnership with the WWF, the world’s leading independent conservation organisation, to help accelerate the UK’s transition to net zero. The unique link-up – the first time in more than a decade that WWF has worked with a UK energy company – is pursuing a programme of policy advocacy to champion low-carbon energy solutions and to call for ambitious climate action.

Speeding up the journey to net zero is at the heart of everything we do. Each of our divisions has an active role to play in achieving this goal.

Energy Networks continues to invest in transmission and distribution networks, to ensure all customers have the power they need as set out in our business plans, which are determined through a framework of multi-year price controls and regulated by The Office of Gas and Electricity Markets (“Ofgem”). Our networks division has continued to deliver a 99.99% reliability level of supply to their customers. We understand just how critical electricity is to the lives and work of all the customers we serve, and our investment plans take account of a number of complex current and future demands.

As the backbone of reaching net zero, electricity networks facilitate renewable power onto the grid and ensure we are prepared for the increasing electrification of transport and heat. Over the coming decade, it is important to anticipate the impact of increasing number of EVs on our roads and the growing installation of electric heat pumps as an alternative to gas boilers. To address this impact, we contend that it is time to go further, faster to deliver the network investment necessary to meet our net zero goals. Our electricity distribution system will face the biggest changes to its design and operation for over half a century. Distribution networks were designed for predictable, stable demand. With net zero, electricity demand, generation and consumer behaviour will all change. Our networks are the product of a century of incremental evolution, and the opportunities from new technology and innovation will lead to a consumer-led revolution in the use and operation of our system.

As part of the RIIO-ED2 (“ED2”) price control process for investment in electricity distribution networks in the 2023-28 period, Energy Networks submitted draft and final business plans in July and December 2021 respectively, detailing the £3.3 billion of expenditure we consider necessary to ready the UK for an electric future. During the process of finalising the business plan, Energy Networks engaged over 19,000 customers and stakeholders on a vast range of topics ranging from engineering to consumer vulnerability. Given the establishment of targets by the UK Government for the phasing out of petrol and diesel engines from 2030 and the installation of 600,000 heat pumps per year by 2028, the ED2 period is particularly significant for the decarbonisation of transport and heating as the shift to electrification intensifies. Our ED2 plan forecasts that up to 1.8 million EVs, 1.1 million heat pumps, and over 7.5 GW of distributed generation, will be supported by our networks by the end of this decade. The work outlined in our plan will kick-start the much-needed growth in these low-carbon technologies with over 670,000 EVs, 370,000 domestic heat pumps, and an additional 5 GW of low-carbon electricity generation connected through the five-year investment period.

We are committed to speeding up the drive to net zero through our investments in the electricity grid – bringing on more renewables in support of the UK Government’s aim to decarbonise the power sector by 2035, and delivering cleaner transport, heating and industry. During 2021, we pursued our concerns at Ofgem’s approach to the RIIO-T2 price control for investment in electricity transmission networks in the 2021-2026 period, specifically on Ofgem’s finding in its December 2020 Final Determination on the cost of equity, outperformance wedge, ongoing efficiency targets and the legal process it follows when amending certain of our transmission business’ licence conditions. In March 2021, Energy Networks made an application to the Competition and Markets Authority (“CMA”) for permission to appeal against Ofgem’s RIIO-T2 Final Determination on these issues. In October 2021, the CMA published its final determination on the RIIO-T2 appeals made by Energy Networks, National Grid and SSE Networks, among others. While we welcomed the CMA’s findings supporting a number of the areas we appealed on, we were disappointed that the CMA had not upheld our case on the cost of equity, given the international competition for investment to deliver net zero.

Group Strategic Report for the year ended 31 December 2021

OUR PURPOSE, VALUES, STRATEGY AND ROLE *continued*

Renewables continues to build on our current portfolio of wind farms, with our planned investment from 2020 to 2025 of more than £3.7 billion to increase renewable capacity across the UK. This includes construction of around 2.1 GW of installed capacity of innovative onshore wind, solar and battery storage projects, some of which will be hybrid 'energy parks'. Onshore Renewables is targeting significant growth by 2030, having grown its pipeline of wind, solar and battery storage projects from approximately 3 GW in 2019 to approximately 6.6 GW in 2021. This incorporates the successful acquisition of a number of advanced-stage solar projects, with a combined capacity of up to 800 MW, with sites located across England, Wales and Scotland, as well as 635 MW of onshore wind and battery projects awarded consent in 2021 as we push forward our plans for growth. In June 2021, the UK Prime Minister installed the first solar panels at our energy park at Carland Cross in Cornwall, our first energy park in the UK combining onshore wind, solar and battery storage. Our Sheidrim Renewable Energy Development includes a combination of onshore wind, solar and battery storage which are all being developed together to create an optimal and innovative project. Onshore Renewables has also completed developments built under Power Purchase Agreements ("PPAs") specifically to supply the green energy requirements of commercial partners, including Tesco and Amazon Web Services. In October 2021, the Scottish Government published a consultation on updating its Onshore Wind Policy Statement which outlines plans to secure an additional 8-12 GW of installed onshore wind capacity by 2030, as recommended by the Committee on Climate Change.

Our offshore pipeline includes the 3.1 GW EA Hub development which could power 2.7 million homes. Building on the completion of the 714 MW EA1 wind project in 2020, work continued on redefining and developing our already consented 1.4 GW East Anglia Three ("EA3") offshore wind project as part of the EA Hub. The EA Hub also includes the 800 MW East Anglia One North ("EA1 North") and the 900 MW East Anglia Two ("EA2") projects which have recently successfully progressed through the planning process. Leveraging on this scale in the supply chain is expected to produce significant optimisation opportunities, and in October 2021, at the UK Government's Global Investment Summit in London, we confirmed publicly our intention to invest a further £6 billion in the EA Hub, subject to planning consent and Contracts for Difference ("CfD").

We continue to consider further opportunities to invest more widely in renewable generation and storage. These include successful submissions to the Scotwind process run by Crown Estate Scotland during 2021, in which we were awarded seabed rights for three offshore projects with a total capacity of 7 GW. In addition to MachairWind, a 2 GW fixed-bottom offshore wind farm off the coast of Islay which we will develop on our own, we will develop two large-scale floating projects in partnership with Shell – the 3 GW MarramWind Windfarm off the north-east coast of Scotland and the 2 GW CampionWind Windfarm off the east coast of Scotland. Taken together, the three projects more than treble our existing offshore wind pipeline from 3.1 GW to 10.1 GW, significantly boosting our position in the UK's offshore wind market. We support the ambitions of The Crown Estate in developing the seabed in England and Wales for future offshore wind projects, and we note the outcomes of offshore wind leasing Round 4 in February 2021. In 2020, the Scottish Government set a new ambition to increase offshore wind capacity to 11 GW of energy installed by 2030, enough to power more than eight million homes.

Energy Retail and Wholesale continues to innovate and seek efficiencies following the introduction of a retail price cap by the UK energy regulator, Ofgem, in January 2019. In July 2021, the Department of Business, Energy & Industrial Strategy ("BEIS") announced that it intended to legislate to allow the price cap to extend beyond 2023. We continue to engage with customers to help ensure that they are on the best deal for them, while recognising that the emergence of significant market disruption in late 2021 has raised serious questions about the regulatory integrity of the supplier market and how its operations are governed. In September 2021, increases in the wholesale cost of natural gas sharpened focus on the sustainability of many suppliers in the UK energy retail market. By the end of 2021, 28 suppliers had collapsed, prompting the use of Supplier of Last Resort ("SoLR") or Special Administration Regime arrangements, with Ofgem warning that further companies are at risk of failure.

In November 2021, Ofgem issued a consultation on the case for short-term adjustments to the price cap methodology from April 2022 to reflect the rising energy costs and risks and uncertainties energy suppliers faced. In February 2022, Ofgem announced the price cap level to come into effect from April 2022, which is a 54% increase from the October 2021 cap level, reflecting the short term adjustments proposed by Ofgem alongside rises in wholesale and network costs. Further consultations were issued in mid-December and February 2022 on how the current design and operation of the price cap might evolve from October 2022, recognising that the future of the price cap is a question for the UK Government. The regulator set out the need for an enhanced approach to monitoring, compliance and enforcement of licence conditions, in order to ensure that energy firms retain a sustainable business model while minimising risks to customers and the energy market in general. Ofgem said it planned to conduct more regular assessments of supplier finances, including audits and applying increased scrutiny to make sure that suppliers are on a reliable financial footing with appropriate management strategies in place. Having long argued for the importance of a more prudential approach to regulation through, for example, capital adequacy requirements, we welcomed this package of measures as a short-term solution. However, we remain concerned for the longer term about the operation of the retail market, and believe that protections should be afforded to the vulnerable customers who need help with fuel bills the most, rather than to the entire domestic customer base.

Our track record in serving customers in vulnerable circumstances was recognised in October 2021 by receiving the Energy UK Vulnerability Commitment Gold Award, one of only two to be awarded for evidence of outstanding practice. Furthermore, the collapse of a significant number of suppliers throws into question the wisdom and practicality of a number of initiatives, such as those set out in BEIS's consultation in summer 2021 on 'opt-in and opt-out' switching (NB in late December, BEIS announced it had paused policy development on this initiative while it undertakes a wider refresh of its retail market strategy). Such schemes militate against the development of the long-term relationships with suppliers that customers require to navigate the journey to net zero, and we would contend that focusing too much on price could encourage the unsustainable business models that have led to recent failures.

In April 2021, we worked with Good Energy Group to build public awareness and to voice concerns about 'greenwashing' in the energy retail market, highlighting independent analysis of supplier activity by the Baringa consultancy that found that around one-third of the electricity supplied through tariffs marketed as green or renewable in Britain was greenwashed. In October 2021, the consumer publication Which? found that our green tariffs were among the best in the industry. We believe that to achieve the net zero targets set by all governments, greater focus is required to support our customers and the Great Britain ("GB") consumer to decarbonise today's energy needs. We are actively working with governments and the regulator to offer suggested policies and incentive schemes that provide domestic customers and businesses with the essential support and guidance required. In doing so we are particularly focussed on the customers who need these interventions who, without further support, may not be in a position to make the intervention themselves. We are working to provide a way for consumers to decarbonise and in the process reduce their energy bills.

In doing so, we continue to make progress with the rollout of smart meters, and exploring opportunities to offer customers a wider range of products to help them control their energy usage consistent with their lifestyle. In June 2021, BEIS announced that the 'All Reasonable Steps' obligation would be extended a further six months to 31 December 2021 due to COVID-19 impacts, with a new target-based framework (consulted on by BEIS in November

Group Strategic Report for the year ended 31 December 2021

OUR PURPOSE, VALUES, STRATEGY AND ROLE *continued*

2020) to run from January 2022 to December 2025, with suppliers being set annual rollout targets. To support the increasing consumer demand for decarbonised heating, we continued to build on the establishment of our Smart Solutions department in 2020 to develop our activities in this area. Decarbonising heat is one of the UK's toughest challenges on the road to net zero, with some 23 million homes to be converted to low-carbon heating by 2050. We welcomed the publication of the UK Government's Heat and Buildings Strategy as a pathway to the deployment of heat pumps at scale in ways that would drive costs down dramatically over time and create wider economic benefits by promoting the UK supply chain and new skilled jobs.

OUR ONGOING RESPONSE TO COVID-19

As the COVID-19 crisis has developed and our response has evolved, we have been committed to taking all necessary measures to help to protect the safety and wellbeing of our employees, our customers and the communities we serve. At a Group level, and across our Energy Networks, Renewables and Energy Retail and Wholesale operations, we have been working closely with government departments, Ofgem and industry bodies to ensure that we continue to follow the latest advice. Through our membership of Energy UK and the Energy Networks Association ("ENA"), we have contributed to ongoing cross-industry activities to focus on supporting vulnerable people through the disruption caused by COVID-19.

At a Group level, we implemented several measures to ensure we are well positioned to respond to the significant challenges posed by COVID-19. These include ongoing reviews of business continuity, IT resilience, supply chain operations, and the safety and wellbeing of critical and non-critical employees. As the crisis has eased, employees have received regular communications updates on developments, including on a phased return to work, and the ScottishPower website has been routinely updated with the latest information on how we are responding to the crisis. Our speed of action and flexibility of operation has maintained our service to our customers and has ensured that we have not borrowed from the UK Treasury to support our staff through the UK Government furlough scheme placing even greater pressure on UK tax payers and ensuring what money is available can be allocated to other businesses who have been unable to be so flexible.

BREXIT

Brexit has not had a significant impact on the Group. Further details on how our supply chain and employees have been impacted are set out in the 'Suppliers and contractors', 'Employees' and 'Operational Risks' sections of the Strategic Report.

ENGAGING WITH STAKEHOLDERS

THE IMPORTANCE OF ENGAGING WITH OUR STAKEHOLDERS

References to 'ScottishPower' below apply fully to Scottish Power UK plc Group ("the Group").

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

Meaningful engagement with our 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 Group and our individual businesses engage with our stakeholders, and how these activities influence the Group's operations, are set out below.

Our key stakeholders

We have four key stakeholder categories:



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

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

Group Strategic Report for the year ended 31 December 2021

ENGAGING WITH STAKEHOLDERS *continued*

“Putting people first to achieve a better future, quicker”

EMPLOYEES AND ENERGY CUSTOMERS

Employees

The Group employs approximately 5,700 employees, working across a range of roles within our Energy Networks, Renewables, and Energy Retail and Wholesale divisions and our Corporate function. Our employees make a real difference in determining how successfully we operate. The creativity, innovation and individuality of our employees enables us to build on our future capability to operate effectively in a competitive market, and continue to have aspirations which are challenging and rewarding. We respect and recognise the importance of individuality as part of our ongoing commitment to promoting a culture where individuality is celebrated. We also understand 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.

COVID-19

Our response to the COVID-19 pandemic evolved during 2021 in line with changing government guidance with employees continuing to work from home where possible.

The health and safety of our employees is paramount and various safety protocols remain in place, including mandatory use of face coverings while moving around our buildings.

Employment regulation

We have well-defined policies in place throughout our businesses to ensure compliance with applicable laws and related codes of practice. These policies cover a wide range of employment issues such as disciplinary, grievance, harassment, discrimination, stress, anti-bribery, anti-corruption and 'whistleblowing', and have been brought together in the Code of Ethics of Iberdrola and its group of companies (which also outlines expectations for employees' conduct).

Training

We have a continuing commitment to training and personal development for our employees and provided 3,205 training events in 2021 (2,914 in 2020). Throughout 2021 we have continued to mitigate the impact on training caused by the pandemic, ensuring any deferred training was completed and we have continued to work with suppliers to ensure continuity of training offerings where possible. Our priorities remain compliance-related training; and health and safety critical and engineering-based training ensuring field staff, both onshore and offshore, are safe and competent in undertaking their roles. This has been our focus throughout 2021 as we move forward from the COVID-19 pandemic.

We have recruited over 160 apprentices, graduates and trainees who are undertaking a structured training programme leading towards the achievement of an apprenticeship and recognised qualification, as well as business graduates who progress through business specific training programmes.

We have three programmes for our leadership population: Leadership Fundamentals for new people leaders; Advanced Leadership aimed at leaders of leaders; and Leadership Mastery for new senior leaders. Alongside these programmes, in 2021 we have run a range of leadership masterclasses including one on Situational Self-Awareness for our talent population and a masterclass on Team Effectiveness to support the launch of a new Team Effectiveness Toolkit to support all people leaders. In addition, we have supported key leadership teams across the business in improving their team performance through external facilitation and coaching. We have introduced a new Digital Mentoring programme and have also rolled out a new Reverse Mentoring Pilot across our Energy Networks division to support our Diversity and Inclusion strategy. We continue our work on defining our critical strategic capabilities such as digital, data, commercial and customer skills. To support these, we are deploying new learning solutions such as LinkedIn Learning licences to 1,500 of our employees across a range of audience groups e.g. our trainees, our new people leaders, middle managers and talent population, and Coursera licences to support specific digital projects within our IT function.

Employee feedback and consultation

Our employee engagement survey is called 'the LOOP'. The LOOP provides an opportunity for our employees across the organisation to share their views on their employee experience and is completed by all employees biennially. The last full survey was completed in May 2021 and our response rate was 76%. Overall, the positive insights from the LOOP feedback showed an increase in employee engagement and enablement across the Group. The opportunities highlighted from the survey included ensuring a focus on cross-business collaboration, which aligns with our values as described in detail on page 2.

As well as employee feedback through the LOOP, we consult regularly with employees and their representatives via a variety of channels, including virtual business conferences, health and safety committees and employee relations forums.

Inclusion and diversity

We are committed to driving diversity in the energy industry, increasing our diverse and inclusive workforce whilst taking action to address the deepening skills shortage in the sector.

We want to attract and inspire the best talent regardless of gender, age, sexual orientation, disability, ethnicity or any other factor. We value every individual's differences and the insights they bring to how we think, what we believe and who we are.

We published our latest Gender Pay Report in March 2022 and reiterated our commitment to pay for performance equally and fairly. This continued our focus on breaking down barriers across the employee lifecycle, as over time this will improve our gender pay gap position whilst widening the inclusion of other under-represented groups. For more information, the latest Gender Pay Report is published on www.scottishpower.com under 'People and Careers' / 'Inclusion at ScottishPower' / 'Gender Pay Reporting'. Since October 2018, all recruiting managers must complete e-learning and training on unconscious bias before their vacancies are authorised. The STEM (science, technology, engineering and mathematics) Returners programme aims to help employees returning to work after a lengthy career break to grow and develop their career, offering the time and support needed to refresh and redevelop their skills to help them in returning to employment on a more permanent basis. The 2020/21 cohort celebrated the scheme's fifth year, with five out of the ten participants securing a permanent job with ScottishPower as a direct result of taking part in the programme. The 2021/22 programme began in December 2021.

Group Strategic Report for the year ended 31 December 2021

ENGAGING WITH STAKEHOLDERS *continued*

As part of our commitment to closing our gender pay gap, our Senior Leadership Team set two aspirational targets in 2018 to break down the barriers for women:

- increase in the proportion of women in our senior management population to exceed 30% by 2022; and
- increase in the proportion of women in our middle management population to exceed 40% by 2022.

The 2021 Gender Pay Report published on 8 March 2022, highlighted that the proportion of females within our senior management population has remained static at 26% (2020 26%). The proportion of females within our middle management population has reduced to 31% (2020 33%). This is as a result of growth in our Energy Networks and Renewables divisions and reflects the pipeline for external talent. We have a number of programmes in place to address this and progress is monitored on a continuing basis:

- Inclusive recruitment principles such as balanced shortlisting and gender-balanced interviewing are now incorporated into all our external recruitment campaigns. Recruitment consultants encourage all hiring managers to adopt these inclusive recruitment principles.
- All of our job adverts are reviewed using gender de-coding (i.e. highlighting masculine and feminine language).
- We continued to share best practice through the Energy Leaders Coalition which comprises 16 of the leading CEOs from the UK's energy sector who have made a public declaration to improve gender diversity in their groups and in the sector as a whole.
- We are a corporate partner of the Women's Engineering Society to help with the important work that they do in supporting women engineers and encouraging girls to see engineering as a career option.
- We continue to provide Maternity/Parent Coaching to females within our talent population who are on the maternity journey, whether that be preparing for, or on, leave, or returning to work. The coaching blends practical support and advice to both the participants and the line managers as well as focused career coaching to maximise the participant's potential for future progression. To date 55% of participants have applied and secured new roles on their return from leave.
- In November 2021 we launched our New Additions to Your Family Guidelines which provide sector-leading leave benefits for all ScottishPower employees regardless of service. These include 26 weeks' full pay for maternity and adoption leave (increased from six weeks' full pay/ 16 weeks half pay) and two weeks' full pay for paternity leave (increased from one week's full pay). Returners from maternity and adoption leave will also be entitled to a phased return where they will receive 100% contractual pay for working 80% of their duties for three months following their return to work. These new guidelines have been designed in collaboration with ScottishPower's employee network who support parents and carers (SPACE).
- Additional guidance on Menopause and Menstrual Health and Domestic Abuse has been developed and communicated in collaboration with ScottishPower's Connected Women's employee network.

In addition to this we are promoting gender equality through the following initiatives:

- STEM engagement – throughout 2021, the team have delivered our STEM message to school-age girls and boys using virtual delivery; we work with a range of partners and events to communicate our early careers programmes to school children and their families.
- Inspiring women in sport – Energy Networks has continued its rugby partnerships in Scotland and Wales to support more women in sport. This includes becoming the first shirt sponsor of the Scotland Women national squad and the creation of more Welsh age group teams for girls. With our support, the number of young women playing organised rugby in North Wales has significantly increased over recent years.

We continue to work with a number of recognised organisations as part of our commitment to diversity and inclusion. These include: Business Disability Forum, The Armed Forces Covenant, Carers UK, ENABLE Scotland and POWERful Women. In 2021 we were recognised at the highest level of accreditation of the Armed Forces Covenant (Gold Status) for initiatives we have in place as a 'forces-friendly' employer and awarded with the Inclusive Workplace Award by the Scottish Union of Supported Employment.

We expect all our employees to be treated with respect and we have supporting policy guidance to help ensure equality of employment opportunity for people with disabilities. We have maintained our Disability Confident standard and our accredited level at 'established' with Carers Scotland.

In 2021, the fourth cohort of the inspirational Breaking Barriers programme continued online. The programme aims to support aspirations for young people with learning disabilities and provide equal opportunities to access university courses. Between April and June 2021, eight learners aged between 18 and 24 studied for a Certificate in Applied Business Skills at the University of Strathclyde Business School. As part of this experience, the learners gained valuable skills and work experience as part of a placement with ScottishPower.

ScottishPower continues to support the growth of our employee-led networks; Future Connections, Connected Women, SPACE, In-Fuse, VIBE and iCan. Despite the challenges of the COVID-19 pandemic, all the networks continued to engage their members through online awareness sessions celebrating key dates on the inclusion calendar and sharing knowledge to promote personal development. The networks also play a key role in the attraction and retention of new employees from under-represented groups to maximise engagement and performance. ScottishPower continues to promote our commitment to inclusive employment through our external careers website, 'Inclusion at ScottishPower'. This is a dedicated space on our website which promotes important initiatives that go on internally, such as our employee networks, involvement with community programmes, partnerships with external organisations and our Gender Pay Report.

Rewards and benefits

As our business continues to change and evolve, it is important that the benefits that we provide to our employees also develop to meet these challenges. We recognise that the benefit needs of employees are unique to the individual and we want them to be able to tailor benefits to their own circumstances. We provide a benefits programme, 'Your ScottishPower Benefits', which offers employees the flexibility to choose from a range of benefits, such as participation in the ScottishPower Share Incentive Plan, purchasing a bike through the Cycle to Work scheme, or purchasing additional holidays. Employees can also participate in one of the Group's pension schemes. The Group has a defined contribution plan and two defined benefit schemes which allow employees to save for their retirement. All employees who have joined the organisation on or after 1 April 2006 are offered membership of the defined contribution plan, the Iberdrola Group (UK) Stakeholder Pension Plan.

Brexit

We value the diversity of our workforce, and seek to attract and retain the best available talent now and in the future. We have supported and encouraged our employees who are European Union ("EU") nationals to apply to the EU Settlement Scheme. Following the UK's departure from the EU on 31 January 2020, we will utilise the new UK points-based immigration system introduced in January 2021 to help us to recruit the skilled talent we require to continue to deliver our business strategy and plans.

Group Strategic Report for the year ended 31 December 2021

ENGAGING WITH STAKEHOLDERS *continued*

Employee volunteering

We pride ourselves in being a good corporate neighbour, providing support to the communities we serve in each of our divisions. Employee volunteering provides employees a platform to engage actively with charitable organisations in their community. Despite COVID-19 still impacting the UK, the number of employees getting involved in volunteering activities increased from 2020. Our volunteering policy allows employees to take one additional day's paid leave as a volunteering day. To support COP26, for 2021, this was increased to two days.

Health and safety

Employee health and wellbeing, the prevention of harm to employees, contractors and members of the public, and the protection of business assets and operational capability, are top priorities. We have continued to strive for improved performance, and both internal and external health and safety assessments have again returned positive findings. However, tragically in January 2021, Energy Networks had a contractor fatal accident at work and further details are noted in the performance section below.

We have an established Health and Safety Management System ("HSMS") to ensure that the Group and its employees meet all applicable internal, external, legal and regulatory requirements and standards, and aligns with the Iberdrola global health and safety approach.

This HSMS has been established to provide an overview of how health and safety and risks are managed across the organisation. The HSMS includes items such as:

- The Health and Safety Policy, which details what we want to achieve with respect to health and safety, who will implement the requirements (detailing the roles and responsibilities) and how the policy will be achieved.
- How the health and safety programmes such as the annual Preventive Activity Plan, Operational Plans and Communications Plans have been implemented. All these are aimed at maintaining and improving health and safety performance.
- How compliance is delivered through a governance structure, audits and inspections and external and internal certification.
- An annual training plan is established to ensure employees are competent on the basis of appropriate education, training or experience.
- A Risk Assessment Procedure details how we will manage and control hazards and risks.
- We have an established annual Health and Safety communication plan.
- At a ScottishPower level, a Health and Safety Management Review is completed every six months and a specific report format used to record and communicate the findings.

To work in conjunction with the Group HSMS, each of our divisions has its own specific HSMS. Each division's HSMS expands upon the Group HSMS; they are not intended to duplicate or contradict, but to focus on division-specific scope of works and requirements.

Health and safety performance

We successfully maintained our ISO 45001 certification following a surveillance audit in 2021. The annual ScottishPower employee accident and incident statistics remained low with four lost time accidents in 2021; this equates to 0.71 lost time accidents per 1,000 employees. One of these lost time accidents was reported to the Health and Safety Executive ("HSE") under The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

The table below provides the occurrence of lost time accidents in each business division (including the Corporate functions):

Lost time accidents*	Employees		Contractors**		Total	
	2021	2020	2021	2020	2021	2020
Energy Networks	4	6	9	15	13	21
Renewables	–	–	2	7	2	7
Energy Retail and Wholesale	–	–	1	4	1	4
Corporate	–	–	–	1	–	1
	4	6	12	27	16	33

* Number of accidents on the job involving ScottishPower employees and contractors resulting in the loss of at least one day's work.

** The contractor total includes the fatal accident.

As shown above, there were four employee lost time accidents during 2021 compared to six in 2020. Regarding contractor accidents, there was one fatality in 2021 which involved an overturned site vehicle. There were also eleven lost time accidents compared with 27 lost time accidents in 2020. Based on these figures along with the results from audits and inspections, health and safety standards and performance within ScottishPower remain high.

Public safety

In addition to the physical measures we take to protect the public from electricity, for example secure compounds, safety distances and signage, we also strive to raise electrical safety awareness with the public and the emergency services via a number of campaigns and initiatives.

Due to COVID-19, an alternative approach has continued to be taken to public safety in 2021 to deliver key messages.

To ensure communication continued, we attended several virtual agricultural shows as well as attendance at one physical show. Social media channels were utilised to reach different audience groups such as the agricultural industry, construction workers and general members of the public as well as promoting safety for children as part of our ongoing safety campaigns. We continue to support three public access safety centres where our key health and safety messages are presented to children through substation and overhead powerline interactive props and presentations. Our Powerwise interactive website has continually been promoted to schools and parents as a curriculum-linked teaching resource to inform young people about the dangers of electricity, which provides free, interactive resources. We have worked with the emergency services providing them with electrical safety awareness presentations as well as offering support to them when any incidents have occurred. Various national communication campaigns have been delivered throughout the year and significant work was done in conjunction with the ENA for the production and promotion of consistent energy and utility health and safety messages.

Group Strategic Report for the year ended 31 December 2021

ENGAGING WITH STAKEHOLDERS *continued*

Employee health and wellbeing

We promote and support the physical and mental health and wellbeing of our employees through a programme of health promotion and information run by our Occupational Health department. In addition to the typical activities carried out by this department, and as part of our focus on health and wellbeing, conscious efforts have been made to reduce the stigma and discrimination surrounding mental health and increase the support available to employees. Occupational Health has initiated a mental health first aiders' training programme and support forums. A Mental Health Steering Group was introduced in early 2020 with the purpose of creating a working environment where we all feel safe and able to talk openly about mental health, and providing the support that will help keep us well. There are representatives from each of the divisions and the Corporate functions on the steering group. Conversations continue to become more open around mental health and typical campaigns that have become standard practice include Mental Health Awareness Week, World Suicide Prevention Day and World Mental Health Day.

Providing health and wellbeing support has been vital during 2021. The Occupational Health team has worked with Human Resources to support all employees during the COVID-19 pandemic. This has involved managing all cases and providing up-to-date public health advice and guidance to employees, line managers and people leaders across the Group. The Team has also provided up-to-date advice and information through the COVID-19 microsite and virtual health and wellbeing sessions focusing on both physical and mental health. We have also introduced the Occupational Health Portal which enables individuals and their managers to access health questionnaires, referrals and reports.

In addition to COVID-19 assistance, Occupational Health has been able to maintain its Gold Status for Healthy Working Lives. The department also led the 'See.me' survey for all employees on their mental health, with results discussed within the Senior Management Group. The results have since been communicated across the Group and a follow-up action plan to address the key findings from the survey has been formally agreed and signed off by the Management Committee.

Working within Occupational Health are the occupational hygienists whose role is to help identify potential chronic health risks (from exposure to industrial processes) and to provide mitigating solutions to reduce the risk of harm. This work provides the basis for all statutory health surveillance requirements, which the occupational hygienists and the wider Occupational Health department are responsible for. An example of collaborative work between Occupational Hygiene, Occupational Health and the business Health and Safety teams is through the Musculoskeletal Risk Working Group. This group ensures MSD risk across the business streams are assessed and managed following the same procedure and guidance, where expertise is utilised and shared where necessary. An additional area of cross-business focus has been on fatigue management. Throughout the industry, the need to manage fatigue as a definite and distinct risk to employees has been promoted by the enforcing authorities. The Occupational Hygiene team has closely assisted Energy Networks in providing significant input to industry guidance through the ENA and is working with senior managers within the different businesses to develop an internal Fatigue Management Procedure.

Energy Customers

We provide energy and related services to millions of domestic and business customers. Our success depends on our ability to understand and meet the needs of our customers, and engagement is key to our success in this rapidly changing environment. We seek feedback in several ways including forums, market research and product testing, as well as via complaints channels and surveys.

Energy Networks

Delivering for our customers

Communication services: These services are designed to ensure our vulnerable customers feel our presence and support before, during and after a power cut. From visits to customers' premises before a power cut to providing accessible channels for communication during power cuts, we offer twelve responses to meet our customers' communication needs.

Power cut support services: Where possible, we take all steps necessary to prevent customer detriment tied to a power cut. When a power cut does occur, we work tirelessly to get our customers back on supply and, while we do this, we proactively offer a range of services designed to meet different types of customers' needs. In 2020/21 we delivered 15,247 power cut support services. These include winter welfare packs, hot food provision and generator provision.

Customer needs tracking tool: We introduced this tool in 2020 which tracks our vulnerable customers' personal and diverse needs, allowing us to understand them and ensure that our support services and processes satisfy them. Energy Network's new overhauled training programme, 'Making a Difference', focuses on vulnerability and the challenges these customers face day-to-day. It explores how an outage, fault or work delivered by Energy Networks could impact customers and demonstrates how Energy Networks' processes, conversations, and support options help our customers and communities when needed.

Engaging with our stakeholders

We aim to ensure that our stakeholders' views are considered in everything that we do. We achieved 81% in the 2021 AccountAbility audit; the highest categorisation possible of 'Advanced', an overall increase of 15% since our first health check in 2018. We also continued our upward trend in Ofgem's annual Stakeholder Engagement and Consumer Vulnerability incentive this year.

Maintaining a reliable supply of electricity

We have maintained 99.99% reliability throughout the pandemic, protecting the most vulnerable and ensuring supply to critical sites such as hospitals, nursing homes, water treatment works and food supply businesses. Understanding and responding to our customers' needs is not only deep-rooted in our culture but is also essential to meeting the goals we have developed with stakeholders to guide our future plans.

Our commitment to our customers is reflected in our customer service scores, which are trending upwards. In the regulatory year 2020/21, SP Distribution plc ("SPD") and SP Manweb plc ("SPM"), achieved a customer satisfaction score of 9.23 and 9.24 out of 10 respectively.

Group Strategic Report for the year ended 31 December 2021

ENGAGING WITH STAKEHOLDERS *continued*

Energy Retail and Wholesale

Delivering excellent customer service to our customers when they need to contact us continues to be our key priority. Across Energy Retail, we have worked hard to ensure the customer is everybody's focus. This has highlighted certain processes requiring enhancement to meet our expectation and that of our customers. We will be relentless in our pursuit to improve our customer experience. We continue to focus on delivering customer service through a number of digital channels as well as retaining our traditional telephone and email service channels. Indeed, throughout 2021 we have seen continued adoption of digital tools as the channel of choice amongst our customer base with mobile Apps now being our most frequently-utilised self-service tool, alongside digital online web chats and social media. We saw significant growth during the COVID-19 lockdown period of customers utilising digital channels and have maintained higher levels year-on-year following this initial spike. Continued investment supporting in-house digital development capabilities enabled the rapid design and creation of multiple new customer-centric processes and refinements to meet the immediate demands of customers and helped to manage operational requirements in this unique period. Offering increased flexibility around payments and digital communication methods, we can respond rapidly to the evolving situation and meet the needs of our customers. In addition to the growth and enhancements to key self-service account tools, there has been a focus on leveraging the capabilities of smart meters to deliver automated services and insights to help customers gain a better understanding of their energy usage and digitise processes such as, but not limited to, smart prepayment top-ups and more granular consumption insights.

Our smart solutions operation is all about helping our customers decarbonise their lives and serving our customer at a time when they need us most.

We have a range of products and emergency services that our customers can call on, such as a central heating or boiler breakdown, a plumbing leak, or a kitchen appliance breakdown. We have long-term contracts with our strategic partners who provide these services on our behalf, and we continue to work together focusing on the value and service being delivered for our customers, closely monitoring and learning from our customers' feedback.

We offer a range of charging solutions for customers with EVs be it at home, in the workplace or public charging. Alongside an EV tariff, this can help customers save money as well as shift demand to overnight, helping minimise system costs of generating and distributing that electricity.

As part of our business as usual processes, we offer a number of services to support both financially and non-financially vulnerable customers, particularly during winter periods where consumption naturally increases and some customers could have more challenges in managing their energy costs.

These services include: routing our most vulnerable customers to dedicated lines with specialist staff trained to offer support; offering alternative payment options and tariffs for different customer circumstances; flexible repayment schemes for those who have built up debt; advice on how to reduce energy consumption; and signposting to our own Hardship Fund as well as third parties who can offer additional guidance and support. Our Hardship Fund contributed £5 million to the relief of fuel poverty through awarding grants to families and individuals experiencing hardship and who are struggling with energy arrears, to help them clear those debts.

We do however recognise that there are times when we may need to provide more support than our business as usual services for a short-term period, and we have demonstrated during the COVID-19 pandemic that we are prepared and willing to take action to do this where it is necessary to safeguard our customers.

When the initial impact of the COVID-19 pandemic became apparent in March 2020, we took immediate action to communicate with our customers and to offer a wider range of options to support those customers who were particularly affected by the impact of the lockdown. These included:

- offering payment holidays of up to two months;
- allowing customers to reduce their direct debit payment amount to as little as £5 per fuel; and
- sending out pre-paid top-up cards to prepayment customers.

Since that initial period, we have transitioned back to a more business as usual position to ensure our customers do not build up higher levels of debt than is necessary, and our focus has been on prompting customers to contact us to discuss their concerns and understand the options we have available that could help them.

The recent impacts of the increase in wholesale costs will present more challenges for our customers particularly during the winter period, and while we will continue to take action where we can to support our customers there are limits on the support energy suppliers can offer.

We consider the additional support offered by external parties to be a key part of the ongoing support to our customers. Where a customer is struggling to manage their energy costs, in many cases they will also be struggling with other day to day costs, and it is important that they receive support at as holistic a level as possible.

Setting aside the financial constraints on the amount of free credit that suppliers can provide to customers, suppliers have a duty to consider their customers' overall welfare, and to balance the benefits of short-term financial relief against the longer-term risk of building up unmanageable levels of debt. We consider more needs done at a wider societal level to recognise this and ensure that those customers who struggle to pay for essential services are supported.

In 2021 we were awarded a Gold Star rating by Energy UK in the first year of its Vulnerability Commitment. The Vulnerability Commitment was launched in 2020, with ScottishPower as one of the 15 founding members who committed to a set of principles to provide support to customers in vulnerable circumstances. This year, only two energy suppliers were awarded a Gold Star, including ScottishPower. The Vulnerability Commitment published its best practice report and referenced ScottishPower's activity including our Prepayment Voucher Scheme to provide financial support for prepayment customers at risk of self-disconnecting, and our activity to automatically route our most vulnerable customers who contact us to specialist support teams.

Group Strategic Report for the year ended 31 December 2021

ENGAGING WITH STAKEHOLDERS *continued*

The delivery of energy efficiency measures continues to be an important responsibility of our business, and 2021 was the eighth year of delivery of the UK Government's Energy Company Obligation ("ECO"). The ECO scheme is fundamental to improving the fabric of GB homes in our pursuit of achieving net zero and focuses on reducing heating costs for the most vulnerable customers and aims to improve the energy efficiency of properties. Our programme has made a good recovery from the impact of the COVID-19 lockdowns and localised restrictions. We have continued to work closely with our supply chain partners to support them while they navigated their way through the pandemic restrictions. This support has seen our partners recover all of the activity that was halted and maintain our delivery strategy. Having successfully delivered two of our sub-obligations in early quarter four 2021, we completed the delivery of our overall obligation in December 2021, three months ahead of the legislative deadline; this ensured that the households could receive the benefit of the measures as early as practicable. In 2021 we supported the installation of more than 35,000 energy efficiency measures into 18,500 homes. Legislation which defines the 'ECO 3' scheme came into effect in December 2018 and covers the period from that date until 31 March 2022. In quarter one of 2021 there were 25 obligated suppliers due to changes in the scheme which placed an obligation on an additional seven smaller suppliers (who were previously exempt). Seven of the obligated suppliers have since failed and left the market and will not deliver their obligation. The UK Government published its response to the ECO 4 consultation in April 2022. The response document provides clear policy direction, with the new ECO 4 legislation expected to be in place in July 2022 and run until March 2026. However, qualifying measures will be permitted to be installed from April 2022.

We also support vulnerable customers with their energy bills through the Warm Home Discount Scheme ("WHD"). Now in its eleventh year, the WHD is the UK Government's main policy for tackling fuel poverty. The scheme is delivered by energy suppliers principally to qualifying customers by providing rebates on electricity accounts to help when bills may be higher over the winter period. During scheme year 10, which operated from 1 April 2020 to 31 March 2021, we spent £28.2 million providing assistance to 201,545 customers by applying a rebate of £140 to their electricity account. In addition, £3.6 million of funding was awarded to eight third-party organisations to deliver industry initiative projects to provide a range of assistance to domestic customers. The demand for these support services is high with the ongoing impact of COVID-19 being felt in all households. Our partners delivered energy efficiency advice to around 32,000 households, around 2,900 households received energy efficient white goods, and 10,000 households received measures to improve the energy efficiency of the property where they lived. Other projects focused on further financial support providing fuel debt assistance and benefit entitlement checks.

"Being collaborative"

GOVERNMENT AND REGULATORS

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

In the course of the year we have committed significant resource in our capacity as a principal sponsor supporting the UK Government in delivering COP26 in Glasgow, highlighting priorities for decarbonising the energy sector and achieving a just transition. (Refer to 'Our role' section of the Strategic Report for further details.) We have also continued our engagement with government, Ofgem and other stakeholders on the RIIO-ED2 and RIIO-T2 price controls, highlighting the need for appropriate levels of ambition towards achieving net zero and appropriate incentive mechanisms for network investment. In July and December, we published our draft and final business plan for the 'RIIO-ED2' distribution network price control, detailing the £3.3 billion worth of spending we consider necessary to ready the UK for an electric future. (Refer to 'Our role' and 'Energy Networks outlook for 2022 and beyond' sections of the Strategic Report for further details).

We have also worked closely with government and Ofgem to respond to the unprecedented increases in wholesale energy costs and associated supplier insolvencies, seeking to minimise the impact on low income households whilst achieving longer term reforms (including to the retail price cap) to ensure the sustainability of the supply sector. (Refer to 'Our role' and 'Energy Retail and Wholesale operating review' and 'Energy Retail and Wholesale outlook for 2022 and beyond' sections of the Strategic Report for further details.) And we continue to work with government on its policies for future support for renewables and new technologies such as green hydrogen.

Further information in relation to engagement with government and regulators is set out in the below sections of the Strategic Report:

- 'Energy Networks operating review' – RIIO-T2 appeals and Western Link High Voltage Direct Current ("W-HVDC") project.
- 'Energy Networks outlook for 2022 and beyond' – RIIO-T2 funding requirements.
- 'Renewables operating review' – Scottish Government Onshore Wind Policy Statement.
- 'Renewables outlook for 2022 and beyond' – Scottish Government National Planning Framework.

"Being responsible"

SUPPLIERS AND CONTRACTORS

As part of our mission for a better future, quicker, we are always looking for new suppliers and contractors, and for ways to improve our working relationships with our existing suppliers and contractors. We have a broad and diverse supply chain with around 3,000 suppliers, and during 2021, we awarded contracts with a cumulative value of around £2.2 billion. Our suppliers have a key role to play in the delivery of our projects and services that we are undertaking to provide a low-carbon future for the UK. We aim to develop and maintain strong relationships across our supply base with a focus on health and safety, quality, cost and sustainability. We expect our suppliers to operate to a high standard including working in an ethical and sustainable manner, and we have a range of policies that all suppliers must adhere to including ScottishPower's Code of Ethics. This commitment has been embedded in our procedures and governance with the introduction of an Iberdrola strategic objective to improve the sustainability of our suppliers over the period from 2020 to 2022.

Group Strategic Report for the year ended 31 December 2021

ENGAGING WITH STAKEHOLDERS *continued*

In 2021, we have increased our focus on the Environmental, Social and Governance (“ESG”) credentials of our main suppliers using our supplier risk management system, Go Supply. This system has provided significant additional insight into ESG factors of our supply chain. We have used this information to monitor and report to the Scottish Power Limited Board (“the SPL Board”) on the ESG credentials of our supply base, and also to work closely with those suppliers that we have identified to have weaker ESG traits to support their development through improvement plans and guidance. During 2021 we were able to increase the number of our main suppliers that have a strong ESG scoring by around 30% and we are proud that 93% of our main suppliers are considered sustainable.

More broadly, engaging proactively with our supply chain is key in ensuring positive outcomes for both us and our suppliers, and we seek to engage specifically with suppliers through a variety of methods. This has been challenging throughout the pandemic, however we continue to participate in business update sessions focussed on the supply chain, virtual trade events and will be planning our Supplier Awards for 2022, which recognise excellence in the supply chain along with giving a wide range of suppliers the opportunity to interact with both the procurement team and other ScottishPower employees.

Engagement with our supply chain is always a critical activity for us and it becomes even more important due to the current COVID-19 pandemic and the Brexit transition. Both COVID-19 and Brexit have impacted our supply chain. We are experiencing cost pressures due to high global commodity prices along with increasing freight and labour costs. We are also dealing with longer lead times for some equipment and a number of our suppliers have also been impacted by labour shortages. We have looked to support our supply chain during these challenging times by working collaboratively on forecasting our requirements and we also established customs brokerage services, which can be utilised by our supply base.

COMMUNITY AND ENVIRONMENT

The community

At ScottishPower we continually strive 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. We aim to ensure we conduct our activities responsibly and make a positive contribution to society. As key stakeholders, engaging with communities is essential to delivering our objectives, and underpins our core value of collaboration.

Investing in the community

We have a long track record of supporting communities by sharing our resources and the skills of our employees. We promote payroll giving and encourage employee development through volunteering and community-based programmes. We aim, where possible, to create opportunities for local employment during construction and operations, and throughout the planning stages we will identify and actively promote local supply chain opportunities via in-person or virtual ‘Meet the Developer’ sessions. We work closely with the UK Government and devolved administrations to develop policy on community engagement and benefit, and to ensure that we observe all voluntary codes of good practice.

As part of the Iberdrola Group, we use the London Benchmarking Group Framework to evaluate our community investment activity. This framework is used by leading businesses around the world and provides a comprehensive and consistent set of measures for companies to determine their contributions to the community.

During 2021, ScottishPower voluntarily contributed £23.2 million (2020 £18.4 million) in community support activity, through cash, time, in-kind support and management costs associated with running community programmes.

Community engagement and consultation

We engage with communities across our operations, where developments are planned, or where we are decommissioning assets. Key areas of community interaction include: the siting of new facilities such as wind farms; the presence of transmission and distribution lines; decommissioning older plant; and routine maintenance work. We take a proactive approach to providing landowners, stakeholders and our customers with accurate information, from pre-planning through to completion.

It is particularly important to us as a developer, owner and operator to ensure that those affected by our work are aware in advance of our activities. Through the development of longstanding relationships with community groups, elected representatives, interest groups and individuals, we have created a variety of channels allowing communities to have their say.

Our community consultation processes include representation at community meetings; presentations and forums such as in-person and virtual public information days; information published on our website; and through social media. Our facilities host visits from community groups, maintain visitor centres and run Local Liaison Committees which provide a forum for discussion between ourselves and community representatives.

As many of our assets are situated on land that we do not own, policies are in place to ensure that the safety and integrity of the plant is maintained, while respecting the needs of the landowner, the local community and the general public. Energy Networks, and those working on its behalf, adhere to a publicly available Land Code of Conduct which sets out guidance of commitment to grantors and has been prepared in consultation with key stakeholders.

ScottishPower Foundation

The ScottishPower Foundation (“the Foundation”) was established in 2013 to reinforce our commitment to charitable work throughout the UK. It is a registered Scottish charity (SC043862) and a company limited by guarantee (SC445116). The Foundation provides funding to registered charities for the following purposes:

- the advancement of education;
- the advancement of environmental protection;
- the advancement of the arts, heritage, culture or science;
- the prevention or relief of poverty and the relief of those in need by reason of disability or other disadvantage; and
- the advancement of citizenship and community development.

Decisions to award funding are made independently of the Foundation by an experienced Board of Trustees who have a special interest in the above areas.

Group Strategic Report for the year ended 31 December 2021

ENGAGING WITH STAKEHOLDERS *continued*

In March 2021, the Foundation launched the Marine Biodiversity Fund which invited applications from registered charities working to protect and preserve the marine environment. After a competitive tender process, WWF was awarded a grant of up to £600,000 over three years for the Restoration Forth project.

In 2021, the Foundation awarded funding of almost £1.2 million to 16 registered charities to support their work throughout the UK. Projects included 'Action for Nature in Ayrshire' which supported volunteers and community groups to deliver activities to boost biodiversity and improve access to the greenspaces in their area. Street League's 'Transforming Lives' project works with secondary schools across six regions in Scotland to engage with young people most at risk of future unemployment through a combination of sport and employment workshops. From the funding provided in 2021, up to 500 young people will be supported. Thanks to a second year of funding, Size of Wales brought a cohort of Youth Climate Ambassadors to COP26 where they tabled resolutions decided on at a Four Nations 'MockCOP' with participants from high schools from across the UK.

Following a competitive application process for funding of projects, 19 applicants were shortlisted by the Board of Trustees in October 2021 and will be awarded funding for projects to be delivered in 2022 subject to budget and contract. The annual ScottishPower Foundation awards were announced on social media in September 2021 and provided £30,000 of additional funding to projects through four awards including the Charity Champion Award, which gives special recognition to individuals working in the charitable sector for personal dedication.

Energy Networks

Energy Networks has shaped its business around geographical districts, enabling them to be closer to the communities they serve and allowing communities to have influence upon the delivery of projects in their area.

Our strategic approach to community engagement

This year we further enhanced our Stakeholder Engagement Strategy to maximise the value of our engagement activities whilst adapting to new online methods ensuring our engagement programme continued throughout the pandemic. Our Stakeholder Engagement Strategy was agile enough to overcome a number of challenges, helping us shape new ways of working to ensure the pandemic did not halt our commitment to proactive engagement with our stakeholders. Building on lessons learned from our previous engagement, we are building a hybrid approach to our interactions, through a combination of in person and digital, to appropriately tailor our engagement to the broadest range of stakeholders from national policy makers to local level engagement. This hybrid approach is helping us shape new ways of working to overcome any challenges and make sure individuals and their communities are involved at every stage of our decision-making. We are aware that virtual engagement is not accessible to everyone, therefore we have created a new 'hard to reach' framework. This will ensure that barriers such as digital accessibility does not jeopardise stakeholder voices being heard, and we will always adopt alternative engagement methods tailored to the needs of different stakeholder groups. Throughout the year, we have maintained top quality engagement across our business as usual activities and continued to deliver against project milestones. Although methods of how we engage have changed, we have seen some benefits, including an increase in the number of attendees at our virtual Strategic Stakeholder Panels as travel is no longer a barrier. More information about how we engage proactively with stakeholders can be found at www.spenergynetworks.co.uk/ 'About Us/ 'Stakeholder Reports/ '2020-21 Distribution Stakeholder Engagement report: Part 2'.

Zero Carbon Communities ("ZCC")

Our ZCC Hub has been in place since 2019 and continues to provide free technical advice and funding information supporting the UK's community energy sector who need advice and support to get their projects off the ground, or who may just be starting their local energy journey. This tool is a free, centralised source of information, built with the practical knowledge and experience of Community Energy Scotland. The ZCC Hub provides a consumer-minded interface between community energy groups and industry, boosts awareness and investment in the growth of the community energy sector and allows local communities to take part in net zero ambitions while maximising benefits to both the local and the wider economy.

Today there are 90 operational and in-development community energy projects across our licence areas. One example of a project we have supported is the Ynni Llyn Community Energy project where we provided dedicated resource in a rural area of Wales with 43% of locals suffering from fuel poverty and 69% in transport poverty.

Supporting local communities to achieve net zero

The £20 million Green Economy Fund ("GEF") was established in 2018 to support the Scottish Government's ambitious energy strategy and the UK's drive to a low-carbon economy. Through the fund, we have funded 35 projects with a wide geographic spread across our network area in Scotland, and in just three years we have made a huge impact in our communities, including the creation of 58 green jobs and engaged with over 7,825 vulnerable customers about energy issues. Our GEF-funded projects specifically target key areas where major transmission work is being carried out, allowing us to provide direct benefit and support to our local communities; helping to meet demand, reduce energy costs and address fuel poverty. Given the success and impact we have achieved through the fund, we have established a new £5 million Net Zero Fund ("NZF") for transmission projects and included plans for a £30 million Distribution NZF within our RII0-ED2 business plan proposal to continue to deliver community impact on a wider scale across our licence areas in Scotland, England and Wales. You can read more about the fund and our projects by visiting www.spenergynetworks.co.uk/ 'Investment & Innovation/ 'Green Economy Fund (GEF)'.

Group Strategic Report for the year ended 31 December 2021

ENGAGING WITH STAKEHOLDERS *continued*

Community engagement

Due to continued COVID-19 restrictions in 2021, there was limited face-to-face engagement with our stakeholders. We continued to engage virtually through our agricultural shows. Attending these events provides us with a great platform to engage with our customers, local communities and agricultural businesses to promote our key safety messages and give information on how we provide further support. For example, we virtually attend 'The Royal Cheshire Virtual Agricultural Show', showcasing key safety awareness videos, emergency 105 messaging, information on our Priority Service Register and additional help we can give from Energy Networks and ZCCs.

Green recovery investment

We have worked with Ofgem, the ENA and stakeholders across our communities to identify shovel-ready green projects that can be delivered with the right investment in our distribution network. Our green recovery investment in Scotland and England will create sufficient new capacity on our electricity network. Our green recovery investment will enable the connection of around 200 rapid or ultra-rapid EV charges in both Scotland and England, and around 1,500 and 2,500 electric heat pumps respectively.

An example of some of the projects underway in our SPD and SPM licence areas include:

- a new £6 million substation project to provide lasting COP26 legacy. This project will see the installation and commissioning of a new substation on land close to the COP26 venue in Glasgow by the end of 2023; and
- super-fast EV charging infrastructure in nine service stations along the M56, M6, M62 and M74 motorways.

You can read more about our green recovery investment by visiting www.spenergynetworks.co.uk/ 'Investment & Innovation' / 'Green Recovery Investment'.

Renewables

Renewables maintains a clear focus on engaging with the communities around our existing wind farms and in our areas of growth. We continue with our strategic stakeholder engagement with the commissioning of a new initiative 'Powering A Green Recovery: In the Winds of Change', which calls out the story so far and highlighting the economic and community benefits of wind across the UK. It sets out the role of wind in a green recovery, powering green jobs and communities. Analysis shows a series of five 1 GW CfD auctions for onshore could deliver 18,000 jobs during peak construction and offer £12 billion of benefits to the UK economy. We highlight the role ScottishPower plays in this green recovery as a supportive and sustainable supply chain partner. We look at the future of wind, setting out investment plans combining technologies and pioneering innovation. The strategic vision concludes by looking at the value of wind generation for the future green economy which also has strong public support; through the creation of jobs, delivering low cost green energy and driving innovation of multi-technology.

Local community engagement

Setting out Renewables' role in the green recovery plays an important part of our engagement at a strategic level, however we recognise the importance of communities around our existing sites and pipeline growth areas being able to relate the green economic benefits to their local communities. We have achieved this by creating engagement material that is region-specific and uses case studies of the local economy and community. We piloted this approach in Dumfries and Galloway with the creation of a regional brochure, video and supply chain video.

In addition to delivering on a green recovery within our communities, Renewables spends over £1 million every year to manage and monitor around 10,000 hectares of land, of which 9,000 hectares is peatland habitat restoration and 1,000 hectares is native woodland creation. This has included focussing on the restoration of blanket bog, native woodland and heathlands, as well as the conservation of breeding waders, black grouse, hen harriers, merlin and golden eagles.

Renewables continues to contribute funds providing community benefit to those living near to our operational onshore wind farms. We believe that local people are best placed to make decisions about the initiatives that will be of greatest value to them and as such empower them to make decisions about how to spend funds.

Funds can be used for purposes of community facilities, skills and employment, community or local events, sport and recreation, environmental improvements, youth and education, and/or heritage. Moving forward we are also encouraging communities to use their funding to focus on initiatives that will help them to reduce the carbon they produce and become net zero, e.g. installing EV charging points; purchasing 14 EVs for shared or community use; growing local produce and selling it locally; and to think about the energy efficiencies that could be made to the way they power and heat community buildings.

Whitelee Visitors Centre

Whitelee is the UK's largest onshore wind farm hosting 215 turbines, generating 539 MW; enough to power 350,000 homes. Whitelee has a visitors' centre that has welcomed more than 839,000 people to date and is an opportunity to see first-hand how local communities, the natural environment and a hybrid power station can co-locate together.

Whitelee visitors centre is managed by Glasgow Science Centre and offers a free hands-on interactive exhibition, a café, cycle facilities, car parking and EV charging points. There is a bus tour to explore the wind farm, learn more about the history and ecology of the site and get close to the wind turbines. The visitors centre offers an extensive education programme, with free curriculum-based sessions from nursery to further education and various free craft sessions for families during the school holidays. Part of the community benefit fund at Whitelee pays for Whitelee Countryside Rangers who promote responsible access within the wind farm and host free events including guided woodland walks, pond searches, wildflower apothecary and summer holiday clubs. Whitelee hosts an annual 'Run the Blades' running festival which is expected to go ahead in 2022, incorporating a 10 km, half marathon and 50 km ultramarathon, as well as numerous smaller charity events such as sponsored dog walks, equestrian endurance treks and Duke of Edinburgh Award activities.

For COP26, a refresh was completed of the interactive exhibition building a story for the local community promoting the transition of Whitelee into a hybrid energy park offering a solution to the climate emergency and journey to net zero. Throughout COP26, we welcomed a number of delegates to the Whitelee visitors centre where we shared our story to date and our future plans for the site.

Group Strategic Report for the year ended 31 December 2021

ENGAGING WITH STAKEHOLDERS *continued*

Energy Retail and Wholesale

In 2021 we created a new department – Smart Cities. This team's mission is to help decarbonise at a community level, working mainly with Local Authorities but also with other community groups, such as housing associations. Smart Cities can reach consumers where a private financial investment may be unachievable; through local authorities and community groups they have the opportunity to have low-carbon technologies. In addition, by deploying at scale, we can reduce the price per solution.

Throughout this period, we have engaged regularly with the key industry stakeholders, e.g. Ofgem, Citizens Advice and Ombudsman Services, to keep them fully updated of our community actions designed to ensure the business was able to continue operating safely and successfully for our customers during these unprecedented challenging times.

In addition to our customers, we also support the charity sector, particularly our longstanding relationship with Cancer Research UK. During this difficult period for charities, customers on our 'Help Beat Cancer' tariffs continue to make a vital contribution to the incredible work that Cancer Research UK does. We have raised over £30 million to date through a combination of sponsorship of events like Stand Up to Cancer, sales of our 'Help Beat Cancer' tariffs, and fundraising activities.

The environment

Environment

We are committed to reducing our environmental footprint by:

- reducing emissions to air, land and water and preventing environmental harm;
- minimising energy consumption and use of natural and man-made resources;
- sourcing material resources responsibly, cutting waste and encouraging re-use and recycling; and
- protecting natural habitats and restoring biodiversity.

Energy Networks

In Energy Networks, we are delivering the infrastructure to enable the electrification of electricity generation, transport and heating required to hit UK climate targets. Whilst this activity continues at pace, Energy Networks is also focussed on environmental protection and enhancement.

In 2021 Energy Networks launched a trial of the UK's first 'clean air' substation. This UK first means that the substation will be able to operate free of sulphur hexafluoride ("SF₆"), which is a potent greenhouse gas ("GHG") commonly used as an insulator for electrical equipment in substations across the UK. The new technology is climate-neutral as it is comprised of components from clean air with all its humidity and impurities removed.

Energy Networks published the second version of its Approach to Routeing and Environmental Impact Assessment guidance document in spring 2021, underlining a commitment to achieving no net loss and where practical biodiversity enhancement across future projects. Achieving this at an individual project level when routeing and constructing new electrical infrastructure is a challenging objective, as options are often restricted due to the location of generation. The approach to biodiversity is developed on a project-by-project basis with due regard to the relevant national policy in Scotland, England and Wales, placing biodiversity protection and enhancement within the wider consideration of environmental matters that must be balanced when routeing new infrastructure.

During 2021, Energy Networks worked to implement its ambitious Transmission 2021-2026 Environmental Action Plan and engaged heavily with a wide range of stakeholders to develop its Distribution 2023-2028 Environmental Action Plan.

For the second year running, SP Transmission plc ("SPT"), received a score of 99% in the transmission Environmental Discretionary Reward, making it the most successful transmission operator within this incentive mechanism which rewards operators for innovatively accelerating the low-carbon transition and reducing their own environmental impact.

Renewables

In Renewables, our investment plan is bringing new renewable generation online to help decarbonise the power sector, and in turn the transport and heating sectors. The environmental management system ("EMS") is being used to influence suppliers of offshore wind farm components to reduce the environmental impact of the products they are supplying during operation (and future decommissioning). This includes, for example, reducing the volumes of environmentally sensitive chemicals and gases like SF₆ in procured electrical equipment, and requiring improved environmental performance from suppliers and contractors through bespoke environmental contractual documents.

Renewables has launched an innovative pilot project to reduce its carbon emissions by using waste vegetable oil to help power crew transfer vessels working on its flagship EA1 offshore wind farm. Supporting our commitment to net zero, the renewable vessel fuel, HVO30 (made from 30% hydrogenated vegetable oil and a marine gas oil fuel blend) will be used to power two crew transfer vessels provided by Great Yarmouth-based NR Marine Services. Compared to standard marine gas oil, HVO30 is predicted to result in around a 30% reduction in equivalent CO₂ emissions* from the two vessels. The renewable fuel is created entirely from waste vegetable oils and holds proof of sustainability from the International Sustainability and Carbon Certification system.

Over winter 2021-22, Renewables has been carrying out a programme to restore 337 hectares of peatland across four wind farm projects. This is in addition to an ongoing programme to deliver and manage over 1,000 hectares of native woodland across 16 sites. Activities this year have also included ongoing tree maintenance and the replacement of a number of failed saplings to ensure the ongoing health of the woodlands planted.

* Based on conversion factors as per UK Government Conversion factors for company reporting 2020 (using Scope 1 conversion factors for mineral diesel and biodiesel to calculate the conversion factor for HVO30 blend).

Group Strategic Report for the year ended 31 December 2021

ENGAGING WITH STAKEHOLDERS *continued*

Energy Retail and Wholesale

In 2018, we became the first integrated energy company in the UK to shift completely from coal and gas generation to wind power. Energy Retail purchases the related renewable output to support our green retail domestic fixed-term products, independently ranked joint first in the UK for being 100% backed by both Certificates of Origin and PPAs, for a totally sustainable solution. For other domestic tariffs, energy is purchased from the market which will come from various sources of generation. This electricity mix will further decarbonise as more renewables (including our own) are added to the grid. We are committed to helping our customers consume energy more efficiently and by promoting products and technologies such as smart meters, remote heating control solutions and installation of charging infrastructure for EVs, we can give customers more control over their energy consumption and help them to transition to a low-carbon future.

In line with our commitment to delivering green options for the wider population, we are building a public charging network across the UK so that drivers can quickly and conveniently charge around their schedule, making EVs the smart and easy choice. In 2021 we announced plans to build the UK's largest electrolyser at our Whitelee Windfarm to produce up to eight tonnes of green hydrogen per day, roughly equivalent to fuelling 550 buses to travel from Glasgow to Edinburgh, and back again.

Decarbonisation and GHG reporting

Iberdrola has made a strong commitment to decarbonisation, setting strategic goals to become carbon neutral in Europe (in relation to power generation) by 2030, reducing its global carbon dioxide ("CO₂") emissions to 50g per kilowatt hour ("kWh") by the end of the decade. The Science Based Target initiative ("SBTi") has approved new targets for Iberdrola to reduce absolute GHG emissions by 43% by 2030 from a 2017 base year. The targets covering GHG emissions from company operations are consistent with reductions required to keep global warming to 1.5°C. As an additional contribution to both the climate and biodiversity crises, Iberdrola will plant 20 million trees by 2030 (eight million trees by 2025). This commitment to a net zero path is central to Iberdrola's sustainable business strategy, and aligns with the UN's Sustainable Development Goals ("SDGs") which are concerned with global issues including tackling climate change and justice. Iberdrola's Sustainability Report 2021 explains the Iberdrola Group's focus upon accelerating action towards the SDGs, especially SDG 7 (Clean and Affordable Energy) and SDG 13 (Climate Action).

In 2021, ScottishPower completed a cross-business programme of work to set GHG emissions reductions targets for validation by the SBTi, complementing the targets set by Iberdrola. As a result, we have committed to reduce absolute Scope 1, 2 and 3 GHG emissions by 63% by 2030 from a 2019 base year. This includes a Scope 1 and 2 absolute reduction target of 67%, which is consistent with reductions required to keep warming to 1.5°C, and a Scope 3 absolute reduction target of 62%. Recognising the unique make-up of its GHG footprint and the timelines under which it is regulated, Energy Networks has committed to reduce absolute Scope 1, 2 and 3 GHG emissions by 67.2% by 2034/35 from a 2018/19 base year. This work will be supported by an implementation plan and new reporting and delivery structures across the Group, however, much work is already underway on our GHG reduction journey. Overall, we have seen a 1% reduction in GHG emissions in 2021 compared to 2020.

The table below and the accompanying footnotes on the next page, presents the value chain GHG emissions of the Scottish Power Limited Group.

		2021		2020 (Note (a))	
Notes		kWh	tCO ₂ e (Note (b))	kWh	tCO ₂ e (Note (b))
Scope 1	Gas*	31,341,536	5,741	31,947,002	5,874
	Combustion of fuel for transport*	40,298,326	9,539	30,092,532	7,231
	Fuel consumption: generators	13,603,340	3,492	705,799	181
	Fugitive Emissions: SF ₆ , CH ₄ ** and refrigerants	–	21,259	–	13,577
		85,243,202	40,031	62,745,333	26,863
Scope 2	Purchased electricity for own use – location-based*	(c), (d), (e), (f) 94,019,895	20,863	76,390,553	18,666
	Purchased electricity for own use – market-based	(c), (d) 94,060,213	1,734	76,430,871	4,793
	Network losses	3,032,000,000	410,947	2,914,000,000	424,932
	Total scope 2 location-based	3,126,019,895	431,810	2,990,390,553	443,598
	Total scope 2 market-based	3,126,060,213	412,681	2,990,430,871	429,725
Scope 3	Business travel – vehicles (employee-owned and leased)*	5,676,720	1,404	6,274,588	1,568
	Business travel – rail	–	7	–	30
	Business travel – flights	–	37	–	419
	Sale of gas to end users	25,676,145,480	4,702,843	24,947,411,757	4,587,081
	Sale of electricity to end users	17,864,642,570	3,793,200	17,008,045,639	3,965,256
	Transmission and distribution of electricity consumed	94,060,213	1,767	76,430,871	1,532
		43,640,524,983	8,499,258	42,038,162,855	8,555,886
	Total location-based	46,851,788,080	8,971,099	45,091,298,741	9,026,347
	Total market-based	46,851,828,398	8,951,970	45,091,339,059	9,012,474

* Mandatory disclosures required by The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as required by entities in scope. The remaining information is disclosed on a voluntary basis.

** Methane.

(a) 2020 figures have been restated to show actual emissions. With the exception of Energy Networks data, an estimate for Q4 is included as full-year actual data not available at time of reporting. There has been no significant movement.

(b) Tonnes of CO₂ equivalent ("tCO₂e") is a metric used to compare the emissions from various GHGs on the basis of their global-warming potential ("GWP") in comparison to the GWP of CO₂. The main GHG are CO₂, methane, nitrous oxide and fluorinated gases.

(c) Data was calculated using BEIS 2021 conversion factors, with the exception of: Energy Networks data, which was calculated using BEIS 2020 conversion factors (refer to footnote (i)); and Scope 2 'Purchased electricity for own use – market-based' for the Republic of Ireland site, for which the conversion factor used was sourced from the Association of Issuing Bodies.

Group Strategic Report for the year ended 31 December 2021

ENGAGING WITH STAKEHOLDERS *continued*

- (d) Scope 2 emissions are presented as both location-based (based on the GB-wide BEIS conversion factors) and market-based (taking account of the impact of moving our own electricity use to a green tariff).
- (e) Scope 2 Purchased electricity for own use – location-based does not include our site in the Republic of Ireland as this is outside the scope of Streamlined Energy and Carbon Reporting (“SECR”), which is UK-only.
- (f) Electricity consumption related to company-owned EVs is accounted for in ‘Purchased electricity’.
- (g) We use the GHG Protocol Corporate Reporting Standard and account for Scope 1 and 2 emissions from operations over which we have control, or the relevant proportion for jointly controlled ventures. Refer to Appendix 1.
- (h) In 2021, we have extended the value chain emissions categories covered in this report to include voluntary disclosures. In future, it is intended that all material upstream and downstream Scope 3 categories will be included.
- (i) All data reported is based on January to December with the exception of Energy Networks data. Energy Networks data used is as reported to Ofgem as the Business Carbon Footprint (1 April to 31 March).

Scope 1 covers direct emissions from owned or controlled sources. In 2021, Scope 1 emissions represented 0.4% of total emissions reported. Overall, Scope 1 emissions increased by 49% between 2020 and 2021, largely driven by an increase in SF₆ emissions, primarily related to measuring emissions from decommissioned equipment at a large 275 kilovolt (“kV”) substation. The overall trend for SF₆ leakage is downward and our SF₆ reduction strategies, particularly on Energy Networks’ and Renewables’ projects, will accelerate this trend further over the coming years.

Scope 2 covers indirect emissions from generation of purchased electricity. In 2021, Scope 2 emissions represented 4.6% of total emissions reported. Overall, Scope 2 emissions have decreased by 4% between 2020 and 2021. This has largely been driven by reductions in emissions related to the electricity lost from our transmission and distribution networks (predominantly lost as heat as an inherent consequence of power flowing through the network). This was primarily due to the continued decarbonisation of the UK grid mix, which we are working to accelerate through our own renewable generation projects and through the efficient connection of low-carbon technologies to networks.

Scope 3 represents all other indirect emissions that occur in our supply chain. In 2021, Scope 3 emissions represented 94.9% of total emissions reported. Overall, Scope 3 emissions have decreased by 1% between 2020 and 2021, with emissions related to the sale of gas to end users increasing by 3%, and emissions related to the sale of electricity to end users decreasing by 4%.

The following factors provide carbon intensity metrics for both the electricity that we generate and the energy that we supply. These are calculated both using the mandatory SECR emissions as required by entities in scope, as well as by using the full value chain emissions figures to provide a more comprehensive view.

	Note	2021 tCO ₂ e/kWh	2020 (Note (a)) tCO ₂ e/kWh
Carbon Intensity of electricity generated (based on SECR-only data)	(b)	0.00001	0.00001
Carbon Intensity of energy supplied (based on total Scope 1-3: location-based)		0.00021	0.00022

(a) 2020 figures have been restated to show actual emissions. Figures published in 2020 Annual Report and Accounts included some estimates. There has been no significant movement.

(b) Presented in tonnes in line with SECR guidance.

SECR

We are committed to producing meaningful climate disclosures in line with those required by The Companies (Directors’ Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (“the 2018 Regulations”). The tables above, relating to the Scottish Power Limited Group, include the mandatory disclosures required by SECR, in addition to value chain GHG emissions which are disclosed on a voluntary basis. The information required by the 2018 Regulations has been independently verified by Mabbett & Associates Ltd on a limited assurance basis.

Although 2021 planned activities continued to be impacted due to the COVID-19 pandemic, we have carried out a number of energy efficiency initiative measures, including:

- Launching a new travel policy, integrating the sustainable travel hierarchy into all operations. Under this policy, digital communication is prioritised and only essential travel is permitted under very strict guidelines, and when there are no alternative methods of communication available. All travel requests must be authorised at senior manager or director level. Where travel is essential, it should be by rail only between Scotland and London, and journeys between sites should, where possible, be by electric pool car. Business class flights are no longer permitted between Europe and East Coast USA and an 8.5-hour threshold is in place for all other flights. This new policy is estimated to save around 2,300 tonnes of CO₂ per year, equivalent to 3,000 acres of forest or 38,000 trees. Between 2020 and 2021 this policy drove a 28% reduction in emissions relating to business travel (including by employee owned vehicles, hire vehicles, rail and air).
- Continuing to roll out a capital property investment programme that focuses on green, sustainable technologies including working to install LED lighting, sensor activation and improvements to heating and ventilation systems across our sites.
- Replacing a further 24 fleet vehicles with fully electric alternatives in line with our EV100 commitment to electrify all of our fleet vehicles under 3.5 tonnes by 2030.
- Continuing our long-running EVs for Employees Programme to support staff to purchase ultra-low emissions vehicles; we have provided around 240 grants to date. The scheme supports the purchase of cars, motorcycles, mopeds and electric bicycles. In addition, 20 chargers have been installed at our headquarters to enable staff to charge their own EVs.
- As outlined in the Renewables section above, we are running a pilot project at our EA1 operational site on the use of alternative fuels in the crew transfer vessels that are used daily.
- Introducing defined requirements for the construction of any new operational buildings at our offshore sites to include energy saving equipment and processes as standard.
- Carrying out a feasibility study into the installation of solar panels at a key site.
- Commencing a technical feasibility study into the replacement of our gas turbine with an electric drive unit at our gas storage facility.

Group Strategic Report for the year ended 31 December 2021

ENGAGING WITH STAKEHOLDERS *continued*

Sustainability

The fight against climate change and respect for the environment lie at the heart of both Iberdrola's and ScottishPower's Sustainable Energy Business Model. This focuses upon working to achieve sustainable development and is put into action by integrating the SDGs into strategy and operations. Across the Iberdrola Group, the General Sustainable Development Policy states the strategic pillars which align our sustainability values with the UN SDGs. Therefore, our focus is on partnering and collaborations to deliver smarter networks, clean energy generation, and energy storage and customer solutions. During 2022, ScottishPower will work to develop a new Sustainable Development Strategy to guide the business in responding to the dual climate and biodiversity emergencies whilst delivering a just transition that reflects the needs of the customers and communities we work with.

Our contributions to the SDGs map accordingly to each of the 17 Global Goals. Iberdrola's Sustainability Report gives a more in-depth picture of these impacts at a global and UK level. It describes the programme of leadership, investment and innovation in delivering sustainable outcomes with a strong focus in contributing to the decarbonisation of energy (SDG 7). This is evidenced by our commitment to renewable generation, low-carbon technologies such as electric transport, and a smarter electricity infrastructure to enable a low-carbon future.

We are members of UN Global Compact and active participants in UK Network. This means we put a principles-based approach to the way we do business sustainably to meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption. We incorporate the Ten Principles of the UN Global Compact into our business strategies and governance to protect people and planet. In addition to our participation in the UN Global Compact Network, we continue to be an active member of the Corporate Leaders Group UK, the Aldersgate Group, and in Scotland specifically we are also active in the Scottish Council for Development and Industry's Clean Growth Leadership Group and the Climate Emergency Response Group.

In 2021, we pledged to help radically reduce Glasgow's carbon emissions by signing up to become a 'Climate City Champion', and chairing the related Green Economy Hub group, supporting the city council's aim to achieve net zero emissions by 2030. Energy Networks signed up to the Edinburgh Climate Compact to support the city's ambition of reaching net zero by 2030. This initiative is part of the Edinburgh Climate Commission, chaired by Dr Sam Gardner, ScottishPower Head of Climate Change and Sustainability.

Energy Retail launched the Hydrogen Skills Partnership, aiming to show the benefits a thriving green hydrogen sector would bring to Scotland and across the UK and also bring the skills needed into our own organisation.

Our Energy Networks business continues to collaborate with network operators, regulators and other stakeholders to explore options for natural capital assessment, capital carbon reduction and circular resource use, including collaborating to develop and launch the UK Transmission Carbon Product Calculator.

We continue to engage and collaborate with our supply chain in order to reduce the environmental impact of purchased materials and products, working to embed carbon management into the way that infrastructure projects are designed, developed, operated and decommissioned to develop low-carbon solutions and reduce lifetime impact.

COP26

During 2021, we were privileged to be a Principal Partner for COP26, a role through which we aimed to strengthen our position as a net zero leader; locally, nationally and globally. Together we delivered a fantastic year-long programme of engagement and advocacy that concluded with a fortnight of high impact participation in COP26. Our ambition to be 'part' of the conference was more than met with engagement at the highest levels from the main stage to the UK Government Pavilion, across the Blue Zone and at our hugely engaging Green Zone stand.

Blue Zone

Our role as Principal Partner presented us with multiple high-profile opportunities in the Blue Zone at COP26. From partnering with the UK Government in the Opening and Closing ceremonies of the UK Pavilion, to an intimate breakfast round table with AI Gore, to seats in the World Leaders Opening Ceremony; ScottishPower was at the heart of the action.

Energy Networks made the most of the opportunity to showcase the new and innovative LV Engine and hologram display to both the Prime Minister and HRH Prince William, as well as leading figures such as Bill Gates.

We also had the opportunity to host two events in the UK Pavilion, both involving high profile guests. The first, on Energy Transition, featured our Chairman alongside Fatih Birol, Executive Director of the International Energy Agency, while the second was expertly chaired by Susan Aitken, Leader of Glasgow City Council, and featuring Steve Rotherham, Mayor of Liverpool City Region, and Tracy Brabin, Mayor of West Yorkshire, alongside ScottishPower CEO Keith Anderson.

Iberdrola's commitment to phasing out coal was recognised through the Chairman's invitation to speak on the main stage at COP26, as part of the Powering Past Coal Alliance.

Green Zone

The ScottishPower Green Zone exhibition stand was designed to create a fully immersive experience to show visitors how ScottishPower and the Iberdrola group are 'Harnessing the Power of Nature' and leading the fight against climate change.

Renewables ran the 'Let's Talk Energy' event which involved ten schools and 78 pupils and was designed to engage pupils from across Scotland to create the net zero energy policy of the future. The objective of the event was to work with the pupils to allow them to make informed decisions about the policies they consider to be of the highest importance on the road to net zero.

Group Strategic Report for the year ended 31 December 2021

ENGAGING WITH STAKEHOLDERS *continued*

Partnerships

Ahead of COP26, a significant new partnership between WWF and ScottishPower was launched to help accelerate the UK's transition to net zero. This is a year-long advocacy-based partnership with the aim of helping to accelerate the journey to net zero across the energy sector. It will have a particular focus on heat, buildings and the power sector, and will look to combine the public engagement expertise of WWF with the practical and commercial experience of ScottishPower.

The Scottish Youth Film Foundation and COP TV recruited twelve young people aged between 16 and 20 from across Scotland to be trained to film and create journalist content on climate change and COP26 topics. The training would prepare the young people to interview and gather content from COP26 delegates, ScottishPower, non-governmental organisations and other youth engagement bodies participating in COP26. The 'Year of COP26' also included a competition for young filmmakers on the theme of climate change with winners receiving an award during COP26. ScottishPower was a Platinum Partner of this project providing core funding which in turn attracted matched funding from Scottish Arts Council.

The Lost Woods project ran from 4-7 October and saw more than 1,100 primary school children from 147 primary schools create the Glasgow Children's Woodland by planting 17,000 trees. ScottishPower provided volunteers and hybrid buses to transport the kids to the 13-hectare site, located in Cathkin Braes.

In partnership with University of Strathclyde and the University of Glasgow, the 'Connect with Climate Change' webinar series offered a platform for academics, students, public and businesses to engage, share ideas and views on a range of climate change topics. This series of virtual events provided a forum where, through open dialogue, various climate issues and conventions were challenged and questioned, acting as a catalyst for positive sustainable change. Four live virtual events held throughout 2021 as well as a three-part podcast series. An on-demand platform was created to replay live events.

Our partnership with Climate Outreach on their Climate Visuals project, engaged the public on not only the reality of climate change but the solutions we have to tackle this emergency.

We continued our support of the Royal Society for the Protection of Birds ("RSPB") Climate Change Youth Project, enabling the participation of 13 young people from the RSPB Youth Steering Group to participate in the COP26 Climate Change Youth Gathering.

As the UK prepared to host COP26, we invited representatives from all sectors in Scotland to virtually join the launch of our COP26 climate collaboration challenge with WWF Scotland and the Sustainable Scotland Network. This initiative encouraged organisations large and small to connect with other sectors locally and form new partnerships to help accelerate climate action.

ScottishPower headquarters and Whitelee Windfarm

We even brought the conference to ScottishPower with thousands of visitors attending a packed programme of events in ScottishPower headquarters and more again making the trip to Whitelee Windfarm. Professor Ed Hawkin's Climate Warming stripes were wrapped around the base exterior of the headquarters building and also inside the reception area to demonstrate the urgency faced by the rise in global temperatures.

We hosted a wide-ranging programme of 25 events in our state-of-the-art auditorium, welcoming attendees both in person and digitally whilst adhering to social distancing guidelines. We also provided office and meeting space to the Climate Vulnerable Forum for the duration of the conference.

Whitelee Windfarm offered us multiple opportunities to tell our story to leading decision-makers over the course of the year, and we were delighted to welcome Alok Sharma, COP President; Nicola Sturgeon, First Minister of Scotland; Keir Starmer and Anas Sarwar, Leader of the Labour Party and Scottish Labour Leader respectively; as well as Liz Truss, who at the time of her visit was Secretary of State for International Trade.

As well as hosting media visits, Whitelee welcomed a number of global COP26 delegations to site, showcasing the role of renewables in a cleaner, greener future and how much the wind farm site is enjoyed by local communities and visitors. Delegations included guests from the Office of the Governor of New Mexico, US Congress, American Conservation Coalition, British Conservation Alliance, Israeli Energy Group, South Korean 2050 Carbon Neutrality Commission, WWF Scotland, Indonesian Ministry of Energy, Israel Electricity Authority, Welsh Youth Climate Ambassadors and Moving for Climate NOW.

Task force on Climate-related Financial Disclosures

Introduction

The Task Force for Climate-related Financial Disclosures ("TCFD") was established by the Financial Stability Board in 2015 to develop a set of consistent, climate-related financial risk disclosures to be used by companies and other public-interest entities of a qualifying scale to provide meaningful information to their investors and other stakeholders on the climate-related risks and opportunities facing their organisation. Although these disclosures will not become mandatory until financial years which commence on or after 6 April 2022, as an increasing number of companies make disclosures under TCFD, key stakeholders will be able to gain a detailed understanding of each company's response and resilience to the impacts of climate change, reported against eleven recommendations grouped under the four 'pillars' of TCFD: governance; strategy; risk management; and metrics and targets. This will enable more informed investment decisions to be made and is expected to have a bearing on companies' abilities to obtain funding in the future, avoid 'greenwashing' through the disclosure of clear, relevant and meaningful information, demonstrate resilience in their business activities and planning, and showcase their commitment and contribution to the decarbonisation of the economy and progress towards national and global net zero targets.

Already, more than 2,600 firms globally have expressed their support for TCFD, spanning around 90 countries and virtually all economic sectors, with especially strong support among the financial sector wherein over 1,000 organisations, responsible for assets of almost \$200 trillion, have expressed support. The increase in support and in firms disclosing information under TCFD recommendations in 2020 was the greatest single-year increase to date, and many influential countries and regions have started to incorporate TCFD reporting into company legislation, including the UK, The EU, Brazil, Hong Kong, Japan, New Zealand, Singapore and Switzerland.

Group Strategic Report for the year ended 31 December 2021

ENGAGING WITH STAKEHOLDERS *continued*

Due to our classification as an Energy Utility within the TCFD's four 'non-financial groups' (industry segments identified as the most significant emitters of CO₂: Energy; Transportation; Materials and buildings; and Agriculture, food and forest products), we have additional responsibilities to disclose information under supplemental guidance against three of the 11 TCFD recommendations.

Our progress so far

As an organisation with a longstanding commitment to combatting the effects of climate change through the decarbonisation of our business activities and our many green initiatives outlined within this Strategic Report, we fully support both the UK Government's commitment to achieving net zero by 2050 and the upcoming TCFD legislation.

Much of our work on TCFD to date relates to the governance and risk management pillars. We have already embedded detailed consideration of climate-related risks and opportunities within our key risk reporting and wider risk management framework and these are reported across our three operating divisions, separately from our existing key risk reporting process to ensure an increased focus for climate change risks.

A Key Risk Report ("KRR") is compiled by each division, with instruction and oversight from the Corporate Risk Management function. Risks are assigned a materiality level based on probability of occurrence and the quantified impact, where this can readily be calculated. Any risks, whether climate-related or from the wider suite of risks, which surpass a materiality threshold will be presented for discussion on a quarterly basis to the Iberdrola Group Risk Committee and biannually to the Audit and Compliance Committee. Each KRR contains sections on structural and transitional climate-related risks, which are ranked according to a priority level determined by the estimated short and long-term impacts on divisional earnings. Risks and their potential impacts on business operations are described in detail, and a probability is assigned to each to enable a comparison of each risk's relative materiality. Detailed mitigation actions and strategies are set out in response to these risks, and each risk is assigned an owner within the relevant business unit.

Under strategy disclosures, the above processes help determine which of the identified risks and opportunities are material; we have made substantial commitments to reduce GHG emissions and commenced many innovative green projects across our divisions as set out in this report, demonstrating how climate-related factors are already influencing decision making, strategy and capital allocation throughout ScottishPower. We have a leading role to play in the UK's transition to a low-carbon economy and are developing a range of products and services to enable our customers to participate fully in the journey towards net zero.

Under metrics and targets disclosures, we have disclosed our GHG emissions under Scope 1, Scope 2, and Scope 3 data, in line with appropriate protocol; annual energy usage is also reported in our SECR disclosure, along with our initiatives to reduce emissions.

Our plans for 2022

As a leader in the green recovery and transition to a decarbonised energy sector, we understand our responsibility to provide meaningful and relevant information on climate-related risks and opportunities across our three operating divisions to meet the expectations of our many stakeholders and the importance of this information in demonstrating our preparedness and resilience to the effects of potential climate change scenarios.

In 2022, we will move towards full disclosure under the eleven recommendations of TCFD, a year ahead of this becoming mandatory in UK law, reflecting the recently announced draft legislation The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2021 and amendments to the Companies Act 2006 thereunder, and any potential changes ahead of finalisation and incorporation into UK law. We aim to commission and undertake scenario analysis to test the resilience of our business plans, strategies, operations and assets to different global temperature-increase scenarios. We will ensure that reporting under the eleven recommendations and supplemental guidance is backed by a robust framework of internal controls and governance, and that the information disclosed and the applicable findings are considered in a meaningful way in shaping our ongoing and future business strategy and activities. We will also incorporate an assessment of climate-related risks and opportunities and climate change preparedness into our corporate risk management credit risk assessments for our key suppliers and large business customers to ensure these factors are taken into account in all contracting decision processes.

Group Strategic Report for the year ended 31 December 2021

ANTI-BRIBERY AND ANTI-CORRUPTION

Bribery is a widespread issue with significant negative impact. We aspire to a strong best practice anti-bribery and corruption framework that allows us to do business with confidence and minimises the risk of bribery or corruption in our operations.

Our anti-bribery and corruption framework is based on a solid governance structure that creates a senior-level focus on managing compliance risks. The SPL Board has ultimate responsibility in this area and has designated the independent Audit and Compliance Committee as having primary responsibility for overseeing compliance activity and reporting to the SPL Board on its effectiveness. Fully independent Compliance and Internal Audit Divisions are in place, reporting to the Audit and Compliance Committee. The Compliance Division's role and remit is established through a set of internal regulations, which place duties on it to act independently and to report material issues to the Audit and Compliance Committee, along with the Iberdrola Group Compliance Unit.

Ethics is at the heart of our business model and is embedded in our corporate governance structure and in our policies and procedures for managing our suppliers. The SPL Board has fully adopted the Code of Ethics, which establishes the expected behaviours for ScottishPower employees, suppliers and representatives and sets a zero tolerance approach to non-compliance, along with a ScottishPower-specific Code of Conduct to support and supplement the Code of Ethics. This Code of Conduct summarises the expectations on our employees in terms of behaviours, how they must conduct themselves and encourages and supports ethical decision making.

Specifically, in relation to anti-bribery and corruption, we maintain a strong Anti-Bribery and Corruption Policy. This policy framework is supported by specific procedures which together ensure that employees understand their obligations, have the appropriate means to comply with the policy and create a clear route for action in case of a breach.

The Compliance Division manages an annual compliance risk assessment process which includes an assessment of fraud, bribery and corruption risks across the Group and identifies any required actions or mitigation to address those risks. Compliance measures are in place to support employees in their roles, based on risk. All employees are asked to undertake our overarching Code of Ethics training on a regular basis, which includes training on anti-bribery and corruption, and targeted training is provided for those functions and roles which are identified as needing greater focus or guidance.

Anti-bribery and corruption controls are built in at all stages across the supplier management journey, from engagement and selection to contract award and ongoing monitoring and improvement. Our suppliers are subject to ongoing compliance risk screening. We utilise a Dow Jones risk screening tool to assess compliance risks at key points across the supplier lifecycle, from the point of initial registration in the system, and daily for the existing supplier population. New and identified risks are assessed and appropriate action taken to mitigate the risk for that supplier. Information on supplier compliance risk is held directly in the purchasing and payment systems, allowing appropriate decision making at each critical process step in the supplier relationship. This includes an active role for the Compliance Division in reviewing and approving payments to third parties for compliance risks.

We maintain a 'speaking out' service, with several routes for employees, suppliers, stakeholders or the public to raise concerns confidentially or anonymously. We have a clear policy of non-retaliation for any person who makes a report through the speaking out service in good faith. Our compliance programme achieved Compliance Leadership Verification status in 2020, as assessed by independent firm Ethisphere. ScottishPower also holds ISO37001 accreditation for its anti-bribery and corruption programme.

HUMAN RIGHTS

Respect for human rights is an intrinsic element of our Governance and Sustainability System and forms part of our vision and values. We maintain a clear hierarchy of policies that are designed to ensure that ethical, sustainable values and fair labour practices are at the heart of our business operations, which includes the Code of Ethics, Iberdrola Policy in Respect of Human Rights, and the Purchasing Policy.

We became a member of Slave Free Alliance in 2019 and are represented on the Utilities Working Group, which is a collaborative forum between Slave Free Alliance and utility companies. The Slave Free Alliance membership provides a valuable opportunity to educate and inform ourselves on how to address potential issues of modern slavery in our supply chain.

For all individuals recruited by ScottishPower, we check their eligibility to work in the UK (including passport verification) and conduct pre-employment background checks, which can help to identify concerns or potential forced labour issues.

All third-party suppliers are subject to screening for any potential human rights or modern slavery issues, both at the point of registration with us and during their contract. Specialist third-party due diligence will be used in some higher risk contracts when needed. Our suppliers are required to agree to terms requiring them to operate ethically in relation to the recruitment, management and compensation of employees, in compliance with the Supplier Code of Ethics, as well as relevant modern slavery legislation. Suppliers are required to ensure that any sub-contractors are also obliged to meet these obligations.

Our confidential 'speaking out' service includes an initial control, which requires every report to be assessed for potential human rights impacts before it can be recorded. We also monitor suppliers for potential human rights issues. In 2021, we became aware of two cases where public reports indicated a potential issue with a supplier. In both cases the supplier in question acted quickly to provide relevant assurance that the issues raised were addressed.

Group Strategic Report for the year ended 31 December 2021

INNOVATION

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

The first year of the five-year collaboration agreement with The Halo Kilmarnock Limited (“the HALO Project”) has seen many successes in 2021. The Halo Innovation Centre opened in late 2021 and, thanks to funding from Energy Network’s Green Economy Fund, can boast a world-class facility that incorporates on-site renewable generation, battery storage and EV charging. Work will soon commence on around 200 domestic properties, which will enjoy the benefit of low-carbon heating provided by heat pumps, optimised by smart controls. This is being delivered with the support of funding from the Scottish Government’s Low Carbon Infrastructure Transition Fund.

2021 saw the renewal of the tri-partite Technology and Innovation Centre Low Carbon Power and Energy collaboration agreement between ScottishPower, SSE and the University of Strathclyde. In the eight years since its inception, the programme has given us the opportunity to engage directly with academic experts and industry counterparts, to conduct valuable research and development in areas including the operation and maintenance of wind turbines, digital electricity networks and enhanced data analytics for optimised energy trading. This new three-year agreement will ensure that we retain our thought-leadership position at the forefront of renewable energy and the decarbonisation of the economy.

Energy Networks

The Distributed ReStart project is a partnership between National Grid Electricity System Operator, Energy Networks and TNEI (a specialist energy consultancy) that has been awarded £10.3 million of Network Innovation Competition funding. The project is exploring how distributed energy resources can be used to restore power in the highly unlikely event of a total or partial shutdown of the National Electricity Transmission System. Past and current approaches rely on large power stations but as the UK moves to cleaner, greener, and more decentralised energy, new options must be developed.

Heat-Up is a Network Innovation Allowance project funded by Ofgem which will enable us to develop evidence of the impact of heat pump domestic retrofits on our electricity networks. This project utilises the same platform and a similar methodology to the recently completed EV Uptake Modelling project which provided us with an understanding of our customers’ likelihood to transition to EV use. By combining each household’s ability to park off street with key demographic information such as age profile and economic activity, we were able to model how increased EV uptake will affect our network both now in the future.

Renewables

Renewables has achieved what is believed to be a global first – using energy from 69 MW of onshore wind turbines to re-energise part of the power grid. The successful project, at our Dersalloch Windfarm, proves wind power can restore a ‘black-out’ section of the transmission network. Black start restoration – the name given to the procedure used to restore power in the event of a total or partial shutdown of the electricity transmission system – is often reliant on traditional fossil fuels like coal and gas. So, delivering black start using renewables is not just an extraordinary achievement, but a pioneering world first.

Green Hydrogen for Scotland is a partnership between Renewables, BOC – (a Linde company), and ITM Power, bringing together industry-leading names in the renewables and clean fuel industries to offer an end-to-end market solution for reducing vehicle emissions through the provision of green hydrogen. The partnership’s first project, Green Hydrogen for Glasgow, is designed to provide carbon-free heavy vehicle transport and clean air for communities across the city, which wants to become the first net zero city in the UK by 2030. A proposed green hydrogen production facility (led by Energy Retail’s Hydrogen department) located on the outskirts of the city, will use wind and solar generation produced by Renewables to power an electrolyser, delivered by ITM Power. In November 2021, BEIS announced £9.4 million of funding, through its Storage at Scale competition, to support the development of a pioneering 20 MW hydrogen production and storage facility at Whitelee Windfarm. The project aims to supply hydrogen to the market in 2023.

Energy Retail and Wholesale

Green hydrogen is a perfect complement to electrification in our fight against climate change. Decarbonisation is the most important goal across the world and requires substantial efforts in the way we generate and use our energy. Along with using renewable technologies to produce clean electricity, another major step is decarbonising the production of a useful element like hydrogen – giving rise to ‘green hydrogen’. We can utilise green hydrogen to decarbonise many aspects of society and industry that currently rely on fossil fuel-based solutions. Therefore, using both electrification and green hydrogen, we can take on the whole decarbonisation challenge.

Our ScottishPower smart meter asset provision (“MAP”) business finances and manages approximately 2 million smart meters across GB. Established in 2017, our team comprises procurement, commercial, technical, and operational specialists. Today, we are recognised as a major MAP, thanks to our impressive performance in the energy industry and being part of the wider Iberdrola Group. We are focused on significantly growing our asset portfolio to meet the needs of our energy customers, using a diverse global supply chain. Our smart MAP business plays an active role in the smart meter rollout programme, with our smart meters used by energy suppliers across the market.

Smart Heat is a new department launched in 2021 that seeks to explore opportunities to replace existing carbon-intense heating solutions with clean, affordable alternatives. The first project of its kind will see heat pumps, optimised by smart controls, deployed to around 200 properties at the HALO Project in Kilmarnock to ensure no one is left behind on the journey to net zero.

Group Strategic Report for the year ended 31 December 2021

HOW SCOTTISH POWER UK PLC PERFORMED

Financial highlights

- Revenue up 4% year-on-year
- Operating profit decreased 27% year-on-year
- Capital investment in the UK energy market was £999.0 million in 2021

2021 Group operating performance

The table below provides key financial information relating to our performance during the year. Further detail is provided in the individual divisional sections of the Strategic Report.

Financial key performance indicators ("KPIs")	Revenue (Note (a))		Operating Profit (Note (a))		Capital Investment (Note (b))	
	2021 £m	2020 £m	2021 £m	2020 Restated* £m	2021 £m	2020 £m
Scottish Power UK plc	5,349.7	5,164.0	720.4	991.8	999.0	1,308.5

* Comparative figures have been restated (refer to Note 2).

(a) The Group's revenue and operating profits as presented on the Consolidated income statement on page 56.

(b) Additions to Intangible assets (refer to Note 6 on page 74) and Property, plant and equipment (refer to Note 7 on pages 76 and 77).

In the financial year, revenue has increased by £186 million. This was primarily from the Energy Retail and Wholesale business where revenues recovered from the adverse 2020 COVID-19 lockdown impact.

Operating profit for the financial year was £720 million, a decrease of £271 million. This decrease is reflective of reduced wind generation in the Renewables division (£91 million) due to exceptional weather conditions and increased operating losses in the Energy Retail and Wholesale division driven by exposure to particularly high energy costs due to lower than expected purchases of variable renewable generation (£140 million) as well as increased costs as result of supplier failures in the market and the impact of tight system margins (£47 million). The £86 million pension liabilities revaluation referred to in Note 9F, was mostly offset by redundancy provision movements in the Energy Retail and Wholesale division and increased EA1 operating and maintenance costs.

Our capital investment decreased by £310 million to £999 million in 2021, primarily reflecting reduced Renewables business investment in the EA1 wind farm following its completion and commissioning.

Liquidity and cash management

We operate and manage a centralised cash management model within the UK, with liquidity being managed at the Company level. Our liquidity position and short-term financing activities are integrated and aligned with Iberdrola's.

The Iberdrola Group's objective is to retain sufficient liquid resources and facilities to cover anticipated cash flow requirements for a period in excess of twelve months; currently liquidity in the Iberdrola Group is in excess of €19 billion, which can be utilised, if required, to fund our activities.

Net cash flows from operating activities increased by £509.7 million to £2,113.3 million for the year, as detailed on page 58. As detailed in the table below, cash increased by £42.8 million with overall net debt decreasing by £846.5 million to £4,534.3 million.

Analysis of net debt	Notes	2021 £m	2020 Restated* £m
Cash and short-term deposits	(a)	182.9	140.1
Loans receivable from Iberdrola Group companies	(b)	1,177.5	831.5
Loans payable to Iberdrola Group companies	(c)	(3,492.5)	(3,662.0)
Loans payable to external counterparties	(c)	(1,840.0)	(2,140.0)
Current financial liabilities	(a)	(34.8)	(43.5)
Lease liabilities	(d)	(510.7)	(497.7)
Accrued interest	(e)	(50.3)	(53.8)
Cross currency swap	(f)	33.6	44.6
Net debt	(g)	(4,534.3)	(5,380.8)

* Net debt has been restated to include Accrued interest and Cross currency swap. Refer to Note 2.

(a) As detailed on the Consolidated statement of financial position on pages 54 and 55.

(b) As detailed in Note 12 on page 98.

(c) As detailed in Note 19(b) on page 103.

(d) As detailed in Note 8A(c) on page 79.

(e) As detailed in Note 19(a) on page 102.

(f) As detailed in Note 11(e)(C2.2(iii)) on page 97.

(g) Net debt is included as a relevant measure as it is the principal measure used to assess credit rating metrics.

Group Strategic Report for the year ended 31 December 2021

HOW SCOTTISH POWER UK PLC PERFORMED *continued*

Capital and debt structure

The Company is funded by a combination of debt and equity; all equity is held by Scottish Power Limited. Our financing structure is determined by our position in the wider Iberdrola Group. As stated above, we can obtain funding via the liquidity resources maintained at the Iberdrola Group. The Company holds investment grade ratings with Moody's Investor Services (Baa1), Standard & Poor's Rating Services (BBB+) and Fitch Ratings (BBB+). Details of our financial risk management policy are set out in Note 11(e).

Dividend policy

The Company's approved dividend policy is to pay a sustainable dividend to ordinary shareholders taking into consideration the impacts on current and forecast credit rating metrics and forecast profitability over a medium-term horizon. During 2021, no dividend was paid.

Investment and funding

The overall funding objective is to maintain a forecast debt position for the various Group entities at least in line with their current credit ratings. As indicated above, the ongoing support of the ultimate parent company for future funding and liquidity provides a central underpinning for the directors in their assessments of ongoing funding for the Company and Group.

Taxes and other government obligations

To help give an understanding of our contribution to UK taxes and other UK Government obligations, the table below highlights the key taxes and other obligations in the financial year, on an accruals and cash basis.

Analysis of taxes and other government obligations	Notes	Income statement expense		Cash tax paid in the year	
		2021 £m	2020 £m	2021 £m	2020 £m
Social security costs	(a)	33.1	30.8	32.0	30.5
Taxes other than income tax	(b)	231.8	220.8	236.8	222.4
UK Corporation Tax	(c), (d)	46.8	106.2	93.4	129.5
		311.7	357.8	362.2	382.4

(a) As detailed in Note 23(a) on page 106.

(b) As detailed in Note 24 on page 106.

(c) As detailed in Note 28 on page 107. The UK Corporation Tax charge has fallen from prior year due to the significant reduction in profit before tax from £842.0 million in 2020 to £550.6 million in 2021. Refer to '2021 Group operating performance' for further details.

(d) For accounting periods beginning on or after 1 April 2019, HM Revenue and Customs ("HMRC") amended the rules relating to quarterly Corporation Tax instalment payments and introduced new payment dates for companies categorised as being 'very large'. The amended rules affect companies with annual taxable profits exceeding £20 million and has resulted in companies being required to pay their Corporation Tax instalments earlier than what was required under the previous regime. The instalment dates for each chargeable accounting period under assessment are now the 14th day of each calendar quarter. The interaction between the old and new Corporation Tax payment regimes has resulted in four Corporation Tax instalment payments being settled with the UK Collector of Taxes relating to the year ended 31 December 2021 compared to six instalment payments for the year ended 31 December 2020. The six payments made in 2020 relate to the obligation to settle the third and fourth instalment payments with respect to the year ended 31 December 2019 and all four instalment payments that are required under the new regime. After that there will be a requirement to make four Corporation Tax instalment payments in each year all relating to the current year's tax charge.

SCOTTISHPOWER DIVISIONS

ENERGY NETWORKS

Introduction to Energy Networks division

Our Energy Networks division is responsible for three regulated electricity network businesses in the UK. These businesses are 'asset-owner companies', holding the regulated assets and the electricity transmission and distribution licences of the Group, and are regulated monopolies. They own and operate the network of cables and power lines transporting electricity to around 3.5 million connected customers in the South of Scotland, Cheshire, Merseyside, North Shropshire and North Wales.

One of the regulated businesses, SPT, is a transmission network owner. The electricity transmission network consists of the high voltage electricity wires that transport electricity from power stations to distribution system entry points or, in certain cases, direct to end users' premises via a national network of high voltage assets.

The other two regulated businesses are Distribution Network Operators ("DNOs"); SPD and SPM. The electricity distribution networks are regional grids that transport electricity at a lower voltage from the national transmission grid and embedded generators and connect to industrial, commercial and domestic users.

All three regulated businesses are natural monopolies and are governed by Ofgem via regulatory price controls. The primary objective of the regulation of the electricity networks is the protection of consumers' interests while ensuring that demand can be met and companies are able to finance their activities. Price controls are the method by which the amount of allowed revenue is set for network companies over the period of the price control. Price control processes are designed to cover each company's efficient costs and allow them to earn a reasonable return, provided they act in an efficient manner, deliver value for customers, and meet Ofgem targets. Price controls are delivered on a regulatory basis covering April to March of any given year. Therefore, the majority of Energy Networks' performance and key deliverables are measured and reported on this basis.

Operating review

Transmission business

During 2021, we transitioned to the first year of the five-year RII0-T2 price control. We are on track to deliver our investment plan and agreed commitments. A number of projects are already progressing for RII0-T2 including the modernisation of the 40-mile overhead line route stretching from Cockenzie near Edinburgh to Eccles in the Borders. We have also continued with our Independent User Group (originally established to support the creation of our T2 business plan) as we value its input in helping shape our plan as it evolves to meet new needs, providing challenge to our delivery performance and holding us to account on the commitments we have made.

Group Strategic Report for the year ended 31 December 2021

SCOTTISHPOWER DIVISIONS *continued*

In October 2021, the CMA published its final determination on the RII0-T2 appeals made by SPT, National Grid Electricity Transmission and SSEN Transmission, among others. We welcomed the CMA's findings supporting a number of the areas we appealed on but we were disappointed that the CMA had not upheld our case on the cost of equity, given the international competition for investment to deliver net zero.

In January 2020, Ofgem opened an investigation into both SPT and National Grid regarding compliance with their respective obligations relating to the late delivery of the W-HVDC project. An alternative action settlement has been reached with Ofgem which formally closes out the investigation. There is no material impact on the 2021 results. Recovery of future revenues will be adjusted as part of the regulatory process.

We connected several wind farms at transmission voltage during 2021, including Douglas West, Twentysilling, Windy Rig, NNG and Kennoxhead Extension, together with energisation of Dunbar grid supply point which facilitated the connection of several embedded generators. Applications for onshore and offshore wind farm connections continue to remain significant in number.

We submitted our Initial Needs Case for the Eastern HVDC link in 2021, which Ofgem approved in their decision published on 5 November. This multi-billion-pound project will significantly increase the UK's capacity for renewable power. Whilst this latest decision from Ofgem marks a positive step forward for one of the largest transmission investment projects in recent history, further clarity on the future delivery of the project and the approval of the final needs case will still need to be provided to ensure we can progress this critical project of national importance. We submitted the final needs case at the end of 2021. Ofgem will publish their decision on this during Summer 2022.

Distribution business

We continue to serve our distribution customers in the Central Belt and South of Scotland, Cheshire, Merseyside, North Shropshire and North Wales with 99.99% reliability levels at a cost of 31 pence per day.

In 2021, we moved into the sixth year of the eight-year RII0-ED1 price control period. We are on track to deliver our agreed outputs during the remainder of the period and are performing on, or ahead of, targets in our approach to safety, reliability and availability, and customer service

We have been working hard to ensure that the next price control running from 2023 to 2028, RII0-ED2, is set in a way which readies the UK for an electric future. Our final business plan was submitted to Ofgem in December 2021. Over the ED2 period we are proposing to spend £3.3 billion to make sure that we can enable the path to net zero. To do this, we will create more than 1,100 jobs. We now await Ofgem's draft determination which will be published in summer 2022.

Innovation continues to be a key focus. Working with two local authorities in our SPD licence area to trial a DNO-led approach to the rollout of public EV chargers, Project PACE concluded in December 2021 and delivered a total saving of £1.5 to £2.8 million in connections costs across 44 EV charging hubs, covering 167 new public EV chargers. Project PACE is a key enabler to the rollout of public EV charging infrastructure which is essential to meeting the Scottish and UK Governments' net zero and carbon reduction targets as this will support customers' and communities' adoption of EVs.

During November 2021, Storm Arwen brought severe winds of around 100 mph across the UK overnight, with the Met Office issuing a red warning for wind. Energy Networks restored power to the 200,000 customers impacted, often in challenging weather conditions, to connect 89% of customers in the first 24 hours following the storm and 96% within 48 hours. However, a significant number of rural customers and communities were without power for more than two days and we recognise the impact that this has had upon those customers.

Following the severe impact on the electricity network caused by Storm Arwen, Energy Networks is offering additional compensation of £150 per household, on top of payments under our Guaranteed Standard of Service, to those off for more than 48 hours as an apology for the disruption caused. In December 2021, we confirmed that former UK Energy Minister, Rt Hon Charles Hendry CBE, has agreed to lead an internal review of our operational response to Storm Arwen, with a particular focus on the rural communities worst affected. Mr Hendry's review will be supported by an expert panel drawn from local communities, and its findings are expected to be published in late Spring 2022.

Our values in action

Net zero has continued to attract huge public attention in 2021, not least due to COP26. We therefore continue to collaborate with governments to deliver their sustainability plans and meet the challenges of the low-carbon revolution. For example, this year we have welcomed the publication of the UK Government's Net Zero Strategy, the Welsh Government's Net Zero Wales plan, and the Scottish Government's Heat in Buildings Strategy, all of which recognise the important role that electricity networks have in the journey to reach net zero.

During COP26, we helped support the readiness of the city of Glasgow by ensuring electricity supply remained as resilient as possible throughout the conference. For example, the installation of an additional 6.7 MW of supply was delivered on time, facilitating preparations for the event. A large programme of additional inspections and maintenance was also carried out across Distribution and Transmission networks. Across Glasgow, we focused on a programme of low-carbon technology connections, including seven Police Scotland depots, allowing electrification of their fleet ahead of COP26. There were no power interruptions to the conference venue during this time and the overall performance of the network was closely managed throughout.

We have developed design tools to quickly identify where the adoption of flexibility can save consumers money by upgrading our network. In April 2021 we launched a significant flexibility tender to fill outstanding requirements and also for new services identified for the period 2023 to 2028. This tender concluded in November and we were able to accept bids for 555 MW from a variety of providers including those offering demand side response from EV charging.

With energy decarbonisation, digitisation and decentralisation, we are moving towards a new model that requires Distribution System Operators ("DSOs") to play an active coordinating role between all market participants. We are already demonstrating benefits of system operation through transport planning, digital substations and artificial intelligence in our Active Network Management ("ANM") and sequence switching schemes, as well as our market-making flexibility tenders. Our ANM project in Dumfries and Galloway will help to achieve a reduction in CO₂ emissions of 522 thousand tonnes by 2031 – equivalent to the annual emissions produced from 110,000 diesel/petrol vehicles.

Group Strategic Report for the year ended 31 December 2021

SCOTTISHPOWER DIVISIONS *continued*

We are delighted to have been awarded more than £60 million of funding through Ofgem's Green Recovery investment programme to take forward 40 projects, 18 of which are in Scotland, 16 in England and six in Wales. Over the next 18 months, these projects will provide additional electrical capacity to enable the connection of a host of low-carbon technologies such as EVs and heat pumps.

We were shortlisted for five awards at the 2021 Utility Week Awards which took place on 21 March 2022:

- Community Investor Award – Project PACE
- Innovation Award – Dersaloch Black Start Restoration project
- Innovation Award – iIdentify project
- Net Zero Award – Green Economy Fund
- Utility of the Year – Energy Networks

2021 performance

Financial key performance indicators ("KPIs")	Revenue		Operating profit		Capital investment	
	2021 £m	2020 £m	2021 £m	2020 Restated* £m	2021 £m	2020 £m
Energy Networks	1,276.3	1,254.4	572.2	583.6	607.6	551.0

*Comparative figures have been restated (refer to Note 2).

Energy Networks' revenue is £22 million higher than the prior year. Allowable transmission revenues have decreased under RII0-T1 by £3 million. Distribution revenues saw increased customer demand mainly due to the adverse COVID-19 impact in 2020 (£21 million). Excluding this effect, underlying revenues were up £4 million. Operating profit is £11 million lower than 2020 with higher revenues being offset by higher operating costs (including £3 million storm compensation), increased depreciation (£17 million) and an adverse £6 million bad debt impact from failed energy supply companies. COVID-19 has not had a material impact on 2021 operating profit. Energy Networks' capital investment increased by £57 million to £608 million in 2021, primarily due to higher spend in the transmission business at the start of the new RII0-T2 price control.

The three regulated businesses within Energy Networks are required to prepare regulatory financial performance reporting for the years ending 31 March. Reporting of key performance indicators is aligned to the regulatory year end. Consequently, the latest available data for the last regulatory year for Energy Networks has been disclosed in the table overleaf, with the exception of distributed energy that is reported for the years ending 31 December.

Non-financial key performance indicators ("KPIs")	Notes	Actual 2021	Target 2021	Actual 2020	Target 2020
Distributed energy (GWh)	(a)				
- SPD		16,215	N/A	15,929	N/A
- SPM		13,662	N/A	13,696	N/A
Annual reliability of supply	(b)				
- SPT		99.99%	N/A	99.99%	N/A
Customer interruptions	(c)				
- SPD		43.4	50.2	44.5	50.6
- SPM		30.5	36.1	32.3	36.4
Customer minutes lost	(d)				
- SPD		30.2	41.1	33.7	42.1
- SPM		28.8	36.8	34.0	38.2

(a) Gigawatt hours ("GWh").

(b) Annual reliability of supply is provided by the system operator, National Grid.

(c) Recorded per 100 customers.

(d) Average number of minutes our customers had their supply interrupted.

Outlook for 2022 and beyond

We are already prioritising actions to tackle the climate emergency and achieve net zero, delivering £4.8 billion of investment into our network areas in North West England, Wales and Scotland from 2015 to 2023.

In 2021 we have worked hard to develop a business plan for the RII0-ED2 price control period covering 2023-2028 to meet the needs of our customers and ready the network for the net zero revolution. Our draft and final business plan were submitted in July and December 2021 respectively, detailing the £3.3 billion of spending we consider necessary to ready the UK for an electric future. During the process of finalising the business plan, Energy Networks engaged over 19,000 customers and stakeholders on a vast range of topics ranging from engineering to consumer vulnerability.

RII0-ED2 will be particularly significant for the decarbonisation of transport and domestic heating. The work outlined in our plan will kick-start the much-needed growth in these low-carbon technologies with over 670,000 EVs, 370,000 domestic heat pumps, and an additional 5 GW of low-carbon electricity generation connected through the five-year investment period.

Within the next ten years, we expect the number of EVs we supply on our two distribution networks to increase by up to 1.7 million and EV charging can double the demand of a domestic property. Through various innovation projects that we have carried out, we have identified a key strategic role that we can play in the design and siting of cost-effective EV charging infrastructure. We will also play a key role in the decarbonisation of heat. Heat in buildings is responsible for a fifth of the UK's GHG emissions and we have forecast up to 1.1 million heat pump installations by 2030 across our two distribution licence areas.

Group Strategic Report for the year ended 31 December 2021

SCOTTISHPOWER DIVISIONS *continued*

We have focused on developing plans across our networks to help facilitate the regional ambitions of the cities and rural communities we serve to decarbonise heat, transport and energy. All forecast scenarios show a significant increase in the volume of customer demand and generation that we will need to serve on our transmission and distribution networks.

We have completed the first year of the RII0-T2 price control. For the five-year period, Ofgem have determined our baseline allowance to be £1.2 billion. Based on the rapidly changing nature of generation and demand, we expect the actual expenditure to be considerably higher. Ofgem have acknowledged the need for greater flexibility in RII0-T2 and additional funding requirements will be developed with Ofgem to meet the changing needs.

RENEWABLES

Introduction to Renewables

Renewables is responsible for the origination, development, construction and operation of renewable generation plants, principally onshore and offshore wind, with a growing presence in renewable technologies and innovations such as battery storage and solar. We will continue to consider further opportunities to invest more widely in renewable generation and storage. During 2021, our assets continued to perform well with good availability, and our pipeline expanded to 9.7 GW, with 6.6 GW of onshore projects, including wind, solar and battery storage and 3.1 GW of offshore wind projects. Our production, however, was impacted by unusual weather conditions, with the lowest wind conditions across the UK in 30 years.

Operating review

Onshore renewables

During 2021 we continued to grow our onshore wind capabilities, completing construction of two new onshore wind farms. The 30 MW, 15-turbine Halsary Windfarm in Caithness is now generating enough clean energy for the equivalent of almost 20,000 homes which, under a PPA, will help power Tesco's stores and operations across the country and bring more green energy on to the grid, aiding the sustainability and climate goals they have set for their business. The 50 MW, 14-turbine Beinn an Tuirc 3 wind farm on the Kintyre peninsula was built by Renewables having entered into a PPA with Amazon Web Services. Each of these wind farms is also in receipt of a 15-year Capacity Market Agreement.

At our Carland Cross project in Cornwall, which is one of the UK's first wind farms and the UK's first energy park, our first solar panels were installed in 2021 by the UK Prime Minister, Boris Johnson, complementing the existing wind farm and battery storage onsite. By co-locating solar generation, with storage and wind, we are optimising the use of existing infrastructure to deliver green and flexible power.

Through 2021, we have focused on maturing our 6.6 GW pipeline by achieving planning consent for 635 MW (comprising new onshore wind of 435 MW and battery storage of 200 MW) of renewable generation across Scotland and the Republic of Ireland, more than any other onshore developer in the UK in 2021.

During 2021, we participated in three Public Local Inquires ("PLI"), one each for the Arecleoch Windfarm Extension, Clachrie Windfarm and Sheirdrim Renewable Energy Development. Arecleoch Windfarm Extension was the first virtual PLI for Renewables, and one of the first virtual PLIs held by the Planning and Environmental Appeals Division. Consent for the Arecleoch Windfarm Extension was granted in November, the decision for Clachrie Windfarm is awaited, and the Sheirdrim Renewable Energy Development PLI had final submissions made in January 2022. The Arecleoch consent creates the opportunity to extend the original Arecleoch Windfarm which began operating in 2011, adding a further 13 turbines, and generating around an additional 72 MW. This is equivalent to 75-85% of the output of the existing Arecleoch 60-turbine wind farm. The planning consent for Arecleoch Windfarm Extension also allows for a 20 MW Battery Energy Storage System ("BESS").

In 2021, we also achieved consent for our wind farms within shorter timescales from submission than the industry average for large-scale wind farms, which included the Barnesmore Repowering and Cumberhead West projects being consented in approximately one year from submission of the planning application. The Barnesmore Repowering was also the first planning consent granted to repower a wind farm in the Republic of Ireland at commercial scale, which, at the point of consent, comprised the tallest turbines consented in the Republic of Ireland. This focus on development at scale is also seen in Scotland as the size of turbines consented by our renewables business (tip heights and MW output) is above the industry average.

We have continued to develop the consented repowering project at Hagshaw Hill which will mark our first repowering project in Scotland, replacing the current 46 turbines capable of generating a total of 42 MW with 14 new, modern and efficient turbines increasing the production capacity of the site to around 80 MW. Operational since 1995, the original Hagshaw Hill was ScottishPower's, and Scotland's, first commercial-scale wind farm to be developed and constructed.

The expansion into additional technologies, such as solar, took a step forward with the successful acquisition of a number of projects in January 2022, with a capacity of up to 800 MW. These sites are at an advanced stage of development and we anticipate that they will come into operation between 2023 and 2025.

A number of our onshore wind and solar projects have applied to participate in CfD Allocation Round 4. Prequalification results were announced on 25 February 2022 and the competitive auction is expected to take place in quarter two, with results expected later in 2022.

Offshore wind

The 389 MW West of Duddon Sands ("WODS") project in the East Irish Sea is a 50/50 joint arrangement with Orsted West of Duddon Sands (UK) Limited. The project is in its second operational term, with Orsted Power (UK) Limited providing operations and maintenance services. Certain turbine upgrades were activated during 2021 and the site continues to deliver availability in line with expectations.

Off the East Anglian coast, the 714 MW EA1 project completed its first year as a fully commissioned site. The wind farm is a 60/40 joint arrangement between Renewables and Bilbao Offshore Holding Limited. Availability has been as expected in 2021 but the wind resource, and thus production, is lower than expected. Following the Ofgem-led process for the divestment of the transmission assets, Transmission Capital Partners were announced as the preferred bidder in December 2020. The divestment, which was previously required to complete by 13 December 2021, is now expected to complete in 2022 (refer to Note 30 for further details).

Group Strategic Report for the year ended 31 December 2021

SCOTTISHPOWER DIVISIONS *continued*

Development of the EA Hub continues and we have confirmed our intention to invest £6 billion to develop the 3.1 GW project. This is subject to securing a route to market. EA3 has successfully qualified for Allocation Round 4 of the CfD process. Consent has been granted for EA1 North, EA2 and EA3. Renewables has selected Siemens Gamesa Renewable Energy ("SGRE") as the preferred bidder to supply and install the offshore wind turbines for this programme. The project has completed its onshore and offshore site investigation. In 2021 the onshore archaeology trial was also completed.

Crown Estate Scotland accepted submissions to the Scotwind leasing round in July 2021 with results announced on 17 January 2022. Renewables has been offered option agreements for seabed rights to develop three areas including one fixed bottom site and, in 50/50 Partnership with Shell, two floating sites. In total the capacity of the projects is 7 GW. These comprise MachairWind off the coast of Islay (ScottishPower only, 2 GW fixed), MarramWind (in partnership with Shell) off the north-east coast of Scotland (3 GW floating) and CampionWind (in partnership with Shell) off the east coast of Scotland (2 GW floating).

Our values in action

We are at the forefront of the development of our industry through pioneering ideas, forward thinking and outstanding innovation. Our projects continue to create economic, social and environmental benefits to the communities in which they are developed and operated and contribute to the UK's net zero targets.

Alongside our continued development of renewable generation, we continue to support the integration of more renewables into the electricity system through the optimisation of our assets, co-location and investment in new technologies. Maximising the penetration of renewable generation will be vital to meeting net zero targets and we support this through our ambitious pipeline growth and commitment to integrating new enabling technologies. Renewables is continuing to pioneer new technologies at our sites to enable National Grid targets to decarbonise the electricity sector through its Pathfinder process. Decarbonisation of heat will also require greater penetration of renewables to support a transition to low-carbon heating. We also acknowledge that there are parts of the energy system that are not suitable for electrification and we believe that green hydrogen will have an important role to play, particularly for heavy transport and industry. We welcomed the publication of the UK Government's Hydrogen Strategy. The growth of green hydrogen use will require further deployment of renewables generation to supply green hydrogen production facilities.

We will continue to invest in a cleaner, brighter future, creating highly skilled jobs, supporting UK supply chains and delivering substantial local benefit for the communities we serve. We need to retain, retrain and attract new talent, to equip people with the skills to meet future demand and the green jobs of the future. We support the development of new talent in onshore wind through our trainee programmes for master scholars, apprenticeships and graduates. We have launched new onshore apprenticeship programmes for operations and maintenance and project management which will commence later in 2022.

2021 performance

Financial key performance indicators ("KPIs")	Revenue		Operating profit		Capital investment	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Renewables	863.4	906.0	343.2	448.0	201.8	599.4

Renewables' revenue decreased by £43 million to £863 million in 2021 as exceptionally low wind conditions adversely impacted the wind generation mix. Whilst the EA1 wind farm production was higher than 2020 (due to higher average operating capacity), other plant was adversely impacted by weather conditions. The net revenue reduction of £139 million from production was partly offset by favourable energy and ROC revenue prices. Operating profit decreased by £105 million to £343 million in 2021 due to lower revenues, increased BSUoS and higher EA1 operating, maintenance and depreciation costs. Capital investment decreased by £398 million to £202 million in 2021 as the investment in EA1 reduced.

Non-financial key performance indicators	Notes	2021	2020
Plant output (GWh)	(a)	6,726	6,691
Installed capacity (MW)	(b)	2,895	2,864
Availability	(c)	96%	97%

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

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

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

Outlook for 2022 and beyond

We welcomed the publication of the UK Government's Net Zero Strategy in October 2021 which commits to a fully decarbonised power system by 2035 by accelerating the deployment of low-cost renewable generation including onshore wind, offshore wind and solar through the CfD scheme. The CfD framework has proven to be an effective tool in providing revenue stabilisation and reducing the cost of capital thereby enabling low-carbon generation to be deployed at the least cost to the consumer. To accelerate progress towards power sector decarbonisation, and to deliver the UK's target of 40 GW of offshore wind by 2030, we welcome the UK Government's announcement that they will increase the frequency of CfD allocation rounds to annually, from March 2023. A clear schedule and pathway of volumes to be procured by 2030, will provide a stable and consistent route to market for the developing project pipeline as well as provide greater clarity for the UK supply chain to plan for sustained growth in an efficient way.

The Scottish Government is updating its Onshore Wind Policy Statement and seeking views on an ambition to secure an additional 8-12 GW of installed onshore wind capacity by 2030, how to tackle the barriers to deployment, and how to secure maximum economic benefit from developments. New analysis published in November 2021 by Renewable UK showed that doubling the UK's onshore wind capacity to 30 GW by 2030 would create an average of 27,000 long-term, high value jobs and play a key role in the green economic recovery by adding £45 billion of Gross Value Added ("GVA") (a macroeconomic measure of the total value created by a sector) to the UK economy, as well as lowering energy bills for consumers by £25 a year and contributing to net zero targets. The analysis shows that achieving 30 GW of onshore wind by 2030 would result in payback to the consumer of around £16.3 billion when brought forward through CfD auctions. The analysis also shows that a target of an additional 12 GW of onshore wind in Scotland, aligned to the top end of the Scottish Government's target, would see 17,000 jobs supported and £27.8 billion of GVA.

Group Strategic Report for the year ended 31 December 2021

SCOTTISHPOWER DIVISIONS *continued*

Following significant UK Government commitment to the growth of renewables, updated National Policy Statements on Energy (“NPSs”) will be finalised later in 2022. NPSs, as a significant consideration in planning decisions, are likely to see increased prioritisation in relation to net zero and the role of renewable projects in achieving targets. It is anticipated that clearer support for such projects, particularly offshore, in the planning system should be secured within the finalised NPSs.

The Scottish Government are also consulting on the fourth National Planning Framework (“NPF4”) which will provide an opportunity to address current barriers within the consenting landscape, reinforcing and prioritising the role which climate change should play for decision makers and statutory bodies. Renewables has 6.6 GW of onshore, solar and battery storage projects, being progressed as part of the pipeline with 3.8 GW of this being beyond 2025. The volume of consented projects increased by 1.1 GW during 2021 and these will be moved through final investment decision and into construction as quickly as possible.

The 50 MW BESS at Whitelee Windfarm marks a significant addition to our portfolio, increasing our ability to balance renewables production with varying demand, whilst also delivering key grid ancillary service capabilities to the UK grid. The 50 MW BESS at Gormans, County Meath and 3 MW BESS at Barnesmore near Donegal demonstrate our commitment to expanding our asset base in the Republic of Ireland, and support the requirements of the Irish grid system.

We will continue with the optimisation of sites through co-location of assets, with a number of new-build solar and battery storage projects being co-located at existing wind farms throughout 2022 and 2023. Later in 2022, we are anticipating obtaining consent for our first renewable energy park which will be our first renewable energy park developed from conception to obtain consent for three separate forms of generation. This project will include a combination of onshore wind, solar and battery storage which are all being developed together to create an optimal and innovative project.

We also anticipate that the planning applications submitted in 2021 at Whitelee Windfarm will allow us to be the first industrial-scale energy park in the UK combining wind, solar, battery storage and green hydrogen production on one site at large scale. The green hydrogen production facility will be able to use wind and solar power produced at Whitelee Windfarm to operate an electrolyser of up to 20 MW. Producing green hydrogen (i.e. green hydrogen produced using only renewable resources) requires a lot of electricity; as Whitelee Windfarm already has a high level of renewable generation production and a lot of existing infrastructure, it is a good location for development of a green hydrogen production and storage facility.

During 2021 we successfully secured two contracts following the UK Capacity Market auctions. Beinn an Tuirc 3 and Halsary wind farms both secured one-year contracts in the T-1 2021/22 auction which took place in March. These contracts allow National Grid to manage the security of supply and prevent future blackouts on the system. Additionally, we were successful in both the 2021 T-1 and T-4 auctions, where we were awarded a one-year agreement for the 50 MW Whitelee BESS for delivery year 2022/23 and a 15-year agreement for the 50 MW Harestanes BESS for delivery year 2025/26 respectively.

Both Blacklaw and Whitelee wind farms have been awarded constraint management contracts under National Grid ESO’s Constraint Pathfinder Tender. New and innovative services from wind generation, such as constraint management, will serve to enhance the flexibility of grid operations in a cost-effective manner.

ENERGY RETAIL AND WHOLESALE

Introduction to Energy Retail and Wholesale

Our Energy Retail business is responsible for the supply of electricity and gas to domestic and business customers throughout GB, including customer registration, billing and handling enquiries in respect of these services. Energy Retail is also responsible for the associated metering activity including the smart meter installation programme and managing our smart solutions and hydrogen activities. During 2021, an average of 4.61 million gas and electricity customers were supplied by Energy Retail. As at 31 December 2021, Energy Retail supplied 4.77 million gas and electricity customers.

In Energy Retail, we aim to deliver a top class experience for our customers. That is one which is hassle free, making it easy for customers to contact us through a range of routes, and provides flexibility to meet all of our customer needs.

The energy sector is evolving and as a responsible energy supplier we continue to innovate to ensure our service offering meets the needs of customers as market conditions and customer needs change. We aim to do this through:

- supporting the decarbonisation of the energy market through innovative offerings;
- taking a holistic approach to customer needs through good quality smart solutions;
- linking our smart solutions with our competitive energy tariff offerings; and
- providing additional support to our most vulnerable customers.

Our Energy Wholesale business continues to focus on managing the Group’s exposure to the UK wholesale electricity and gas markets for Energy Retail and Renewables. Energy Wholesale is predominantly responsible for the purchase of external supplies of electricity and gas for onward sale to customers, the optimisation of gas storage, and the sale of electricity from internal and external renewable PPAs to wholesale market participants in the UK.

Operating review

During 2021, market conditions were challenging as the impact of the ongoing COVID-19 pandemic combined with unprecedented rises in wholesale costs presented significant challenges to suppliers, most notably due to the regulated nature of pricing for customers on default tariffs because of the price cap. The impact however has not been limited to customers on default tariffs, with the costs of failed suppliers being passed to remaining suppliers in the market through mutualisation, who cannot immediately recover such costs from existing fixed-term tariffs.

A real challenge exists for suppliers during this time with wholesale costs well above the level that can be recovered from taking on any additional standard variable tariff cap customers. Where suppliers are not hedging appropriately in advance, this has created a significant challenge to their financial position. In addition, even for well-hedged suppliers, as the market is only part price-regulated, this has led to variable tariffs being priced well below fixed-term tariffs, and many more customers than expected moving to the variable tariff option, creating additional unexpected costs which cannot be recovered immediately due to the price cap mechanism. In light of this, an assessment for onerous contracts has been made which concluded that as at 31 December 2021, no onerous contract provision was required. Refer to Note 3M.

The significant rise in wholesale costs triggered an unprecedented number of suppliers to fail throughout 2021, with 28 suppliers servicing approximately 7.5 million services failing and leaving significant levels of costs that will be recovered from suppliers and ultimately consumers through mutualisation and industry levies.

Group Strategic Report for the year ended 31 December 2021

SCOTTISHPOWER DIVISIONS *continued*

The scale of these costs will result in significant increases to consumers in the future through their tariffs, with estimates suggesting the costs left by the failed suppliers to date could total £2 billion. Ofgem has already approved initial claims of £1.8 billion for appointed SoLRs for wholesale costs incurred for winter 2021. These estimates do not take account of the costs faced this winter for the greater number of customers defaulting to variable tariffs, or future costs relating to the failure of Bulb which is currently being operated under the Special Administration Regime.

It is clear that the current market is not delivering for either suppliers or consumers, with the licensing regime and regulatory framework facilitating poor practice by some suppliers with the costs of their actions left to the remaining suppliers in the market, and ultimately consumers. We continue to engage with the UK Government and Ofgem regarding the fair recovery of all of these costs, and ensuring that appropriate actions are taken to future-proof the market and its regulatory framework to better manage such shocks and ensure responsible suppliers are able to recover the costs they incur supplying energy to customers. This includes engaging with Ofgem on reviewing and amending the price cap methodology for future periods, but also in relation to the broader recovery of retrospective costs for this winter.

Ofgem consulted on the recovery of retrospective costs in November 2021 and has included an adjustment in the level of the cap that will apply from April 2022. The new cap level from April 2022 has increased by 54% driven mainly by increased wholesale costs.

From mid-December 2021 and into early 2022, Ofgem consulted on potential changes to the price cap methodology from October 2022 to mitigate the impact of wholesale market volatility. In the meantime, Ofgem has also implemented short-term measures from April 2022 to mitigate risks of a falling wholesale market prior to October 2022 including a new ban on 'acquisition only' tariffs and the implementation of a Market Stabilisation Charge that would require payment by the gaining supplier to the losing supplier in certain market conditions. We have been responding, and will continue to respond to these consultations as appropriate to influence and protect the Group and its customers.

We also continue to lobby Ofgem to make better use of their powers to take action where suppliers are operating in a financially irresponsible manner. We continue to support the implementation of much stronger rules for the licensing of new suppliers through introducing a requirement for capital adequacy at the point of licence granting. We also continue to engage with Ofgem regarding proposals to require suppliers to protect customer credit balances and are encouraging Ofgem to take earlier and stronger action where its monitoring shows suppliers are not operating in a sustainable or responsible manner. In mid-December 2021, Ofgem published a number of documents with the aim of ensuring increased supplier financial resilience including undertaking stress testing and planned consultations on new financial licence requirements and improved protections for credit balances and Renewable Obligation payments in early 2022. Alongside the focus on ensuring suppliers in the market are operating in a sustainable manner, we believe it is also important that Ofgem focuses on policies to support the delivery of net zero, and we continue to lobby Ofgem and the UK Government on this basis.

In late November 2021, ScottishPower Energy Retail Limited was appointed as the SoLR for the customers of Orbit Energy Limited and Entice Energy Supply Limited who had portfolios of approximately 112,000 and 9,000 services respectively. In mid-December 2021, Ofgem approved our initial claim of £43.7 million for wholesale energy costs in excess of the price cap allowance for winter 2021. At 31 December 2021, £11.5 million has been recorded in the Income statement being the excess cost to that date of energy delivered in relation to these customers; a corresponding asset was recognised being our best view of the relevant portion of the initial claim relating to that energy delivered. Overall, there is no material impact of these SoLR appointments at the 2021 year-end. Further claims to true-up our initial claim, including for additional cost categories, will be submitted to Ofgem in due course.

In 2021, while our follow-up processes have largely returned to business as usual, we continue to see the negative impact of COVID-19 on customers' ability to pay. The effect of the withdrawal of the Coronavirus Job Retention Scheme ("CJRS") in October 2021, together with the enduring impact on the wider economy, continues to be monitored. We are also fully engaged with Ofgem to ensure increased debt cost incurred is reflected in the default tariff cap. Refer to Note 11(e)A3 for further details.

We remain committed to the rollout of smart meters across our domestic and small and medium-sized enterprises customer base. We strongly support the aims and objectives of the smart meter programme and we believe that this investment in our infrastructure is critical to realising the smart energy future that we aspire to deliver for our customers, for our business, and to enable the UK to meet its legally binding target of net zero emissions by 2050.

Notwithstanding the challenges of COVID-19, we have made significant efforts and investments to support our smart meter rollout target thus far and demonstrable progress has been made, having installed approximately two million smart meters across GB. As at 31 December 2021, the overall progress is 41.3% smart meters as a percentage of relevant meters in our portfolio. We have an established network of installers across GB, who provide a strong platform to further increase our deployment capability for the remainder of the rollout. In 2021, we increased our installer engineer capacity by 30% through this network of installers, as well as increasing the number of customers who are technically eligible for a smart meter. We will continue to work under the UK Government's policy framework for smart meter installations between 2022 and 2025 and enable a safe and successful conclusion to the smart metering implementation programme.

Ofgem opened an investigation in 2020 into whether Energy Retail breached rules around its obligations to install smart meters for domestic consumers in 2019. Energy Retail has continued to collaborate with Ofgem throughout 2021 on the investigation which remains ongoing.

The Smart Solutions department extended its range of services in 2021, complementing the existing Smart Home (Boiler and Appliance Care Services) and Smart Mobility (residential, business and public EV charging services) with Smart Heat (air source heat pump installations), Smart Solar (rooftop solar and battery storage propositions) and Smart Cities (delivering decarbonising solutions through Local Authorities and community groups). Together they represent our commitment to the mission of achieving net zero using our technology and expertise as well as increasing involvement in a growing market offering attractive commercial returns.

Following its creation in 2020, the Hydrogen department has rapidly built a pipeline of projects that will serve customers across the UK and the Republic of Ireland. The portfolio of potential hydrogen production locations stretches across more than 20 locations and with a total capacity of approximately 1 GW of installed hydrogen production capacity. At varying stages of development, the leading projects in the portfolio include the installation of up to 20 MW hydrogen production at our Whitelee Windfarm, to work alongside new solar panels and existing wind capacity from Renewables. This strategically located project will have the capability of producing approximately eight tonnes of hydrogen per day, which could be

Group Strategic Report for the year ended 31 December 2021

SCOTTISHPOWER DIVISIONS *continued*

used to refuel heavy duty vehicles, long-range passenger and freight travel, and regional industrial uses throughout the wider Glasgow and Scottish Central Belt region. On the 22 November 2021, the Minister of State, Greg Hands MP, announced £9.4 million capital grant support for technology development and deployment within the project. The grant funding was awarded to ITM Power and BOC (a Linde company), who will work with our Hydrogen department in the first phase of the project at 10 MW hydrogen production capacity, with a second phase expected soon after.

The Wholesale business has focused on meeting the commodity trading requirements of the Energy Retail and Renewables businesses. It supports the Retail business 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. Our Energy Wholesale business continued to optimise the value of its gas storage facility, and to manage the ongoing decommissioning and sale of the non-operational sites of former generation plants.

Our values in action

During 2021, governments and Ofgem continued to focus strongly on the need for suppliers to deliver a positive consumer experience for all customer groups, recognising the need for suppliers to identify the particular needs of their customers, especially those in vulnerable circumstances. 2021 has seen a significant focus on this due to the additional challenges posed by COVID-19 on consumer finances. Refer to 'Energy customers' section of the Strategic Report for further details.

2021 performance

Financial key performance indicators ("KPIs")	Revenue		Operating loss		Capital investment	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Energy Retail and Wholesale	4,107.3	3,750.6	(278.8)	(40.8)	170.7	138.4

Energy Retail and Wholesale revenue increased by £357 million to £4,107 million in 2021. Retail domestic revenues increased as a result of tariff increases and from colder weather earlier in the year. Whilst business revenues recovered from the adverse 2020 COVID-19 lockdown impact and increased by £197 million, business gross margins were negatively impacted by market conditions.

Operating losses increased by £238 million to £279 million. The impact of the unprecedented rise in energy prices in the latter part of 2021 has been the main cause of this increase, impacting both domestic and business margins in a number of ways. This included exposure to particularly high energy costs due to lower than expected purchases of variable renewable generation (£140 million) as well as increased costs as result of supplier failures in the market and the impact of tight system margins (£47 million). Operating costs and other taxes increased by £41 million mainly as a result of redundancy provision movements and a return to normal spend levels following COVID-19. A reduced bad debt cost (following the 2020 increase in the provision as a result of COVID-19), has been offset by increased depreciation.

Capital investment in Energy Retail and Wholesale increased by £32 million mainly reflecting increased smart meter installations and new customer contract costs as activity returned to more normal levels following 2020 COVID-19 restrictions.

Non-financial key performance indicators	Notes	2021	2020
Volume supplied (GWh)	(a)	43,742	41,955
Customer service performance	(b)	4th	5th
Smart meters in portfolio	(c)	41.3%	34.6%
Customers (thousands)	(d)		
– Electricity		2,757	2,777
– Gas		1,856	1,870
		4,613	4,647

(a) Higher 2021 volumes due to a COVID-19-related increase in business demand and adverse weather conditions.

(b) Based on the Citizens Advice Domestic Energy Suppliers' Customer Service Report. Rankings reflect ScottishPower's position relative to the other 'Big Seven' Energy Companies. We have continued to invest in our customer service teams with a key focus on improving our timely management and resolution of complaints, coupled with an overall focus on service quality across all of our advisors.

(c) Percentage of relevant Energy Retail customer base with a smart meter. Throughout 2021, we continued to make strong progress towards our smart meter rollout plan.

(d) Customer numbers are based on the average number of Meter Point Administration Numbers for electricity customers and Meter Point Reference Numbers for gas customers during the year to 31 December. Average customer numbers have decreased marginally from 4,647 thousand to 4,613 thousand through a period of market instability caused by COVID-19 and energy market collapse. The overall portfolio remains strong at 4.6 million customers.

Outlook for 2022 and beyond

Energy Retail is committed to supporting the energy market to evolve and most notably decarbonise and meet the ambitions of net zero. We are proud that we were a partner of COP26 and continue to play a key role working with leaders in government and industry to reduce the carbon impact of the UK energy sector through offering innovative solutions to support our customers to reduce their carbon emissions. However, Energy Retail and industry more generally cannot do this without investment, which needs to be funded.

To date, it is consumers who have picked up the cost of investment in the energy sector through their energy bills. We continue to engage with government and Ofgem across a number of policy areas to ensure the regulatory framework is fit for purpose and fair, and can support us delivering the service and solutions needed to support our customers and deliver net zero.

As required by the Domestic Gas and Electricity (Tariff Cap) Act 2018, a price cap for default tariffs came into effect in January 2019. Currently it can be extended annually until 2023, and the UK Government announced in July 2021 that it intends to legislate to allow the cap to be extended past the end of 2023. Ofgem must publish a review of market conditions each year to assess whether the cap should be extended for a further year and provide a recommendation to the Secretary of State for BEIS. In October 2021, Ofgem's recommendation was accepted and the current cap price was extended for a year to the end of 2022. Ofgem has consulted, and continues to consult, on the price cap methodology for future periods including for the smart

Group Strategic Report for the year ended 31 December 2021

SCOTTISHPOWER DIVISIONS *continued*

meter allowance and COVID-19-related costs. In November 2021, Ofgem consulted on whether there was a case for short-term adjustments to the price cap to better reflect the costs, risks and uncertainties faced by suppliers, and in February 2022 implemented changes to the April 2022 cap period. In mid-December 2021 and early 2022, Ofgem issued consultations on how the current design and operation of the price cap might evolve from October 2022, given the increased volatility of energy prices, and temporary options ahead of October 2022 to mitigate the impact of a falling wholesale market.

In the second half of 2021, BEIS published details of a number of initiatives as part of its Retail Strategy (subtitled 'Helping consumers on their net zero journey'):

- Consulting on proposals to introduce opt-in switching and test opt-out switching from 2024 when the small supplier exemption for WHD and ECO is removed. We consider these proposals will not support the UK Government in its aims and have engaged with them to push back on introducing such switching schemes. In late December 2021, the UK Government stated that it had paused policy development in this area while it undertakes a wider refresh of its retail market strategy.
- Publishing a call for evidence on green tariffs through its 'Framework for Transparency of Carbon Content in Energy Products'.
- Publishing a call for evidence on the role of third-party intermediaries in the energy market.
- An expected call for evidence on Energy Consumer Funding, Fairness and Affordability covering elements around funding of net zero initiatives.

Alongside influencing government and Ofgem to ensure any changes act to support the needs of consumers and deliver net zero, we continue to innovate to deliver for our customers. In particular we are supporting our smart solutions ambitions and the delivery of net zero through a range of new digital engagements, giving customers greater personalised insight and advice on their energy consumption. With the new Smart Assistant App, we utilise customers' half-hourly smart meter consumption to disaggregate their usage into specific areas and devices within their home. This innovation will form part of a suite of smarter digital solutions where we will begin to incorporate solar generation, battery storage and EVs usage into our core digital app offering supported by a suite of 'Time of Use' tariffs to enhance the customer proposition.

The plan for our Smart Solutions department in 2022 and beyond is to increase our range of solutions as well as the volume of transactional and enduring customers. In the established areas of Smart Home and Smart Mobility we are developing potential new products and services around smart controls in the home and solutions for fleet operators moving to EVs.

Our new Smart Heat and Smart Solar departments commenced in 2021 with a three-year plan to drive the growth of these departments into a net profitable position. Building knowledge and experience over this time will help us create market share, a good reputation and cost savings which should position us well for the anticipated market growth in low-carbon technologies around 2025.

For 2022 and beyond, Energy Wholesale will continue to contribute towards the management of new, flexible assets being commissioned by Renewables and delivery of greener energy for Energy Retail. Our Energy Wholesale business continues to optimise the value of its gas storage facility and to manage the ongoing decommissioning and sale of the non-operational sites of former generation plants.

Flagship activities in the hydrogen sector will include the North of Scotland Hydrogen Project located in the Cromarty region, north of Inverness. This hydrogen production facility is likely to be built in several phases with Phase I being approximately 35 MW installed hydrogen production capacity, with subsequent phases expected to exceed 100 MW in total. The Cromarty and Highlands and Islands region is a strategic area for heavy industry, marine vessels and ports infrastructure, long-range public transport, and regional high energy users such as distilleries. Along with project developments spread across a portfolio, we have been actively participating in public sector tenders, private sector proposals and forming collaborations that will unlock multiple domestic opportunities in hydrogen supply contracts, as well as forming international relationships to benefit the Iberdrola Group.

GROUP PRINCIPAL RISKS AND UNCERTAINTIES

The delivery of our strategy requires the Group to conduct business in a manner benefitting customers through balancing cost and risk, while delivering shareholder value and protecting our performance and reputation by prudently managing the risks inherent in the business. Risk management within the Iberdrola Group, and so the Group, is based on foresight, independence, commitment to the Group's business objectives, and the engagement of senior management and the SPL Board. To maintain this strategic direction, the Group develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation.

During 2021, the governance structure was supported by risk policies approved by the Board of Directors of Iberdrola and adopted by the SPL Board. Our business risk assessment team and independent group risk management function supported the SPL Board in the execution of due diligence and risk management. In addition, ScottishPower is represented at the Iberdrola Risk Management Committee to ensure that the business risks are adequately assessed, monitored, mitigated and managed. Further details of ScottishPower's governance structure and risk management are provided in Note 11(e).

The principal risks and uncertainties of ScottishPower, and so the Group, that may impact current and future operational and financial performance and the management of these risks are described below.

REGULATORY AND POLITICAL RISKS

RISK	RESPONSE
<p>Material deterioration in the relatively stable and predictable UK regulatory and political environment, including any sudden changes of policy, or interventions outside established regulatory frameworks.</p> <p>Impacts Group</p>	<p>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.</p>
<p>Failure to deliver the Energy Network transmission and distribution outputs agreed with Ofgem in their respective price controls under the RIIO framework.</p> <p>Impacts Energy Networks</p>	<p>Mitigating actions include formulating detailed investment, resource, outage, contingency plans supported by an extensive procurement strategy and having a funding strategy in place to support delivery. Good communication and co-ordination of activities across the business is integral to success, complemented by a comprehensive monitoring regime that provides early warning of potential issues.</p>
<p>Introduction of untested competition models in Transmission will introduce delays to net zero.</p> <p>Impacts Energy Networks</p>	<p>Continued engagement with Ofgem and BEIS to discuss their proposals for introducing competition delivery models in Transmission.</p>
<p>DNOs have a distribution licence condition requiring them to compensate suppliers, following an application process and assessment by Ofgem, of their valid SoLR costs. The distribution licence contains a corresponding condition which facilitates seeking a derogation, from Ofgem, when claims exceed a materiality threshold, to increase tariffs to fund SoLR costs over the same period as they are paid to reduce cash flow pressure.</p> <p>Impacts Energy Networks</p>	<p>We have promptly applied for derogations, in accordance with the licence, to accommodate the financing of any SoLR claims. We continually engage positively and constructively with key industry stakeholders including Ofgem and various government departments.</p>
<p>Structural uncertainty resulting from unprecedented volatility in wholesale energy prices and regulatory market interventions prevents ScottishPower as an efficient supplier from financing their operations.</p> <p>Impacts Energy Retail and Wholesale</p>	<p>Positive and constructive engagement with key industry stakeholders including both Ofgem and various government departments regarding the requirement for suppliers to recover all costs incurred for winter 2021, and the need to make fundamental changes to the market to ensure efficient suppliers can recover costs in the future. Engagement includes responding to consultations, and proactively lobbying key stakeholders providing evidence on our costs and preferred regulatory amendments.</p>

Group Strategic Report for the year ended 31 December 2021

GROUP PRINCIPAL RISKS AND UNCERTAINTIES *continued*

REGULATORY AND POLITICAL RISKS *continued*

RISK	RESPONSE
<p>As a consequence of unprecedented high wholesale energy prices, the level of price cap is not set at an accurate rate to reflect the real cost of supplying and servicing the customer preventing a reasonable Energy Retail and Wholesale profit margin. There is further uncertainty over what other measures the UK Government may take to protect consumers and whether such measures will be funded through the price cap mechanism.</p> <p>Impacts Energy Retail and Wholesale</p>	<p>Ongoing support to and lobbying of the UK Government and regulatory bodies to demonstrate the need for accurate price cap calculations. Continue to offer fixed-term tariffs to customers on an economic basis to ensure customers continue to have options available particularly where they have a preference for the price security of a fixed-term tariff. Consideration has been given to onerous contracts due to current market conditions (refer to Note 3M).</p>
<p>The potential for non-compliance with the UK Government's mandate to complete the rollout of smart metering to Energy Retail customers in accordance with prescribed timescales.</p> <p>Impacts Energy Retail and Wholesale</p>	<p>Dedicated project team focused on ensuring adequate business processes and systems are developed. The team is responsible for ensuring the rollout capability is secured to enable deployment of meters. Energy Retail is an active participant in industry bodies responsible for developing smart metering.</p>

FINANCIAL RISKS

RISK	RESPONSE
<p>Impacts arising from market and regulatory reactions to events including COVID-19 and Brexit. These could include:</p> <ul style="list-style-type: none"> • increased volatility on the value of Sterling and foreign currencies; • movement in the market price of electricity and gas; • increased volatility and estimation uncertainty risks on factors affecting the pension scheme including asset values and key assumptions; and • in the longer term, there could be positive or negative changes in the UK economy. <p>In light of the outbreak of war in Ukraine during early 2022, the Group continues to assess the impact of this on commodity prices, foreign exchange rates and the global supply chain through our market risk management policies noted above and continued engagement with our suppliers.</p> <p>Impacts Group</p>	<p>In addition to monitoring ongoing developments, the Group has specific procedures in place to manage these key market risks. Further details are as follows:</p> <ul style="list-style-type: none"> • a treasury risk management policy is in place to hedge financial risks and is discussed further in Note 11; • the mitigation of energy market risk is discussed further in and consideration has been given to onerous contracts due to current market conditions (refer to Note 11(e)B) and Note 3M; • the pension scheme valuation risk is discussed further in Note 9; and • treasury risk, comprising liquidity, foreign currency and interest rate risks are discussed further in Note 11(e)C. <p>No material operational issues have arisen to date or are expected, however we will continue to monitor the situation and put mitigating actions in place if and when appropriate.</p>
<p>Increase in the level of overdue debt specifically in Energy Retail, impacting on the level of debt write-off required.</p> <p>Impacts Energy Retail and Wholesale</p>	<p>There are measures in place across the Energy Retail business to manage the key drivers of overdue debt, assess and implement remedial and preventative action, and to establish key metrics to monitor progress in reducing debt levels. Refer to Note 11(e) for further details.</p>

Group Strategic Report for the year ended 31 December 2021

GROUP PRINCIPAL RISKS AND UNCERTAINTIES *continued*

BUSINESS RISKS	
RISK	RESPONSE
<p>The risk that Iberdrola's and ScottishPower's strategy, investments or operations have an unacceptable impact on the environment and on national and international targets to tackle climate change, or that climate change has an unacceptable impact on our assets and/or operations.</p> <p>The impacts of climate change, include:</p> <ul style="list-style-type: none"> • the risks of transition (regulatory, market, technological, reputational changes, lawsuits, demand variations); • physical risks (increase in temperatures, rise in sea level, variation in the rainfall pattern, increase in extreme meteorological phenomena in frequency and intensity etc.); and • other risks such as the credit deterioration of counterparties (suppliers, banks, others), social phenomena (humanitarian crises, impacts on crops and fishing, refugee crises, epidemics) and greater competition for financial resources. <p>Impacts Group</p>	<p>ScottishPower's and Iberdrola's commitment to tackle climate change is reflected in our strategy which includes investment in renewable generation and our networks (to make them smarter and more resilient) and facilitating the uptake of EVs and clean heating solutions.</p> <p>ScottishPower's and Iberdrola's key measures to mitigate climate change risks include:</p> <ul style="list-style-type: none"> • a commitment to decarbonisation (detailed in the 'Environment' section of the Strategic Report); • the design and specifications of new equipment will consider more severe weather scenarios, and technological improvements will maximise economic value from the new projects; • incorporating climate change risk into all investment decisions; • embedding consideration of climate-related risks within our risk management framework (detailed in the 'Environment' section of the Strategic Report); • the Iberdrola Group's accumulated experience on the management of climate events as well as the digitalisation and modernisation of the networks; • insurance cover; • regulatory coverage in the Energy Networks division; and • solid financial capacity to be able to carry out investments in adaptation. <p>Overall, the opportunities deriving from the decarbonisation of the global economy (growth in renewables, investment in integrating smart grids, electrification of transport etc.) outweigh the risks.</p> <p>For further information, please refer to Iberdrola's latest Integrated Report and Sustainability Report. In addition, Iberdrola's Climate Change policy is available at www.Iberdrola.com.</p>
<p>Network operators are key facilitators to governments' net zero ambitions and the failure of Energy Networks to respond to customers' changing requirements through the low-carbon transition (for example EVs, distributed generation and storage) could result in a failure to meet these targets.</p> <p>Impacts Energy Networks</p>	<p>Mitigating actions influencing developments at industry forums, undertaking scenario modelling of the impact of low-carbon technologies, considering technical and commercial innovation projects, engaging with key stakeholders and owning a clear DSO vision.</p>
<p>Allocation risk in competitive CfD auction for onshore wind and solar, and offshore wind due to auction parameters (including capacity caps) set by the UK Government and bid strategy of competitors.</p> <p>Impacts Renewables</p>	<p>Following inclusion of onshore wind in the current CfD auction, we have continued engagement with the UK Government regarding auction frequency, timing and overall budget for future CfD rounds. The UK Government have confirmed that they will accelerate the deployment of low cost renewable generation, such as wind and solar through the CfD scheme and have committed to annual CfD auctions from March 2023.</p> <p>Offshore wind is not subject to a capacity cap in the current CfD auction (Allocation Round 4) and onshore wind and solar projects have been allocated 5 GW. We are working to optimise Renewables' portfolio of assets (onshore and offshore) to ensure high performing assets and competitive bids. EA3, EA1 North and EA2 are being developed as a hub to increase synergies and economies of scale. These additional efficiencies will increase the competitiveness of all three projects and likelihood of success in the CfD auctions.</p>
<p>Impact of competition on Energy Retail's market share and profitability.</p> <p>Impacts Energy Retail and Wholesale</p>	<p>Constantly managing our operating cost base to ensure that our profitability is protected and focusing on growth through organic and other acquisition opportunities.</p>

Group Strategic Report for the year ended 31 December 2021

GROUP PRINCIPAL RISKS AND UNCERTAINTIES *continued*

OPERATIONAL RISKS	
RISK	RESPONSE
<p>The impact of COVID-19 increases the risk of the Group not being able to meet its operational obligations to maintain the continuity of electricity supply, and obligations as a renewable generator and energy supplier.</p> <p>Key areas of risk include:</p> <ul style="list-style-type: none"> • supply chain disruption; and • mobility of labour, <p>which are also impacted by the Brexit deal.</p> <p>Impacts Group</p>	<p>Business continuity plans continued in the first part of 2021 through 'Gold Command'; making strategic decisions and determining priorities across the Group. This was underpinned by 'Silver Groups' specific to each business division at an operational level to ensure continuity of decisions and communications. This ensured consistency in prioritising key issues, and timely and efficient escalation of matters to the appropriate level of management with focus on those issues which might impact the continuity of supply and the other obligations of the Group.</p> <p>Procurement continues to support all business divisions to identify early shortages and gaps in the supply chain of products, equipment and labour.</p> <p>In the second half of 2021, there was a return to managing operational risks resulting from COVID-19 and Brexit through existing procedures, supplemented with the introduction of customs brokerage services for Energy Networks and Renewables. This allowed us to provide additional support to the supply chain following Brexit and the additional requirements associated with the importation of goods to the UK.</p>
<p>A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.</p> <p>Impacts Group</p>	<p>The Group has certified management systems in place to deliver activities as safely as possible. In addition, a ScottishPower Health and Safety function exists and provides specialist services and support for the businesses in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes, is established throughout ScottishPower, which aims to ensure not only continuing legal compliance but also to drive towards best practice in all levels of health and safety operations. Further details are provided in the 'Employees' section of the Strategic Report.</p>
<p>Breach in cyber security and unwanted infiltration of ScottishPower's IT infrastructure by internal and external parties impacting key infrastructure, networks or core systems.</p> <p>Impacts Group</p>	<p>Implementation of a cyber-risk policy which provides the framework for mitigation. Proactive approach to identifying where ScottishPower is vulnerable and addressing these points through technical solutions. Educating company employees and contractors as to how behaviour can reduce this risk. Embedding cyber security in all projects where appropriate.</p>
<p>Within Energy Networks, reduced security of supply due to potential asset failures alongside reduced generation capacity.</p> <p>Reduced security of supply has the potential to disrupt many of our customers, in both our own licence areas and beyond.</p> <p>Impacts Energy Networks</p>	<p>Risk-based asset investment programme in place, business continuity and emergency planning well established including Electricity System Restoration Strategic spares policy in place. Continue to engage with BEIS and Ofgem on GB resilience.</p>
<p>Failure of Renewables to deliver large and complex projects on time and within budget including the divestment of relevant offshore transmission assets as necessary. Refer to Note 30.</p> <p>This is also impacted by restrictions on the flow of goods and equipment and mobility of labour due to COVID-19 and Brexit.</p> <p>Impacts Renewables</p>	<p>ScottishPower and Iberdrola have a strong track record in delivering large scale engineering projects and have gained significant experience from developing numerous onshore and offshore wind farms and have experience in the divestment of transmission assets. Use of established and experienced suppliers and advisors along with robust financial management including appropriate foreign exchange hedging and having a funding strategy in place to support delivery.</p>

NON-FINANCIAL INFORMATION STATEMENT

Section 414CA(1) of the Companies Act 2006 requires the Group to present non-financial information as necessary for an understanding of our performance in the year, and our position at 31 December 2021. The table below demonstrates, by cross-reference, how this is sufficient to meet the non-financial reporting regulations within UK Company Law. A description of our business model can also be found on page 1.

The Group previously took the exemption from disclosing such information in line with section 414CA(7)(b) as its non-financial reporting was included in the reporting of Iberdrola. However, this exemption was removed following the enactment of The Accounts and Reports (Amendment) (EU Exit) Regulations 2019 hence this non-financial reporting statement is presented for the first time in these Accounts.

NON-FINANCIAL TOPIC	OUR POLICIES, PRINCIPAL RISKS KPIS RELATING TO EACH TOPIC	PAGE REFERENCE
Environmental matters	<ul style="list-style-type: none"> • Environmental strategy and policies • Environmental risks • Environmental KPis 	Refer to page 15 Refer to page 35 Refer to pages 16 and 17
The Group's employees	<ul style="list-style-type: none"> • Employee strategy and policies • Employee-related risks • Employee KPis 	Refer to page 6 Refer to page 36 Refer to pages 6 to 8
Social matters	<ul style="list-style-type: none"> • Community-focussed strategy and policies 	Refer to page 12
Human rights, anti-corruption and anti-bribery	<ul style="list-style-type: none"> • Human rights and anti-slavery policies • Compliance and whistleblowing policies 	Refer to page 21

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 Scottish Power UK plc to give a statement which describes how the directors have had regard to the matters set out in section 172(1) of the Companies Act 2006 when discharging their duty under that section.

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

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

The delivery of the strategy of the Group, of which the Company is the principal parent company, requires the Group to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting the Group's performance and reputation 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.

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

- **Customers:** details of how the business engages with its customers are explained in the 'Energy customers' sub-section of the Strategic Report, on page 9.
- **Employees:** details of how the business engages with its employees are set out in the 'Employees' sub-section of the Strategic Report, on page 6.
- **Communities and the environment:** details of how the business engages with communities and considers the environment are set out in the 'Community and environment' section of the Strategic Report, on page 12.
- **Suppliers and contractors:** details of how the business engages with its suppliers are set out in the 'Suppliers and contractors' sub-section of the Strategic Report, on page 11.
- **Government and regulators:** details of how the business engages with governments and regulators are set out in the 'Government and regulators' section of the Strategic Report, on page 11.

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 2021 in discharging the function of the board of Scottish Power UK plc ("the Board") were in conformance with their duty under section 172 of the Companies Act 2006.

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

BY ORDER OF THE BOARD



Marion S Venman

Secretary

22 April 2022

Directors' Report

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

Information contained within the Strategic Report

The directors have chosen to disclose information on the following, required by the Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 38:

- information on financial risk management and policies;
- information regarding future developments of the Group;
- information on charitable donations;
- information in relation to innovation activities; and
- information on employee regulations and policies.

In addition, energy and carbon reporting disclosures, as required by entities in scope by the 2018 Regulations are included in within the Strategic Report on pages 16 and 17.

Results and dividend

The net profit for the year attributable to the equity holders of the parent amounted to £54.5 million (2020 £532.5 million). A dividend of £nil was paid during the year (2020 £1,595.9 million). Refer to Note 29 for further details.

Taxation

The Iberdrola Board has explicitly acknowledged its responsibility for tax policy and strategy in all of the companies that it controls. The Iberdrola Board has approved a Corporate Tax Policy which forms part of the Corporate Governance System and sets out that board's commitment to responsible tax practices throughout the Iberdrola Group. The Corporate Tax Policy was initially approved by the Iberdrola Board in 2010 and is regularly updated.

The Group applies the Corporate Tax Policy as approved by the SPL Board and the ScottishPower Tax Strategy as approved by the SPL Board's Audit and Compliance Committee which accords with the policy and, as required by UK law, is published on www.scottishpower.com ("the Corporate website") under 'About Us'/'Company Reporting'.

We are a responsible tax payer and seek to be open, honest and transparent in dealings with the tax authorities and to comply with both the letter and the spirit of tax laws set by the UK Government. We remit taxes due on a timely basis, and have a relationship with HMRC based on mutual trust and cooperation. Payment of taxes is our principal contribution to sustaining public expenditure and one of our contributions to society.

Further details on taxes and other government obligations can be found in the Strategic Report on page 24.

Political donations and expenditure

We are a politically neutral organisation. It is subject to the Political Parties, Elections and Referendums Act 2000, which defines political donations and expenditure in wider terms than would be commonly understood by these phrases. During the year ended 31 December 2021, the Group paid a total of £14,000 for the sponsorship of conferences and events – activities that may be regarded as falling within the terms of the aforementioned Act.

The recipients of these payments were:

- The Conservative Party £7,000 (2020 nil)
- The Labour Party £7,000 (2020 nil)

The above amounts were for sponsored receptions at the 2021 conferences of the noted parties. These occasions provide an important opportunity for the Group to represent its views on a non-partisan basis to politicians from across the political spectrum and the receptions were open to everyone attending the conference, including party members, non-governmental organisations, the media and trade unions.

In previous years, we have sponsored receptions and events at other party conferences, however due to COVID-19, other parties remained using virtual online platforms and we did not attend in-person.

The payments do not indicate support for any particular party.

CORPORATE GOVERNANCE

Statement regarding the corporate governance arrangements of the Group

As required by the Companies (Miscellaneous) Reporting Regulations 2018, the directors of the Company have set out 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 wholly owned by Iberdrola, S.A., does not apply a corporate governance code on the basis that the SPL Board, in accordance with its terms of reference and the Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation ("the Group Governance Framework"), has adopted its own rules and principles which are based on widely recognised good governance recommendations. Those rules and principles that applied to the Company and its group during 2021 are set out as follows:

The Board's terms of reference and the Group Governance Framework, are published on the Corporate website under 'Corporate Governance'/'Governance and Sustainability System'/'Corporate Governance'.

Directors' Report

CORPORATE GOVERNANCE *continued*

Corporate governance system

The Company is governed by the Board, which consists of directors 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 which are published on the Corporate website under 'Corporate Governance'/'Governance and Sustainability System'/'By-Laws'.

In discharging its responsibilities and in the exercise of its decision-making powers, and in accordance with the Company's Articles of Association and the Board's terms of reference, the Board has, in accordance with the Group Governance Framework, defined and approved the ScottishPower corporate governance system (also known as the ScottishPower Governance and Sustainability System) which applies to the Company and its group. The ScottishPower 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 the Iberdrola Group, which the Board, having reviewed the same, has expressly adopted as part of the ScottishPower Governance and Sustainability System, as well as the specific rules and regulations required to implement or supplement it.

In addition, the Board routinely considers and takes into account those parts of the corporate governance system of the Iberdrola Group (of which the Company is part) which may have direct or indirect application to ScottishPower. Furthermore, the Board actively considers and adopts specific policies and rules which apply to ScottishPower.

The ScottishPower Governance and Sustainability System is published online on the Corporate website under 'Corporate Governance'/'Governance and Sustainability System'.

Board composition

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

Nicola Connelly	(appointed 20 October 2021)
Marion S. Venman	
David Wark	(resigned 31 July 2021)
Donald Wright	

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

There is no separate appointments committee within ScottishPower. Instead, appointment matters relevant to ScottishPower and the Company are dealt with 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, and ScottishPower, is set out in the 'Who we are' section of the Strategic Report. During 2021, the Board has taken into account the purpose and values of the Iberdrola Group and the Code of Ethics which are published on the Corporate website under 'Corporate Governance'/'Governance and Sustainability System'/'Purpose'. These documents define and promote the purpose, values and culture of the Company and ScottishPower.

Director responsibilities

The directors are fully aware of their duties under the Companies Act 2006, including as set out in section 172 of the same. One of the primary responsibilities of the Board is to supervise the provision of common corporate services to the three Head of Business Sub-holding companies of the Group, which the Company directly and wholly owns, in accordance at all times with the provisions of all applicable legislation and regulations.

The Head of Business Sub-holding companies have their own boards of directors which have the necessary autonomy to carry out the day-to-day management and effective administration of their respective divisions, as well as responsibility for their ordinary control.

Further information on the administrative, management and supervisory bodies of the boards of the three Head of Business Sub-holding companies are described in the section below.

Opportunity and risk

The delivery of ScottishPower's strategy requires the Group to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting our performance and reputation by prudently managing the risk inherent in the business.

To maintain this strategic direction, we develop and implement 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 the Corporate website under 'Corporate Governance'/'Governance and Sustainability System'/'Corporate Governance'.

During 2021, the governance structure was supported by the risk policies of ScottishPower. Our business risk assessment team and independent Group risk management function supported the SPL Board in the execution of due diligence and risk management, as described in the 'Group 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 ScottishPower.

There is no separate Remuneration Committee within ScottishPower. Instead, remuneration matters relevant to ScottishPower and the Company are dealt with 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.

Directors' Report

CORPORATE GOVERNANCE *continued*

Stakeholders

The Board fully recognises that effective and meaningful engagement with stakeholders is key to promoting the success of the Company. The details of our key stakeholders, why they are important to the Company, and how we engage with our stakeholders are an integral part of our strategic goals which are described in the 'Our strategy' section in the Strategic Report.

ScottishPower identifies and interacts with its stakeholders via its three business divisions. Please refer to the Energy Networks, Renewables, and Energy Retail and Wholesale sections of the Strategic Report for further information on these business divisions' respective engagement with their specific stakeholders. In particular, refer to the 'Engaging with stakeholders' section of the Strategic Report which sets out the Board's oversight of the consideration given to the Company's, and its group's, engagement with key stakeholders.

Administrative, management and supervisory bodies

SPL Board

The SPL Board comprised the Chairman, Jose Ignacio Sánchez Galán, and eight other directors as at 31 December 2021. Jose Ignacio Sánchez Galán is also the Chairman and CEO of Iberdrola.

The directors of the SPL Board were:

José Ignacio Sánchez Galán	Chairman, non-independent, non-executive director
Lord Kerr of Kinlochard GCMG	Vice-chairman, independent, non-executive director
Keith Anderson	CEO
Wendy Jacqueline Barnes	Independent, non-executive director
Iñigo Fernández de Mesa Vargas	Independent, non-executive director
Suzanne Fox	Independent, non-executive director (resigned 12 December 2021)
Professor Sir James McDonald	Independent, non-executive director
Daniel Alcaín López	Non-independent, non-executive director
Gerardo Codes Calatrava	Non-independent, non-executive director
José Sainz Armada	Non-independent, non-executive director

Lord Kerr of Kinlochard GCMG resigned on 21 March 2022 and was replaced as Vice Chairman by Professor Sir James McDonald. Professor Dame Lesley Anne Glover and Claire O'Neill were appointed as independent, non-executive directors on 21 March 2022.

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

José Ignacio Sánchez Galán	Attended all meetings
Lord Kerr of Kinlochard GCMG	Attended all meetings
Keith Anderson	Attended all meetings
Wendy Jacqueline Barnes	Attended all meetings
Iñigo Fernández de Mesa Vargas	Attended all meetings
Suzanne Fox	Attended all meetings
Professor Sir James McDonald	Attended all meetings
Daniel Alcaín López	Attended all meetings
Gerardo Codes Calatrava	Attended all meetings
José Sainz Armada	Attended all meetings

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 the Company 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 reappointment of the auditor and the associated terms of engagement

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

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:

Professor Sir James McDonald, Chairman (external, independent director)	Attended all meetings
Iñigo Fernández de Mesa Vargas (external, independent director)	Attended all meetings
Daniel Alcaín López (internal, non-independent director)	Attended all meetings

Professor Sir James McDonald resigned on 20 March 2022 and was replaced as Chairman by Iñigo Fernández de Mesa Vargas. Wendy Barnes and Claire O'Neill were both appointed as independent, non-executive members on 21 March 2022.

In addition to the attendance set out above, the ScottishPower Control and Administration Director, Head of Internal Audit, and the Compliance 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.

Directors' Report

CORPORATE GOVERNANCE *continued*

Matters considered by the SP ACC during 2021

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

Significant financial statement reporting issues

In preparing the Annual Report and Accounts, there are a number of areas requiring management to apply judgement or a high degree of estimation. After discussion with management and the external auditor, the significant areas of judgement reviewed and considered by the SP ACC in relation to the 2021 Annual Report and Accounts, and how these were addressed, are set out in the table below.

SIGNIFICANT FINANCIAL JUDGEMENT FOR THE YEAR ENDED 31 DECEMBER 2021	HOW THE SP ACC ADDRESSED THESE SIGNIFICANT FINANCIAL JUDGEMENTS
<p>Accounting for group and parent company retirement benefit obligations</p> <p>The assumptions in relation to the cost to the Group of providing future post-retirement benefits are set after consultation with qualified actuaries and can have a material impact on the financial position of the Group. The costs, assets and liabilities of the Group's defined benefit schemes are regularly reviewed. Advice is taken from independent actuaries and other specialists within the Iberdrola Group on the IAS 19 valuation of the schemes including the complex assets. Further details are provided in Note 3K on page 68 and Note 9 on page 81.</p>	<p>The SP ACC were updated on the combined schemes' valuation particularly in relation to the schemes' key assumptions and complexity of level 3 asset valuations. Following this review the SP ACC supported this judgement. The SP ACC also considered the findings of the external auditor.</p>
<p>Recognition of Energy Retail accrued ('unbilled') revenue</p> <p>Revenue from energy sales to retail customers includes estimates of the value of electricity and gas supplied between the most recent meter reading and the period end. This is based on estimates and assumptions in relation to the consumption and its valuation. Further details are provided in Note 3A(d) on pages 62 and 63.</p>	<p>The SP ACC reviewed the estimation and valuation processes and assumptions applied in determining the recognition of accrued ('unbilled') revenue and were updated on the impact on the financial statements. This was with particular reference to domestic electricity and gas and the impact of COVID-19 with this risk reducing year-on-year. Following this review, the SP ACC supported this judgement. The SP ACC also considered the findings of the external auditor.</p>
<p>Expected credit loss ("ECL") on Energy Retail receivables</p> <p>The recoverability of the Group's billed energy receivables in Energy Retail business function is a key judgement area given the risk of customer default. The level of the Group's aged debt is monitored with the allowance for ECL being based on assumptions derived from estimated future cash flows, the ageing profile of the debt, prior experience and an assessment of the current economic environment. Further details are provided in Note 3H1.2(d) on page 66 and Note 11(e)A3 on page 90.</p>	<p>The SP ACC considered the assumptions impacting the allowance for ECL and related charges and the processes for debt collection and calculating the ECL. In light of the current environment there was a particular focus on energy market disruption and COVID-19 and the impact this had and will have in the future in relation to the recoverability of retail receivables. Following this review, the SP ACC supported this judgement. The SP ACC also considered the findings of the external auditor in this area.</p>

Directors' Report

CORPORATE GOVERNANCE *continued*

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 the Group 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 the Group 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 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.

Boards of the Head of Business Sub-holding companies

The boards of directors of Scottish Power Energy Networks Holdings Limited ("the SPENH Board"), ScottishPower Renewable Energy Limited ("the SPREL Board") and Scottish Power Retail Holdings Limited ("the SPRH Board") are responsible for the effective management of the Energy Networks, Renewables and Energy Retail and Wholesale business divisions respectively, in accordance with the strategy of ScottishPower. These boards meet regularly and review strategy, operational performance and risk issues on behalf of the respective businesses.

SPENH Board

The SPENH Board comprised the Chair, Elena León Muñoz, and five other directors as at 31 December 2021. The directors, and their attendance at SPENH Board meetings held during the period under review (seven meetings), are shown below:

Elena León Muñoz (Chair, non-independent, non-executive director)	Attended three meetings (appointed 26 May 2021 and appointed as Chair on 2 November 2021)
Armando Martínez Martínez (Chairman, non-independent, non-executive director)	Attended six meetings (resigned as director and Chairman on 1 November 2021)
Frank Mitchell (CEO)	Attended all meetings
Professor Dame Lesley Anne Glover (independent, non-executive director)	Attended all meetings
Alison McGregor (independent, non-executive director)	Attended all meetings
Mónica Grau Domene (non-independent, non-executive director)	Attended all meetings
José Ignacio Sánchez-Galán García-Tabernero (non-independent, non-executive director)	Attended all meetings

Suzanne Fox was appointed on 1 February 2022 as an independent, non-executive director. Professor Dame Lesley Anne Glover resigned on 20 March 2022. The terms of reference of the SPENH Board are published on www.spenergynetworks.co.uk under 'Corporate Governance'.

SPENH Audit and Compliance Committee ("SPENH ACC")

The SPENH ACC undertakes the role and function of the SP ACC as they relate to the regulated Energy Networks business division. The relationship between the SP ACC and the SPENH ACC is governed in accordance with their respective terms of reference. The SPENH ACC's terms of reference are published on www.spenergynetworks.co.uk under 'Corporate Governance'.

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

Alison McGregor, Chair (external, independent director)	Attended all meetings
Professor Dame Lesley Anne Glover (external, independent director)	Attended all meetings
Mónica Grau Domene (internal, non-independent director)	Attended all meetings

Professor Dame Lesley Anne Glover resigned on 20 March 2022. Suzanne Fox was appointed as an independent, non-executive member on 21 March 2022.

SPREL Board

The SPREL Board comprised the Chairman, Xabier Viteri Solaun, and five other directors as at 31 December 2021. The directors and their attendance at SPREL board meetings held during the period under review (five meetings) are shown below:

Xabier Viteri Solaun (Chairman, non-independent, non-executive director)	Attended all meetings
Lindsay McQuade CEO	Attended all meetings
Lena Wilson (independent, non-executive director)	Attended two meetings (resigned 30 April 2021)
Jonathan Cole (non-independent, executive director)	Attended three meetings (resigned 4 October 2021)
Nicola Connelly (non-independent, non-executive director)	Attended two meetings (appointed 21 September 2021)
Charles Langan (non-independent, non-executive director)	Attended all meetings
Álvaro Martínez Palacio (non-independent, non-executive director)	Attended one meeting (appointed 4 November 2021)
David Mesonero Molina (non-independent, non-executive director)	Attended three meetings (resigned 12 July 2021)
Marion Shepherd Venman (non-independent, non-executive director)	Attended all meetings
David Wark (non-independent, non-executive director)	Attended three meetings (resigned 31 July 2021)

The terms of reference of the SPREL Board are published on www.scottishpowerrenewables.com under 'Corporate Governance'.

Directors' Report

CORPORATE GOVERNANCE *continued*

SPRH Board

The SPRH Board comprised the Chairman, Aitor Moso Raigoso, and four other directors as at 31 December 2021. The directors and their attendance at SPRH Board meetings held during the period under review (five meetings) are shown below:

Aitor Moso Raigoso (Chairman, non-independent, non-executive director)	Attended all meetings
Andrew Ward CEO	Attended all meetings
Nicola Connelly (non-independent, non-executive director)	Attended two meetings (appointed 23 September 2021)
David Gracia Fabre (non-independent, non-executive director)	Attended all meetings
Marion Shepherd Venman (non-independent, non-executive director)	Attended all meetings
David Wark (non-independent, non-executive director)	Attended two meetings (resigned 31 July 2021)

The terms of reference of 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 indemnity provision is in force for the benefit of all the directors of the Company and of associated companies and has been in force during the financial year.

Statement of directors' responsibilities in respect of the Annual Report and Accounts

The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with international accounting standards as adopted by the UK as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 December 2021 ("UK-adopted international accounting standards") and applicable law, and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 Group and parent company and of the Group's profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group's and parent 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 Group or the parent 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that their 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 Group and 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 included on the Company's 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 were re-appointed as the auditor of the Company for the period ending 31 December 2022.

BY ORDER OF THE BOARD



Marion S Venman

Secretary

22 April 2022

1. Our opinion is unmodified

We have audited the financial statements of Scottish Power UK plc ("the Company") for the year ended 31 December 2021 which comprise the consolidated and company statements of financial position, consolidated income statement, consolidated and company statements of comprehensive income, consolidated and company statements of changes in equity, consolidated and company statements of cash flows and the related notes, including the accounting policies in note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the ScottishPower Audit and Compliance Committee ("SP ACC").

We were first appointed as auditor by the directors on 11 January 2018. The period of total uninterrupted engagement is for the five financial years ended 31 December 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality:	£31 m (2020: £30m)	
Group financial statements as a whole	5.6% (2020: 3.6%) of normalised Group profit before tax from continuing operations	
Coverage	99% (2020: 100%) of Group profit before tax from continuing operations	
Key audit matters		vs 2020
Recurring risks	Valuation of IAS 19 provision for retirement benefit obligations	◀▶
	Valuation of certain unquoted assets in the Group's defined benefit pension schemes	▼
	Carrying value of Retail accrued ('unbilled') revenue	▼
	Recoverability of Retail billed trade receivables	▲

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC *continued*

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2020), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
<p>Relevant to Group and Parent company</p> <p>Valuation of IAS 19 provision for retirement benefit obligations</p> <p>(Liability of £4,989.0 million; 2020: Liability of £5,616.2 million)</p> <p>Refer to page 42 (SP ACC statement), page 68 (accounting policy) and pages 81-86 (financial disclosures).</p>	<p>Subjective valuation</p> <p>Relatively small changes in certain key actuarial assumptions underlying the valuation of the Group's defined benefit schemes, including the discount rate, inflation rate and mortality/life expectancy of members, could materially impact the valuation of the liability.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the retirement benefit obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Methodology choice: Assessing, with the support of our internal actuarial specialists, the methodology applied by the Group to derive the individual actuarial assumptions; — Benchmarking assumptions: Challenging, with the support of our internal actuarial specialists and considering whether there were any potential effects of COVID-19, the key assumptions applied, being the discount rate, RPI inflation and mortality/life expectancy against our independently derived assumptions for each pension scheme; — Assessing valuers' credentials: Evaluating the competence, capability and objectivity of the Group's external actuary; — Assessing transparency: Considering the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions. <p>We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our results</p> <ul style="list-style-type: none"> — We found the valuation of the IAS 19 provision for retirement benefit obligations to be acceptable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC *continued*

2. Key audit matters: our assessment of risks of material misstatement *continued*

Relevant to Group and Parent company

Valuation of certain unquoted assets in the Group's defined benefit pension schemes

(£1,053.9 million; 2020: £856.4 million)

Refer to page 42 (SP ACC statement), page 68 (accounting policy) and pages 81-86 (financial disclosures).

Subjective estimate

Certain of the combined defined benefit pension schemes' unquoted plan assets are more complex in nature, as a result of quoted prices being unavailable, such as: private equity funds, private debt funds, infrastructure assets and longevity insurance contracts ('longevity swaps').

The effect of these matters is that, as part of our risk assessment, we determined that the asset valuations of certain unquoted investments have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount.

Our procedures included:

- **Assessing valuers' credentials:** Evaluating the competence, capability and objectivity of the Group's external experts engaged to independently value the complex scheme assets;
- **Our valuation expertise:** Engaging our own actuarial specialists to critically assess the valuation of the Group's longevity swaps by comparing against our independently derived valuation range;
- **Assessing valuation methodology:** Challenging the valuation methodology used by the Group's external experts engaged to independently value the complex scheme assets, including assessing if the methodology is in compliance with the relevant accounting standards and completing a retrospective review where the valuation was not completed as at the year-end;
- **Tests of detail:** Obtaining direct confirmations from third parties to support the valuation of a sample of relevant unquoted investments.

We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our results

- We found the valuation of the unquoted assets in the Group's defined benefit pension schemes to be acceptable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC *continued*

2. Key audit matters: our assessment of risks of material misstatement *continued*

The risk		
<p>Relevant to Group only</p> <p>Carrying value of Retail accrued ('unbilled') revenue</p> <p>(Gross carrying amount of £655.6 million; 2020: £563.9 million)</p> <p>(Provision: £30.2 million provision relating to energy volumes which have still to reach final settlement; 2020: £24.3 million)</p> <p>Refer to page 42 (SP ACC statement), pages 62 and 63 (accounting policy) and page 90 (financial disclosures).</p>	<p>Subjective estimate</p> <p>The recognition of accrued ('unbilled') revenue is subject to a degree of estimation uncertainty as a result of the industry in which the Retail business operates. If actual meter readings are not available at the year-end, energy supplied to end customers is estimated based on standard external industry settlement data or internal information where settlement data is not yet available. The degree of estimation uncertainty diminishes over time as more accurate data becomes available and customers are billed. However, judgement is inherent in the valuation of accrued ('unbilled') revenue as at the year-end. Estimation uncertainty is reduced in the current year as a result of the reduction in the impact of COVID-19 on the availability of meter readings and consumption risk due to rising energy costs and household bills, compared with 2020.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of Retail accrued ('unbilled') revenue has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (Note 3A(d)) disclose the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Control design, observation and operation: Testing the design, implementation and operating effectiveness of the Group's internal controls over: the algorithmic logic of the internal billing systems used to derive estimates of customer consumption, changes to pricing data, the validation of meter readings, the identification of billing exceptions and interfaces with the General Ledger; — Our sector experience: Evaluating the Group's key assumptions, in particular those relating to units of energy supplied, price per unit and the provision in relation to energy volumes which are yet to reach final settlement by comparing the Group's assumptions to external data, actual billing data and our own expectations based on our knowledge of the entity and experience of the industry in which it operates; — Historical comparisons: Evaluating the effectiveness of the Group's prior period estimation process by comparing the historical estimate to the actual outcome; Assessing the consistency of the Group's assumptions to those adopted in prior periods; — Data comparisons: Using our internal Data and Analytics specialists to perform a comparison of volume data for the financial year to standard settlement data obtained directly from the external industry bodies; — Tests of detail: Comparing the Group's estimate as at the year-end to standard external industry settlement data and billing information available post year-end; — Tests of detail: Agreeing a sample of invoices issued to industrial and commercial customers to cash receipts; — Independent Reperformance: Independently setting an expectation as to the likely total Retail revenue (including unbilled revenue) in the year and comparing it to the actual amount recognised in the income statement; — Assessing transparency: Assessing the adequacy of the Group's disclosures about the degree of estimation uncertainty associated with the valuation of accrued ('unbilled') revenue. <p>Our results</p> <ul style="list-style-type: none"> — We found the carrying value of Retail accrued ('unbilled') revenue to be acceptable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC *continued*

2. Key audit matters: our assessment of risks of material misstatement *continued*

The risk		
<p>Relevant to Group only</p> <p>Recoverability of Retail billed trade receivables</p> <p>(Gross carrying amount: £783.1 million; 2020: £721.9 million)</p> <p>(Loss allowance: £202.6 million; 2020: £186.2 million)</p> <p>Refer to page 42 (SP ACC statement), pages 62 and 63 (accounting policy) and page 90 (financial disclosures).</p>	<p>Subjective estimate</p> <p>The Retail business carries significant exposure over the recoverability of billed customer receivables. This risk is heightened in the current year due to the continuing impact of the COVID-19 pandemic which increases the risk of default by primarily domestic customers.</p> <p>An allowance for expected credit loss is recognised based on an estimate of future cash flows. In arriving at this estimate, the Group considers the current ageing profile of debt, historical collections experience by payment plan, external credit ratings for industrial and commercial customers and an assessment of current economic conditions.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of Retail billed receivables has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (Note 11(e)A3) disclose the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Control design, observation and operation: Testing the design, implementation and operating effectiveness of the Group's internal controls over the relevant data elements used in the estimation of the loss allowance and the process for reconciling cash receipts and the General Ledger; — Our sector experience: Benchmarking methodology, including how the current ageing profile of debt, historical collections experience by payment plan, external credit ratings for industrial and commercial customers and the assessment of current economic conditions are incorporated, to industry practice and our expectations based on our knowledge of the entity and experience of the industry in which it operates, including our experience and observations of the effects of COVID-19 and rising energy prices on similar businesses and macro economic factors; — Historical comparisons: Evaluating the effectiveness of the Group's estimation process by comparing original estimates to the actual outcome over several periods; — Personnel interviews: Performing specific inquiries with financial and non-financial personnel to assess whether the Group's judgements and estimates reflect operational risk; — Reperformance: Assessing whether the loss allowance, recognised as at the year-end, was accurately and consistently calculated in accordance with the Group's methodology; — Tests of detail: Inquiring and inspecting, for a sample of trade receivables, the level of cash collected for industrial and commercial customers, subsequent to the year-end; — Assessing transparency: Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the allowance for expected credit loss. <p>Our results</p> <ul style="list-style-type: none"> — We found the carrying amount for Retail billed trade receivables to be acceptable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC *continued*

3. Our application of Group materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £31 million (2020: £30 million), determined with reference to a benchmark of Group profit before tax, normalised by averaging over the last five years due to fluctuations in the business cycle, of £672.7 million (2020: £659.5 million) of which it represents 4.6% (2020: 4.5%).

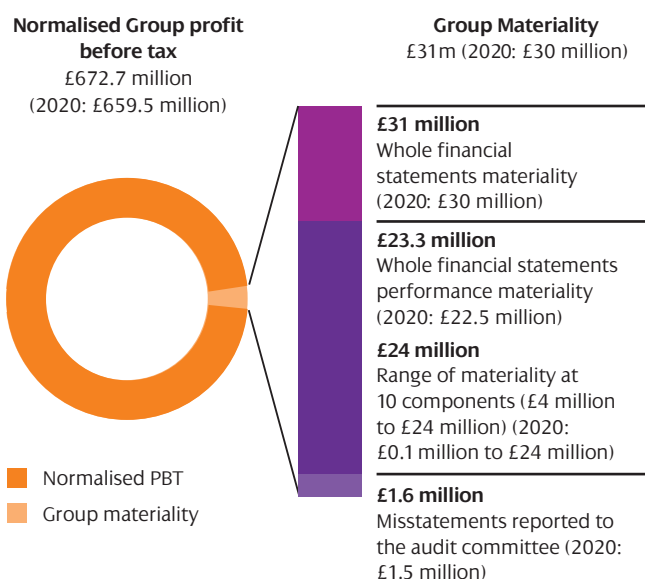
Materiality for the parent company financial statements was set with reference to a benchmark of net assets but capped at £30.5 million (2020: £29.5 million) due to the level of Group materiality.

Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £23.3 million (2020: £22.5 million) for the group and £22.9 million (2020: £22.1 million) for the parent company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the SP ACC any corrected or uncorrected identified misstatements exceeding £1.6 million (2020: £1.5 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

9 (2020: All) of the Group's components were subject to full scope audit procedures performed in the UK by the Group audit team and 1 component was subject to audit of account balance (PP&E), these components represented 100% (2020: 100%) of Group revenue, 99% (2020: 100%) of profit before tax and 99% (2020: 100%) of total assets.

We were able to rely upon the Group's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC *continued*

4. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and 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 their ability to continue as a going concern from the date of approval of the financial statements through to 31 December 2023 ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group's and Company's available financial resources over this period was the impact of increased wholesale energy prices and the impact of an increase in customer debt within the Retail business due to slower cash collections.

We also considered less predictable but realistic second order impacts, such as the impact of the Ofgem price cap on default tariffs on the Retail business, the adverse impact of milder weather and the further erosion of the Retail market share.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the directors' sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures also included critically assessing assumptions in the directors' downside scenarios relevant to liquidity, in particular increased capital spend in the Renewables sector, reductions in the Renewables price curve, decreases in customer numbers and demand in Retail and reductions in the collectability of Retail debt.

We considered whether the going concern disclosure in note 2A.2 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and dependencies.

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;
- 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 Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 2A.2 to be acceptable.

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 Group or the Company will continue in operation.

5. 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, the internal audit function, the group's legal function and the compliance function and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit and Compliance Committee and Group Disclosure Committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to component audit teams of relevant fraud risks identified at the Group level and a request to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets, recent revisions to guidance and our overall knowledge of the control environment, we performed procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the recognition of accrued revenue and defined benefit pension assumptions. On this audit we do not believe there is a fraud risk related to revenue recognition because, with the exception of the accrued revenue, the Group's revenues consist entirely of routine, non-complex transactions which are subject to systematic processing and do not require significant judgements.

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.
- Assessing significant accounting estimates for bias. To address the risk in the estimation of unbilled revenue, we involved analytical specialists to assist in our recalculation of total revenue and we compared the post year end industry settlements data to energy volumes used for the year end estimate in order to identify any unusual differences.

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, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC *continued*

5. Fraud and breaches of laws and regulations –ability to detect (continued)

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

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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

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

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pensions 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 Group 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 or the loss of the Group's licences to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, environmental protection legislation, Ofgem regulations and distance selling regulations, recognising the regulated nature of the Group's activities. Auditing standards limit the required audit procedures 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.

For the matter related to East Anglia One Limited (which the group owns 60% of) continuing to generate and transmit electricity following the expirations of the exemption from the legislative requirement to hold a transmission licence under the Electricity Act 1989 having expired on 13 December 2021, discussed on page 108, we assessed disclosures against our understanding from relevant correspondence and minutes from meetings with relevant parties and concluded that these are appropriate. For the matter relating to the Ofgem investigations into the Group's compliance with its smart meter installation obligations discussed on page 30, we assessed disclosures against our understanding from relevant correspondence and concluded that these are appropriate.

We discussed with the Audit and Compliance Committee other matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

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 this 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.

6. We have nothing to report on the strategic report and the 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 those reports;
- in our opinion the information given in the strategic report and the directors' report 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.

7. We have nothing to report on the other 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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 44, the directors are responsible for: the preparation of the financial statements including 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 Group and parent 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 Group or the parent 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.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC *continued*

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Andrew Williamson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants

319 St. Vincent Street
Glasgow
G2 5AS
22 April 2022

SCOTTISH POWER UK PLC
 CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 at 31 December 2021

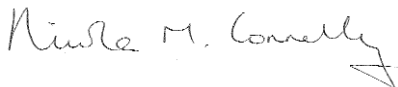
	Notes	2021 £m	2020 Restated* £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		588.8	599.3
Goodwill	6	364.6	364.6
Other intangible assets	6	224.2	234.7
Property, plant and equipment		15,027.1	14,719.9
Property, plant and equipment in use	7	13,876.8	13,615.4
Property, plant and equipment in the course of construction	7	1,150.3	1,104.5
Right-of-use assets	8	455.3	452.3
Pensions asset	9	291.7	–
Non-current financial assets		240.5	85.6
Investments in joint ventures	10	7.7	7.7
Other investments	11	0.2	0.2
Derivative financial instruments	11	232.6	77.7
Non-current trade and other receivables	12	29.7	19.7
TOTAL NON-CURRENT ASSETS		16,633.1	15,876.8
CURRENT ASSETS			
Inventories	13	954.8	949.7
Current trade and other receivables	12	2,558.4	1,900.4
Current tax asset		67.7	–
Current financial assets		1,290.2	194.8
Derivative financial instruments	11	1,290.2	194.8
Cash	11	182.9	140.1
TOTAL CURRENT ASSETS		5,054.0	3,185.0
TOTAL ASSETS		21,687.1	19,061.8

SCOTTISH POWER UK PLC
 CONSOLIDATED STATEMENT OF FINANCIAL POSITION *continued*
 at 31 December 2021

	Notes	2021 £m	2020 Restated* £m
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent	14	7,891.9	6,742.2
Share capital	14, 15	3,551.7	3,551.7
Share premium	14	398.2	398.2
Hedge reserve	14	793.3	157.7
Other reserves	14	420.5	420.5
Retained earnings	14	2,728.2	2,214.1
Of non-controlling interests	16	1,081.7	1,091.0
TOTAL EQUITY		8,973.6	7,833.2
NON-CURRENT LIABILITIES			
Deferred income	17	1,397.7	1,331.5
Non-current provisions		548.3	992.7
Provisions for retirement benefit obligations	9	99.5	558.6
Other provisions	18	448.8	434.1
Bank borrowings and other non-current financial liabilities		4,773.5	3,320.9
Loans and other borrowings	19	4,561.0	3,320.9
Derivative financial instruments	11	212.5	–
Non-current lease liabilities	8	477.5	471.6
Non-current trade and other payables	20	8.8	5.2
Non-current income tax liabilities		6.2	9.0
Deferred tax liabilities	21	1,650.0	932.0
TOTAL NON-CURRENT LIABILITIES		8,862.0	7,062.9
CURRENT LIABILITIES			
Current provisions		350.2	302.0
Other provisions	18	350.2	302.0
Bank borrowings and other current financial liabilities		1,563.7	2,617.0
Current financial liabilities	11	34.8	43.5
Loans and other borrowings	19	1,021.8	2,534.9
Derivative financial instruments	11	507.1	38.6
Current lease liabilities	8	33.2	26.1
Current trade and other payables	20	1,904.4	1,211.5
Current income tax liabilities		–	9.1
TOTAL CURRENT LIABILITIES		3,851.5	4,165.7
TOTAL LIABILITIES		12,713.5	11,228.6
TOTAL EQUITY AND LIABILITIES		21,687.1	19,061.8

* Comparative figures have been restated (refer to Note 2).

Authorised for issue by the Board and signed on its behalf on 22 April 2022.



Nicola Connelly
 Director

SCOTTISH POWER UK PLC
CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2021

	Notes	2021 £m	2020 Restated* £m
Revenue	22	5,349.7	5,164.0
Procurements		(2,842.2)	(2,418.5)
GROSS MARGIN		2,507.5	2,745.5
Staff costs	23	(356.4)	(390.3)
Capitalised staff costs	23	164.6	151.5
External services		(576.1)	(520.2)
Other operating results		83.4	58.8
Net operating costs		(684.5)	(700.2)
Taxes other than income tax	24	(231.8)	(220.8)
GROSS OPERATING PROFIT		1,591.2	1,824.5
Net expected credit losses on trade and other receivables		(108.0)	(120.4)
Depreciation and amortisation charge, allowances and provisions	25	(762.8)	(712.3)
OPERATING PROFIT		720.4	991.8
Result of companies accounted for using the equity method	10	–	1.4
Finance income	26	14.8	41.5
Finance costs	27	(184.6)	(192.7)
PROFIT BEFORE TAX		550.6	842.0
Income tax	28	(448.6)	(256.7)
NET PROFIT FOR THE YEAR		102.0	585.3
Non-controlling interests	16	(47.5)	(52.8)
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT		54.5	532.5

* Comparative figures have been restated (refer to Note 2).

All results relate to continuing operations.

SCOTTISH POWER UK
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2021

	Note	2021 £m	2020 £m
NET PROFIT FOR THE YEAR		102.0	585.3
OTHER COMPREHENSIVE INCOME			
Items that may be subsequently reclassified to the Income statement:			
Cash flow hedges:			
Change in the value of cash flow hedges	14	793.0	405.6
Tax relating to cash flow hedges	14	(157.1)	(74.0)
		635.9	331.6
Items that will not be reclassified to the Income statement:			
Actuarial gains/losses on retirement benefits:			
Actuarial gains/(losses) on retirement benefits	14	586.0	(8.4)
Tax relating to actuarial gains/losses on retirement benefits	14	(126.4)	12.1
Cash flow hedges:			
Change in the value of cash flow hedges	14	(1.6)	(17.5)
Tax relating to cash flow hedges	14	0.3	3.0
		458.3	(10.8)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		1,094.2	320.8
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,196.2	906.1
Total comprehensive income for the year attributable to equity holder of the parent		1,149.7	859.6
Total comprehensive income for the year attributable to non-controlling interests		46.5	46.5
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,196.2	906.1

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

	Attributable to equity holder of the parent						Non-controlling interests £m	Total equity £m
	Share capital £m	Share premium £m	Hedge reserve £m	Other reserves £m	Retained earnings £m	Total £m		
At 1 January 2020	3,551.7	398.2	(165.7)	420.5	3,273.8	7,478.5	866.3	8,344.8
Total comprehensive income for the year	–	–	323.4	–	536.2	859.6	46.5	906.1
Movements in non-controlling interest (refer to Note 16)	–	–	–	–	–	–	178.2	178.2
Dividends	–	–	–	–	(1,595.9)	(1,595.9)	–	(1,595.9)
At 1 January 2021	3,551.7	398.2	157.7	420.5	2,214.1	6,742.2	1,091.0	7,833.2
Total comprehensive income for the year	–	–	635.6	–	514.1	1,149.7	46.5	1,196.2
Dividends	–	–	–	–	–	–	(55.8)	(55.8)
At 31 December 2021	3,551.7	398.2	793.3	420.5	2,728.2	7,891.9	1,081.7	8,973.6

The accompanying Notes 1 to 33 and Appendix 1 are an integral part of the Consolidated statement of comprehensive income and the Consolidated statement of changes in equity for the year ended 31 December 2021.

SCOTTISH POWER UK PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2021

	2021 £m	2020 £m
Cash flows from operating activities		
Profit before tax	550.6	842.0
Adjustments for:		
Depreciation, amortisation and impairment	752.5	701.6
Change in provisions	467.3	401.4
Result of companies accounted for using the equity method	–	(1.4)
Transfer of assets from customers	(43.9)	(42.6)
Net finance income and costs	169.8	151.2
Net losses on disposal/write-off non-current assets	7.5	9.4
Movement in retirement benefits	(171.3)	(113.4)
Net fair value losses on operating derivatives	211.9	13.0
Movement in deferred income	–	(0.1)
Changes in working capital:		
Change in trade and other receivables	(133.2)	143.6
Change in inventories	(444.5)	(447.8)
Change in trade and other payables	743.9	(8.8)
Provisions paid	(5.8)	(16.5)
Assets received from from customers (deferred income)	101.9	101.5
Income taxes paid	(93.4)	(129.5)
Net cash flows from operating activities (i)	2,113.3	1,603.6
Cash flows from investing activities		
Interest received	17.8	23.0
Investments in intangible assets	(115.4)	(88.5)
Investments in property, plant and equipment (net of capital grants)	(908.9)	(1,344.8)
Dividends received from joint ventures	–	1.5
Proceeds from disposal of property, plant and equipment	2.6	2.5
(Increase)/decrease in amounts due to Iberdrola Group companies – current loans receivable	(346.1)	722.6
Net cash flows from investing activities (ii)	(1,350.0)	(683.7)
Cash flows from financing activities		
(Decrease)/increase in amounts due to Iberdrola Group companies – current loans payable	(1,417.9)	773.6
Increase in amounts due to Iberdrola Group companies – non-current loans payable	1,250.0	–
Share capital of subsidiary issued to non-controlling interest	–	177.6
Dividends paid to the Company's equity holder	–	(1,595.9)
Dividends paid to non-controlling interest	(55.8)	–
Interest paid	(149.1)	(168.9)
Interest paid on lease liabilities	(15.2)	(12.0)
Repayments of borrowing and other financial liabilities	(308.7)	(1.3)
Payments of lease liabilities	(23.8)	(26.7)
Net cash flows from financing activities (iii)	(720.5)	(853.6)
Net increase in cash and cash equivalents (i)+(ii)+(iii)	42.8	66.3
Cash and cash equivalents at beginning of year	140.1	73.8
Cash and cash equivalents at end of year	182.9	140.1
Cash and cash equivalents at end of year comprises:		
Consolidated statement of financial position cash and short-term deposits	182.9	140.1
Consolidated statement of cash flows cash and cash equivalents	182.9	140.1

The accompanying Notes 1 to 33 and Appendix 1 are an integral part of the Consolidated statement of cash flows for the year ended 31 December 2021.

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS

for the year ended 31 December 2021

1 GROUP ACTIVITIES

A COMPANY AND GROUP INFORMATION

Scottish Power UK plc (registered company number SC117120), is a private company limited by shares. It is incorporated in Scotland and its registered address is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD. The Company's immediate parent company, SPL, is the holding company of the ScottishPower Group.

The Consolidated financial statements for the year ended 31 December 2021 comprise those of the Company, its subsidiaries and joint ventures (together referred to as "the Group"). The Company financial statements present information about the Company as a separate entity and not about the Group (refer to pages 110 to 121).

B GROUP PRINCIPAL ACTIVITIES

The Group provides electricity transmission and distribution services in the UK and conducts renewable energy activities across the UK and Republic of Ireland. It also supplies gas and electricity to homes and businesses principally across the UK, operates gas storage facilities and undertakes associated energy management activities in the UK.

As described in Note 5, in line with IFRS 8 'Operating Segments' ("IFRS 8"), the Group defines its operating segments based on a combination of factors, principally differences in products and services and the regulatory environment in which the business operates. The Group reported three principal business divisions during the year: Energy Networks, Renewables and Energy Retail and Wholesale.

Energy Networks

The transmission and distribution businesses within the Group's authorised area in the Central Belt and South of Scotland, and the distribution business of Manweb operating in Cheshire, Merseyside, North Shropshire and North Wales.

Renewables

The origination, development, construction and operation of renewable energy generation assets, and the generation and sale of primarily electricity and ROCs from those assets.

Energy Retail and Wholesale

The sale of electricity and gas to industrial and domestic customers, together with related billing and collection activities and the sale of electricity to market participants in the UK. The division also manages the Group's exposure to the UK wholesale electricity and gas markets for Energy Retail and Renewables, and the optimisation of gas storage.

2 BASIS OF PREPARATION

A BASIS OF PREPARATION OF THE CONSOLIDATED ACCOUNTS

The Company is required by law to prepare consolidated accounts for the Group and deliver them to the Registrar of Companies. The Consolidated accounts have been prepared in accordance with UK-adopted international accounting standards (refer to Note 2B1 below). The Consolidated accounts are prepared in accordance with the accounting policies set out in Note 3. Monetary amounts are presented in pounds Sterling and rounded to the nearest hundred thousand unless otherwise indicated. The Consolidated accounts are prepared on the historical cost basis apart from certain financial assets and liabilities measured at fair value.

A1 BASIS OF CONSOLIDATION

The Consolidated accounts incorporate the Accounts of the Company and its subsidiaries and joint ventures to 31 December each year. Subsidiaries are those entities which the Group has the right to control, generally where a shareholding confers more than half of the voting rights.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The cost of an acquisition is measured at the fair value of any assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Any excess of that cost over the fair value of the identifiable net assets acquired is recognised as goodwill. If the fair value of the net assets acquired is in excess of that cost, the Group reassesses whether it has correctly identified all the assets acquired and all the liabilities assumed, and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If this still results in an excess of the fair value of the net assets acquired over the cost of acquisition, then the gain is recognised in the Income statement.

The interest of non-controlling shareholders is initially stated at their proportion of the fair value of the assets and liabilities recognised. Changes in the Group's ownership interest in a subsidiary, not resulting in the Group losing control, are treated as equity transactions.

In accordance with the exemption permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards' ("IFRS 1"), business combinations accounted for prior to the Group's date of transition to international accounting standards ("IAS") on 1 April 2004 have not been restated to comply with IFRS 3 'Business Combinations'.

The results of subsidiaries acquired (or disposed of) during the year are included in the Income statement from the effective date of acquisition (or up to the effective date of disposal).

For the consolidated group, intra-group transfers of subsidiaries within the Iberdrola Group, but outwith the Scottish Power UK plc Group, are deemed to be business combinations under common control. These transactions are accounted for using the pooling of interests method. The results for the subsidiaries transferred are included in the Income statement from the effective date of acquisition. The net assets incorporated at the date of acquisition reflect the book value of each subsidiary included in the Iberdrola consolidated financial statements, the highest entity that has common control for which consolidated IAS financial statements are prepared.

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

for the year ended 31 December 2021

2 BASIS OF PREPARATION *continued*

A BASIS OF PREPARATION OF THE CONSOLIDATED ACCOUNTS *continued*

A2 CHANGES IN PRESENTATION

A2.1 CHANGE TO INCOME STATEMENT

Effective from 1 January 2021, the Group modified the format of its Income statement in line with Iberdrola Group policy to remove the Gains/(losses) on disposal of non-current assets line item. The items previously comprising this line have been reclassified. Gains/losses on disposal of non-current assets are now presented within Other operating results, forming part of Gross operating profit. The change is in order to align with Iberdrola Group policy which is deemed to provide more useful information to users of the financial statements and a presentation which is more consistent with general market practices. Accordingly, the 2020 Consolidated income statement has been adjusted to remove Gains on disposal of non-current assets of £0.7 million and increase Other operating results by £0.7 million. This restatement has had no impact on the net profit for the year shown in the Consolidated income statement and Consolidated statement of comprehensive income nor the net assets position shown on the Consolidated statement of financial position.

A2.2 CHANGES TO STATEMENT OF FINANCIAL POSITION

Effective from 1 January 2021, the Group modified the format of its Statement of financial position in line with Iberdrola Group policy to include a new line item, Current financial liabilities. Balances for collateral which the Group holds in relation to derivatives hedging specific loans, had previously been included within current Loans and other borrowings but have now been reclassified to this new line item. Accordingly, the 2020 Consolidated statement of financial position has been adjusted to reduce current Loans and other borrowings by £43.5 million and record £43.5 million against Current financial liabilities.

In addition, effective 1 January 2021, interest payable has been reclassified from Current trade and other payables to current Loans and other borrowings. Therefore, in the 2020 Consolidated statement of financial position, Current trade and other payables has been reduced by £53.8 million and current Loans and other borrowings increased by £53.8 million.

Both these changes are deemed to provide more useful information to users of the financial statements and bring the Group into line with industry practice. These restatements have had no impact on the net assets position shown on the Consolidated statement of financial position or the net profit for the year shown in the Consolidated income statement and Consolidated statement of comprehensive income.

A3 GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 1 to 38.

The Consolidated statement of financial position presents net current assets of £1,202.5 million as at 31 December 2021. The Consolidated financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Scottish Power UK plc Group is a significant component of Iberdrola, one of the world's largest integrated utilities. The Scottish Power UK plc Group participates in a UK treasury function operated by the Group's immediate parent undertaking, Scottish Power Limited. The UK treasury function works closely with Iberdrola to manage the Group's funding requirements, which are reviewed and adjusted on a regular basis using a mixture of external funding and funding provided via Iberdrola through the global treasury function.

Since September 2021, increases in wholesale costs have resulted in suppliers across the energy retail market collapsing. The Group is also monitoring the situation in Ukraine and continually assessing the risk this presents for energy prices. Energy Retail and Wholesale continues to hedge the commodity price exposure to minimise the impact from increased wholesale prices, and should benefit from both the increase in the retail price cap from April 2022 and ongoing consultations that aim to achieve the price cap being more cost reflective in the future. Due to the other core activities of the Group in Energy Networks and Renewables, the direct effect on the total cash flows and liquidity is expected to be limited.

For the purposes of the directors' assessment of the Group's going concern position, and to satisfy them of the Group's ability to pay its liabilities as they fall due, the directors have prepared a Consolidated cash flow forecast to December 2023 on the basis of the ongoing liquidity of the UK wholesale energy and gas markets, including the cash flow of longer-term strategies and projects. The cash flow forecast takes account of severe but plausible downsides, including increased capital expenditure based on the timing of final investment decisions in Renewables; reductions in the Renewables price curve; decreases in Energy Retail customer numbers and demand; and reductions in the collectability of retail customer debt. Specific COVID-19 downsides have not been included because the Group's performance has been resilient to lockdowns; due in particular to the vital services provided by Energy Networks and Renewables which underpin the national economy.

The cash flow forecasts indicate that, even under the severe but plausible downside scenario, the Group's existing resources and committed facilities, including £1.5 billion of credit committed until March 2025 (refer to Note 19(a)(xv)) are sufficient to enable it to trade and pay its liabilities as they fall due for the forecast period.

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

B ACCOUNTING STANDARDS

B1 IMPACT OF BREXIT

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

In line with the above, the Accounts for the year ended 31 December 2020 were prepared in accordance with the 'frozen' IAS as adopted by the EU in accordance with the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 and pursuant to Regulation (EC) No 1606/2002 as it applies in the EU. The Accounts for financial year beginning 1 January 2021, have been prepared in accordance with UK-adopted IAS.

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 for the year ended 31 December 2021

2 BASIS OF PREPARATION *continued*

B ACCOUNTING STANDARDS *continued*

B2 IMPACT OF NEW IAS

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

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

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

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

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

(c) Phase 1 of the Interest Rate Benchmark Reform ("IBOR Reform") was applied by the Group effective 1 January 2020. The Group has applied the requirements of Phase 2 of this reform from 1 January 2021 including the provided modification accounting reliefs. The Group holds debt and hedging instruments referencing LIBOR (London Inter-Bank Offer Rate) and EURIBOR (Euro Bank Offered Rate). These are highlighted in Notes 19(a) and 11(e)C2.2(iii) respectively. The Group and all relevant counterparties have signed the International Swaps and Derivatives Association's ("ISDA") IBOR Fallbacks Protocol, and accordingly all debt and hedging instruments will be revised to reference the appropriate new benchmark rates from 1 January 2022. Additional risk management disclosure has been provided in line with the revised requirements contained in the amendments to IFRS 7 (Refer to Note 11(e)C2).

The following new standards and amendments to standards have been issued by the International Accounting Standards Board ("IASB") but have an effective date after the date of these financial statements or have not been endorsed by the UK, and thus have not yet been implemented by the Group:

Standard	Notes	IASB effective date (for periods commencing on or after)	Planned date of application by the Group
• Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract'	(d)	1 January 2022	1 January 2022
• Amendments to IFRS 3 'Business Combinations: Reference to the Conceptual Framework'	(e)	1 January 2022	1 January 2022
• Amendments to IAS 16 'Property, Plant and Equipment: Proceeds before Intended Use'	(e)	1 January 2022	1 January 2022
• Annual Improvements to IFRS Standards 2018-2020 Cycle	(e)	1 January 2022	1 January 2022
• Amendments to IAS 1 'Presentation of Financial Statements: Classification of Liabilities as Current or Non-current' and 'Deferral of Effective Date'	(e), (f)	1 January 2023	1 January 2023
• IFRS 17 'Insurance Contracts' including 'Amendments to IFRS 17'	(e), (f)	1 January 2023	1 January 2023
• Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2: 'Disclosure of Accounting Policies'	(e), (f)	1 January 2023	1 January 2023
• Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates'	(e), (f)	1 January 2023	1 January 2023
• Amendments to IAS 12 'Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction'	(e), (f)	1 January 2023	1 January 2023
• IFRS 14 'Regulatory Deferral Accounts'	(e), (f), (g)	1 January 2016	To be decided
• Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures': 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	(e), (f), (h)	Deferred indefinitely	To be decided

(d) The amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' are effective for the Group from 1 January 2022. Following the amendments, the costs to be considered to fulfil a contract when assessing if a contract is onerous or not will be defined as being both the incremental costs and an allocation of other costs that relate directly to fulfilling a contract. Upon application of this amendment, certain contracts with retail customers will be considered to be onerous as the unavoidable costs of meeting the obligations under the contracts will exceed the economic benefits expected to be received from them. The expected impact of this amendment is a provision for £60.0 million.

(e) The future application of this pronouncement is not expected to have a material impact on the Group's accounting policies, financial position or performance.

(f) This pronouncement has not yet been endorsed by the UK.

(g) The endorsement process of this interim standard has not been launched. On 29 January 2021, the IASB issued an exposure draft for a proposed replacement standard.

(h) The IASB set the effective date of this pronouncement as for periods commencing on or after 1 January 2016. However, in December 2015, the IASB postponed the effective date indefinitely pending the outcome of its research project on the equity method of accounting. The endorsement process for this pronouncement has not been launched. The effective date will be amended in due course.

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

for the year ended 31 December 2021

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES

In determining and applying accounting policies, judgement is often required in respect of items which have a significant effect on the reported amounts of assets, liabilities, income and expenses recognised in the financial statements. Other than those involving estimates, the Group has one such judgement being the recognition of onerous retail contracts. The policy is discussed further at Note 3M. At 31 December 2021, assumptions made about the future and other major sources of estimation uncertainty which have significant risk of resulting in a material adjustment to the carrying amount of revenues, expenses, assets and liabilities in the next financial year are detailed below:

- Retirement benefit obligation (including valuation of level 3 pension plan assets) Notes 3K and 9E;
- Accrued 'unbilled' revenue – Note 3A(d); and
- Expected credit losses ("ECLs") on Energy Retail trade receivables – Notes 3H1.2(d) and 11(e).

The Group considers that the impact of climate change risk and opportunities does not create any additional estimation uncertainty.

The principal accounting policies applied in preparing the Consolidated accounts are set out below.

- A REVENUE
- B PROCUREMENTS
- C GOODWILL
- D OTHER INTANGIBLE ASSETS
- E PROPERTY, PLANT AND EQUIPMENT
- F LEASED ASSETS
- G IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, LEASED ASSETS AND INTANGIBLE ASSETS (EXCLUDING GOODWILL)
- H FINANCIAL INSTRUMENTS
- I INVENTORIES (EXCLUDING ROCs)
- J ROCs
- K RETIREMENT BENEFITS
- L DECOMMISSIONING COSTS
- M ONEROUS RETAIL CONTRACTS
- N OTHER OPERATING RESULTS
- O FOREIGN CURRENCIES
- P TAXATION
- Q CASH AND CASH EQUIVALENTS

A REVENUE

The Group 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.

(a) Electricity distribution

The Group provides the service of making its distribution network available to customers. This performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits of the Group's performance as it makes the distribution network available. The Group has a right to consideration in an amount that corresponds directly with the value to the customer of the Group's performance to date. Therefore, revenue is recognised in the amount to which the Group has a right to invoice based on the amount of allowed revenue for the year set by the regulatory price control. Due to the nature of the electricity settlements industry process, revenue includes unbilled income recognised as a receivable relating to units transferred over the network but not yet invoiced at the end of the year. Invoices are raised one month in arrears and are typically settled within one month.

(b) Electricity transmission

The Group provides the service of making its transmission network available to the Great Britain system operator. This performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits of the Group's performance as it makes the transmission network available. Until 31 March 2021, the customer benefitted from the Group's service evenly throughout the year, therefore, time was used to measure progress towards complete satisfaction of the performance obligation. Revenue was recognised on a straight-line basis throughout the year based on the amount of allowed revenue for the year set by the regulatory price control. Following the commencement of R110-T2 on 1 April 2021, revenue continues to be recognised in an amount to which the Group has a right to invoice based on the amount of allowed revenue for the year, but recognised over time based on the billable volumes and the agreed rate. Invoices are typically raised and settled on a monthly basis and, therefore, there are no related IFRS 15 receivables, contract assets or contract liabilities at the end of the year.

(c) Transfers of assets from customers

Pursuant to the applicable industry regulations, the Group occasionally receives contributions from its customers for the construction of grid connection facilities, or is assigned assets used to connect those customers to a network. Both the cash and the fair value of the facilities received are credited to Non-current liabilities – Deferred income in the Statement of financial position (this is a contract liability). Revenue is subsequently recognised in line with the period over which the facilities are depreciated. As the cash contributions received from customers relate to underlying business activities, they are recorded as Cash flows from operating activities in the Statement of cash flows.

(d) Supply of electricity and gas

The Group's performance obligations are the supply of electricity and/or gas to customers. Both these performance obligations are satisfied over time as the customer simultaneously receives and consumes the benefits of the Group's performance as it supplies electricity and gas. The Group has a right to consideration in an amount that corresponds directly with the value to the customer of the Group's performance to date. Therefore, revenue is recognised in the amount to which the Group has a right to invoice based on the volume of units supplied during the year and the tariff agreed with the customer.

The Group operates in the GB energy industry, whose nature is such that revenue recognition is subject to a degree of estimation. Revenue includes an estimate of the units supplied to customers between the date of their last meter reading and the year end. This estimate is based on external data supplied by the electricity and gas market settlement process and internal data relating to energy purchases where settlement data is not yet available. Where volumes are yet to reach final settlement, a provision is made against unbilled revenue recognised in respect of those volumes. The provision is determined by considering the current unbilled position, historical trends, and any other known factors. The value assigned to these estimated volumes is based on a weighted average price per unit derived from the billing systems. This methodology is consistent with prior years.

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

for the year ended 31 December 2021

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

A REVENUE *continued*

(d) Supply of electricity and gas *continued*

The estimated value of energy delivered to customers is included within billed revenue (where an estimated reading is included within an issued invoice) and unbilled revenue (where no invoice has been invoiced). For further details on billed revenue, refer to Note 11(e)A3. Gross unbilled revenue included within the Statement of financial position at 31 December 2021 amounts to £655.6 million (2020 £563.9 million). This is before applying customer credit balances of £526.5 million (2020 £443.4 million), a £21.3 million (2020 £14.8 million) provision in respect of ECLs and a £30.2 million (2020 £24.3 million) provision in relation to energy volumes which have still to reach final settlement. This results in a net unbilled position at 31 December 2021 of £77.6 million (2020 £81.4 million), which relates primarily to energy delivered in the final months of the year. For further details on ECLs, refer to Note 11(e)A3.

Had actual consumption been 3% higher or lower than the estimate of units supplied (the average variance based on recent historical analysis), this would have resulted in revenue recognised for unbilled amounts being £21.6 million higher and lower respectively. The value assigned to this volume sensitivity is based on a weighted average price per unit derived from the billing systems. Approximately 95% of unbilled revenue relates to the most recent quarter where there is a higher level of estimation uncertainty.

Invoices are generally raised at monthly or quarterly intervals, which customers typically settle on the same basis respectively, except for prepayment customers who pay in advance. Billed and unbilled revenues are recorded in receivables. Amounts in contract liabilities consist of DD customer payments that are in excess of the associated units of energy delivered, and final customer credits.

(e) Contracts for Difference

CfDs are accounted for as revenue grants and are recognised as income on a systematic basis over the period in which they become receivable, which is at the point of generation.

(f) Other revenues

Other revenues, which includes revenue in relation to the Energy Retail and Wholesale Smart Solutions business, are recognised based on the consideration specified in the relevant contract with the customers, to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur in the future. The Group recognises revenue either at a specific point in time or over a period of time based on when control is transferred to the customer based on the performance obligations in the contract.

(g) Customer contract costs

The Group capitalises the incremental costs of obtaining certain customer contracts, principally sales commissions, if they are expected to be recovered. These are recorded as a separate asset class within Intangible assets and amortised on a systematic basis according to the average expected life of contracts with customers that are associated with such costs. The amortisation period is between two and four years.

The Group has elected to apply the amortisation period to a portfolio of contracts with similar characteristics as the Group expects that the effect on the financial statements is not materially different from applying it to the individual contracts.

B PROCUREMENTS

Procurements costs in Energy Networks principally comprise use of system charges from the system operator. In Renewables, such costs are primarily electricity purchased in relation to energy generation, and related direct costs and services. Procurements within Energy Retail and Wholesale are principally the cost of electricity and gas purchased in relation to energy supply, and related direct costs and services for the use of the energy network. Costs are recorded on an accruals basis.

C GOODWILL

Goodwill represents the excess of the fair value of the purchase consideration over the Group's share of the fair value of the identifiable assets and liabilities of an acquired subsidiary or business at the date of acquisition.

Goodwill is stated at cost less any accumulated impairment losses.

Goodwill is recognised as an asset and reviewed for impairment at least annually and whenever there is an indication of impairment. Any impairment is recognised in the Income statement in the period in which it is identified. Any permanent impairment losses are not reversed.

On disposal (or partial disposal) of a subsidiary, associate, jointly controlled entity or business, the proportionate amount of allocated goodwill is included in the determination of the gain or loss arising.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the expected future cash flows of the relevant Cash Generating Unit ("CGU"), or disposal value if higher. The discount rate applied is based on ScottishPower's weighted average cost of capital with appropriate adjustments for the risks associated with the CGU. The discount rate used reflects lease liabilities under IFRS 16.

Estimates of cash flows involve a significant degree of judgement and are consistent with management's plans and forecasts. Refer to Note 6(b) for further details on the impairment testing performed on goodwill.

D OTHER 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 five 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 eight years.

Information about the Group's accounting policies and estimates in relation to the customer contract costs is provided in Note 3A(g).

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

for the year ended 31 December 2021

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

E 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. Property, plant and equipment includes capitalised employee costs, interest, lease depreciation and other directly attributable costs. Borrowing costs directly attributable to the acquisition, construction or production of major qualifying assets (i.e. assets that necessarily take a substantial period of time to get ready for their intended use) are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Reviews of the estimated remaining lives and residual values of property, plant and equipment are undertaken annually. Residual values are assessed based on prices prevailing at each reporting date.

Land is not depreciated. The main depreciation periods used by the Group are as set out below:

	Years
Wind power plants	23-40
Gas storage facilities	10-35
Transmission facilities	40
Distribution facilities	24-40
Meters and measuring devices	2-23
Other facilities and other items of property, plant and equipment	2-50

F 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 Group uses the definition of a lease in 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 Group 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.

F1 LESSEE

As a lessee, the Group 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 Group presents Right-of-use assets within Non-current assets in the Statement of financial position and the depreciation charge is recorded within Depreciation, amortisation and provisions in the Income statement.

The lease liability recognised at the commencement date is measured initially at the present value of the lease payments that are not paid at that date. Where the rates implicit in the leases cannot be readily determined, the liabilities are discounted using the Group'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 Group is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless the Group 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 Group 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 Group 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.

The Group has elected not to recognise right-of-use assets and lease liabilities for certain short-term leases that have a lease term of twelve months or less, and leases of intangible assets. The Group recognises any lease payments associated with such leases as an expense on a straight-line basis over the lease term.

In the Statement of cash flows, the Group includes the payment of lease liabilities and interest paid on lease liabilities within Cash flows from financing activities; variable lease payments which are not dependent on an index or rate are included in Cash flows from operating activities.

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

for the year ended 31 December 2021

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

F LEASED ASSETS *continued*

F2 LESSOR

When the Group acts as a lessor, it determines at inception whether each lease is a finance or operating lease. The Group classifies leases as finance leases whenever the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the lessee. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately; classifying the sub-lease with reference to the right-of-use asset arising from the head lease, not the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

The Group recognises operating leases payments received as income on a straight-line basis over the lease term as part of Other operating results.

G IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, LEASED ASSETS AND INTANGIBLE ASSETS (EXCLUDING GOODWILL)

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

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU 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.

H 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.

H1 FINANCIAL ASSETS

H1.1 CLASSIFICATION

Financial assets are classified as measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The classification of financial assets depends on the Group'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 Group 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.

A financial asset is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI test) on the principal amount outstanding.

All remaining financial assets (including equity instruments and other investments) that are not included within the above categories, are classified as FVTPL.

Financial assets are only subsequently reclassified when the Group 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.

H1.2 RECOGNITION AND MEASUREMENT

(a) Initial recognition and measurement

All financial assets, except for trade receivables which are initially recognised when they originate, are initially recognised when the Group becomes party to the contractual provisions of the instrument.

Subject to two exceptions, financial assets are initially measured at fair value. The two exceptions are 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"), and financial assets not classified as FVTPL which are measured at fair value plus transaction costs that are directly attributable to its acquisition or issue.

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

for the year ended 31 December 2021

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

H FINANCIAL INSTRUMENTS *continued*

H1 FINANCIAL ASSETS *continued*

H1.2 INITIAL RECOGNITION AND MEASUREMENT *continued*

(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. Interest income, foreign exchange gains and losses, and net credit losses are recognised in the Income statement. Any gain or loss on derecognition is also recognised in the Income statement.

Financial assets classified as FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the Income statement unless the financial asset is a derivative which is part of a hedging relationship (refer to 3H3). It may not be possible to obtain a market valuation for some unquoted investments, therefore they are valued at cost and assessed for impairment.

Financial assets classified as FVOCI are subsequently measured at fair value. Net gains and losses are recognised within Other comprehensive income.

(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; there is no reasonable expectation of recovering all, or a portion of, the contractual cash flows; or in certain circumstances where the Group has transferred its rights to receive cash flows from the asset, or has entered a 'pass-through' arrangement obligating the Group to pay the received cash flows in full without material delay to a third party. Under the last scenario, the Group evaluates if, and to what extent, it has retained the risks and rewards of ownership and derecognises the financial asset where these have been transferred. If substantially all the risks and rewards of ownership have neither been transferred nor retained, the Group assesses whether it controls the asset. Where the Group does not retain control, the asset is derecognised and separate assets and liabilities are recognised to reflect the effect of the transfer.

(d) Impairment of financial assets

(i) Measurement of ECLs

Disclosures relating to impairment of financial assets are provided in Note 11. The Group recognises an allowance for ECLs for all debt instruments not classified as FVTPL. ECLs are a probability-weighted estimate of credit losses. The Group 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 lifetime ECL. The Group has segmented its trade receivables between those relating to Energy Retail customer debt and those within the rest of the Group. For each grouping, the Group 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 Group in accordance with the contract and those the Group 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. 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 Group considers financial assets to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment-grade'. The Group considers this to be BBB- or higher per rating agency Standard & Poor's. Therefore, all of the Group's other financial assets are considered to have low credit risk at both the beginning and end of the reporting period.

For Energy Retail customer debt, the Group does not consider that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. Debts for gas and electricity customers on secure payment plans (e.g. direct debit ("DD")) can have debts in excess of 30 days, which would not be considered overdue. DD payments are based on an annual cycle, therefore, customers can be in either a debt or credit position at certain points in the year.

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

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

(ii) Credit-impaired financial assets

At each reporting date, the Group 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.

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

for the year ended 31 December 2021

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

H FINANCIAL INSTRUMENTS *continued*

H2 FINANCIAL LIABILITIES

H2.1 CLASSIFICATION

Financial liabilities are classified as measured at FVTPL or amortised cost. A financial liability is classified as FVTPL if it is classified as held-for-trading, a derivative, or otherwise designated as such on initial recognition.

H2.2 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 classified as FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in the Income statement.

Other 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. This is the category most relevant to the Group as it includes interest-bearing loans and borrowings, and trade and other payables.

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. This subsequent measurement technique does not apply where the loan or borrowing is a hedged item in an effective fair value hedging relationship (refer to Note 3H3.3).

(c) Derecognition

The Group 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.

H2.3 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group offsets a financial asset and a financial liability, and reports the net amount, only when the Group 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.

H3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

H3.1 DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments, such as forward foreign currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency, interest rate, inflation 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 Notes 3H3.2 and 3H3.3).

At the inception of a hedge relationship, the Group 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 Group 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 Group uses to hedge that quantity of the hedged item.

Reliefs from certain requirements of hedge accounting have been taken where applicable, including the reliefs which prevent the interruption of hedging relationships by uncertainties (refer to Notes 2B2 and 11(e)C2.2(iii)). The accounting for cash flow and fair value hedges is set out at Notes 3H3.2 and 3H3.3 respectively.

In the Statement of cash flows the Group includes cash flows arising from hedging instruments as arising from the same category of activity as cash flows arising from the hedged item.

H3.2 CASH FLOW HEDGES

The Group designates only the spot element of treasury-related forward foreign currency contracts (hedging the value of currency denominated intercompany loans) as a hedging instrument. The forward element is recognised in Other comprehensive income and accumulated as a separate component of the hedge reserve under the Cost of hedging reserve. For all other forward contracts, the Group designates all of the forward contract (both the spot and forward elements) as the hedging instrument.

The portion of gain or loss of the hedging instrument determined to be an effective hedge is recognised directly in equity and forms part of the hedge reserve. The ineffective portion of the change in fair value of the hedging instruments is recognised in the Income statement within Procurements for hedges of underlying operations. For hedges of financing activities, any ineffectiveness is recognised within Finance income or Finance costs, as appropriate, in the Income statement. 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.

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

for the year ended 31 December 2021

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

H FINANCIAL INSTRUMENTS *continued*

H3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING *continued*

H3.2 CASH FLOW HEDGES *continued*

The Group 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.

H3.3 FAIR VALUE HEDGES

The gain or loss from remeasuring the hedging instrument at fair value is recognised directly in the Income statement in the same location as the gain or loss from remeasuring the hedged item. The gain or loss on the hedged item adjusts its carrying amount (when the item would otherwise have been measured at amortised cost) and is recognised in the Income statement. The Group commences amortisation of any such adjustments to the carrying amount of the hedged item when the hedging relationship ends.

On the discontinuance of hedge accounting, any adjustment made to the carrying amount of the hedged item as a consequence of the fair value hedge relationship, is recognised in the Income statement over its remaining life. The line item Current financial liabilities refers to collateral held by the Group which mitigates the credit risk from specific derivative assets which have been entered into by the Group to hedge specific loans and borrowings. As a financial liability, it is accounted for in accordance with the policies described in Note 3H2 above.

H4 FAIR VALUATION OF FINANCIAL INSTRUMENTS

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

In the absence of quoted prices for identical or similar assets or liabilities, it is sometimes necessary to apply valuation techniques where contracts are marked using approved models. Models are used for developing both the forward curves and the valuation metrics of the instruments themselves where 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.

All assets and liabilities, for which fair value is measured or disclosed in the financial statements, are categorised within the fair value hierarchy, the details of which are described in Note 11.

I INVENTORIES (EXCLUDING ROCs)

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

J ROCs

The Group participates in the Renewables Obligation ("RO") scheme administered by Ofgem. As there are no specific rules under IAS dealing with their treatment, the Group classifies ROCs as inventories because they are a direct input cost to the process of supplying customers. ROCs are recognised at their acquisition cost and charged to the Income statement as the obligations arise. Internally-generated ROCs are awarded by Ofgem and are recognised at their relevant buyout price and estimated recycle price at the reporting date.

The Group recognises liabilities in respect of its obligations to deliver ROCs at the value at which they were initially recorded on the Statement of financial position. Any estimated shortfall in the liability is calculated based on the relevant buyout price at the reporting date.

K RETIREMENT BENEFITS

The Group provides pensions through two defined benefit schemes and one defined contribution retirement benefit scheme in the UK.

The cost of providing benefits under the defined benefit schemes is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date. Remeasurements of the net defined benefit asset/liability are recognised, directly in Retained earnings, in the period in which they occur, and are shown in the Statement of comprehensive income. The current service cost element of the pension charge is recognised within Staff costs in the Income statement. Net interest on the net defined benefit liability or asset is included within Finance costs and Finance income, respectively, in the Income statement. The retirement benefits asset and liability recognised in the Statement of financial position represent the surpluses and deficits, respectively, in the Group's defined benefit pension schemes.

Payments to the defined contribution scheme are charged as an expense as they fall due.

The expense and Statement of financial position items relating to the Group's accounting for pension schemes under IAS 19 are based on actuarial valuations. Inherent in these valuations are key assumptions, including discount rates, earnings increases, increases in pension payments and mortality. These actuarial assumptions are reviewed annually in line with the requirements of IAS 19. The assumptions adopted are based on prior experience, market conditions and the advice of actuaries and other specialists within the Iberdrola Group.

Sensitivity disclosures relating to the Group's retirement benefit obligations and plan assets are set out in Note 9.

L DECOMMISSIONING COSTS

Provision is made, on a discounted basis, for the estimated decommissioning costs of certain non-current assets. Capitalised decommissioning costs are depreciated over the useful lives of the related assets. The unwinding of the discount is included within Finance costs in the Income statement. The future estimated costs are based on the value of the costs at the reporting date, uplifted for inflation to the end of the useful economic life of the underlying asset, then discounted.

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 for the year ended 31 December 2021

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

M ONEROUS RETAIL CONTRACTS

An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract i.e. the incremental costs of fulfilling that contract. A provision should be recognised for any onerous contracts identified to the present value of the obligations under them.

Certain contracts, in particular those with domestic retail customers defaulting on to the standard variable tariff, may be assessed as being onerous. These contracts cannot be terminated by the Group but the incremental costs to supply customers may exceed the cap level. The assessment of such contracts to determine if they are onerous or not, is subject to a degree of judgement. The assessment as at 31 December 2021 has considered the net cost of continuing with the contract after taking into account revenues directly related to the contracts. Judgement has been applied to assess the future revenues, incremental costs (including the cost of energy committed where relevant) and the expected customer life (i.e. the contract period). Taking this into account, these contracts are not considered to be onerous at 31 December 2021 thus no provision has been recognised.

N OTHER OPERATING RESULTS

Other operating results is principally comprised of recharges, primarily in relation to Energy Networks' unregulated income and Renewables activity recharged to other Iberdrola group companies. The line item also includes compensation and rebates received, lease income, and gains/losses on disposal of non-current assets.

O 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 Finance income and costs in the Income statement.

P TAXATION

Assets and liabilities for current tax are calculated using the tax rates that have been enacted, or substantively enacted, at the reporting date.

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

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

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

Q CASH AND CASH EQUIVALENTS

Cash and short-term deposits in the Statement of financial position comprise cash on hand, and term deposits which are readily convertible into a known amount of cash without significant risk of changes in value and have a maturity of less than 90 days at the date of acquisition. In the Statement of cash flows, Cash and cash equivalents include bank overdrafts repayable on demand the next business day.

4 SCOPE OF CONSOLIDATION

(a) Significant judgements and assumptions used to determine the scope of the consolidation

The Consolidated financial statements combine the financial statements of Scottish Power UK plc and its subsidiaries and joint ventures. A subsidiary is an entity over which the Company has control. This is the case when the Company has power over the relevant activities of the investee, for example through voting rights; exposure, or rights to, variable returns from its involvement with the investee; and the ability to affect those returns through its power over the investee. No significant judgements have been made in applying these principles during the year.

(b) Significant restrictions

As is typical for a group of its size and scope, there are restrictions on the ability of the Group to obtain distributions of capital, access the assets or repay the liabilities of members of its group due to the statutory, regulatory and contractual requirements of its subsidiaries, and due to the protective rights of non-controlling interests. After consideration of these factors, the resulting significant restrictions have been identified:

SP Distribution plc

SP Distribution plc is a regulated DNO whose activities are governed by a licence granted by Ofgem. For such licenced entities the main drivers facilitating distributions, including dividends, are holding an investment-grade credit rating and compliance with several other licence conditions. The total value of distributable reserves is restricted by the requirement to comply with several licence conditions including holding an investment-grade credit rating. In addition, standard condition 26 of the distribution licence conditions restricts the disposal of property, plant and equipment. The Group has policies and procedures in place to adhere to the licence conditions and restrictions arising from them.

	2021 £m	2020 £m
Value restricted		
Distributable reserves	571.1	619.5
Property, plant and equipment	3,092.1	3,013.2

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 for the year ended 31 December 2021

4 SCOPE OF CONSOLIDATION *continued*

SP Manweb plc

SP Manweb plc is a regulated DNO whose activities are governed by a licence granted by Ofgem. For such licenced entities the main drivers facilitating distributions, including dividends, are holding an investment-grade credit rating and compliance with several other licence conditions. The total value of distributable reserves is restricted by the requirement to comply with several licence conditions including holding an investment-grade credit rating. In addition, standard condition 26 of the distribution licence conditions restricts the disposal of property, plant and equipment. The Group has policies and procedures in place to adhere to the licence conditions and restrictions arising from them.

Value restricted	2021 £m	2020 £m
Distributable reserves	573.3	726.7
Property, plant and equipment	3,223.6	3,117.8

SP Transmission plc

SP Transmission plc is a regulated electricity transmission entity whose activities are governed by a licence granted by Ofgem. For such licenced entities the main drivers facilitating distributions, including dividends, are holding an investment-grade credit rating and compliance with several other licence conditions. The total value of distributable reserves is restricted by the requirement to comply with several licence conditions including holding an investment-grade credit rating. In addition, standard condition B3 of the transmission licence conditions restricts the disposal of property, plant and equipment. The Group has policies and procedures in place to adhere to the licence conditions and restrictions arising from them.

Value restricted	2021 £m	2020 £m
Distributable reserves	717.1	819.9
Property, plant and equipment	3,156.5	3,016.7

5 BUSINESS SEGMENT REPORTING

(a) Operating segments and business divisions

The Group defines its operating segments based on a combination of factors, principally differences in products and services, and the regulatory environment in which each business operates. The Group is organised into three reportable segments; Energy Networks, Renewables, and Energy Retail and Wholesale. The Group identifies SPT, SPD and SPM as individual operating segments, but as management deem these operating segments to exhibit similar economic characteristics, they have been aggregated (together with other Energy Networks entities) into a single reported segment, Energy Networks. In line with IFRS 8, the Group reports its segments on this basis and the measure of profit used for the purpose of reporting to the Chief Operating Decision Maker ("CODM") is operating profit as per the Consolidated income statement. All revenue for the reported segments arise from operations within Great Britain and Ireland. Revenue arising from operations within the Republic of Ireland is not deemed material enough to disclose as a separate operating segment.

In accordance with the disclosure requirements of IFRS 8, the Annual Report and Accounts of the Group reports the relevant financial results of the reported segments (as described above). In the interest of improved transparency, the Group has voluntarily disclosed revenue and operating profit for the year ended 31 December 2021 for the separate business divisions within the Renewables and Energy Retail and Wholesale reported segments, whilst also providing detail in relation to non-recurring items and certain remeasurements arising from IFRS 9, consistent with the Supply and Generation regulatory licence conditions. This information has been calculated, where appropriate, in accordance with Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences.

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 for the year ended 31 December 2021

5 BUSINESS SEGMENT REPORTING *continued*

(a) Operating segments and business divisions *continued*

During the year ended 31 December 2021, the Group's reported segments and business divisions were as follows:

Reported segment	Business division	Business division description
Energy Networks	Energy Networks	The transmission and distribution business within the Group.
Renewables	Renewables – Licensed business ¹	The Great Britain licensed activity of the Renewables reported segment, which develops and operates renewable generation plant.
	Other	The non-licensed activity of the Renewables reported segment, (which includes generation activity outside Great Britain), the results of Coldham Windfarm Limited (which is exempt from holding a generation licence as it is classified as a small generator), and the impact of the amortisation of fair value attributed to the Renewables reported segment when purchased by Iberdrola during 2007.
Energy Retail and Wholesale	Supply – Licensed business ¹	The licensed activity of the Energy Retail and Wholesale reported segment which is responsible for the supply of electricity and gas to domestic and non-domestic customers.
	Energy Management ¹	The non-licensed activities of the Energy Retail and Wholesale reported segment, responsible for wholesale market purchases for the Supply – Licensed business division. In addition, Energy Management manages limited proprietary trading and gas storage activities.
	Other	The non-licensed activity of the Energy Retail and Wholesale reported segment which includes the Group's smart solutions activities and non-licensed metering activities, including smart meter asset provision.

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

(b) Revenue by reported segment and business division

(i) Revenue by reported segment

The revenue by reported segment for the year ended 31 December 2021 is detailed below.

Reported segment	External revenue £m	Inter-segment revenue* £m	Revenue reported to the CODM £m
Energy Networks	1,139.6	136.7	1,276.3
Renewables	113.4	750.0	863.4
Energy Retail and Wholesale	4,096.7	10.6	4,107.3
Elimination of inter-segment revenue			(897.3)
			5,349.7

* Inter-segment revenue relating to Energy Networks is predominantly subject to regulation and is based on published tariffs set by Ofgem. Renewables inter-segment revenue primarily consists of the sale of electricity and ROCs from wind farms. Energy Retail and Wholesale inter-segment revenue largely consists of the supply of electricity and gas.

The revenue by reported segment for the year ended 31 December 2020 is detailed below.

Reported segment	External revenue £m	Inter-segment revenue* £m	Revenue reported to the CODM £m
Energy Networks	1,115.3	139.1	1,254.4
Renewables	309.1	596.9	906.0
Energy Retail and Wholesale	3,739.6	11.0	3,750.6
Elimination of inter-segment revenue			(747.0)
			5,164.0

* Inter-segment revenue relating to Energy Networks is predominantly subject to regulation and is based on published tariffs set by Ofgem. Renewables inter-segment revenue primarily consists of the sale of electricity and ROCs from wind farms. Energy Retail and Wholesale inter-segment revenue largely consists of the supply of electricity and gas.

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 for the year ended 31 December 2021

5 BUSINESS SEGMENT REPORTING *continued*

(b) Revenue by reported segment and business division *continued*

(ii) Additional information – Revenue by reported segment and business division

The revenue by reported segment and business division for the year ended 31 December 2021 is detailed below. No comparative information has been provided as this is a voluntary disclosure as described on page 70.

Reported segment	Business division	Revenue £m	Joint venture share of revenue (Note (iii)) £m	Revenue re-allocations as per regulatory licence requirements (Note (iv)) £m	Revenue as per regulatory licence requirements £m
Energy Networks		1,276.3	–	–	1,276.3
	Renewables – Licensed business	846.2	9.6	–	855.8
	Other	17.2	0.1	–	17.3
Renewables		863.4	9.7	–	873.1
	Supply – Licensed business	4,002.9	–	(30.6)	3,972.3
	Energy Management	3,868.8	–	–	3,868.8
	Other	84.2	–	–	84.2
	Elimination of intra-segment revenue	(1,716.6)	–	–	(1,716.6)
	Netting adjustment*	(2,132.0)	–	–	(2,132.0)
Energy Retail and Wholesale		4,107.3	–	(30.6)	4,076.7
Elimination of inter-segment revenue		(897.3)	–	–	(897.3)
Total		5,349.7	9.7	(30.6)	5,328.8

* At an entity level, non-speculative wholesale market trades are shown gross in Revenue and Procurements. At a group level these are accounted for net, such that all Energy Retail non-speculative wholesale market trades are included within Procurements.

(iii) Joint venture share of revenue

All joint ventures within the Group are consolidated using the equity method. The results of the joint ventures are therefore presented within Results of companies accounted for using the equity method on the face of the Consolidated income statement and so do not form part of Revenue.

As per the licence conditions, and the associated regulatory reporting, the Group is required to proportionally consolidate the results of the joint ventures and so present revenues and costs in the appropriate lines of the Income statement.

(iv) Revenue re-allocations as per regulatory licence requirements

As disclosed in Note 24 to the financial statements, in line with Group accounting policy, Taxes other than income tax includes the costs of the WHD scheme. As per the licence conditions, these costs are required to be deducted from Revenue.

(c) Operating profit/(loss) by reported segment and business division

(i) Operating profit/(loss) by reported segment

The operating profit/(loss) by reported segment for the year ended 31 December 2021 is detailed below.

Reported segment	Operating profit/(loss) reported to the CODM £m
Energy Networks	572.2
Renewables	343.2
Energy Retail and Wholesale	(278.8)
Unallocated	83.8
Total	720.4

The operating profit/(loss) by reported segment for the year ended 31 December 2020 is detailed below.

Reported segment	Operating profit/(loss) reported to the CODM Restated* £m
Energy Networks	583.6
Renewables	448.0
Energy Retail and Wholesale	(40.8)
Unallocated	1.0
Total	991.8

* Comparative figures have been restated (refer to Note 2)

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 for the year ended 31 December 2021

5 BUSINESS SEGMENT REPORTING *continued*

(c) Operating profit/(loss) by reported segment and business division *continued*

(ii) Additional information – Operating profit/(loss) by reported segment and business division

The operating profit by reported segment and business division for the year ended 31 December 2021 is detailed below. No comparative information has been provided as this is a voluntary disclosure as described on page 70.

Reported segment	Business division	Operating profit/(loss) £m	Joint venture share of operating profit (Note (iii)) £m	Non-recurring items (Note (iv)) £m	Certain remeasurements (Note (v)) £m	Adjusted operating profit as per regulatory licence requirements £m
Energy Networks		572.2	–	–	–	572.2
	Renewables – Licensed business	370.2	0.1	(3.9)	5.8	372.2
	Other	(27.0)	(0.1)	–	–	(27.1)
Renewables		343.2	–	(3.9)	5.8	345.1
	Supply – Licensed business	(304.9)	–	11.2	–	(293.7)
	Energy Management	4.9	–	0.1	8.7	13.7
	Other	21.2	–	7.2	–	28.4
Energy Retail and Wholesale		(278.8)	–	18.5	8.7	(251.6)
Unallocated		83.8	–	(83.0)	–	0.8
Total		720.4	–	(68.4)	14.5	666.5

(iii) Joint venture share of operating profit

All joint ventures within the Group are consolidated using the equity method. The results of the joint ventures are therefore presented within Results of companies accounted for using the equity method on the face of the Consolidated income statement and so do not form part of Operating profit.

As per the licence conditions, and the associated regulatory reporting, the Group is required to proportionally consolidate the results of the joint ventures and so presents revenues and costs in the appropriate lines of the Income statement.

(iv) Non-recurring items

In the year ended 31 December 2021, £68.4 million of net non-recurring items were recorded.

Provisions for restructuring and other liabilities of £(13.7) million: On review of the Group's provisions as at 31 December 2021, there was a net increase to restructuring provisions and associated pension costs of £13.7 million. This was a net release to prior year provisions of £0.2 million offset by £13.9 million of new provisions in relation to expected restructuring costs in 2022.

Impairment and non-current asset write-offs of £(7.9) million: During the year ended 31 December 2021, the Group recognised a charge of £7.9 million which principally comprised the write-off of smart meter assets of £6.9 million.

Non-recurring income of £90.0 million: During the year ended 31 December 2021, the Group recognised £90.0 million of non-recurring income which principally comprised the £85.7 million pension liabilities revaluation (refer to Note 9F) within the unallocated segment.

(v) Certain remeasurements

Certain remeasurements are the fair value movements on and ineffectiveness on energy contracts arising from the application of IFRS 9. These have been disclosed separately to aid the understanding of the underlying performance of the Group.

(d) Other financial data by reported segment

Other items by reported segment for the year ended 31 December 2021	Acquisition of property, plant and equipment and intangible assets reported to the CODM £m	Acquisition of right-of-use assets reported to the CODM £m	Depreciation, amortisation and impairment reported to the CODM £m	Net expected credit loss on trade and other receivables reported to the CODM £m
Energy Networks	607.6	9.9	336.3	7.6
Renewables	201.8	5.2	243.7	(0.3)
Energy Retail and Wholesale	170.7	–	150.1	100.4
Unallocated	18.9	4.8	28.4	0.3
Total	999.0	19.9	758.5	108.0

Other items by reported segment for the year ended 31 December 2020	Acquisition of property, plant and equipment and intangible assets reported to the CODM £m	Acquisition of right-of-use assets reported to the CODM £m	Depreciation, amortisation and impairment reported to the CODM £m	Net expected credit loss on trade and other receivables reported to the CODM £m
Energy Networks	551.0	16.7	319.7	1.6
Renewables	599.4	3.8	227.9	(0.1)
Energy Retail and Wholesale	138.4	0.2	131.3	118.8
Unallocated	19.7	0.5	29.9	0.1
Total	1,308.5	21.2	708.8	120.4

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 for the year ended 31 December 2021

6 INTANGIBLE ASSETS

(a) Movements in intangible assets

Year ended 31 December 2020	Note	Goodwill (Note (b)) £m	Other intangible assets				Total £m	Total £m
			Computer software (Notes (i), (iii)) £m	Licences £m	Customer Contract Costs (Note (iii)) £m	Other £m		
Cost:								
At 1 January 2020		364.6	460.3	9.5	168.7	5.4	643.9	1,008.5
Additions	(iv)	–	28.6	–	59.9	–	88.5	88.5
Disposals		–	(4.3)	–	(26.1)	–	(30.4)	(30.4)
At 31 December 2020		364.6	484.6	9.5	202.5	5.4	702.0	1,066.6
Amortisation:								
At 1 January 2020		–	322.7	4.3	57.6	2.6	387.2	387.2
Amortisation for the year		–	59.2	0.3	49.2	1.8	110.5	110.5
Disposals		–	(4.3)	–	(26.1)	–	(30.4)	(30.4)
At 31 December 2020		–	377.6	4.6	80.7	4.4	467.3	467.3
Net book value:								
At 31 December 2020		364.6	107.0	4.9	121.8	1.0	234.7	599.3
At 1 January 2020		364.6	137.6	5.2	111.1	2.8	256.7	621.3

Year ended 31 December 2021	Note	Goodwill (Note (b)) £m	Other intangible assets				Total £m	Total £m
			Computer software (Notes (i),(iii)) £m	Licences £m	Customer Contract Costs (Note (iii)) £m	Other £m		
Cost:								
At 1 January 2021		364.6	484.6	9.5	202.5	5.4	702.0	1,066.6
Additions	(iv)	–	40.3	–	75.1	–	115.4	115.4
Disposals		–	(11.8)	–	(29.4)	–	(41.2)	(41.2)
At 31 December 2021		364.6	513.1	9.5	248.2	5.4	776.2	1,140.8
Amortisation:								
At 1 January 2021		–	377.6	4.6	80.7	4.4	467.3	467.3
Amortisation for the year		–	62.0	0.4	62.5	1.0	125.9	125.9
Disposals		–	(11.8)	–	(29.4)	–	(41.2)	(41.2)
At 31 December 2021		–	427.8	5.0	113.8	5.4	552.0	552.0
Net book value:								
At 31 December 2021		364.6	85.3	4.5	134.4	–	224.2	588.8
At 1 January 2021		364.6	107.0	4.9	121.8	1.0	234.7	599.3

- (i) The cost of fully amortised computer software still in use at 31 December 2021 was £100.1 million (2020 £94.8 million).
- (ii) Included in the net book value of computer software is £2.8 million (2020 £13.9 million) relating to the customer relationship management system which has less than one year of remaining amortisation; and £16.2 million (2020 £29.3 million) relating to system upgrades for smart metering which has two years of remaining amortisation.
- (iii) Refer to Note 22(c) for details on customer contract costs.
- (iv) Included within additions is £2.3 million (2020 £1.3 million) from internal development.

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2021

6 INTANGIBLE ASSETS *continued*

(b) Impairment test for goodwill

The carrying amount of goodwill for Renewables at 31 December 2021 was £364.6 million (2020 £364.6 million).

The recoverable amount for Renewables has been determined based on a value-in-use calculation. The calculation uses cash flow projections which reflect past experience, and which are based upon a management approved business plan. Cash flows beyond that period reflect asset estimated useful lives as well as management's forward view of prices and the business strategic objectives. It is considered appropriate to assess the cash flows over a period longer than five years as this better reflects the long-term nature of energy market operations and governance, and of wind farm development lead times.

The value-in-use calculation is based on anticipated generation output over the expected lives of individual wind farm projects.

Cash inflows for all projects are based on anticipated generation output using historical trend information as well as technical assessment. The output is valued at forward power prices based on: observable market information where available; assumed continuing government support through ROCs, CfDs and other mechanisms; and on internal model assumptions. Cash outflows are based on planned operating and capital expenditure.

The main assumptions and basis for determining values assigned to the key assumptions are detailed below:

Main assumptions used for value-in-use calculations

Discount rate (pre-tax): onshore 4.94%; and offshore 5.62%

Forward price of power

Energy output

Inflation rate: 2%

Basis for determining values assigned to key assumptions

Discount rate is determined on the basis of market data and the divisional cost of capital

Market quotes/management future expectations

Theoretical maximum output less adjustments based on historical data (wind variability, outages and availability)

Growth rate is based on an inflation rate of 2% per annum and is applied to assumptions including operating costs, ROC buyout and CfD prices.

The value-in-use calculation of Renewables exceeds the carrying amount.

The Group has also performed several sensitivity analyses of the impairment test result in relation to the key assumptions to which the value-in-use calculation is most sensitive. These tests included:

- a 100 basis point increase in the pre-tax discount rate;
- a short-term 30% drop in the power price per megawatt hour, replaced by 10% for the period thereafter, reflecting a less volatile market over the medium to longer term (only applicable to production for which no long-term sales agreements have been entered into); and
- a 5% decline in energy output (considered reasonable to assess risk from unpredicted plant availability or weather issues).

After applying each sensitivity, there was significant headroom between the value-in-use calculations and the underlying book value of the assets.

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

7 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 December 2020	Note	Total operating plant (Note (b)) £m	Other items of property, plant and equipment in use (Note (b)(i)) £m	Plant in the course of construction £m	Other items of property plant and equipment in the course of construction £m	Total £m
Cost:						
At 1 January 2020		16,107.9	256.9	2,138.4	20.6	18,523.8
Additions	((b)(ii),(iii))	172.4	17.4	1,016.6	13.6	1,220.0
Transfers from inventories		–	–	24.3	16.4	40.7
Transfers from plant in the course of construction to plant in use		2,123.5	–	(2,094.6)	(28.9)	–
Disposals		(76.7)	(2.6)	(0.3)	(1.6)	(81.2)
At 31 December 2020		18,327.1	271.7	1,084.4	20.1	19,703.3
Depreciation:						
At 1 January 2020		4,395.1	89.6	–	–	4,484.7
Charge for the year		550.1	17.5	–	–	567.6
Disposals		(66.1)	(2.8)	–	–	(68.9)
At 31 December 2020		4,879.1	104.3	–	–	4,983.4
Net book value:						
At 31 December 2020		13,448.0	167.4	1,084.4	20.1	14,719.9
At 1 January 2020		11,712.8	167.3	2,138.4	20.6	14,039.1
The net book value of property, plant and equipment at 31 December 2020 is analysed as follows:						
Property, plant and equipment in use		13,448.0	167.4	–	–	13,615.4
Property, plant and equipment in the course of construction		–	–	1,084.4	20.1	1,104.5
		13,448.0	167.4	1,084.4	20.1	14,719.9

Year ended 31 December 2021	Note	Total operating plant (Note (b)) £m	Other items of property, plant and equipment in use (Note (b)(i)) £m	Plant in the course of construction £m	Other items of property plant and equipment in the course of construction £m	Total £m
Cost:						
At 1 January 2021		18,327.1	271.7	1,084.4	20.1	19,703.3
Additions	((b)(iii))	70.3	19.2	772.8	21.3	883.6
Transfers from inventories		–	–	15.1	18.4	33.5
Transfers from plant in the course of construction to plant in use		780.9	(0.1)	(746.5)	(34.3)	–
Disposals		(48.8)	(8.3)	–	(1.0)	(58.1)
At 31 December 2021		19,129.5	282.5	1,125.8	24.5	20,562.3
Depreciation:						
At 1 January 2021		4,879.1	104.3	–	–	4,983.4
Charge for the year		582.8	17.5	–	–	600.3
Disposals		(40.3)	(8.3)	–	–	(48.6)
Impairment		–	0.1	–	–	0.1
At 31 December 2021		5,421.6	113.6	–	–	5,535.2
Net book value:						
At 31 December 2021		13,707.9	168.9	1,125.8	24.5	15,027.1
At 1 January 2021		13,448.0	167.4	1,084.4	20.1	14,719.9
The net book value of property, plant and equipment at 31 December 2021 is analysed as follows:						
Property, plant and equipment in use		13,707.9	168.9	–	–	13,876.8
Property, plant and equipment in the course of construction		–	–	1,125.8	24.5	1,150.3
		13,707.9	168.9	1,125.8	24.5	15,027.1

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

7 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) The movements in total operating plant are analysed as follows:

	Wind power plants £m	Gas storage facilities £m	Transmission facilities £m	Distribution facilities £m	Smart meters and measuring devices £m	Other facilities (Note (iv)) £m	Total operating plant £m
Year ended 31 December 2020							
Cost:							
At 1 January 2020	4,529.9	35.6	3,158.2	7,602.5	517.2	264.5	16,107.9
Additions	113.7	0.1	4.8	6.0	36.4	11.4	172.4
Transfers from plant in the course of construction to plant in use	1,298.1	–	247.9	559.1	12.6	5.8	2,123.5
Disposals	(1.7)	–	(4.8)	(12.5)	(54.3)	(3.4)	(76.7)
At 31 December 2020	5,940.0	35.7	3,406.1	8,155.1	511.9	278.3	18,327.1
Depreciation:							
At 1 January 2020	1,166.5	19.4	654.0	2,190.5	260.4	104.3	4,395.1
Charge for the year	206.1	0.7	80.7	207.4	38.1	17.1	550.1
Disposals	(0.7)	–	(4.3)	(10.5)	(47.2)	(3.4)	(66.1)
At 31 December 2020	1,371.9	20.1	730.4	2,387.4	251.3	118.0	4,879.1
Net book value:							
At 31 December 2020	4,568.1	15.6	2,675.7	5,767.7	260.6	160.3	13,448.0
At 1 January 2020	3,363.4	16.2	2,504.2	5,412.0	256.8	160.2	11,712.8
Year ended 31 December 2021							
Cost:							
At 1 January 2021	5,940.0	35.7	3,406.1	8,155.1	511.9	278.3	18,327.1
Additions (Note (v))	3.5	(0.1)	(0.5)	8.2	44.8	14.4	70.3
Transfers from plant in the course of construction to plant in use	127.9	0.6	201.6	433.5	15.8	1.5	780.9
Disposals	(1.0)	(0.2)	(5.1)	(12.7)	(29.8)	–	(48.8)
At 31 December 2021	6,070.4	36.0	3,602.1	8,584.1	542.7	294.2	19,129.5
Depreciation:							
At 1 January 2021	1,371.9	20.1	730.4	2,387.4	251.3	118.0	4,879.1
Charge for the year	218.6	0.7	86.4	219.0	40.8	17.3	582.8
Disposals	(0.7)	(0.1)	(5.1)	(10.9)	(23.5)	–	(40.3)
At 31 December 2021	1,589.8	20.7	811.7	2,595.5	268.6	135.3	5,421.6
Net book value:							
At 31 December 2021	4,480.6	15.3	2,790.4	5,988.6	274.1	158.9	13,707.9
At 1 January 2021	4,568.1	15.6	2,675.7	5,767.7	260.6	160.3	13,448.0

- (i) Other items of property, plant and equipment in use comprises land and buildings, IT equipment and other assets. Included within this category is £6.4 million (2020 £6.4 million) relating to spend on non-operational sites which are not classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.
- (ii) Additions in the year ended 31 December 2020 include £20.0 million in respect of wind power plant considered as asset acquisitions as part of the Group's acquisition of Hagshaw Hill Repowering Ltd and Cumberhead West Wind Farm Ltd.
- (iii) Interest on the funding attributable to major capital projects was capitalised during the year at a rate of 1.3% (2020 1.1%).
- (iv) The Other facilities category of operating plant largely comprises smart meter infrastructure assets and Energy Networks communications facilities.
- (v) In the year ended 31 December 2021, the reductions of £0.1 million and £0.5 million in gas storage facilities and transmission facilities, respectively, resulted from a reassessment of future estimated decommissioning costs.
- (vi) The cost of fully depreciated property, plant and equipment still in use at 31 December 2021 was £512.0 million (2020 £449.3 million).
- (vii) Included within Other operating results in the Income statement for the year ended 31 December 2021 is £0.8 million (2020 £1.0 million) relating to compensation receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.
- (viii) Included within the cost of property, plant and equipment at 31 December 2021 are assets in use not subject to depreciation, being land and cushion gas, of £59.1 million (2020 £59.2 million).
- (ix) Included in Transmission facilities and Other items of property, plant and equipment in use are assets with a carrying amount of £1.3 million (2020 £1.3 million) and £0.3 million (2020 £0.5 million) respectively which the Group leases to third parties via operating leases.

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

7 PROPERTY, PLANT AND EQUIPMENT *continued*

(c) Capital commitments

	2021						Total £m
	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 and thereafter	
Contracted but not provided	375.0	60.4	20.3	9.1	0.9	0.4	466.1

	2020						Total £m
	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2026 and thereafter	
Contracted but not provided	373.0	62.8	7.5	0.8	0.1	0.2	444.4

(d) Research and development expenditure

The amount of research and development expenditure recognised as an expense during the year was £4.4 million (2020 £4.2 million).

8 LEASING

8A LESSEE

The Group leases many assets including land, buildings and vehicles. Information about leases for which the Group is a lessee is presented below.

(a) Nature of leases

Land

The Group holds agreements to lease land (including seabed) and for the assignment of rights to use land, primarily for operational assets, (mainly wind farms), with typical lease terms running from four to 50 years. Certain leases contain the right to extend the lease term by up to 50 years; others can be terminated with appropriate notice, generally up to 24 months.

Buildings

The Group leases buildings primarily for its office space, operational depots and retail space (which is sub-let). The leases typically have lease terms running from two to 25 years. Certain leases have options to extend the term by up to 25 years at the end of the term; others have options to terminate subject to a notice period typically of up to six months or at agreed break points.

The lease for the head office building has a 25 year term ending in 2041 at which point the Group has the right to extend the lease to 2046 (and to 2051 at 2046). It is currently not deemed reasonably certain that these extension options will be taken. However, should they be taken, the estimated increase in the lease liability would be £36.1 million and a further £20.2 million respectively.

The Group sub-leases some of its properties under operating leases (refer to Note 8B). Where the unavoidable costs of meeting the obligations under these contracts exceed the economic benefits expected to be received under them, the right-of-use assets have been appropriately impaired.

Vehicles

The Group leases vehicles with lease terms of between two and eight years, primarily being pool vehicles to mobilise its operational staff and other specialist vehicles. Certain leases can be extended by up to one year and others terminated without notice. Certain vehicle leases are considered short-term and the Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Other equipment

The Group leases operating plant and office equipment, with lease terms of up to 42 years. Certain leases have rights to extend the term by up to five years or terminate the lease giving appropriate notice. Certain plant and equipment leases are considered short-term and the Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Variable lease payments

Some land leases, particularly those for land on which wind farms have been built, contain variable lease payments that are based primarily on the output from the wind farm. Also certain building leases contain variable lease payments that are based on the building services supplied. These payment terms are common for both of these types of leases. The fixed annual payments for the year were £39.0 million compared to variable payments of £17.4 million. Despite the future planned growth of the Renewables business, the Group expects the relative proportions of fixed and variable lease payments to remain broadly consistent in future years.

Extension options

Some leases, in particular of land and buildings, contain extension options exercisable by the Group at the end of the non-cancellable contract period or an agreed point before that date. Where practicable, the Group seeks to include extension options in leases to provide operational flexibility. Those options held are exercisable only by the Group and not by the lessors. At lease commencement, the Group 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 Group has not committed to any leases that have not yet commenced. The Group has no contracts containing residual value guarantee, no leases subject to significant restrictions or covenants, and no sale and leaseback transactions.

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

8 LEASING *continued*

8A LESSEE *continued*

(b) Right-of-use assets

Year ended 31 December 2020	Note	Land £m	Buildings £m	Vehicles £m	Other equipment £m	Total £m
Cost:						
At 1 January 2020		311.2	101.4	26.3	2.5	441.4
Additions		12.6	0.2	8.2	0.2	21.2
Adjustments for changes in liabilities	(i)	43.3	3.3	2.0	0.3	48.9
Disposals		(0.8)	–	(0.1)	–	(0.9)
At 31 December 2020		366.3	104.9	36.4	3.0	510.6
Depreciation:						
At 1 January 2020		13.1	7.4	6.7	0.7	27.9
Charge for the year		14.7	7.4	8.0	0.6	30.7
Disposals		(0.2)	–	(0.1)	–	(0.3)
At 31 December 2020		27.6	14.8	14.6	1.3	58.3
Net book value:						
At 31 December 2020		338.7	90.1	21.8	1.7	452.3
At 1 January 2020		298.1	94.0	19.6	1.8	413.5

Year ended 31 December 2021	Notes	Land £m	Buildings £m	Vehicles £m	Other equipment £m	Total £m
Cost:						
At 1 January 2021		366.3	104.9	36.4	3.0	510.6
Additions		8.0	7.3	4.6	–	19.9
Adjustments for changes in liabilities	(i)	11.0	3.3	0.6	1.3	16.2
Disposals		(0.3)	(1.3)	(0.2)	–	(1.8)
Impairment	(ii)	–	(0.6)	–	–	(0.6)
At 31 December 2021		385.0	113.6	41.4	4.3	544.3
Depreciation:						
At 1 January 2021		27.6	14.8	14.6	1.3	58.3
Charge for the year		16.3	7.0	7.6	0.7	31.6
Disposals		–	(0.8)	(0.1)	–	(0.9)
At 31 December 2021		43.9	21.0	22.1	2.0	89.0
Net book value:						
At 31 December 2021		341.1	92.6	19.3	2.3	455.3
At 1 January 2021		338.7	90.1	21.8	1.7	452.3

- (i) Adjustments for changes in liabilities are movements in the right-of-use asset resulting from remeasurement of the associated lease liability to reflect changes to the lease payments due to any reassessment or lease modifications.
- (ii) The £0.6 million impairment charge for the year relates to additions to a sub-leased property, for which the right-of-use asset has already been fully impaired.
- (iii) There are no right-of-use assets measured at revalued amounts.

(c) Lease liabilities

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

	2021 £m	2020 £m
Less than one year	45.3	38.8
One to five years	151.3	146.0
More than five years	537.5	541.7
Total undiscounted lease liabilities at 31 December	734.1	726.5
Finance cost	(223.4)	(228.8)
Total discounted lease liabilities	510.7	497.7

Analysis of total lease liabilities

	2021 £m	2020 £m
Non-current	477.5	471.6
Current	33.2	26.1
Total	510.7	497.7

Details of the Group's risk management strategy for liquidity risks inherent in its lease liability are described at Note 11(e)C1.

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

8 LEASING *continued*

8A LESSEE *continued*

(d) Amounts recognised in Income statement

	Note	2021 £m	2020 £m
Interest on lease liabilities		(17.7)	(16.6)
Variable lease payments not included in the measurement of lease liabilities		(17.4)	(18.3)
Income from sub-leasing right-of-use assets		0.6	0.7
Expenses relating to short-term leases	(i)	(6.0)	(7.0)

(i) This charge relates to leases for plant and equipment, and vehicles. Future commitments relating to the portfolio of short-term leases are expected to be similar to the expense charged in the year.

(e) Amounts recognised in the Statement of cash flows

	2021 £m	2020 £m
Payments of lease liabilities	(23.8)	(26.7)
Interest paid on lease liabilities	(15.2)	(12.0)
Payments for variable lease components	(17.4)	(18.3)
Payments for short-term leases	(5.1)	(6.2)
Total cash outflow for leases	(61.5)	(63.2)

8B LESSOR

The Group has contracts to lease land and buildings which have been classified as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. These leases have terms of between one and 25 years, running to between 2022 and 2029.

Lease income recognised by the Group during 2021 was £2.8 million (2020 £2.9 million). No income has been recognised in either year relating to variable lease payments that do not depend on an index or rate.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted payments to be received after the reporting date:

	2021 £m	2020 £m
Less than one year	2.4	2.8
One to two years	1.9	1.9
Two to three years	0.3	0.2
Three to four years	0.2	0.2
Four to five years	0.2	0.2
More than five years	0.3	0.8
Total undiscounted lease payments	5.3	6.1

Details of the Group's risk management strategy for addressing and reducing the risks associated with the retained rights in the underlying assets are described in Note 11(e)C1.

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2021

9 RETIREMENT BENEFIT OBLIGATIONS

A ANALYSIS OF BALANCE

The amounts recognised in the Statement of financial position in respect of the net retirement benefit assets/(obligations) are detailed below:

	2021 £m	2020 £m
Non-current assets	291.7	–
Non-current liabilities	(99.5)	(558.6)

B GROUP PENSION ARRANGEMENTS

The Group operates the following pension schemes for staff:

Scheme	Scottish Power Pension Scheme ("SPPS")	Manweb Group of Electricity Supply Pension Scheme ("Manweb")	Stakeholder Pension Plan
Type of benefit	Final salary	Final salary	Defined contribution
New entrants	No	No	Yes
Funded separately from Group assets	Yes	Yes	Yes
Administration method	Trustee board	Trustee board	Insurance contract
Member contributions	5% of salary	5.5% of salary	5% of salary
How Group contributions are determined	Agreement of Trustee and Group following actuarial valuation (last valuation: 31 March 2018)	Agreement of Trustee and Group following actuarial valuation (last valuation: 31 March 2018)	Defined
Current actual Group contributions	51% of salary	47.9% of salary	Service-related, 6% to 14% of salary
Special contributions during year ended 31 December 2021	£60.8 million	£46.4 million	None
Special contributions planned for year ending 31 December 2022	£62.5 million	£47.7 million	None
Pension charge	Based on advice of independent qualified actuary	Based on advice of independent qualified actuary	Equal to actual Group contributions in the year (2021 £15.0 million, 2020 £13.6 million)

The age profile of the two final salary schemes is expected to rise over time, due to the reduction in new entrants. This will, in turn, result in increasing service costs for these two schemes due to the actuarial valuation method used (the projected unit method). The Group believes that the projected unit method continues to be appropriate at present, and provides a reasonable basis for assessing the Group's final salary pension costs.

The Group also operates an Unfunded Unapproved Retirement Benefit Scheme ("UURBS") for former senior executives' benefit promises in excess of limits set by the UK taxation authorities. The UURBS has no invested assets, and the Group has provided £4.9 million as at 31 December 2021 (2020 £5.4 million) for the benefit promises which will ultimately be paid by the Group.

Following a recent review of the pension scheme, the Company has been considering what options it has available to reduce the cost associated with running the pension schemes and the established liabilities. Prior to 2021, there had been an established practice within the Final Salary Life Plan ("FSLP") section of SPPS to apply RPI revaluations on deferment. However, the rules for the FSLP section provide for deferred benefits to be revalued in accordance with pensions legislation, i.e. statutory revaluation. Given the flexibility that exists within the rules for the FSLP section, in 2021 the Company and Trustee have agreed that the Company will no longer augment benefits in the FSLP section to provide RPI deferred revaluation but will instead revert to statutory revaluation. This plan amendment was communicated to the deferred members of the FSLP section on 17 November 2021 and the associated past service gain of £85.7 million was recognised at that date.

C GROUP PENSION SCHEME GOVERNANCE

As described in the table above, the Group operates two defined benefit pension schemes. Active members continue to accrue benefits in the schemes, which are based on final pensionable salary. The two schemes are closed to new entrants.

The schemes are approved by HMRC and subject to standard UK pensions and tax law. The defined benefit schemes are subject to the scheme funding requirements as set out in section 224 of the Pensions Act 2004. In accordance with the scheme funding requirements, an actuarial funding valuation is carried out at least triennially to determine the appropriate level of ongoing contributions for both future service and a recovery plan in respect of any deficit at the valuation date. These actuarial valuations will be based on assumptions agreed between the Trustees and the Group. The assumptions used to calculate liabilities (or technical provisions) in a triennial funding valuation may differ from those used in IAS 19 accounting. The Trustees are required to set assumptions prudently, whereas IAS 19 assumptions are set with regard to the Group's best estimates. Additionally, the discount rate used to value technical provisions in a triennial valuation will take into account the scheme investment strategy, rather than being based on the yield on AA corporate bonds as required under IAS 19. The most recent completed actuarial valuation was as at the effective date of 31 March 2018. The latest actuarial valuations as at 31 March 2021 are progressing with final agreement between the Trustees and Company due by 30 June 2022.

In accordance with UK trust and pensions law, the defined benefit pension schemes are governed by their respective Board of Trustees. Although the Group meets the financial cost of running the schemes, the Trustees are responsible for the management and governance of the schemes, and have a duty to act in the best interests of the members.

The strategic management of the assets is the responsibility of the Trustees acting on expert advice. The Trustees take advice from the schemes' actuaries and investment advisers with a view to investing the schemes' assets in a manner that is appropriate to the nature and duration of the expected future retirement and death benefits payable from the schemes. In consultation with the Group, the Trustees have set out a target investment strategy for the schemes of 56% matching and 44% growth assets. In terms of the matching portfolio, the schemes utilise a Liability Driven Investment ("LDI") strategy. The aim of the LDI portfolio is to invest in a range of assets (mostly bonds) which broadly match the expected future benefit payments from the schemes.

In addition, the Trustee of SPPS and the Trustee of Manweb have implemented longevity swaps in December 2014 and July 2016 respectively. For further details, refer to the Mortality risk section that follows.

Since the outbreak of the COVID-19 pandemic in March 2020, the Trustees have monitored the impact on the pension schemes from an operational and investment perspective. The Company has continued to operate effectively and the employer covenant remains strong. Although market risk increased following the pandemic, there has not been a significant issue from a net asset valuation perspective. Hence, contributions to the schemes continue to be received in line with the previously agreed schedule of contributions. The triennial scheme valuations due on 31 March 2021 are currently underway with agreement on new payment schedules between the Trustees and the Company due by 30 June 2022.

As a result of the exit of the UK from the EU, new rules for trade, travel and business came into effect from 1 January 2021. Based on expert advice, the Trustees monitored how these new rules impacted on the schemes.

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2021

9 RETIREMENT BENEFIT OBLIGATIONS *continued*

D RISK MANAGEMENT

The defined benefit schemes expose the Group to actuarial risks and details of the specific risks and how they are managed are described below.

D1 INVESTMENT (MARKET) RISK

There is a risk relating to changes in the value of the portfolio due to movements in the market value of the assets. To the extent that there is a mismatch between the investment strategy and the overall level and profile of the liabilities, this can lead to volatility in the funding level, and as the portfolio matures there is a risk of not being able to reinvest assets at the assumed rates. The Trustees utilise an LDI strategy which aims to invest 56% of the assets in matching LDIs such as bonds, which broadly match the nature and profile of the future expected benefit payments from the scheme.

The underlying LDI strategy utilises investment in fixed-interest and index-linked government securities, cash, and derivative instruments such as interest and inflation rate swaps. The objective of the LDI strategy is to manage the schemes' interest and inflation rate exposure relative to the interest and inflation rate exposure of the liability cash flows. Hence, the strategy provides a hedge against changes in scheme liabilities resulting from interest and inflation rate movements (see further detail below). LDI assets are valued in accordance with fair market value principles. For instance, valuations will be based on quoted prices where available (e.g. fixed-interest securities) and pricing models using observable market inputs (e.g. in relation to swaps and other derivative instruments). The Trustees have further diversified the market risk in the growth portfolio across multiple asset types, such as equities, property, diversified growth funds, infrastructure, private and mezzanine debt and multi-asset credit. As with LDI, growth assets are valued based on quoted prices where available (e.g. quoted equities, corporate bonds). Where investments do not have a market quotable price available, such as level 3 assets, the fair values are derived in accordance with IFRS 13 and provided by the fund manager. Through diversification, the specific risk associated with individual investments is mostly mitigated and expected volatility of returns is reduced. In addition, the Trustees review the investment strategy on a regular basis to ensure that it remains appropriate and in particular in response to legislative changes, a material change in the schemes' funding levels or changes in the attitude to risk of the Trustees or Group.

Each of the pension schemes is invested in an appropriately diversified range of assets. The broad proportion of each asset class in which the schemes aim to be invested are as follows, however it is important to note that this may vary from time to time as markets change and as cash may be held for strategic reasons.

	2021	2020
Equities	9%	16%
Infrastructure	1%	2%
Liability driven investment	56%	40%
Property	8%	8%
Mezzanine/Private debt	15%	14%
Diversified growth funds	5%	10%
Multi-asset credit	6%	10%
Total	100%	100%

D2 MORTALITY RISK

The assumptions adopted by the Group make allowance for future improvements in life expectancy. There is a risk that life expectancy improves faster than assumed and that benefits are paid for longer than expected, thereby increasing the cost of the schemes. The Group and the Trustees regularly review the actual scheme mortality experience to minimise the risk of using an inappropriate assumption. In general, the Trustees will also use prudent assumptions when deriving the triennial actuarial valuation basis used for funding requirements and this will help to manage the risk.

In December 2014 and July 2016, the Trustees of SPPS and Manweb (respectively) implemented a longevity swap in respect of the current pensioners. The swap removes the previously unhedged longevity risk for the pensioners (and their contingent spouses) by hedging the risk of members covered by the contract living longer than expected (who constitute approximately 40% and 55% of the total liability of the SPPS and Manweb schemes respectively). The swaps are an insurance contract between SPPS/Manweb and the counterparty insurer. Counterparty risk is mitigated by both SPPS/Manweb and the counterparty posting collateral to the other party on a daily basis to account for market movements in the value of the derivatives held.

D3 CURRENCY RISK

The Trustees have appointed Blackrock to manage the currency hedging mandates for SPPS and Manweb. Through the use of currency forwards, approximately 75% of the currency exposure inherent in the overseas equity, euro-denominated infrastructure and private debt instruments and US dollar-denominated mezzanine and private debt instruments is hedged.

D4 INTEREST RATE RISK

A fall in the yield on government bonds increases both the liabilities and assets of the schemes. To the extent that the assets do not fully match the nature and duration of the liabilities, this could lead to a worsening in the funding position of the schemes. The Trustees currently target 56% of the schemes' investments in LDI which include matching assets such as fixed-interest bonds. The interest rate hedging strategy adopted within the LDI portfolio provides partial protection against the impact of changes in yields. Around 90% of the interest rate risk is currently hedged on a technical provisions basis. Under the de-risking framework agreed between the Group and the Trustees, the level of interest rate hedging will be increased when market conditions are deemed favourable. As the level of hedging increases, funding level volatility will be further reduced.

D5 INFLATION RATE RISK

The majority of the schemes' liabilities increase in line with inflation, subject to relevant caps and collars. To the extent that inflation is higher than expected, this will increase the liabilities of the schemes. The schemes' target investment strategy is to invest 56% of the portfolio in LDI investments which will include bonds which are also linked to inflation. The inflation hedging strategy adopted within the LDI portfolio provides partial protection against the impact of changes in inflation. Around 91% of the inflation rate risk is currently hedged on a technical provisions basis. Under the de-risking framework agreed between the Group and the Trustees, the level of inflation rate hedging will be increased when market conditions are deemed favourable. As the level of hedging increases, funding level volatility will be further reduced.

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2021

9 RETIREMENT BENEFIT OBLIGATIONS *continued*

E ACTUARIAL ASSUMPTIONS

E1 PENSION SCHEMES ASSUMPTIONS

The assumptions used by the independent actuary for the pension arrangements, for all schemes, were developed by management with the assistance of the independent actuary. During 2020, management updated the RPI inflation assumption methodology to calculate a single equivalent rate using scheme cash flows based on the Bank of England inflation yield curve. The same methodology has been adopted for 2021 and an inflation risk premium deduction of 0.16% has been applied in line with the prior year.

(i) The table below details the assumptions used by the independent actuary for the pension scheme arrangements and are expressed as weighted averages:

	2021	2020
Rate of increase in salaries*	3.4% p.a.	2.9% p.a.
Rate of increase in deferred pensions (RPI capped at 5% p.a)**	3.4% p.a.	2.9% p.a.
Rate of increase to pensions in payment (RPI capped at 5% p.a.)	3.3% p.a.	2.9% p.a.
Discount rate	2.0% p.a.	1.4% p.a.
Inflation assumption – RPI	3.4% p.a.	2.9% p.a.
Inflation assumption – CPI	2.8% p.a.	2.3% p.a.

* For members of the FSLP section of the SPPS scheme, the 2021 salary assumption is 3.6% p.a. (2020 3.2% p.a.).

** For members of the FSLP section of the SPPS scheme, deferred pensions are increased with reference to statutory revaluation.

On 4 September 2019, the UK Government announced that it would consult on the UK Statistics Authority's proposals to align RPI with CPIH (Consumer Prices Index Including Owner Occupiers' Housing Costs (UK)) by 2030. On 25 November 2020, HM Treasury and the UK Statistics Authority released their joint response in relation to the consultation on the reform of the RPI methodology. This confirmed that the RPI index will be aligned with the CPIH index from February 2030, which is similar in construction and calculation to the CPI index. To reflect this, the Group changed the derivation of the CPI inflation assumption in 2020 to be 1% p.a. lower than RPI inflation for the period up to 2030 and 0.1% p.a. lower than RPI inflation for the period from 2030. This leads to a single equivalent deduction of 0.6% p.a. from the RPI inflation assumption to derive the CPI inflation assumption.

Most benefits in the schemes increase in deferment or in retirement, with the rate and index of increase determined by when the benefit was accrued by the member and in which section. As stated in the scheme rules, the vast majority of benefits increase in line with RPI inflation subject to various floors and caps. A very small proportion of benefits, namely guaranteed minimum pension ("GMP") benefits accrued between April 1988 and April 1997, increase in retirement in line with CPI inflation with a 0% floor and a 3% cap applied on an annual basis.

(ii) The weighted average life expectancies for mortality used to determine the benefit obligations were as follows:

At 31 December	2021		2020	
	Male Years	Female Years	Male Years	Female Years
Member age 63 (current life expectancy)	23.9	25.7	24.5	25.7
Member age 45 (life expectancy at age 63)	25.1	27.1	25.8	27.1

(iii) The post-retirement mortality assumptions are as follows:

Post-retirement mortality assumptions

Base tables – 95% S2PMA/100% S2PFA (ill-health members have a +6-year age rating) (2020 90% S2PMA/100% S2PFA); (ill-health members have a +6-year age rating)

Allowance for future improvements – CMI 2020 with a 7.0 smoothing parameter, 0.25% initial addition parameter, 10% w2020 parameter and a 1.25% long-term improvement rate (2020 CMI 2019 with a 7.0 smoothing parameter, 0.25% initial addition parameter and a 1.25% long-term improvement rate).

The post retirement mortality assumptions have been set as follows:

- Base table: review evidence that has emerged since the previous year-end, including the impact of actual scheme experience to December 2020 and the initial results of the formal review carried out for the 2021 triennial funding valuation.
- Future mortality improvements: review the latest CMI model and consider if any new parameters have been introduced or changes made to core parameters and carry out an analysis to ensure that these are set to be appropriate for the scheme's population.

The above reviews have led to an adjustment to the male base table and the adoption of the latest 2020 CMI future improvements model. Noting that the impacts of COVID-19 have persisted into 2021 and the emergence of new variants the company expects that mortality improvements will be suppressed in the short-term and has therefore set the new CMI w2020 parameter to 10% (the weight placed on the excess deaths observed during 2020). The combined effect of these changes is to reduce life expectancies compared to the prior year-end and liabilities are reduced by around £85.0 million.

E2 IMPACT OF CHANGING MATERIAL ASSUMPTIONS ON THE DEFINED BENEFIT OBLIGATION

The sensitivity analysis below has been calculated by varying the critical actuarial assumption whilst keeping all other assumptions constant. Liabilities are calculated using the same method and membership data as that used to derive the defined benefit obligation. As well as impacting on salary growth, a change in inflation also impacts on other inflation-linked assumptions such as increases to deferred pensions and pensions in payment. This sensitivity applies to the defined benefit obligation only, and not to the net defined benefit pension asset/(liability) in its entirety, the measurement of which is driven by a number of factors including, in addition to the assumptions below, the fair value of scheme assets. There has been no change to the method year-on-year to assess the sensitivity of the results to changes in the critical actuarial assumptions.

Reasonably possible changes as at 31 December to one of the actuarial assumptions would have affected the defined benefit obligation as follows:

Impact of changing material assumptions	Increase/(decrease) in defined benefit obligation	
	2021 £m	2020 £m
Rate of increase in inflation		
Increase by 0.1%	86.9	97.9
Decrease by 0.1%	(84.6)	(95.3)
Discount rate		
Increase by 0.25%	(227.3)	(256.1)
Decrease by 0.25%	244.6	275.5
Assumed life expectancy		
Increase mortality by one additional year	199.7	225.0

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2021

9 RETIREMENT BENEFIT OBLIGATIONS *continued*

E3 ANALYSIS OF SCHEME ASSETS

E3.1 FAIR VALUE OF PLAN ASSETS

The following table provides information on the composition and fair value of plan assets of the SPPS and Manweb schemes.

	2021				2020			
	SPPS £m	Manweb £m	Total £m	Plan asset allocation %	SPPS £m	Manweb £m	Total £m	Plan asset allocation %
Equities	268.2	116.8	385.0	7.4%	609.0	171.0	780.0	15.4%
Infrastructure	91.1	27.4	118.5	2.3%	87.5	26.2	113.7	2.2%
Liability driven instrument	1,822.1	425.5	2,247.6	43.4%	1,249.0	393.1	1,642.1	32.5%
Property	215.2	99.3	314.5	6.1%	188.8	65.2	254.0	5.0%
Cash	44.7	17.8	62.5	1.2%	33.0	10.0	43.0	0.9%
Mezzanine/private debt	700.1	212.3	912.4	17.7%	499.0	166.8	665.8	13.2%
Diversified growth funds	184.3	51.4	235.7	4.5%	398.9	126.0	524.9	10.4%
Multi-asset credit	298.0	30.7	328.7	6.3%	421.4	40.2	461.6	9.1%
Longevity swap fee account	123.4	68.1	191.5	3.7%	139.7	63.9	203.6	4.0%
Longevity swap buffer account	540.2	296.0	836.2	16.1%	564.9	226.8	791.7	15.7%
Longevity swap fair value	(289.6)	(161.8)	(451.4)	(8.7)%	(260.2)	(162.6)	(422.8)	(8.4)%
Fair value of scheme assets	3,997.7	1,183.5	5,181.2	100.0%	3,931.0	1,126.6	5,057.6	100.0%

SPPS and Manweb investment strategies are similar and there is no significant difference in risk profiles due to either geography or industry type. The schemes' assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group. Neither of the schemes held ScottishPower or Iberdrola shares in 2021 or 2020.

As at 31 December 2021, 1.1% (2020 2.0%) of plan assets have quoted prices in active markets. Markets are considered active if transactions for the asset take place with sufficient frequency and volume to provide pricing information at the measurement date and on an ongoing basis. The remaining plan assets do not have quoted prices in active markets. Of these plan assets, £1,053.9 million (2020 £856.4 million) are level 3 assets, which are discussed below.

E3.2 VALUATION OF LEVEL 3 PLAN ASSETS

Level 3 assets are investments where a market quotable price is not available. The fair values of these assets are derived in accordance with IFRS 13 and provided by the relevant fund manager. As noted below, year-end valuations for some level 3 assets may be estimated. Final audited year-end valuations for these assets are typically not available until several months after the year-end. As part of the checks carried out on these assets, a retrospective review is carried out for the purposes of these accounts and finally once all valuations are available.

(i) Infrastructure

Fair values at 31 December 2021 are estimated based on the most recently available quarterly valuations (30 September 2021) adjusted where relevant for cash flows to year end. The fund manager carried out internal valuations of the investments to assess the fair values at 30 September 2021. In respect of equity investments, cash flows forecasted over the life of the asset were discounted to derive a valuation at the relevant reporting date, or where available, valuations were based on contractual sales values. Hence significant assumptions will relate to the expected cash flows and discount rates. The fund manager has taken into consideration the potential impact of the COVID-19 pandemic on the valuation of the assets at 30 September 2021. As at the relevant valuation date, the fund valuation was not subject to a material adjustment in relation to this impact.

(ii) Property

An independent market valuation of the direct property investments as at 31 December 2021 is provided by BNP Paribas with reference to comparable market transactions. For instance, a key assumption is the market rent and hence yields available. The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date, property markets are mostly functioning again, with transaction volumes and other relevant evidence returning to levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, the direct property valuation is not reported as being subject to 'material valuation uncertainty'. The fair value of the indirect property assets is based on the most recent available fund valuation at 30 September 2021 adjusted for cash flows to year end.

(iii) Private/mezzanine debt

Fair values are based on the most recently available quarterly valuations (30 September 2021) adjusted where relevant for cash flows to year end. Various different valuation methods are utilised by the private/mezzanine debt managers as appropriate for the underlying investment including discounted cash flows, enterprise value, cost plus accrued interest and external pricing. For instance, where internal cash flow modelling has been performed, significant assumptions will include discount rate and expected cash flows. Fund managers continue to assess the impact of COVID-19 on portfolio valuations. No material adjustments to the relevant quarterly valuations have been noted by the fund managers.

(iv) Longevity swap

During 2021, an independent assessment of the fair values of the swaps was carried out on behalf of the Trustees by the Scheme Actuary for the purposes of updating the reported values in the scheme accounts as at 31 March 2021. Following a review by the Group of this valuation methodology, it was determined that this methodology, and consequently the fair values reported at 31 March 2021, were suitable for reporting under IAS19 in accordance with IFRS 13. The fair value assessment carried out by the independent actuary allows for the difference between the present value of the known cash flows under the original fixed leg of the swap using longevity assumptions agreed at inception and the present value of the projected cash flows under the floating leg. The projections underlying the floating leg of the swap allow for the schemes actual mortality experience since inception, more up to date data on current swap population and more up to date industry expectations of future longevity experience.

Therefore, for the purposes of the 31 December 2021 valuation, the Group has reset the 31 March 2021 fair value in line with this figure and adjusted to the year end in line with movements in the fixed and floating legs of the swaps as calculated under the existing collateral model valuations. Hence the valuation takes into consideration current market conditions at the reporting date. This valuation approach is consistent with the methodology adopted for the 2020 year-end.

As at 31 December 2021, the fair values of the longevity swaps for SPPS and Manweb were £(289.6) million (2020 £(260.2) million) and £(161.8) million (2020 £(162.6) million) respectively.

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

9 RETIREMENT BENEFIT OBLIGATIONS *continued*

F MOVEMENTS IN THE DEFINED BENEFIT OBLIGATION AND SCHEME ASSETS DURING THE YEAR

(i) Movements in the present value of the defined benefit obligation and scheme assets are as follows:

	2021			2020		
	Defined benefit obligation £m	Scheme assets £m	Total £m	Defined benefit obligation £m	Scheme assets £m	Total £m
At 1 January	(5,616.2)	5,057.6	(558.6)	(5,176.8)	4,525.1	(651.7)
Items recognised in the Consolidated income statement:						
Current service cost	(56.4)	–	(56.4)	(50.8)	–	(50.8)
Past service costs**	(8.7)	–	(8.7)	7.7	–	7.7
Past service costs – FSLP revaluation***	85.7	–	85.7	–	–	–
Interest (expense)/income****	(76.7)	70.2	(6.5)	(105.6)	93.7	(11.9)
Administration expenses	–	(4.3)	(4.3)	–	(3.1)	(3.1)
	(56.1)	65.9	9.8	(148.7)	90.6	(58.1)
Items recognised in the Consolidated statement of comprehensive income						
Actuarial gains/(losses) arising from changes in demographic assumptions	90.0	–	90.0	(48.5)	–	(48.5)
Actuarial gains/(losses) arising from changes in financial assumptions	224.4	–	224.4	(560.0)	–	(560.0)
Actuarial gains arising from changes of the scheme experience different to that assumed	98.4	–	98.4	37.3	–	37.3
Return on assets in excess of interest income****	–	173.2	173.2	–	562.8	562.8
	412.8	173.2	586.0	(571.2)	562.8	(8.4)
Other movements						
Employer contributions	–	155.0	155.0	–	159.6	159.6
Benefits paid	275.5	(275.5)	–	285.9	(285.9)	–
Scheme members' contributions	(5.0)	5.0	–	(5.4)	5.4	–
	270.5	(115.5)	155.0	280.5	(120.9)	159.6
At 31 December	(4,989.0)	5,181.2	192.2	(5,616.2)	5,057.6	(558.6)

** The past service costs of £(8.7) million (2020 £7.7 million) comprises new provisions of £(8.7) million for expected restructuring costs in 2022 (2020 £1.5 million for expected costs in 2021) and a true-up of £nil (2020 £(9.2) million) in relation to the prior year provisions for restructuring costs.

*** During 2021 the Group and the Trustee have agreed that the Group will no longer augment benefits in the FSLP section of SPPS to provide RPI deferred revaluation and will instead revert to statutory revaluation for all service and will apply this across all deferred revaluation applicable to the member.

As a result, there has been a reduction in the liabilities of £85.7 million in respect of non-pensioner members of the FSLP section of SPPS, calculated using market conditions on the date that members were informed of the change.

**** The actual return on scheme assets amounted to £243.4 million (2020 £656.5 million).

(ii) Analysis of the defined benefit obligation and scheme assets at 31 December:

	2021			2020		
	£m	£m	£m	£m	£m	£m
Present value of funded obligations/fair value of scheme assets	(4,984.1)	5,181.2	197.1	(5,610.8)	5,057.6	(553.2)
Present value of unfunded obligations	(4.9)	–	(4.9)	(5.4)	–	(5.4)
Total net asset/(liability)			192.2			(558.6)

(iii) The net surplus/(liability) at 31 December is analysed by scheme as follows:

	2021 £m	2020 £m
Included on the Statement of financial position as non-current assets		
SPPS	291.7	–
Included on the Statement of financial position as non-current liabilities		
SPPS	–	(246.2)
Manweb and UURBS	(99.5)	(312.4)
	(99.5)	(558.6)
Total net asset/(liability)	192.2	(558.6)

G ADDITIONAL INFORMATION
G1 FUTURE CONTRIBUTIONS

The Group expects to contribute £163.1 million to the pension schemes in the year ending 31 December 2022, based on the agreement with scheme Trustees following the valuation at March 2018. Based on the valuation at 31 March 2018, similar levels of contributions are expected in future years. The triennial valuations due as at 31 March 2021 are currently underway and are due to be finalised by 30 June 2022.

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2021

9 RETIREMENT BENEFIT OBLIGATIONS *continued*

G ADDITIONAL INFORMATION *continued*

G2 MATURITY PROFILE OF THE DEFINED BENEFIT OBLIGATION

The following table provides expected future cash flow projections for both pension schemes based on current member data. These cash flows reflect expected benefit payment amounts based on the underlying demographic assumptions adopted at 31 December 2021. Cash flows are expected to peak in 2033 for Manweb and 2034 for SPPS with benefits payments extending to approximately 2080 for Manweb and 2090 for SPPS.

Year	Expected future cash flows (£m)				
	2022	2023	2024	2025	2026
SPPS	119.6	125.6	124.0	131.0	134.5
Manweb	45.6	46.2	46.6	47.2	48.4

G3 ANALYSIS OF THE DEFINED BENEFIT OBLIGATION BY MEMBER STATUS

At 31 December	2021		2020	
	SPPS %	Manweb %	SPPS %	Manweb %
Active members	28	27	31	29
Deferred members	17	10	18	9
Pensioners	55	63	51	62

The weighted average duration of the defined benefit obligation as at 31 December	19 years	17 years	20 years	18 years
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Liabilities have been calculated as at 31 December 2021 based on membership data provided as at 30 April 2021.

G4 MINIMUM FUNDING REQUIREMENT

Under the rules of each scheme, the Trustees cannot unilaterally wind-up the schemes and the Group would be able to assume gradual settlement of the liabilities over time until all members have left. Having then triggered a wind-up, any remaining surplus would revert to the Group. Furthermore, the power to amend the rules of each scheme lies with the Group, and the Trustees cannot unilaterally improve benefits under the schemes. Therefore, the Group has an unconditional right to a refund under IFRIC 14 'IAS 19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' ("IFRIC 14") and thus there is no requirement to restrict any IAS 19 surplus, should it arise, nor to recognise any additional liabilities in respect of minimum funding requirements.

On ceasing to employ any active members, participating employers exit the schemes and a Flexible Apportionment Arrangement ("FAA") is agreed between the departing employer, Trustee and Scottish Power UK plc (being the Principal Employer). The departing employer's liabilities are allocated to Scottish Power UK plc, or a replacement employer (where relevant) and as Principal Employer, Scottish Power UK plc remains responsible for the contributions to the schemes including any deficit repair payments. Assuming the gradual settlement of liabilities over time, any remaining surplus is only expected to be refunded once all members' liabilities have been extinguished. At this point, there would be no active members remaining in the schemes and Scottish Power UK plc would be the only remaining employer (as Principal Employer). Hence, it has been concluded that any remaining surplus would be refunded to Scottish Power UK plc in full and therefore, the Company has recognised the full IAS19 surplus for the SPPS scheme of £291.7 million as at 31 December 2021. Refer to Note 38.

10 INVESTMENTS IN JOINT VENTURES

(a) Movements in investments in joint ventures are analysed as follows:

	Shares £m
At 1 January 2020	7.8
Share of result for year	1.4
Dividends	(1.5)
At 1 January 2021 and 31 December 2021	7.7

- Investments in joint ventures are accounted for using the equity method. Details of the Group's joint ventures are set out in Appendix 1.
- No quoted market prices exist for investments in joint ventures.
- No significant restrictions exist (e.g. resulting from borrowing arrangements, regulatory requirements or contractual arrangements between investors with joint control of, or significant influence over, a joint venture) that impact upon the ability of joint ventures to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group (2020 none).

(b) Interest in joint ventures

	2021 £m	2020 £m
Aggregate carrying amount of individually immaterial equity accounted interests	7.7	7.7
Aggregate profit from continuing operations attributable to the Group	–	1.4
Aggregate total comprehensive income attributable to the Group	–	1.4

The Group has no interests in associates.

(c) Commitments

The Group has commitments not recognised at 31 December 2021 relating to its interests in joint ventures of £1.1 million (2020 £0.4 million).

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

11 FINANCIAL INSTRUMENTS

(a) Carrying amount of financial instruments

The table below sets out the carrying amount and fair value of the Group's financial instruments.

	Classification	Notes	2021		2020 Restated*	
			Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets						
Other investments	FVTPL		0.2	0.2	0.2	0.2
Derivative financial instruments	Fair value hedging instrument	(i)	1,522.8	1,522.8	272.5	272.5
Non-current receivables	Amortised cost	(ii)	21.3	21.3	10.1	10.1
Current receivables	Amortised cost	(ii)	2,504.3	2,504.3	1,813.7	1,813.7
Contingent consideration	FVTPL	(iii)	–	–	44.6	44.6
Cash	Amortised cost	(iv)	182.9	182.9	140.1	140.1
Financial liabilities						
Loans and other borrowings	Amortised cost	(v)	(5,582.8)	(6,031.7)	(5,855.8)	(6,388.2)
Derivative financial instruments	Fair value hedging instrument	(i)	(719.6)	(719.6)	(38.6)	(38.6)
Payables	Amortised cost/FVTPL	(ii), (iii)	(1,719.0)	(1,719.0)	(986.8)	(986.8)
Current financial liabilities	Amortised cost		(34.8)	(34.8)	(43.5)	(43.5)

* Comparative figures have been restated (refer to Note 2).

The carrying amount of these financial instruments is calculated as set out in Note 3H. With the exception of Loans and other borrowings, the carrying amount of financial instruments is a reasonable approximation of fair value. The fair value of Loans and other borrowings is calculated as set out in footnote (v) below.

- (i) Further detail on Derivative financial instruments is disclosed in Note 11(c).
- (ii) Balances outwith the scope of IFRS 7 and IFRS 9 have been excluded, namely Prepayments, Other tax receivables, Payments received on account and Other taxes and social security.
- (iii) The contingent consideration arose on the sale of 40% of the share capital of East Anglia One Limited ("EA1L") to Bilbao Offshore Holding Limited (refer to Note 11(e)A12). The prior year contingent considerations payable of £1.1 million associated with the asset acquisitions of Douglas West Extension Ltd and Cumberhead West Wind Farm Ltd. were settled in the year.
- (iv) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits.
- (v) The fair value of listed debt is calculated using the most recently traded price to the year end date. The fair value of all other loans and borrowings is calculated using a discounted cash flow.

(b) Measurement of financial instruments

The Group holds certain financial instruments which are measured in the Statement of financial position at fair value as detailed in Note 11(a) above. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

In both the current and prior year, all Other investments held by the Group are classified as Level 1 and all Derivative financial instruments held by the Group are classified as Level 2. All contingent consideration receivable or payable held by the Group is classified as Level 2.

Included in Level 2 derivative liabilities of £719.6 million (2020 £38.6 million) are inseparable third-party credit enhancements. These have been reflected in the fair value measurement of the liability.

Level 2 commodity derivatives are fair-valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and their quoted prices in an active market.

Level 2 foreign exchange derivatives comprise cross currency swaps and forward foreign exchange contracts, which are both fair-valued using the forward exchange rates quoted in an active market.

Level 2 CPI-linked inflation swap is fair-valued using a discounted cash flow which uses forward inflation expectations derived from observable markets.

Level 2 contingent consideration referenced in Note 11(e)A12 was fair-valued using a Monte Carlo simulation method, which is a risk and probability based model. The main risks inherent in the model are the potential adverse impacts from delay and weather resulting in overspend.

Level 2 prior year contingent consideration payable was fair-valued using a weighted-average probability model.

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

SCOTTISH POWER UK PLC
NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
31 December 2021

11 FINANCIAL INSTRUMENTS *continued*

(c) Analysis of derivative financial instruments – carrying amount

	2021				2020				
	Note	Assets		Liabilities		Assets		Liabilities	
		Current £m	Non- current £m	Current £m	Non- current £m	Current £m	Non- current £m	Current £m	Non- current £m
Hedging derivatives:									
Exchange rate hedges:									
Fair value hedge – Currency swap	1.1	32.5	–	–	1.1	43.5	–	–	
Cash flow hedge – Foreign exchange rate	0.1	–	(1.3)	(0.1)	1.2	–	(0.3)	–	
Commodity hedges – Cash flow hedge	1,587.1	278.6	(810.8)	(149.8)	229.5	38.7	(76.2)	(4.5)	
Inflation swap – Cash flow hedge	–	–	(2.7)	(141.1)	–	–	–	–	
Non-hedging derivatives:									
Commodity derivatives – Non hedge	795.7	–	(786.1)	–	85.8	–	(84.9)	–	
Total gross derivatives	2,384.0	311.1	(1,600.9)	(291.0)	317.6	82.2	(161.4)	(4.5)	
Impact of netting	(i)	(1,093.8)	(78.5)	1,093.8	78.5	(122.8)	(4.5)	122.8	4.5
Total net derivatives on Statement of financial position		1,290.2	232.6	(507.1)	(212.5)	194.8	77.7	(38.6)	–

(i) Certain derivative financial instruments are presented net in the Statement of financial position. A reconciliation between the gross and net position is provided in Note 11(d).

(d) Offsetting of financial assets and financial liabilities

The Group is eligible to present financial assets and financial liabilities net in the Statement of financial position as described in Note 3H2.3. The following table provides information on the impact of offsetting in the Statement of financial position as well as the financial impact of the netting of certain instruments in the event of default or similar agreements.

	2021					
	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial (liabilities)/assets offset in the Statement of financial position £m	Net amounts of financial assets/(liabilities) presented in the Statement of financial position £m	Related amounts not offset in Statement of financial position		Net amount £m
				Financial instruments (Notes (i) and (ii)) £m	Cash collateral (held)/posted (Notes (iii) and (iv)) £m	
Financial assets						
Receivables	2,724.9	(199.3)	2,525.6	(227.5)	(15.5)	2,282.6
Derivative financial instruments	2,695.1	(1,172.3)	1,522.8	(79.5)	(287.4)	1,155.9
Financial liabilities						
Payables	(1,918.3)	199.3	(1,719.0)	27.5	269.3	(1,422.2)
Derivative financial instruments	(1,891.9)	1,172.3	(719.6)	79.5	–	(640.1)
Loans and other borrowings	(5,582.8)	–	(5,582.8)	200.0	–	(5,382.8)
Current financial liabilities	(34.8)	–	(34.8)	–	33.6	(1.2)

	2020 Restated [*]					
	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial (liabilities)/assets offset in the Statement of financial position £m	Net amounts of financial assets/(liabilities) presented in the Statement of financial position £m	Related amounts not offset in Statement of financial position		Net amount £m
				Financial instruments (Notes (i) and (ii)) £m	Cash collateral (held)/posted (Notes (iii) and (iv)) £m	
Financial assets						
Receivables	1,930.5	(106.7)	1,823.8	(2.1)	(10.0)	1,811.7
Derivative financial instruments	399.8	(127.3)	272.5	(9.1)	(65.8)	197.6
Financial liabilities						
Payables	(1,093.5)	106.7	(986.8)	2.1	32.3	(952.4)
Derivative financial instruments	(165.9)	127.3	(38.6)	9.1	–	(29.5)
Current financial liabilities	(43.5)	–	(43.5)	–	43.5	–

^{*} Comparative figures have been restated (refer to Note 2).

- (i) Certain contracts for derivatives, receivables and payables in relation to the purchase of gas, do not currently meet the offsetting criteria within IAS 32 'Financial Instruments: Presentation' ('IAS 32'). However, in the event of default, these would be required to be offset per the requirements of the contract. The above balances show the effect on the Group if these contracts were also offset. Due to the nature of certain contracts, it is not possible to accurately split the effect of offsetting these balances across these categories. For presentational purposes, the impact has been allocated to these categories as deemed appropriate.
- (ii) During 2021, the Group agreed an amendment to its existing terms and conditions with its commodities derivative clearer which includes an initial deposit margin facility of £200.0 million which does not meet the offsetting criteria within IAS 32 (refer to Note 19(c)(iii)).
- (iii) The Group enters into standard netting agreements with its commodity trading counterparties in order to mitigate the credit risk exposure of the Group. In addition, the Group utilises collateral support agreements with derivative counterparties to manage its credit exposure. These forms of collateral include margining for trading with exchanges, cash collateral used for bilateral and brokering trading, as well as letters of credit. At 31 December 2021, the value of letters of credit held amounted to £5.2 million (2020 £10.7 million) and letters of credit posted amounted to £273.5 million (2020 £214.2 million).
- (iv) At 31 December 2021, the Group held cash collateral of £305.5 million (2020 £79.1 million) in respect of receivables, of which £300.4 million (2020 £75.9 million) can be offset against financial assets. At 31 December 2021, the Group also posted cash collateral of £45.9 million (2020 £30.2 million) in respect of payables, of which £28.7 million (2020 £20.0 million) can be offset against financial liabilities.

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2021

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables and current financial liabilities. Their main purpose is to finance the Group's operations. The Group's principal financial assets, other than derivatives, comprise trade and other receivables, and cash that arise directly from its operations. The Group also holds other investments and enters into derivative contracts.

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

- A CREDIT RISK
- B ENERGY MARKET RISK
- C TREASURY RISK

The Group's senior management oversee the management of exposure to these risks through the policies detailed below. References to ScottishPower below apply fully to the Group.

The ScottishPower governance structure, is supported by group risk policies and other relevant guidelines adopted and approved by the SPL Board together with relevant risk guidelines that are approved by the SPL Board. The risk limits and indicators within the guidelines are approved by the boards of the Group's divisions. ScottishPower's business risk assessment teams and the independent group risk management function support the SPL Board in the execution of due diligence and risk management. In addition, the boards of the Group's divisions are responsible for ensuring that their respective business risks are adequately assessed, monitored, mitigated and managed. The UK Risk Director reports on risks for ScottishPower to the Scottish Power Limited Audit and Compliance Committee ("SP ACC") and such reports are then presented to the SPL Board. ScottishPower's internal audit function also objectively and independently supervises the effectiveness of the Group's internal control system, which is made up of a set of risk management and control mechanisms and systems. This is achieved through regular and ad hoc audits, the results of which are reported to the SP ACC.

The governance structure described above, ensures that the risk management policies established for each business to identify, assess, monitor, report, manage and mitigate each relevant risk is adequately designed and implemented, and that an effective and efficient system of internal controls is maintained. The divisions adhere to their specific business risk limits and guidelines which were approved by the SPL Board.

The positions on risk and strategy for risk management are contained in the Risk Policy for Iberdrola's businesses in the UK (i.e. ScottishPower). The SPL Board adopts these policies which are implemented through a rigid risk governance structure, whereby responsibilities are vested with groups, committees and individuals on a global, as well as a division level. Generally, the risk management policy and control environment ensures that transactions undertaken, and instruments used, fall into the types of transactions approved by the SPL Board and are properly validated within the appropriate levels of authority. Transactions include instruments such as physically-settled instruments, financially-settled instruments, other contractual obligations, regulatory requirements and other obligations. The types of instruments which can be used are approved for each division. Subject to the limit requirements discussed above, no transactions were executed unless they were an approved instrument. Authorised personnel are permitted to engage only in those activities specified in the business operational policies and procedures.

A clear reporting structure is implemented within ScottishPower. It ensures that the portfolios are monitored on a timely basis and sufficient information is made available to management to enable quick response of the business to the dynamic characteristics of its market environment. Those reports include daily position, mark-to-market, Value at Risk ("VaR") reports as well as periodical fundamentals reports, credit watch, credit exposure, accounting and insurance reports.

A CREDIT RISK

Credit risk is the risk that a counterparty will not meet its contractual obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

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

A1 CREDIT RISK MANAGEMENT

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

Aggregate portfolio risk is monitored and reported by a Credit VaR Monte-Carlo based simulation model to quantify the total credit risk within the existing portfolio.

Further details on the credit risk management strategy adopted for significant types of financial asset are set out below.

- Exposure to credit risk in the supply of electricity and gas arises from the potential that customers default on their invoiced payables. The financial strength and credit-worthiness of business customers is assessed prior to commencing, and for the duration of, their contract of supply. Both domestic and business customers' credit-worthiness is reviewed from a variety of internal and external information sources including customer payment history and credit checks.
- Credit risk in respect of other transactions is mitigated by contracting with multiple counterparties and limiting exposure to individual counterparties based upon the risk of counterparty default.
- Credit risk associated with energy-related 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 Group employs specific eligibility criteria in determining appropriate limits for each prospective counterparty, and supplements this with netting and collateral agreements including margining, guarantees, letters of credit and cash deposits where appropriate.
- Credit risk from balances with banks and financial institutions is managed by ScottishPower's treasury function in accordance with Iberdrola's cash investment procedure. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty by Corporate Risk Management.

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2021

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

A CREDIT RISK *continued*

A1 CREDIT RISK MANAGEMENT *continued*

In both the current and prior year, the Group evaluated the concentration of risk with respect to financial assets as low, with no material concentration of credit risk arising from one particular counterparty.

A2 EXPECTED CREDIT LOSS ASSESSMENT

For trade receivables, the Group applies the simplified model for the calculation of ECLs. For all other financial assets measured at amortised cost, the Group applies the general approach for the calculation of ECLs.

Given the varying risk characteristics of the population of trade receivables, this balance has been segmented for disclosure purposes into Energy Retail customer receivables and other trade receivables.

A3 ENERGY RETAIL TRADE RECEIVABLES

The Group applies the IFRS 9 simplified model to measure ECLs, which uses a lifetime expected loss allowance, for all Energy Retail customer receivables. The Group has adopted the practical expedient whereby it calculates the ECL on Energy Retail's customer receivables using a provision matrix. In line with previous years, the provision rates are based upon the customers' payment plan, historical credit loss experience and, where possible, adjusted for forecast information. To establish levels of ECLs, the recoverability of equivalent balances from the previous three years have been reviewed.

Recognising the current level of energy market disruption and the forecast uncertainty in macro-economic indicators, in line with IFRS 9, a forward-looking loss allowance has been included to ensure that external factors (such as anticipated increased unemployment, the withdrawal of government support schemes and the risk of future lockdowns which impact the recoverability of trade receivables) are appropriately mitigated. This has been estimated by increasing the underlying year-on-year increase in calculated ECL rates by a further 50% (equivalent to a 1% increase in the overall domestic or small business customers' effective ECL provision).

For large business customers, the ECL is based on external credit scoring. The Energy Retail Credit Risk and Corporate Risk teams remain vigilant in tracking any liquidity issues on existing customers to identify any pre-emptive actions required, including putting collateral or letters of credit in place. These receivables are included in the non-aged balances of the table below.

Set out below are the details of the credit risk exposure on Energy Retail's trade receivables:

	Current £m	More than 90 days past due £m	More than 180 days past due £m	More than 12 months past due £m	Non-aged balances Note (a) £m	Unbilled Note (b) £m	Total £m
At 31 December 2021							
Weighted average expected loss rate (%)	13.3%	34.2%	43.1%	48.4%	3.0%	21.5%	25.4%
Gross carrying amount: Trade receivables	165.3	72.9	110.5	209.3	225.1	98.9	882.0
Loss allowance	(22.0)	(24.9)	(47.6)	(101.4)	(6.7)	(21.3)	(223.9)
Net carrying amount	143.3	48.0	62.9	107.9	218.4	77.6	658.1
At 31 December 2020							
Weighted average expected loss rate (%)	8.4%	31.6%	40.7%	48.9%	5.7%	15.4%	24.6%
Gross carrying amount: Trade receivables	174.4	61.1	113.6	196.0	176.8	96.2	818.1
Loss allowance	(14.7)	(19.3)	(46.2)	(95.9)	(10.1)	(14.8)	(201.0)
Net carrying amount	159.7	41.8	67.4	100.1	166.7	81.4	617.1

(a) At 31 December 2021, £0.5 million (2020 £1.9 million) is neither past due nor impaired; no amounts are past due but not impaired in either year.

(b) The gross carrying amount includes unbilled receivables of £98.9 million (2020 £96.2 million) reflecting gross unbilled receivables of £655.6 million (2020 £563.9 million) less customer credit balances of £526.5 million (2020 £443.4 million) and a £30.2 million (2020 £24.3 million) provision in relation to energy volumes still to reach final settlement. The loss allowance in relation to unbilled receivables is £21.3 million (2020 £14.8 million). Further information on unbilled receivables, including sensitivity, is detailed in Note 3A(d).

With the exception of large business customers, management considers that where customers are final and all debt collection procedures have been exhausted, collectability is not deemed to be reasonably assured and therefore, amounts billed to these customers are written off as uncollectable.

A3.1 SENSITIVITY ANALYSIS ON ENERGY RETAIL'S LOSS ALLOWANCE – BILLED RECEIVABLES

The residual impacts of COVID-19 have affected some of the Group's retail customers' ability to pay amounts due. The methodology and assumptions applied in estimating the ECL for the year ended 31 December 2021, and the provision held at that date in respect of the Energy Retail trade receivables, are deemed appropriate, as described above. Nevertheless, the level of estimation uncertainty in determining the provision has increased (refer to Note 3A(d)).

Included within the gross carrying amount of trade receivables in the credit risk exposure table above, £783.1 million (2020 £721.9 million) relates to billed receivables. The loss allowance in relation to billed receivables is £202.6 million (2020 £186.2 million).

The actual level of billed receivables collected may differ from the estimated levels of recovery, which could impact operating profit positively or negatively. At 31 December 2021, the loss allowance for billed receivables of £202.6 million (2020 £186.2 million) was supported by a projection based on a 36-month cash collection performance. Based on the weighted average expected loss rates in the table above, a 5% increase in the overall expected loss rate would increase the loss allowance by £39.2 million (2020 £36.1 million). A 5% decrease would decrease the loss allowance by £39.2 million (2020 £36.1 million).

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

A CREDIT RISK *continued*

A4 OTHER TRADE RECEIVABLES

The Group uses the simplified model to measure ECLs for all other trade receivables. The provision rates represent a lifetime ECL and are based on the Iberdrola Group's historical loss experience and default rates (adjusted for COVID-19 as appropriate).

The table below illustrates the ECL on other trade receivables:

	0-6 months £m	Greater than 6 months £m	Total £m
At 31 December 2021			
Weighted average expected loss rate (%)	3.1%	25.5%	4.4%
Gross carrying amount	361.8	23.1	384.9
Loss allowance	(11.2)	(5.9)	(17.1)
Net carrying amount	350.6	17.2	367.8
At 31 December 2020			
Weighted average expected loss rate (%)	0.9%	23.5%	2.3%
Gross carrying amount	210.7	13.2	223.9
Loss allowance	(2.0)	(3.1)	(5.1)
Net carrying amount	208.7	10.1	218.8

Other trade receivables are written off when there is no reasonable expectation of recovery; indicators of which include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Refer to the table reconciling the movement in the opening to the closing loss allowance at Note 11(e)A11.

A5 SECURITY FOR TRADE RECEIVABLES

For some trade receivables, the Group may obtain security in the form of guarantees or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement (refer to Note 11(d)). The Group does not otherwise require collateral in respect of trade and other receivables.

A6 OTHER RECEIVABLES (EXCLUDING CONTINGENT CONSIDERATION) £271.6 MILLION (2020 £123.8 MILLION)

For other receivables, the general ECL model is used. The loss allowance is measured at an amount equal to a twelve-month ECL. However, if the credit risk on that financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to the lifetime ECL.

The Group allocates each exposure to a credit risk grade (probability of default grade) based on data that is determined to be predictive of the risk of loss (including, but not limited to, external ratings, and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. Where external ratings are not available, the Iberdrola Credit Risk department provides the risk ratings. These ratings reflect historical data, current conditions and the Group's view of economic conditions over the expected lives of the receivables. The loss allowance recognised on the Statement of financial position is £nil (2020 £0.2 million). The decrease from the prior year is due to a £0.2 million reversal in the provision relating to the receipt of income for other receivables previously fully provided for.

The Group's cash collateral posted has increased to £45.9 million (2020 £30.2 million). Collateral counterparties typically have a strong credit rating and low credit risk; the Group does not expect credit losses to arise on these balances.

A7 RECEIVABLES DUE FROM IBERDROLA GROUP COMPANIES AND JOINT VENTURES £40.3 MILLION (2020 £15.4 MILLION)

The loss allowance recognised on the Statement of financial position in both the current and prior year is less than £0.1 million, as is the movement in the ECL in the year.

A8 RECEIVABLES DUE FROM IBERDROLA GROUP COMPANIES – LOANS AND INTEREST £1,187.8 MILLION (2020 £848.7 MILLION)

The Group provides funding in the form of interest bearing on demand loans to other group companies. Credit risk from group companies is considered to be low as the company is part of the Iberdrola Group's centralised treasury function and no group company has a credit rating lower than BBB+ (in line with Standards & Poors external credit ratings). ECL on loans due from other Iberdrola Group companies is calculated using the general model and therefore a twelve month ECL is applied.

The exposure to credit risk of loans to other group companies (including interest) held at amortised cost by credit rating are set out in the table below:

Credit Rating	At 31 December 2021			At 31 December 2020		
	Gross carrying value £m	ECL £m	Amortised cost £m	Gross carrying value £m	ECL £m	Amortised cost £m
BBB+	1,187.9	(0.1)	1,187.8	848.8	(0.1)	848.7

A9 CASH £182.9 MILLION (2020 £140.1 MILLION)

At 31 December 2021, the Group held cash of £182.9 million (2020 £140.1 million). The cash is held with banks and financial institutions, which are rated BBB- to AAA, based on Standard & Poor's ratings.

Impairment on cash has been measured on a three-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash has low credit risk based on the external credit ratings of the counterparties.

The loss allowance recognised on the Statement of financial position is less than £0.1 million in both the current and prior year.

A10 GUARANTEES

The Group's policy is to provide financial guarantees only for subsidiaries' liabilities.

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

A CREDIT RISK *continued*

A11 RECONCILIATION OF OPENING TO CLOSING LOSS ALLOWANCE

The closing loss allowances for all financial assets measured at amortised cost at 31 December 2021 reconciles to the opening loss allowances as follows:

	Note	Trade receivables	Other receivables £m	Receivables due from Group companies – loans and interest £m	Total £m
Balance at 1 January 2020		145.0	2.5	0.3	147.8
Increase/(decrease) in loss allowance recognised in the Income statement	(a)	120.4	(2.3)	(0.2)	117.9
Utilisation of provision		(59.3)	–	–	(59.3)
Balance at 1 January 2021		206.1	0.2	0.1	206.4
Increase/(decrease) in loss allowance recognised in the Income statement	(a)	102.0	(0.2)	–	101.8
Utilisation of provision		(67.1)	–	–	(67.1)
At 31 December 2021		241.0	–	0.1	241.1

(a) Net credit losses on trade and other receivables per the Consolidated income statement of £108.0 million (2020 £120.4 million) also includes £6.2 million (2020 £nil) of additional bad debt write offs. The difference of £2.5 million in the prior year relates to the reversal of a provision following the receipt of income which was recorded in Finance income and costs.

The overall increase in the loss allowance from the prior year of £34.7 million is primarily driven by the impact of COVID-19 and changes in market conditions resulting in an increase in the gross carrying value of Trade receivables.

A12 CONTINGENT CONSIDERATION (PAYABLE)/RECEIVABLE £(1.4) MILLION (2020 £44.6 MILLION)

As part of the share purchase agreement in relation to the sale of a minority stake in EA1L, a contingent consideration was agreed. Payment of this consideration is principally based on savings made on the EA1 project's forecasted spend which was agreed as part of the share purchase agreement.

The contingent consideration is fair valued using a Credit VaR Monte Carlo-based simulation model which is a risk and probability based model. The main risks inherent in the model are the potential adverse impacts from delay and weather resulting in overspend. When the transaction occurred in 2019, the fair-value of the contingent consideration was estimated to be £26.1 million.

At 31 December 2020, the fair value of the contingent consideration was estimated to be £44.6 million reflecting the ongoing mitigation of possible risks as the project moved towards completion. During September 2021 an initial settlement was received of £42.8 million, which is included in Cash flows from operating activities in the Statement of cash flows.

The contracts supporting the construction of the EA1 wind farm are still ongoing and not expected to conclude until 2022. As a result there continues to be updates to the value of the final contingent consideration. At 31 December 2021, the fair value of the estimated contingent consideration was a payable of £1.4 million.

B ENERGY MARKET RISK

Throughout 2021 and the prior year, the Group was exposed to market risk associated with fluctuations in the market price of electricity and gas, compounded by volumetric risk caused by unplanned changes in the output of the portfolio of generation assets.

B1 ENERGY MARKET RISK MANAGEMENT

The risk management policies are implemented at the business level with the oversight of the divisions' boards, management teams and the independent risk management function. The Group uses a number of risk measurement procedures and techniques to ensure that risk is kept within pre-approved limits. The key measures are stop-loss limits and volume exposure by tenor limits. All valuation models are reviewed and approved by the independent group risk management function on an ongoing basis, including changes to assumptions and model inputs. Changes that could have had significant impact on the Accounts required additional review and approval by the appropriate boards.

During both the current and prior year, the risk management function employed additional techniques such as VaR, to assist in measuring risk within the volume exposure by tenor limits. VaR is a key measure of the potential financial loss on a price exposure position over a defined period to a given level of confidence. VaR computations for the Group's energy commodity portfolios were based on a historical simulation technique, which utilised historical energy market forward price curve changes to estimate the potential unfavourable impact of price changes in the portfolio positions. The quantification of market risk using VaR provided a consistent measure of risk and sensitivity across the Group's continually changing portfolio, however, VaR was not necessarily indicative of actual results that may occur. Future changes in markets inconsistent with historical data or assumptions used could cause variation in actual results to exceed predicted ranges. The Group's VaR computations for its energy commodity portfolio utilised several key assumptions, including a 99% confidence level for the resultant price changes and a holding period of five business days. VaR, while sensitive to changes in portfolio volume, does not account for commodity volume risk. Commodity volume risk is defined as the possibility that a change in the supply of, or demand for, the commodity will create an unexpected imbalance and change the requirements for the commodity.

The application of the VaR methodology has evolved to include the total forecasted volumes for the renewable generation assets and retail contracts to provide a more accurate measure of the risk associated with the volume exposure by tenor limits. The Group's VaR measures are shown in the table below.

	2021 £m	2020 £m
VaR	88.4	32.6
Average VaR over prior year	41.9	30.5
Maximum VaR over prior year	110.9	35.5
Minimum VaR over prior year	26.4	25.2

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

B ENERGY MARKET RISK *continued*

B2 HEDGING OF ENERGY MARKET RISK

Hedging activities associated with energy market risk are undertaken within the energy management function. The strategy of the business is to mitigate the economic risks associated with electricity generation and supply of electricity and natural gas to end users in both the wholesale and retail markets. From a reporting perspective the objective is to report earnings results that are consistent with its operational strategies and hence recognise the earnings effect of financial and non-financial derivative transactions executed to hedge economic business risks in the same period in which the hedged operational activity impacts earnings. The aim is to minimise earnings volatility, which would otherwise be present as a result of fair valuing all derivative contracts under IFRS 9. To achieve this objective, where effectiveness documentation and reporting requirements are met, cash flow hedge accounting is applied by designation of a series of derivative trades, and deferring in equity the fair value changes of open derivative positions until the period in which the forecast transactions occur.

Cash flow hedging strategies are developed for both the electricity and natural gas portfolios to hedge the variability in cash flows associated with changes in the market price of each commodity. Forward (fixed price/fixed volume) contracts are designated as hedging instruments for the electricity and gas hedges.

B3 COMMODITY CASH FLOW HEDGES

Certain commodity derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income statement and are included in Gross margin.

For an analysis of the split of the carrying amount of hedging and non-hedging commodity derivatives refer to Note 11(c).

The amounts relating to commodity derivatives designated as hedging instruments during the year are detailed in the table below:

	Notes	2021 Hedging derivatives £m	2020 Hedging derivatives £m
Notional amount		2,759.0	1,451.9
Carrying amount – asset	(a)	1,865.7	268.2
Carrying amount – liability	(a)	(960.6)	(80.7)
Changes in the value of the hedging instrument recognised in OCI		723.5	(405.0)
Hedge ineffectiveness in the Income statement		(5.8)	–
Amount reclassified from Cash flow hedge reserve to Income statement	(b)	(1,159.7)	287.5

(a) The carrying amount of derivative assets and liabilities are recorded within Derivative financial instruments on the Statement of financial position.

(b) The amount reclassified from the Cash flow hedge reserve to the Income statement is recorded within Gross margin.

The amounts at the reporting date relating to commodity items designated as hedged items were as follows:

Line item in the Accounts in which the hedged item is/will be included	Change in fair value used for calculating hedge ineffectiveness		Cash flow hedge reserve balance	
	2021 £m	2020 £m	2021 £m	2020 £m
Gross margin	(717.7)	405.0	1,121.7	183.3

The assessment of effectiveness of all hedging relationships currently in place is carried out on a monthly basis as part of the financial reporting cycle. Prospective assessment is carried out at inception of the hedge and on an ongoing basis to verify that the hedge remains effective.

The Group determines that the economic relationship between the hedging instrument (the commodity derivative) and the hedged item (the commodity purchases) will virtually always achieve 100% effectiveness where the key terms of the hedged item match the key terms of the hedging instrument. Where this is not the case, prospective assessment is carried out at inception of the hedge, and on an ongoing basis, to verify that the hedge remains effective by comparing the movements in the fair value of the cash flows of the expected highly probable transaction with movements in the fair value of the the hedging instrument.

Ineffectiveness will arise if the trade has been cancelled, in which case there would be no future transaction. In such circumstances, the trade and the hedge would be eliminated from the accounts. Ineffectiveness will also arise if the Group receives notification that the business have been unable to obtain a reliable price forecast from market sources or if there is a change to the Group Risk Management Strategy. Additionally, ineffectiveness will arise from any differences in the key terms of the hedged item and the hedging instrument.

B3.1 SENSITIVITY ANALYSIS ON COMMODITY PRICES

The sensitivity on the consolidated results to changes in the market prices of the main commodities are as follows:

Commodity	2021			2020		
	Variation in price	Impact on Profit before tax £m	Impact on Equity before tax £m	Variation in price	Impact on Profit before tax £m	Impact on Equity before tax £m
Gas	+75%	–	801.9	+5%	–	16.8
	-75%	–	(801.9)	-5%	–	(16.8)
Electricity	+25%	(0.2)	414.0	+5%	0.1	35.1
	-25%	0.2	(414.0)	-5%	(0.1)	(35.1)

SCOTTISH POWER UK PLC

NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2021

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

C TREASURY RISK

Treasury risk is comprised of liquidity risk, market risk and inflation risk. The Group's cash management and short-term financing activity is integrated with Iberdrola's. The Group's financing structure is determined by its position in the wider Iberdrola Group. The Group produces short-term rolling cash flow requirements and, if necessary, any required funding is obtained via the Group credit facilities already in place. The Group holds investment grade ratings with Moody's Investor Services (Baa1), Standard & Poor's rating services (BBB+) and Fitch Ratings (BBB+).

C1 TREASURY LIQUIDITY RISK MANAGEMENT

The Group's liquidity position and short-term financing activities are integrated and aligned with Iberdrola's. Liquidity risk, the risk that the Group will have insufficient funds to meet its liabilities, is managed by Iberdrola Group treasury, who are responsible for arranging banking facilities on behalf of ScottishPower. Iberdrola Financiación S.A. (a fellow Iberdrola Group company) and SPL are the principal internal counterparties for the loan balances due from the Group. SPL is the principal counterparty for the loan balances due to the Group.

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

C1.1 FINANCIAL LIABILITIES (EXCLUDING COMMODITY DERIVATIVES)

	2021						Total £m
	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 and thereafter £m	
Cash outflows*							
Derivative financial instruments (excluding commodity derivatives)**	48.6	15.7	7.9	8.2	8.9	111.1	200.4
Loans and other borrowings	1,135.9	592.7	487.9	309.5	464.9	3,559.2	6,550.1
Payable	1,710.2	–	3.7	2.9	2.2	–	1,719.0
Current financial liabilities	34.8	–	–	–	–	–	34.8
	2,929.5	608.4	499.5	320.6	476.0	3,670.3	8,504.3

	2020 Restated***						Total £m
	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2026 and thereafter £m	
Cash outflows*							
Derivative financial instruments (excluding commodity derivatives)**	30.8	0.2	–	–	–	–	31.0
Loans and other borrowings	2,616.6	127.1	558.1	438.2	278.6	2,677.6	6,696.2
Payables	981.6	3.9	0.6	0.4	0.3	–	986.8
Current financial liabilities	43.5	–	–	–	–	–	43.5
	3,672.5	131.2	558.7	438.6	278.9	2,677.6	7,757.5

* Maturity analysis of lease liabilities is presented at Note 8A(C).

** The above liquidity analysis is stated after the impact of counterparty netting (refer to Note 11(d)).

*** Comparative figures have been restated (refer to Note 2).

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

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

C1.2 COMMODITY DERIVATIVES

The Group believes the liquidity risk associated with commodity derivatives needs to be considered in conjunction with the profile of payments in relation to all derivative contracts rather than only those in a liability position. It should be noted that cash flows associated with future energy sales and commodity contracts which are not IFRS 9 financial instruments are not included in this analysis, which is prepared in accordance with IFRS 7 'Financial Instruments: Disclosures' ('IFRS 7').

	2021						Total £m
	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 and thereafter £m	
Net cash outflows/(inflows)	1,640.1	179.8	70.1	(4.1)	(8.7)	(21.4)	1,855.8

	2020						Total £m
	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2026 and thereafter £m	
Net cash outflows/(inflows)	560.9	193.8	65.4	7.6	(0.5)	(38.2)	789.0

Details of the Group's contractual commitments are given in Note 31.

C2 TREASURY MARKET RISK MANAGEMENT

Market risk is the risk of loss resulting from changes in market rates (interest rates and foreign currency). Within ScottishPower's treasury function, the Group utilises a number of financial instruments to manage interest rate and foreign currency exposures. The management of interest rate risk is unaffected by IBOR Reform (refer to Note 2B2).

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
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11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

C TREASURY RISK *continued*

C2 TREASURY MARKET RISK MANAGEMENT *continued*

C2.1 INTEREST RATE RISK

In order to adequately manage and limit interest rate risk, the Iberdrola Group annually determines the desired structure of the debt between fixed and floating interest rates, taking into account the indexing of income either interest rate or price index. The ScottishPower treasury function then take actions over the course of the year to work towards these desired Iberdrola Group ratios. Actions may include obtaining new sources of financing (at a fixed, floating or indexed rate) and/or utilising interest rate derivatives. The table below shows the debt structure of the Group after taking hedging derivatives into account.

(i) Interest rate analysis of debt

	2021 £m	2020 Restated* £m
Fixed rate	2,543.8	2,642.6
Variable rate	2,988.7	3,159.4
	5,532.5	5,802.0

* Comparative figures have been restated (refer to Note 2).

The Group's borrowings are held at amortised cost. The reference interest rates for the floating rate borrowings are London Inter-Bank Offer Rate ("LIBOR"), Euro Bank Offered Rate ("EURIBOR"), Bank of England Base Rate ("Base") and Retail Prices Index ("RPI"). With cessation of LIBOR rates at the end of 2021, all current LIBOR variable rate loans will be switched to an alternative reference rate (Sterling Overnight Index Average ("SONIA") Term SONIA or UK Base rate) during 2022.

The variable rate debt consists of a £81.8 million (2020 £91.7 million) Japanese Yen ("JPY") loan, £314.4 million (2020 £305.7 million) inflation-linked bonds, £1,820.0 million (2020 £760.0 million) LIBOR debt, £9.1 million (2020 £29.3 million) EURIBOR debt and loans of £763.4 million (2020 £1,972.7 million) loan linked to Base.

(ii) Sensitivity analysis on interest rate changes

The table below illustrates the impact on the annual interest rate charge considering various rate changes. The analysis assumes all other factors remain constant.

Debt category		Interest rate	Change in rate	Impact on interest rate charge in 2021 £m	Impact on interest rate charge in 2020 £m
Loans payable	JPY Debt	(a)	+0.25%	0.1	0.1
			+0.50%	0.3	0.3
			-0.25%	(0.1)	(0.1)
			-0.50%	(0.3)	(0.3)
Loans payable	Inflation-linked bonds	RPI	+0.25%	0.8	0.8
			+0.50%	1.5	1.5
			-0.25%	(0.8)	(0.8)
			-0.50%	(1.5)	(1.5)
Loans payable	LIBOR/EURIBOR debt (excluding JPY debt)	LIBOR/EURIBOR	+0.25%	4.7	2.1
			+0.50%	9.3	4.2
			-0.25%	(4.7)	(2.1)
			-0.50%	(9.3)	(4.2)
Loans payable	Short-term variable rate debt	Base	+0.25%	1.9	4.9
			+0.50%	3.8	9.8
			-0.25%	(1.9)	(4.9)
			-0.50%	(3.8)	(9.8)
Loans receivable	Short-term variable rate debt	Base	+0.25%	(2.9)	(2.1)
			+0.50%	(5.9)	(4.2)
			-0.25%	2.9	2.1
			-0.50%	5.9	4.2

(a) The interest on the JPY debt is fixed, however this is changed to variable by a cross currency swap. Interest is based on the Sterling LIBOR curve. It has been agreed to adopt the ISDA Fallbacks Protocol ("the Protocol") regarding LIBOR cessation from end of 2021. In the future, the interest will be based on SONIA plus the relevant margin specified by the Protocol.

C2.2 FOREIGN CURRENCY RISK

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which purchases and borrowings are denominated. The currencies in which these transactions are primarily denominated are Euros, US dollars and Japanese Yen. SPL Board policy stipulates that there should be no significant exposure to foreign currency balances and therefore the ScottishPower treasury function will hedge all foreign currency payments and contracts which have a (cumulative) value greater than a sterling equivalent of £0.25 million.

(i) Hedging of foreign currency risk

The Group uses a combination of foreign currency swaps and forwards to hedge its exposure to foreign currency risk. Under the Group's policy, the critical terms of the forwards and swaps must align with the hedged items.

For treasury-related items (hedging the value of currency denominated loans) the Group only designates the spot component of foreign currency forwards in hedge relationships. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward points. The changes in the forward points element of the foreign currency forwards that relate to hedging currency denominated loans are deferred in the Cost of hedging reserve.

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
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11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

C TREASURY RISK *continued*

C2 TREASURY MARKET RISK MANAGEMENT *continued*

C2.2 FOREIGN CURRENCY RISK *continued*

(i) Hedging of foreign currency risk *continued*

The Group also enters into foreign currency forwards in relation to commodity, asset purchases, and other small items of general expenditure. For such items, the Group designates the entire value of the foreign currency forward in the hedge relationship.

Some foreign currency forwards do not satisfy the requirements for hedge accounting (economic hedges) under IFRS 9. These foreign currency forwards are subject to the same risk management policies as all other derivative contracts. However, they are accounted for as 'held for trading' with gains and losses recognised in the Income statement.

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

At 31 December 2021	Notional amount of hedging instrument (maturity profile)					Total
	£million					
	1 year	2 years	3 years	4 years	5 years+	
USD	8.8	7.5	–	–	51.4	67.7
EUR	36.9	0.8	0.7	0.7	–	39.1
DKK (a)	0.9	1.6	–	–	–	2.5
NOK (a)	6.8	–	–	–	–	6.8
	53.4	9.9	0.7	0.7	51.4	116.1

(a) DKK - Danish Krone; NOK - Norwegian Krone

At 31 December 2021	1 year	2 years	3 years	4 years	5 years+
USD (GBP:USD)	1.35	1.32	–	–	1.59
EUR (GBP:EUR)	1.16	1.16	1.14	1.12	–
DKK (GBP:DKK)	8.60	8.46	–	–	–
NOK(GBP:NOK)	11.52	–	–	–	–

Further details on the Group's foreign currency cash flow hedges and fair value hedges are set out below and on the following page.

(ii) Foreign exchange rate cash flow hedges

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

Hedging the value of foreign currency denominated intercompany loans: the Group has provided funding to, or received funding from, other Iberdrola companies denominated in currencies other than Sterling. The value of the Groups's assets or liabilities in relation to this funding is subject to foreign exchange risk. As a result, the Group enters into foreign exchange rate contracts and has designated them within a cash flow hedging relationship where they meet required hedging criteria.

For an analysis of the split of the carrying amount of forward foreign exchange contracts refer to Note 11(C).

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

	Notes	2021 Hedging derivatives £m	2020 Hedging derivatives £m
Notional amount		64.7	106.7
Carrying amount – asset	(a)	0.1	1.2
Carrying amount – liability	(a)	(1.4)	(0.3)
Changes in the value of the hedging instrument recognised in OCI	(b)	(2.3)	(3.5)
Hedge ineffectiveness cost recognised in the Income statement	(c)	–	(0.1)
Amount reclassified from Cash flow hedge reserve to Income statement	(d)	0.3	0.4
Amount reclassified from Cash flow hedge reserve to Statement of financial position	(e)	(0.1)	(21.2)

(a) The carrying amount of derivative assets and liabilities are recorded within Derivative financial instruments on the Statement of financial position.

(b) This is consistent with the change in the fair value of the hedging instrument used to calculate ineffectiveness for hedging of asset purchases and items of general expenditure.

(c) The hedge ineffectiveness cost recognised through the Income statement and included in Finance costs in 2020 is £(0.1) million.

(d) The amount reclassified from the Cash flow hedge reserve to the Income statement recorded within External services is £(0.1) million (2020 £nil) and Finance costs is £nil (2020 £(0.1) million). £(0.2) million is released from the Cost of hedging reserve (2020 £0.5 million).

(e) The amount reclassified from the Cash flow hedge to the Statement of financial position included within Property, plant and equipment in the course of construction is £0.1 million (2020 £21.2 million).

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
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11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

C TREASURY RISK *continued*

C2 TREASURY MARKET RISK MANAGEMENT *continued*

C2.2 FOREIGN CURRENCY RISK *continued*

(ii) Foreign exchange rate cash flow hedges *continued*

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

Line item in the Accounts in which the hedged item is/will be included	Change in fair value used for calculating hedge ineffectiveness		Cash flow hedge reserve balance	
	2021 £m	2020 £m	2021 £m	2020 £m
Property, plant and equipment in the course of construction	0.2	3.6	8.1	2.4
Property, plant and equipment in use	–	0.1	–	–
External services	1.1	(0.2)	0.9	(1.4)
Loans and other borrowings	1.0	–	–	–
	2.3	3.5	9.0	1.0
Less non-controlling interest share of Cash flow hedge reserve	–	–	(1.2)	7.6
Total	2.3	3.5	7.8	8.6

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

Ineffectiveness will arise if the trade has been cancelled, in which case there would be no future transaction. Ineffectiveness will also arise if the Group receives notification that the business has been unable to obtain a reliable price forecast from market sources or if there is a change in the Group's risk management strategy.

(iii) Fair value hedges

Hedging the value of cross currency debt: the Group has issued debt instruments denominated in Japanese Yen. The value of the Group's liability with respect to those instruments is subject to foreign exchange risk and interest rate risk. As a result, the Group has entered into cross-currency swaps and has designated these within a fair value hedging relationship where they meet the required hedging criteria to mitigate this risk. The carrying amount of the associated 10 billion Japanese Yen loan is £81.8 million (2020 £91.7 million).

	Notes	At 31 December 2021	At 31 December 2020
Notional amount (£m)		51.4	51.4
Carrying amount – asset (£m)	(a)	33.6	44.6
Change in fair value of the hedging instrument used in calculating hedge ineffectiveness (£m)		(9.8)	3.3
Change in fair value of hedged item used to calculate ineffectiveness (£m)	(b)	9.8	(3.3)
Hedge ratio		1:1	1:1
Average hedge rate for the year (£:JPY)		1:194.55	1:194.55

(a) The carrying amount of the fair value currency swap is included within Derivative financial instruments on the Statement of financial position.

(b) In both the current and prior year the change in value of hedged item used to calculate hedge ineffectiveness is included within Loans and other borrowings.

(c) The cross-currency swaps reference LIBOR and the hedging relationship is therefore impacted by IBOR. The Group and counterparty have signed the International Swaps and Derivatives Association's ("ISDA") IBOR Fallbacks Protocol and accordingly the terms of the cross-currency swap will be revised to reference the SONIA benchmark from January 2022. The associated hedge documentation has been updated as required by amendments to IFRS 9 under Phase 2 of IBOR Reform. The impact of IBOR Reform on the hedged item and hedging instrument has not resulted, and is not expected to result, in ineffectiveness.

(iv) Hedge assessment on foreign currency derivatives

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

(v) Sensitivity analysis on foreign currency cash flows

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

Foreign currency cash balances held are so small any movement in foreign exchange rates would result in an insignificant movement in the Income statement in both the current and prior year (less than £0.1m before tax).

The impact of a 5% change in foreign currency exchange rates on the Income statement and on Equity would also be less than £0.1m.

C3 INFLATION RISK

The Group is exposed to inflation risk through its CfDs. Income earned through CfDs varies with inflation and volatility inherent in inflation will therefore impact the Group's income.

(i) Risk management

To reduce exposure to this risk, during the year the Group entered into a Consumer Price Index ("CPI") inflation swap. This instrument results in the Group receiving a fixed CPI interest element, and paying a variable CPI interest element based on outturned CPI. The aim is to reduce earnings volatility, as the cash flows from the CPI swap will offset volatility in the income from CfDs due to CPI inflation.

The swap is designated as a cash flow hedge under IFRS 9 and hedges a separately identifiable and reliably measurable contract term of CfD.

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

C TREASURY RISK *continued*

C3 INFLATION RISK *continued*

(i) Risk management *continued*

	Note	2021 Hedging derivatives £m	2020 Hedging derivatives £m
Notional amount		180.0	–
Carrying amount – liability		(143.8)	–
Changing in the value of the hedging instrument recognised in OCI	(a)	(143.8)	–

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

Line item in the Accounts in which the hedged item will be included	Change in fair value used to calculate ineffectiveness		Cash flow hedge reserve balance	
	2021 £m	2020 £m	2021 £m	2020 £m
Gross margin	143.8	–	(143.8)	–

(ii) Hedge effectiveness

The Group determines that the economic relationship between the hedging instrument and the hedged item will virtually always achieve 100% effectiveness. This is because the Group compares movements in the fair value of the expected highly probable cash flows, with movements in the fair value of the expected changes in cash flows from the hedging instrument. Forecast cash flows are based upon contractual obligations.

12 TRADE AND OTHER RECEIVABLES

	Notes	2021 £m	2020 £m
Current receivables:			
Receivables due from Iberdrola Group companies – trade		36.0	11.6
Receivables due from Iberdrola Group companies – loans	(a)	1,177.5	831.5
Receivables due from Iberdrola Group companies – interest		10.3	17.2
Receivables due from joint ventures – trade		0.9	0.8
Receivables due from joint ventures – other		2.0	1.4
Trade receivables (including accrued income)	(b)	1,023.0	834.1
Prepayments		28.9	23.5
Other tax receivables		25.2	18.6
Other receivables	(c)	254.6	161.7
	(d)	2,558.4	1,900.4
Non-current receivables:			
Receivables due from joint ventures – trade		1.4	1.6
Trade receivables (including accrued income)		2.9	1.8
Prepayments		8.4	9.6
Other receivables		17.0	6.7
		29.7	19.7

(a) Current loans due from Iberdrola Group companies are receivable on demand with interest linked to Bank of England base rate.

(b) Certain trade receivables and payables are presented net on the Statement of financial position when the offsetting criteria under IAS 32 are met (refer to Note 3H2.3). A reconciliation between the gross and net position is provided in Note 11(d).

(c) During 2021, the Group agreed an amendment to its existing terms and conditions with its commodities derivative clearer which included an initial deposit margin facility of £200.0 million (refer to Note 19(c)(ii)). This deposit is included within other receivables at 31 December 2021. Other receivables at 31 December 2020 included £44.6 million in relation to the contingent consideration on the sale of 40% of the share capital of EA1L (refer to Note 11(e) A11) and £76.7 million recognised as part of a contractual renegotiation.

(d) Trade and other receivables includes £779.8 million (2020 £785.8 million) of IFRS 15 receivables (refer to Note 22(b)).

(e) Information about the Group's exposure to credit and market risks, and net credit losses for trade and other receivables, are included in Note 11(e).

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

13 INVENTORIES

	Notes	2021 £m	2020 £m
Fuel stocks		13.1	3.3
ROCs		190.2	190.5
Other inventories	(a), (b)	751.5	755.9
	(c)	954.8	949.7

- (a) Other inventories primarily comprise transmission assets which will be sold to an offshore transmission operator following completion.
 (b) Other inventories of £0.4 million (2020 £0.2 million) have been written off in the year.
 (c) Inventories with a value of £435.6 million (2020 £397.9 million) were recognised as an expense during the year.

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

	Share capital £m	Share premium (Note (a)) £m	Hedge reserve (Note (b)) £m	Other reserves (Note (c)) £m	Retained earnings (Note (d)) £m	Total £m
At 1 January 2020	3,551.7	398.2	(165.7)	420.5	3,273.8	7,478.5
Profit for the year attributable to the equity holder of the Company	–	–	–	–	532.5	532.5
Changes in the value of cash flow hedges	–	–	395.7	–	–	395.7
Actuarial losses on retirement benefits	–	–	–	–	(8.4)	(8.4)
Tax on items relating to cash flow hedges	–	–	(72.3)	–	–	(72.3)
Tax on items relating to actuarial losses on retirement benefits	–	–	–	–	12.1	12.1
Dividends	–	–	–	–	(1,595.9)	(1,595.9)
At 1 January 2021	3,551.7	398.2	157.7	420.5	2,214.1	6,742.2
Profit for the year attributable to the equity holder of the Company	–	–	–	–	54.5	54.5
Changes in the value of cash flow hedges	–	–	792.6	–	–	792.6
Actuarial gains on retirement benefits	–	–	–	–	586.0	586.0
Tax on items relating to cash flow hedges	–	–	(157.0)	–	–	(157.0)
Tax on items relating to actuarial gains on retirement benefits	–	–	–	–	(126.4)	(126.4)
At 31 December 2021	3,551.7	398.2	793.3	420.5	2,728.2	7,891.9

- (a) The share premium account represents consideration received for shares issued in excess of their nominal amount.
 (b) The hedge reserve represents the balance of gains and losses on cash flow hedges (net of taxation) not yet transferred to income or the carrying amount of a non-financial asset.
 (c) Other reserves at 31 December 2021 comprises a capital contribution reserve of £412.2 million (2020 £412.2 million), and a capital redemption reserve of £8.3 million (2020 £8.3 million). The capital redemption reserve represents the cumulative nominal value of shares repurchased and cancelled by the Company.
 (d) Retained earnings comprise the cumulative balance of profits and losses recognised in the financial statements as adjusted for transactions with shareholders, principally dividends.
 (e) The changes in the hedge reserve arising from valuation adjustments to hedging derivatives is set out below:

	Cost of hedging reserve £m	Commodity hedges £m	Foreign exchange rate hedges £m	Inflation Hedge £m	Gross value of hedges £m	Tax effect £m	Total £m
Analysis of cash flow hedge reserve							
At 1 January 2020	3.8	(223.3)	18.3	–	(201.2)	35.5	(165.7)
Effective cash flow hedges recognised	–	119.1	3.9	–	123.0	(23.6)	99.4
De-designated cash flow hedges	–	–	0.1	–	0.1	–	0.1
Removed from equity and recognised in Income statement	–	287.5	(0.1)	–	287.4	(54.6)	232.8
Removed from equity and recognised in carrying amount of hedged items	–	–	(21.2)	–	(21.2)	4.0	(17.2)
Cost of hedging reserve – change in fair value	(1.7)	–	–	–	(1.7)	0.3	(1.4)
Cost of hedging reserve – reclassified to Income Statement	0.5	–	–	–	0.5	(0.2)	0.3
Non-controlling interests share of cash flow hedges	–	–	7.6	–	7.6	(1.3)	6.3
Change in tax rate	–	–	–	–	–	3.1	3.1
At 1 January 2021	2.6	183.3	8.6	–	194.5	(36.8)	157.7
Effective cash flow hedges recognised	–	2,098.1	(2.0)	(143.8)	1,952.3	(370.9)	1,581.4
Removed from equity and recognised in Income statement	–	(1,159.7)	0.1	–	(1,159.6)	220.3	(939.3)
Removed from equity and recognised in carrying amount of hedged items	–	–	(0.1)	–	(0.1)	–	(0.1)
Cost of hedging reserve – change in fair value	(1.4)	–	–	–	(1.4)	0.2	(1.2)
Cost of hedging reserve – reclassified to Income Statement	0.2	–	–	–	0.2	–	0.2
Non-controlling interests share of cash flow hedges	–	–	1.2	–	1.2	(0.2)	1.0
Change in tax rate	–	–	–	–	–	(6.4)	(6.4)
At 31 December 2021	1.4	1,121.7	7.8	(143.8)	987.1	(193.8)	793.3

SCOTTISH POWER UK PLC
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 31 December 2021

14 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY *continued*

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

	2021 £m	2020 £m
Less than 1 year	833.2	127.9
1-2 years	76.7	19.7
2-3 years	11.4	3.0
3-4 years	(8.2)	0.9
4-5 years	(119.8)	4.1
Over 5 years	–	2.1
	793.3	157.7

15 SHARE CAPITAL

	2021 £m	2020 £m
Allotted, called up and fully paid shares:		
7,103,427,542 ordinary shares of 50p each (2020 7,103,427,542)	3,551.7	3,551.7

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.

16 NON-CONTROLLING INTERESTS

	Notes	East Anglia One Limited £m	Other £m	Total £m
At 1 January 2020		864.8	1.5	866.3
Acquisition	(a)	–	0.6	0.6
Net profit for the year		52.7	0.1	52.8
Share capital issued	(b)	177.6	–	177.6
Changes in the values of cash flow hedges		(6.3)	–	(6.3)
At 1 January 2021		1,088.8	2.2	1,091.0
Net profit for the year		47.0	0.5	47.5
Dividends		(55.8)	–	(55.8)
Changes in the values of cash flow hedges		(1.0)	–	(1.0)
At 31 December 2021		1,079.0	2.7	1,081.7

- (a) On 28 August 2020 the Group acquired 72% of the share capital of Cumberhead West Wind Farm Ltd.
- (b) During the prior year, EA1L issued a total of 4,441,000,000 ordinary shares of £0.0001 to its immediate parent companies ScottishPower Renewables (UK) Limited and Bilbao Offshore Holding Limited ("BOHL"), for a total consideration of £444.1 million. BOHL continues to hold its 40% ownership of EA1L.
- (c) The following table summarises financial information relating to EA1L for the year ending 31 December 2021, before any intra-group eliminations. None of the Group's other subsidiaries that have a non-controlling interest are considered to be material to the Group.

	2021 £m	2020 £m
Non-current assets	1,810.1	1,867.3
Current assets	983.1	899.9
Non-current liabilities	(328.8)	(267.6)
Current liabilities	(68.8)	(104.4)
Net assets	2,395.6	2,395.2
Net assets attributable to non-controlling interest	958.2	958.1
Revenue	384.3	287.1
Dividends paid	(139.6)	–
Net profit for the year	142.6	144.8
Other comprehensive income	(2.6)	(15.8)
Total comprehensive income	140.0	129.0
Profit allocated to non-controlling interest	57.0	57.9
Other comprehensive income allocated to non-controlling interest	(1.0)	(6.3)
Cash flows from operating activities	291.3	201.6
Cash flows from investing activities	(103.1)	(559.7)
Cash flows from financing activities	(140.4)	442.3
Net increase in cash and cash equivalents	47.8	84.2

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
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17 DEFERRED INCOME

Year ended 31 December 2020	Notes	At 1 January 2020 £m	Disposals £m	Receivable during year £m	Released to Income statement £m	At 31 December 2020 £m
Transfer of assets from customers	(a),(b)	1,266.6	(0.8)	108.3	(42.6)	1,331.5
Emissions allowances allocated		–	–	0.1	(0.1)	–
Total deferred income		1,266.6	(0.8)	108.4	(42.7)	1,331.5

Year ended 31 December 2021	Notes	At 1 January 2021 £m	Disposals £m	Receivable during year £m	Released to Income statement £m	At 31 December 2021 £m
Transfer of assets from customers	(a),(b)	1,331.5	(0.6)	110.7	(43.9)	1,397.7

(a) Transfer of assets from customers is an IFRS 15 contract liability (refer to Note 22(b)).

(b) The deferred income balance at 31 December 2020 included £43.9 million which was released to the Income statement during 2021 in line with the amortisation of the associated Property, plant and equipment. The balance at 31 December 2021 includes £44.1 million which is anticipated to be released in 2022.

18 OTHER PROVISIONS

Year ended 31 December 2020	Notes	At 1 January 2020 £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	At 31 December 2020 £m
Reorganisation and restructuring	(a)	5.2	0.1	–	(3.6)	(0.3)	1.4
Decommissioning	(b)	311.9	124.1	4.2	(2.3)	(0.6)	437.3
Renewables Obligation	(c)	314.8	397.9	–	(420.8)	–	291.9
Onerous contracts	(d)	1.4	–	–	(0.2)	(0.5)	0.7
Insurance	(e)	4.9	1.4	–	(0.8)	(1.8)	3.7
Other	(f)	10.1	0.7	–	(9.6)	(0.1)	1.1
		648.3	524.2	4.2	(437.3)	(3.3)	736.1

Year ended 31 December 2021	Notes	At 1 January 2021 £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	At 31 December 2021 £m
Reorganisation and restructuring	(a)	1.4	5.2	–	(1.1)	(0.2)	5.3
Decommissioning	(b)	437.3	7.9	3.4	(4.4)	(1.2)	443.0
Renewables Obligation	(c)	291.9	458.7	–	(405.9)	–	344.7
Onerous contracts	(d)	0.7	–	–	(0.2)	(0.1)	0.4
Insurance	(e)	3.7	1.4	–	(0.1)	(1.0)	4.0
Other	(f)	1.1	0.7	–	–	(0.2)	1.6
		736.1	473.9	3.4	(411.7)	(2.7)	799.0

Analysis of total provisions

	2021 £m	2020 £m
Non-current	448.8	434.1
Current	350.2	302.0
	799.0	736.1

- (a) The opening 2020 provision largely related to an Energy Retail restructuring programme launched during 2019. This provision has been fully utilised or released. The new provision in the current year relates to a Energy Retail restructuring programme that was launched in 2021; this is expected to be utilised in 2022.
- (b) The provision for decommissioning costs is the discounted future estimated costs of decommissioning certain non-current assets. The increase in the provision in both 2021 and 2020 resulted from a reassessment of future estimated costs. The decommissioning is expected to occur between 2022 and 2067. Refer to Note 3L for the accounting policy.
- (c) The provision for the Renewables Obligation principally represents the value of ROCs for 2021 expected to be delivered in 2022 and 2023. Refer to Note 3J for the accounting policy.
- (d) The provision for other onerous contracts relates to various property contracts and is expected to be utilised between 2022 and 2025.
- (e) The provision for insurance principally represents the value of claims reserves. The claims are expected to be settled between 2022 and 2023.
- (f) The Other category at 1 January 2020 included a provision for costs associated with the early termination of an IT contract. This matter was settled in 2020. The remaining provisions at both 31 December 2020 and 31 December 2021 are not individually sufficiently material to warrant separate disclosure.

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

19 LOANS AND OTHER BORROWINGS

(a) Analysis by instrument and maturity

	Notes	Interest rate*	Maturity	2021 £m	2020 Restated** £m
Credit facility - initial margin (refer to Note 19(c)(iii))		0.6%	On demand	200.0	–
Loans with Iberdrola Group companies		Base + 1%	On demand	760.4	1,969.7
£300 million medium-term note	(i), (ii), (iii)	5.9%	22 February 2021	–	299.9
Loans with Iberdrola Group companies	(iv)	EURIBOR + 1.025%	28 March 2022	9.1	29.3
Loan with joint venture		Base + 1%	11 December 2022	3.0	3.0
£250 million euro-sterling bond	(iii), (v)	6.75%	29 May 2023	249.8	249.6
£175 million inflation-linked bond	(i), (iii), (vi)	3.494% x RPI	13 October 2024	314.4	305.7
£350 million euro-sterling bond	(iii), (vi), (vii)	5.875%	17 July 2026	348.7	348.4
£350 million euro-sterling bond	(iii), (vi), (viii)	4.875%	20 September 2027	348.1	347.8
Loans with Iberdrola Group companies	(ix), (x)	LIBOR + 0.78%	20 December 2027	570.0	760.0
Loans with Iberdrola Group companies		3.05%	20 December 2027	900.0	900.0
Loans with Iberdrola Group companies	(ix), (xii)	LIBOR + 2.3%	1 March 2028	100.0	–
Loans with Iberdrola Group companies	(ix), (xii)	LIBOR + 0.84%	1 March 2029	650.0	–
10 billion JPY loan	(xi)	4.6%	27 July 2029	81.8	91.7
Loans with Iberdrola Group companies	(ix), (xii)	LIBOR + 0.82%	1 March 2031	500.0	–
£350 million euro-sterling bond	(iii), (vi), (xiii)	2%	13 November 2031	347.2	346.9
£50 million medium-term note	(i), (iii)	5.75%	9 December 2039	50.0	50.0
£100 million medium-term note	(i), (iii)	6.375%	31 May 2041	100.0	100.0
Accrued interest				50.3	53.8
				5,582.8	5,855.8

Analysis of total loans and other borrowings		Note	2021 £m	2020 Restated** £m
Non-current			4,561.0	3,320.9
Current	(xiv)		1,021.8	2,534.9
			5,582.8	5,855.8

* Base - Bank of England Base Rate; EURIBOR - Euro Bank Offered Rate; RPI - Retail Price Index; LIBOR - London Inter-Bank Offer Rate; JPY - Japanese Yen.

** Comparative figures have been restated (refer to Note 2).

- (i) Scottish Power Limited and the Company have an established joint US\$7 billion euro medium-term note programme. SPL has not issued under the programme. The Company has in issue various notes in Sterling which can be redeemed by the Company with 30 to 90 days' notice in case of unfavourable and unavoidable changes in the UK tax laws impacting on the note payments.
- (ii) The loan was repaid in full at maturity.
- (iii) These bonds and notes contain a 'Loss of licence' covenant that will require repayment of the outstanding amount should the Group lose the relevant licence (distribution, transmission and supply licences).
- (iv) The EURIBOR loan with Iberdrola that is due to mature in March 2022 has a schedule of repayments which commenced in 2014. The full balance (2020 repayment of £19.6 million due in 2021) is classified as current in the above analysis.
- (v) The £250 million euro-sterling bond due in 2023 can be redeemed at any time by the Group at the higher of principal amount or redemption price (as determined by HSBC Bank plc) giving 30 to 45 days' notice to the lender.
- (vi) The Group has external debt that contains loan covenants. None of these covenants require covenant ratios to be calculated. A future breach of covenants may require the Group to repay the loans earlier than indicated in the above table. Under the agreements, the covenants are monitored on a regular basis by the ScottishPower treasury function and regularly reported to management to ensure compliance with the agreements.
- (vii) The £350 million euro-sterling bond will be redeemed at its principal amount in July 2026 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the Group at a higher redemption price (as determined by a financial advisor appointed by the Group and Guarantor) giving 30 to 60 days' notice.
- (viii) The £350 million euro-sterling bond will be redeemed at its principal amount in September 2027 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the Group at a higher redemption price (as determined by a financial advisor appointed by the Group and Guarantor) giving 30 to 60 days' notice.
- (ix) These loans reference an interest rate benchmark which will be impacted by IBOR Reform. Refer to Note 2B2.
- (x) This loan has the interest rates reset at pre-determined dates. The repayment of £190.0 million due in 2021 was classified as current in the above analysis as at 31 December 2020. The next repayment on this loan will be in 2023.
- (xi) The interest rate quoted above on the 10 billion Japanese Yen loan is fixed. This is changed to a variable rate by a cross currency swap.
- (xii) These loans can be redeemed at any time by ScottishPower, totally or partially, at market value (calculated as a present value of future cash flows discounted at the current internal rate of return, defined as market swap rate plus applicable credit spread at valuation date) giving five business days' notice to the lender. The lender may declare these loan agreements to have matured early in the event the lender's shareholding in the Group reduces to the extent that the Group no longer belongs to the Iberdrola Group.
- (xiii) The £350 million euro-sterling bond will be redeemed at its principal amount in November 2031 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the Group at a higher redemption price (as determined by a financial advisor appointed by the Group and Guarantor) giving 30 to 60 days' notice.
- (xiv) Current borrowings comprise loans with Iberdrola Group companies repayable on demand or within the next year, accrued interest, the short-term element of the EURIBOR 2022 loan with Iberdrola (refer to footnote (iv) above), the short-term element of the LIBOR 2027 loan with Iberdrola in relation to the prior year (refer to footnote (x) above), the short-term element of fair value hedge adjustments and the adjustments on discontinued fair value hedges due to be amortised within one year, which totalled £(1.0) million (2020 £(1.1) million).
- (xv) In May 2020 the Group entered into an intra-group committed revolving credit facility arrangement with SPL for £1.0 billion, with an expiry date of February 2025. The facility has never been drawn. During March 2021, an additional £500.0 million of committed revolving credit facility was agreed with SPL, which has an expiry date of March 2025. Therefore, at the date of signing these Accounts, the Group, has £1.5 billion of undrawn committed facilities available.

SCOTTISH POWER UK PLC
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19 LOANS AND OTHER BORROWINGS *continued*

(b) Analysis by counterparty type

	2021 £m	2020 £m
Loans payable to Iberdrola Group companies	3,492.5	3,662.0
Loans payable to external counterparties	1,840.0	2,140.0
Accrued interest due to Iberdrola Group companies	17.5	14.7
Accrued interest due to external counterparties	32.8	39.1
Credit facility – initial margin	200.0	–
	5,582.8	5,855.8

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

	Notes	Lease liabilities £m	Loans and other borrowings (Current) £m	Loans and other borrowings (Non-current) £m	Other financial liabilities £m	Total £m
At 1 January 2020*		451.0	1,266.2	3,823.1	44.8	5,585.1
Increase in amounts due to Iberdrola Group companies and joint ventures		–	773.6	–	–	773.6
Repayments of borrowings and other financial liabilities		–	–	–	(1.3)	(1.3)
Payments of lease liabilities		(26.7)	–	–	–	(26.7)
Interest paid		(12.0)	(168.9)	–	–	(180.9)
Total movements from financing cash flows	(i)	(38.7)	604.7	–	(1.3)	564.7
Transfer from non-current to current		–	509.5	(509.5)	–	–
Other movements	(ii)	85.4	154.5	7.3	–	247.2
Total liability-related other movements		85.4	664.0	(502.2)	–	247.2
At 31 December 2020		497.7	2,534.9	3,320.9	43.5	6,397.0

* Comparative figures have been restated (refer to Note 2).

	Notes	Lease liabilities £m	Loans and other borrowings (Current) £m	Loans and other borrowings (Non-current) £m	Other financial liabilities £m	Total £m
At 1 January 2021		497.7	2,534.9	3,320.9	43.5	6,397.0
(Decrease)/increase in amounts due to Iberdrola Group companies		–	(1,417.9)	1,250.0	–	(167.9)
Repayments of borrowings and other financial liabilities		–	(300.0)	–	(8.7)	(308.7)
Payments of lease liabilities		(23.8)	–	–	–	(23.8)
Interest paid		(15.2)	(149.1)	–	–	(164.3)
Total movements from financing cash flows	(i)	(39.0)	(1,867.0)	1,250.0	(8.7)	(664.7)
Transfer from non-current to current		–	9.1	(9.1)	–	–
Credit facility – initial margin	(iii)	–	200.0	–	–	200.0
Other movements	(ii)	52.0	144.8	(0.8)	–	196.0
Total liability-related other movements		52.0	353.9	(9.9)	–	396.0
At 31 December 2021		510.7	1,021.8	4,561.0	34.8	6,128.3

(i) Total movements from financing cash flows do not include financing cash flows relating to equity. Cash flows not included relate to share capital of subsidiary issued to non-controlling interest and dividends paid.

(ii) Other movements includes non-cash movements including accrued interest expense and the acquisition of lease liabilities.

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

	2021 £m	2020 £m
Current trade and other receivables – other receivables (refer to Note 12)	200.0	–
Current Loans and other borrowings – credit facility initial margin	(200.0)	–
Net assets	–	–

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

20 TRADE AND OTHER PAYABLES

	Notes	2021 £m	2020 Restated* £m
Current trade and other payables:			
Payables due to Iberdrola Group companies – trade		12.4	2.4
Payables due to joint ventures – trade		2.7	2.3
Trade payables	(a), (b)	1,028.3	522.3
Other taxes and social security	(c)	68.3	98.8
Payments received on account		125.9	131.1
Capital payables and accruals	(b)	258.4	309.5
Collateral	(d)	270.7	35.6
Other payables		137.7	109.5
	(e)	1,904.4	1,211.5
Non-current other payables:			
Other payables		8.8	5.2
		8.8	5.2

* Comparative figures have been restated. Refer to Note 2.

- (a) Certain trade payables and receivables are presented net on the Statement of financial position when offsetting criteria under IAS 32 are met (refer to Note 3H2.3). A reconciliation between the gross and net position is provided at Note 11(d).
- (b) During 2020, the Group operated a number of supplier financing arrangements under which certain suppliers could obtain accelerated settlement on invoices from the banking provider. These arrangements were a form of reverse factoring which the Group believes offered a benefit to its suppliers by giving them early access to funding. The supplier financing program allowed participating suppliers the ability to voluntarily elect to sell the Group's payment obligations to a designated third-party financial institution. The Group's obligations to its suppliers, including amounts due and scheduled payment terms, were not impacted by suppliers' decisions to sell amounts under these arrangements.
- During 2020, the Group agreed the extension of payment terms with some suppliers, which the Group deemed to be commercially reasonable and within the legal payment terms required. The payment period for those suppliers was extended to an average of 81 days. These suppliers could have elected to be paid by a financial institution earlier than maturity under supplier financing arrangements.
- The supplier financing arrangements were reviewed to determine the appropriate accounting treatment. For the supplier financing arrangements in place as at 31 December 2020, management determined that the original liabilities to which the arrangements applied had not been extinguished or substantially modified on entering into the arrangements. Therefore, the balances continued to be classed as Trade and other payables on the Statement of financial position, and the associated cash flows were included in Cash flows from operating activities. At 31 December 2020, the amount of Trade and other payables under supplier financing arrangements was £61.4 million, of which £53.2 million was within Capital payables and accruals and £8.2 million within Trade payables.
- No such arrangements were in place at 31 December 2021.
- (c) Due to the impact of the COVID-19 pandemic, HMRC announced in March 2020 that companies could defer their VAT payments due between March 2020 to June 2020 until March 2021. The Group, as at 31 December 2020 had deferred £49.1 million of VAT. This was fully repaid, in one installment, in March 2021. No such arrangements were in place at 31 December 2021.
- (d) The majority of the collateral balance in both the current and prior year relates to collateral held with commodity derivative counterparties. Collateral support agreements are used to manage credit exposure to commodity price changes and include margining for trading with exchanges. The increase in the balance from prior year is predominantly due to the increase in the market price of gas in 2021. For further information on how the Group manages energy market risk refer to Notes 11(d) and 11(e) B.
- (e) Trade and other payables includes £225.7 million (2020 £209.1 million) of IFRS 15 contract liabilities (refer to Note 22(b)). These balances consist of DD customer payments that are in excess of the associated units of energy delivered (final customer credits) and payments on account for Energy Networks projects.

21 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Notes	Property, plant and equipment £m	Derivative financial instruments £m	Retirement benefits £m	Trading losses £m	Other temporary differences £m	Total £m
At 1 January 2020		844.7	(32.3)	(111.1)	2.5	(7.5)	696.3
Charge/(credit) to Income statement	(a)	178.6	0.2	(2.2)	(17.9)	(0.7)	158.0
Acquisition of subsidiaries	(b)	(0.5)	–	–	–	–	(0.5)
Recorded in the Statement of comprehensive income	(a)	–	71.0	7.2	–	–	78.2
At 1 January 2021		1,022.8	38.9	(106.1)	(15.4)	(8.2)	932.0
Charge/(credit) to Income statement	(c)	432.8	(4.8)	–	(20.6)	(13.0)	394.4
Recorded in the Statement of comprehensive income	(c)	–	184.1	157.7	(18.2)	–	323.6
At 31 December 2021		1,455.6	218.2	51.6	(54.2)	(21.2)	1,650.0

- (a) Legislation was previously enacted to reduce the UK rate of Corporation Tax to 17% as from 1 April 2020. Accordingly, the deferred tax balances as at 1 January 2020, were measured at the 17% rate, this being the tax rate enacted at that time, and the rate temporary differences were expected to reverse at. Further legislation which was substantively enacted on 17 March 2020 under The Provisional Collection of Taxes Act 1968 that maintained the 19% UK Corporation Tax rate. The 19% rate applied from 1 April 2020. This rate change increased the 31 December 2020 deferred tax liability by £82.3 million.
- (b) On 5 June 2020, the Group acquired the entire share capital of Hagshaw Hill Repowering Ltd. On 28 August 2020, the Group acquired 72% of the share capital of Cumberhead West Wind Farm Ltd.
- (c) Legislation was enacted on 10 June 2021 under the Finance Act 2021 that will increase the UK Corporation tax rate to 25% from 1 April 2023. Accordingly, the deferred tax balances at 1 January 2021 have been increased by £293.3 million to reflect the rate that the temporary differences are expected to reverse at.
- (d) At 31 December 2021, the Group had unutilised capital losses of £34.5 million (2020 £34.5 million). No deferred tax asset was recognised in either year due to the unpredictability of suitable future profit streams against which these losses may be utilised.
- (e) The Group have recognised the deferred tax on the surplus of the ScottishPower pension scheme at 25% rather than 35% because the expected manner of recovery of the surplus is not a refund and under IAS 12, the applicable rate in this circumstance is the prevailing corporation tax rate.

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

22 REVENUE

(a) Disaggregation of revenue

	Note	2021			Total £m
		Energy Networks £m	Renewables £m	Energy Retail and Wholesale £m	
Segment revenue		1,276.3	863.4	4,107.3	6,247.0
Inter-segment revenue	(i)	(136.7)	(750.0)	(10.6)	(897.3)
External revenue		1,139.6	113.4	4,096.7	5,349.7
Electricity distribution		700.9	–	–	700.9
Electricity transmission		394.8	–	–	394.8
Transfers of assets from customers		43.9	–	–	43.9
Supply of electricity		–	–	2,999.3	2,999.3
Supply of gas		–	–	995.0	995.0
CfD income		–	68.0	–	68.0
Other		–	45.4	102.4	147.8
		1,139.6	113.4	4,096.7	5,349.7

	Note	2020			Total £m
		Energy Networks £m	Renewables £m	Energy Retail and Wholesale £m	
Segment revenue		1,254.4	906.0	3,750.6	5,911.0
Inter-segment revenue	(i)	(139.1)	(596.9)	(11.0)	(747.0)
External revenue		1,115.3	309.1	3,739.6	5,164.0
Electricity distribution		674.9	–	–	674.9
Electricity transmission		397.8	–	–	397.8
Transfers of assets from customers		42.6	–	–	42.6
Supply of electricity		–	–	2,711.4	2,711.4
Supply of gas		–	–	967.6	967.6
CfD income		–	212.8	–	212.8
Other		–	96.3	60.6	156.9
		1,115.3	309.1	3,739.6	5,164.0

(i) Energy Networks inter-segment revenue is predominantly subject to regulation and is based on published tariffs set by Ofgem. Renewables inter-segment revenue primarily consists of the sale of electricity and ROCs from wind farms. Energy Retail and Wholesale inter-segment revenue largely consists of the supply of electricity and gas.

All revenue is recognised over time and arises from operations within the UK and Republic of Ireland. Revenue arising outside the UK is not deemed material enough to warrant separate disclosure.

(b) Contract balances

	Notes	31 December 2021 £m	31 December 2020 £m	1 January 2020 £m
Receivables	(i), (ii)	779.8	785.8	851.0
Contract liabilities	(iii), (iv)	(1,623.4)	(1,540.6)	(1,524.6)

(i) Included within Trade and other receivables (refer to Note 12).

(ii) £100.5 million (2020 £119.9 million) of net expected credit losses were recognised during the year on receivables arising from the Group's contracts with customers.

(iii) £1,397.7 million (2020 £1,331.5 million) of contract liabilities relates to the transfer of assets from customers which is recorded within Deferred income (refer to Note 17). The remainder is included within Trade and other payables (refer to Note 20).

(iv) The amount of contract liabilities recognised as income in the year is £103.3 million (2020 £135.1 million). The remaining movement in contract liabilities relates to new liabilities recognised in the year.

(c) Customer contract costs

During the year, £75.1 million (2020 £59.9 million) of incremental costs of obtaining a contract (customer contract costs) were capitalised and the amortisation charge was £62.5 million (2020 £49.2 million). Refer to Note 6(a).

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

23 EMPLOYEE INFORMATION

(a) Staff costs

	Note	2021 £m	2020 £m
Wages and salaries		310.0	290.5
Social security costs		33.1	30.8
Pension and other costs	(i)	13.3	69.0
Total staff costs		356.4	390.3
Less: capitalised staff costs		(164.6)	(151.5)
Charged to the Income statement		191.8	238.8

(i) Pension and other costs includes a credit of £85.7m (2020 £nil) from a revaluation of a pension scheme (refer to Note 9) and costs of £13.7 million for group-wide restructuring programmes (2020 credit of £7.9 million).

(b) Employee numbers

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

	2021	2020
Energy Networks	3,013	3,020
Renewables	604	494
Energy Retail and Wholesale	1,471	1,579
Corporate	526	507
Total	5,614	5,600

24 TAXES OTHER THAN INCOME TAX

	Note	2021 £m	2020 £m
Property taxes		121.1	119.4
Other taxes	(a)	110.7	101.4
		231.8	220.8

(a) Other taxes mainly comprises obligations specific to the energy industry, principally ECO and WHD.

25 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2021 £m	2020 £m
Property, plant and equipment depreciation charge	600.3	567.6
Right-of-use asset depreciation charge	31.6	30.7
Intangible asset amortisation charge	125.9	110.5
Charges and provisions, allowances and impairment of assets	11.0	10.7
	768.8	719.5
Capitalised right-of-use asset depreciation	(6.0)	(7.2)
	762.8	712.3

26 FINANCE INCOME

	2021 £m	2020 £m
Interest on bank and other deposits	0.2	1.3
Interest receivable from Iberdrola Group companies	10.7	17.2
Foreign exchange gains	3.8	5.0
Fair value and other gains on financing derivatives	0.1	–
Fair value movement on contingent consideration	–	18.0
	14.8	41.5

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

27 FINANCE COSTS

	Note	2021 £m	2020 £m
Interest on bank loans and overdrafts		–	0.2
Interest on amounts due to Iberdrola Group companies		61.2	53.2
Interest on other borrowings		94.3	106.7
Net impairment of debt instruments		0.1	(0.4)
Unwinding of discount on provisions		3.4	4.2
Interest on lease liabilities		17.7	16.6
Foreign exchange losses		2.7	5.9
Net interest on retirement benefit obligations		6.5	11.9
Fair value and other losses on financing derivatives		0.3	0.6
Interest on taxes		–	0.7
Fair value movement on contingent consideration		3.7	–
		189.9	199.6
Capitalised interest	(a)	(5.3)	(6.9)
		184.6	192.7

(a) The tax relief on the capitalised interest for the year ended 31 December 2021 was £1.0 million (2020 £1.3 million).

28 INCOME TAX

	2021 £m	2020 £m
Current tax:		
UK Corporation Tax charge on profits for the year	46.8	106.2
Adjustments in respect of prior years	7.4	(7.5)
Current tax for the year	54.2	98.7
Deferred tax:		
Origination and reversal of temporary differences	104.6	60.7
Adjustments in respect of prior years	(14.0)	(0.6)
Impact of tax rate change on opening deferred tax balance	303.8	97.9
Deferred tax for the year	394.4	158.0
Income tax expense for the year	448.6	256.7

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

	2021 £m	2020 £m
Corporation Tax at 19% (2020 19%)	104.6	160.0
Adjustments in respect of prior years	(6.6)	(8.1)
Impact of tax rate change on opening deferred tax balance	303.8	97.9
Impact of tax rate change on current year charge	31.9	–
Non-deductible expenses and other permanent differences	14.9	6.9
Income tax expense for the year	448.6	256.7

Legislation was previously enacted to reduce the UK rate of Corporation Tax to 17% on 1 April 2020. Accordingly deferred tax balances were measured at the 17% rate, this being the tax rate enacted at the reporting date of 31 December 2019, and the rate temporary differences were expected to reverse. Further legislation was substantively enacted on 17 March 2020 under The Provisional Collection of Taxes Act 1968 that maintains the 19% UK Corporation Tax rate. The 19% rate was applicable from 1 April 2020. This rate increased the deferred tax liability at 31 December 2020 by £97.9 million.

Further 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 deferred tax balances at 1 January 2021 increased by £303.8 million reflecting the rate that the temporary differences are expected to reverse at.

Comparison of UK Corporation Tax charge and payments	2021 £m	2020 £m
UK Corporation Tax charge on profits for the year	46.8	106.2
UK Corporation Tax in the Statement of cash flows	93.4	129.5

The amount of Corporation Tax paid in the year, shown in the Statement of cash flows, and the amount of the Corporation Tax charge for the year are not the same. The main reason for this is the timing of the payments.

For accounting periods beginning on or after 1 April 2019, HMRC amended the rules relating to quarterly Corporation Tax instalment payments and introduced new payment dates for companies categorised as being 'very large'. The amended rules affect companies with annual taxable profits exceeding £20 million and has resulted in companies being required to pay their Corporation Tax instalments earlier than what was required under the previous regime. The instalment dates for each chargeable accounting period under assessment are now the 14th day of each calendar quarter. The interaction between the old and new Corporation Tax payment regimes has resulted in four Corporation Tax instalment payments being settled with the UK Collector of Taxes relating to the year ended 31 December 2021 compared to six instalment payments for the year ended 31 December 2020. The six payments made in 2020 relate to the obligation to settle the third and fourth instalment payments with respect to the year ended 31 December 2019 and all four instalment payments that are required under the new regime. After that there will be a requirement to make four Corporation Tax instalment payments in each year all relating to the current year's tax charge. In addition, the amount in the Statement of cash flows also includes any refunds received or payments made relating to Corporation Tax liabilities of prior years.

The current tax asset of £67.7 million has arisen in 2021 largely as a consequence of the significant losses arising in the Energy Retail and Wholesale division.

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

29 DIVIDENDS

	2021 pence per ordinary share	2020 pence per ordinary share	2021 £m	2020 £m
Interim dividend paid	–	22.5	–	1,595.9

30 CONTINGENT LIABILITIES

East Anglia One Limited's exemption from the legislative requirement to hold a transmission licence under the Electricity Act 1989 expired on 13 December 2021 (the ("the Exemption Date"). Following due consideration of relevant legal, contractual and regulatory implications and as a result of continued positive engagement with, and assurances from, the Department for Business Energy and Industrial Strategy and Ofgem the project continues to generate and transmit electricity beyond the Exemption Date. Based on the information available at the reporting date, or date of signing, there are no contingent liabilities arising from these events.

Legal proceedings

The Group's businesses are party to various other legal claims, actions and complaints, certain of which may involve material amounts. The Group is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be. The Group currently believes that resolution of these matters will not have a materially adverse effect on the Consolidated accounts.

31 FINANCIAL COMMITMENTS

Contractual commitments

The Group 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 Group is committed under long-term purchase contracts summarised in the tables below.

	2021						2027 and thereafter £m	Total £m
	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2021 £m		
Long-term energy purchase contract commitments	3,028.5	389.6	89.5	6.1	–	–	–	3,513.7
Other contractual commitments	255.2	54.4	49.6	55.3	47.9	159.2	–	621.6

	2020						2026 and thereafter £m	Total £m
	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2020 £m		
Long-term energy purchase contract commitments	1,239.3	242.8	77.8	16.3	–	–	–	1,576.2
Other contractual commitments	190.9	74.5	43.9	40.6	24.2	78.2	–	452.3

32 RELATED PARTY TRANSACTIONS

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

	2021				2020			
	Ultimate parent (Iberdrola, S.A.) £m	Immediate parent (Scottish Power Limited) £m	Other Iberdrola Group companies £m	Joint ventures £m	Ultimate parent (Iberdrola, S.A.) £m	Immediate parent (Scottish Power Limited) £m	Other Iberdrola Group companies £m	Joint ventures £m
Types of transaction								
Sales and rendering of services	–	1.3	50.5	1.3	0.1	0.7	17.7	2.3
Purchases and receipt of services	(32.7)	(0.6)	(44.6)	(16.1)	(35.5)	(0.6)	(23.5)	(14.1)
Interest income	–	10.7	–	–	–	17.2	–	–
Interest costs (excluding ECLs)	(0.2)	(55.3)	(5.7)	–	(0.4)	(42.6)	(10.2)	–
Net gains/(losses) on foreign exchange	1.8	(1.8)	–	–	(3.3)	3.2	–	–
Net losses on financing derivatives	–	(0.2)	–	–	–	(0.7)	–	–
Changes in the value of cash flow hedges	–	8.8	–	–	–	7.3	–	–
Dividends paid	–	–	–	–	–	(1,595.9)	–	–
Movements in ECLs in respect of								
Loans and interest receivable	–	–	–	–	–	0.2	–	–
Balances outstanding								
Loans receivable	–	1,177.5	–	–	–	831.5	–	–
Trade and other receivables	–	1.7	34.3	4.3	–	2.2	9.4	3.8
Interest receivable	–	10.3	–	–	–	17.2	–	–
Derivative financial assets	–	0.2	24.7	–	–	1.3	0.4	–
Loans payable	(9.1)	(2,910.4)	(570.0)	(3.0)	(29.3)	(2,869.7)	(760.0)	(3.0)
Trade and other payables	–	(1.1)	(11.3)	(2.7)	–	(1.2)	(1.2)	(2.3)
Interest payable	–	(17.3)	(0.2)	–	–	(14.5)	(0.2)	–
Derivative financial liabilities	–	(0.7)	(2.3)	–	–	(0.3)	–	–
ECL on								
Loans and interest receivable	–	0.1	–	–	–	0.1	–	–

(i) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received in relation to inter-group transactions.

SCOTTISH POWER UK PLC
 NOTES TO THE CONSOLIDATED ACCOUNTS *continued*
 31 December 2021

32 RELATED PARTY TRANSACTIONS *continued*

(b) Remuneration of key management personnel

The remuneration of the key management personnel of the Group is set out below. The remuneration of all 15 (2020 13) key management personnel who served during the year is included within staff costs at Note 23(a).

	2021 £m	2020 £m
Short-term employee benefits	4.8	4.9
Post-employment benefits	0.3	0.5
Termination benefits	0.2	–
Share-based payments	4.5	3.8
	9.8	9.2

(c) Directors' remuneration

The remuneration of the directors who provided qualifying services to the Group is set out below. All of the directors were remunerated by the Group during both years. All of the directors (2020 all) were remunerated directly by the Company.

	2021 £000	2020 £000
Aggregate remuneration in respect of qualifying services	1,051	937
Aggregate contributions to a defined contribution pension scheme	20	–
Aggregate compensation for loss of office	176	–
Number of directors who exercised share options	4	3
Number of directors who received shares under a long-term incentive scheme	3	2
Number of directors accruing retirement benefits under a defined benefit scheme	3	3
Number of directors accruing retirement benefits under a defined contribution scheme	1	–

Highest paid director

	2021 £000	2020 £000
Aggregate remuneration	425	383
Accrued pension benefit	69	65

- (i) The highest paid director received a benefit under a long-term share incentive scheme in both years.
- (ii) The highest paid director exercised share options in both years.

(d) Immediate and ultimate parent company

The immediate parent company is Scottish Power Limited which is also the parent company of the smallest group in which the results of the Company are consolidated. Copies of the consolidated accounts of Scottish Power Limited may be obtained from its registered office at 320 St. Vincent Street, Glasgow, Scotland, 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. Copies of the consolidated accounts of Iberdrola, S.A. may be obtained from its registered office at Iberdrola, S.A., Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain.

In addition to the Company's parent undertakings disclosed above, the Group's other related undertakings are disclosed in Appendix 1.

33 AUDITOR'S REMUNERATION

	2021 £m	2020 £m
Audit of the Company and Consolidated annual accounts	0.5	0.5
Audit of the Company's subsidiaries pursuant to legislation	1.9	1.8
Audit of the Group's pension schemes pursuant to legislation	0.1	0.1
Audit fees	2.5	2.4
Audit-related assurance services	0.1	0.2
Total	2.6	2.6

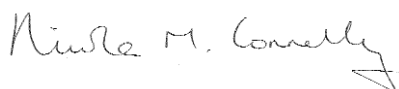
- (a) For the year ended 31 December 2021, all fees paid to the Group's auditors of £2.5 million (2020 £2.5 million) were charged to the Income statement. The Group's SPPS pension scheme paid the fees of £0.1 million (2020 £0.1 million) relating to that scheme's audit.

SCOTTISH POWER UK PLC
 COMPANY STATEMENT OF FINANCIAL POSITION
 at 31 December 2021

	Notes	2021 £m	2020 Restated* £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	35	18.7	19.2
Property, plant and equipment	36	46.4	50.4
Right-of-use-assets	37	87.0	85.9
Pensions asset	38	291.7	–
Non-current financial assets		5,056.2	5,167.3
Investments in subsidiaries	39	5,023.5	5,123.5
Other investments	39, 40	0.2	0.2
Derivative financial instruments	40	32.5	43.6
Non-current trade and other receivables	41	2,535.5	2,082.4
Deferred tax asset	42	–	109.2
TOTAL NON-CURRENT ASSETS		8,035.5	7,514.4
CURRENT ASSETS			
Current trade and other receivables	41	232.0	337.6
Current tax assets		3.3	26.8
Current financial assets		1.1	1.2
Derivative financial instruments	40	1.1	1.2
TOTAL CURRENT ASSETS		236.4	365.6
TOTAL ASSETS		8,271.9	7,880.0
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		5,558.4	4,513.7
Share capital	43, 44	3,551.7	3,551.7
Share premium	44	398.2	398.2
Hedge reserve	44	1.0	2.2
Other reserve	44	420.4	420.4
Retained earnings – opening balance	44	141.2	761.8
Retained earnings – profit for the year	44	586.3	971.6
Retained earnings – other movements	44	459.6	(1,592.2)
Retained earnings – closing balance	44	1,187.1	141.2
TOTAL EQUITY		5,558.4	4,513.7
NON-CURRENT LIABILITIES			
Non-current provisions		102.5	562.1
Provision for retirement benefit obligations	38	99.5	558.6
Other provisions	45	3.0	3.5
Bank borrowings and other non-current financial liabilities		1,946.2	797.2
Loans and other borrowings	46	1,946.2	797.2
Non-current lease liabilities	37	107.9	106.5
Non-current trade and other payables	47	3.7	2.0
Non-current income tax liabilities		–	4.0
Deferred tax liabilities	42	29.5	–
TOTAL NON-CURRENT LIABILITIES		2,189.8	1,471.8
CURRENT LIABILITIES			
Current provisions		1.5	2.3
Other provisions	45	1.5	2.3
Bank borrowings and other current financial liabilities		482.5	1,734.7
Current financial liabilities		34.8	43.5
Loans and other borrowings	46	447.6	1,691.2
Derivative financial instruments	40	0.1	–
Current lease liabilities	37	6.2	6.9
Current trade and other payables	47	33.5	150.6
TOTAL CURRENT LIABILITIES		523.7	1,894.5
TOTAL LIABILITIES		2,713.5	3,366.3
TOTAL EQUITY AND LIABILITIES		8,271.9	7,880.0

* Comparative figures have been restated (refer to Note 34).

Authorised for issue by the Board and signed on its behalf on 22 April 2022.



Nicola Connelly
 Director

The accompanying Notes 34 to 53 and Appendix 1 are an integral part of the Company statement of financial position at 31 December 2021.

SCOTTISH POWER UK PLC
 COMPANY STATEMENT OF COMPREHENSIVE INCOME
 for the year ended 31 December 2021

	Note	2021 £m	2020 £m
NET PROFIT FOR THE YEAR		586.3	971.6
OTHER COMPREHENSIVE INCOME			
Items that may be subsequently released to the Income statement:			
Cash flow hedges:			
Changes in the value of cash flow hedges	44	(1.4)	(0.9)
Tax relating to cash flow hedges	44	0.2	–
		(1.2)	(0.9)
Items that will not be reclassified to the Income statement:			
Actuarial gains/(losses) on retirement benefits:			
Actuarial gains/(losses) on retirement benefits	44	586.0	(8.4)
Tax relating to actuarial gains/(losses) on retirement benefits	44	(126.4)	12.1
Cash flow hedges:			
Change in the value of cash flow hedges	44	–	0.1
		459.6	3.8
OTHER COMPREHENSIVE INCOME FOR THE YEAR		458.4	2.9
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,044.7	974.5

Total comprehensive income for both years is wholly attributable to the equity holder of Scottish Power UK plc.

SCOTTISH POWER UK PLC
 COMPANY STATEMENT OF CHANGES IN EQUITY
 for the year ended 31 December 2021

	Share capital £m	Share premium £m	Hedge reserve £m	Other reserve £m	Retained earnings £m	Total £m
At 1 January 2020	3,551.7	398.2	3.0	420.4	761.8	5,135.1
Total comprehensive income for the year	–	–	(0.8)	–	975.3	974.5
Dividends	–	–	–	–	(1,595.9)	(1,595.9)
At 1 January 2021	3,551.7	398.2	2.2	420.4	141.2	4,513.7
Total comprehensive income for the year	–	–	(1.2)	–	1,045.9	1,044.7
At 31 December 2021	3,551.7	398.2	1.0	420.4	1,187.1	5,558.4

SCOTTISH POWER UK PLC
 COMPANY STATEMENT OF CASH FLOWS
 for the year ended 31 December 2021

	2021 £m	2020 £m
Cash flow from operating activities		
Profit before tax	591.1	962.4
Adjustments for:		
Depreciation, amortisation and impairment	29.0	31.3
Change in provisions	(0.4)	(0.4)
Net finance income and costs	133.8	28.2
Shareholding income	(640.8)	(990.6)
Net gain on disposal/write-off of non-current assets	0.5	–
Movement in retirement benefits	(171.3)	(113.4)
Changes in working capital:		
Change in trade and other receivables	75.8	(4.4)
Change in trade and other payables	(116.4)	45.1
Provisions paid	(1.9)	(10.1)
Income taxes received	27.2	24.5
Interest received	55.6	60.3
Dividends received	640.8	990.6
Net cash flows from operating activities (i)	623.0	1,023.5
Cash flows from investing activities		
Investments in intangible assets	(10.0)	(10.2)
Investments in property, plant and equipment	(6.1)	(10.1)
Decrease in amounts due from Iberdrola Group companies – current loans receivable	216.0	44.9
Increase in amounts due from Iberdrola Group companies – non-current loans receivable	(645.0)	(289.0)
Net cash flows from investing activities (ii)	(445.1)	(264.4)
Cash flows from financing activities		
(Decrease)/increase in amounts due to Iberdrola Group companies – current loans payable	(942.8)	926.9
Increase in amounts due to Iberdrola Group companies – non-current loans payable	1,150.0	–
Dividends paid to equity holder	–	(1,595.9)
Interest paid	(65.5)	(76.9)
Interest paid on lease liabilities	(3.5)	(3.7)
Repayments of borrowings	(308.7)	(1.3)
Payment of lease liabilities	(7.4)	(8.2)
Net cash flow from financing activities (iii)	(177.9)	(759.1)
Net movement in cash and cash equivalents (i) + (ii) + (iii)	–	–
Cash and cash equivalents at beginning of year	–	–
Cash and cash equivalents at end of the year	–	–

The accompanying Notes 34 to 53 and Appendix 1 are an integral part of the Company statement of cash flows for the year ended 31 December 2021.

SCOTTISH POWER UK PLC

NOTES TO THE COMPANY ACCOUNTS

31 December 2021

34 COMPANY INFORMATION AND PRINCIPAL ACCOUNTING POLICIES

A COMPANY INFORMATION AND ACTIVITIES

Scottish Power UK plc (registered company number SC117120) is a private company limited by shares. It is incorporated in Scotland and its registered address is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD. The Company financial statements present information about the Company as a separate entity, and not about the Group.

The Company acts as the holding company of the Scottish Power UK plc group, whose activities are set out in Note 1 to the Consolidated accounts, and has its own board of directors. The principal activity of the Company is the centralised provision of common corporate services to its subsidiary businesses.

B BASIS OF PREPARATION

B1 BASIS OF PREPARATION OF THE COMPANY ACCOUNTS

The Company is required by law to prepare accounts and to deliver them to the Registrar of Companies. The Company accounts are prepared in accordance with the Accounting Policies set out in Note 34C. Monetary amounts are presented in pounds Sterling and rounded to the nearest hundred thousand unless otherwise indicated. The Company accounts are prepared on the historical cost basis apart from certain financial assets and liabilities which are measured at fair value.

The Company Accounts have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the Company has applied the recognition, measurement and disclosure requirements of UK-adopted international accounting standards including newly effective IAS for the year ended 31 December 2021 (refer to Note 2B2). As per Note 2B1, on transition from EU-adopted IAS to UK-adopted IAS on 31 December 2020, the standards in force under both regimes were identical. However, in applying FRS 101, the Company has made amendments where necessary in order to comply with the Companies Act 2006 and has set out below where FRS 101 disclosure exemptions have been taken.

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

- reconciliation of movements of liabilities to cash flows arising from financing activities;
- 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; and
- disclosures in respect of the compensation of key management personnel.

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 CHANGES IN PRESENTATION

Effective from 1 January 2021, the Company modified the format of its Statement of financial position in line with Iberdrola Group policy to include a new line item, Current financial liabilities. Balances for collateral which the Company holds in relation to derivatives hedging specific loans, had previously been included within current Loans and other borrowings but have now been reclassified to this new line item. Accordingly, the 2020 Company statement of financial position has been adjusted to reduce current Loans and other borrowings by £43.5 million and record £43.5 million against Current financial liabilities.

In addition, effective from 1 January 2021, interest payable has been reclassified from Current trade and other payables to current Loans and other borrowings. Therefore, in the 2020 Company statement of financial position, Current trade and other payables has been reduced by £31.4 million and current Loans and other borrowings increased by £31.4 million.

Both these changes are deemed to provide more useful information to users of the financial statements and bring the Company into line with industry practice. These restatements have had no impact on the net assets position shown on the Company statement of financial position or the net profit for the year.

B3 GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 1 to 38.

The Company statement of financial position presents net current liabilities of £287.3 million as at 31 December 2021. The Company financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Company is the parent company of the Scottish Power UK plc Group which, is a significant component of Iberdrola, one of the world's largest integrated utilities. The Company participates in a UK treasury function operated by the Company's immediate parent undertaking, Scottish Power Limited. The UK treasury function works closely with Iberdrola to manage the Company's and the Group's funding requirements, which are reviewed and adjusted on a regular basis using a mixture of external funding and funding provided via Iberdrola through the global treasury function.

For the purposes of the directors' assessment of the Company's going concern position and to satisfy them of the Company's ability to pay its liabilities as they fall due, the directors have prepared a Company statement of cash flows for a period of at least one year from the date of approval of these financial statements. Whilst the Company has net current liabilities of £287.3 million as at 31 December 2021, this principally reflects the Company's net short-term inter-company loan position of £225.3 million at the reporting date. As stated in Note 46(i), at the date of signing the Company accounts the Company also has £1.5 billion of committed facilities available. However, the directors have taken into consideration three inter-group committed revolving credit facilities that have been put in place by the Company for subsidiary entities totalling £750.0 million. Whilst these facilities have never been drawn, for the purpose of the preparation of forecasts, the directors consider that the Company has £750.0 million of committed facilities available. The cash flow forecasts indicate that, even under the severe but plausible downside scenario, the Company's existing resources and committed facilities, are sufficient to enable it to trade and pay its liabilities as they fall due for the forecast period.

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

SCOTTISH POWER UK PLC
 NOTES TO THE COMPANY ACCOUNTS *continued*
 31 December 2021

34 COMPANY INFORMATION AND PRINCIPAL ACCOUNTING POLICIES *continued*

C JUDGEMENTS, ESTIMATION UNCERTAINTIES AND PRINCIPAL ACCOUNTING POLICIES

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

- Retirement benefit obligation (including valuation of level 3 pension plan assets) – Notes 3K and 38.

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

INVESTMENTS

The Company's investments in subsidiaries are stated in the Company statement of financial position at cost, or fair value of shares issued as consideration where applicable. Dividends from subsidiaries are recognised when the right to receive the dividend is established.

Applicable Group accounting policies

The following significant accounting policies are consistent with those applied for the Group financial statements:

- Other intangible assets (refer to Note 3D);
- Property, plant and equipment (refer to Note 3E);
- Leased assets (refer to Note 3F);
- Impairment of property, plant and equipment, leased assets and intangible assets (refer to Note 3G);
- Financial instruments (refer to Note 3H);
- Retirement benefits (refer to Note 3K);
- Decommissioning costs (refer to Note 3L); and
- Taxation (refer to Note 3P).

35 INTANGIBLE ASSETS

Year ended 31 December 2021	Note	Computer software (Note (a)) £m	Licences £m	Total £m
Cost:				
At 1 January 2021		101.3	5.4	106.7
Additions	(b)	10.0	–	10.0
Disposals		(0.5)	–	(0.5)
At 31 December 2021		110.8	5.4	116.2
Amortisation:				
At 1 January 2021		83.1	4.4	87.5
Amortisation for the year		9.5	1.0	10.5
Disposals		(0.5)	–	(0.5)
At 31 December 2021		92.1	5.4	97.5
Net book value:				
At 31 December 2021		18.7	–	18.7
At 1 January 2021		18.2	1.0	19.2

(a) The cost of fully amortised computer software still in use at 31 December 2021 was £79.9 million (2020 £61.7 million).

(b) Included within additions is £0.6 million (2020 £0.3 million) from internal development.

36 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment in use

Year ended 31 December 2021	Property, plant and equipment in use (Note (i)) £m
Cost:	
At 1 January 2021	104.6
Additions	7.1
Disposals	(6.7)
At 31 December 2021	105.0
Depreciation:	
At 1 January 2021	54.2
Charge for the year	11.1
Disposals	(6.7)
At 31 December 2021	58.6
Net book value:	
At 31 December 2021	46.4
At 1 January 2021	50.4

(i) Property, plant and equipment in use principally comprises fixtures and fittings and IT equipment.

(ii) The cost of fully depreciated property, plant and equipment still in use at 31 December 2021 was £27.5 million (2020 £20.2 million).

SCOTTISH POWER UK PLC
 NOTES TO THE COMPANY ACCOUNTS *continued*
 31 December 2021

36 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) Capital commitments	2021 £m	2020 £m
Contracted but not provided	0.2	0.3

(i) Capital commitments in both the current and prior year are due within one year.

(c) Research and development expenditure

The amount of research and development expenditure recognised as an expense during the year was £0.2 million (2020 £0.1 million).

37 LEASING

37A LESSEE

The Company leases many assets including buildings, vehicles and other equipment. Information about leases for which the Company is a lessee is presented below.

(a) Nature of leases

Buildings

The Company leases buildings primarily for its office space, and retail space (which is sub-let). The leases typically have lease terms running from ten to 25 years. Certain leases have options to extend the term by up to ten years at the end of the term. Most contracts have no termination options, whilst certain contracts have specific break options exercisable five or ten years before the contract end date.

The lease for the head office building has a 25 year term ending in 2041 at which point the Company has the right to extend the lease to 2046 (and to 2051 at 2046). It is currently not deemed reasonably certain that these extension options will be taken. However, should they be taken, the estimated increase in the lease liability would be £36.1 million and a further £20.2 million respectively.

The Company sub-leases some of its properties under operating leases (refer to Note 37B). Where the unavoidable costs of meeting the obligations under these contracts exceeds the economic benefits expected to be received under them, the right-of-use assets have been appropriately impaired.

Vehicles

The Company leases vehicles with lease terms of between two and five years, primarily being pool vehicles to mobilise its operational staff. Certain vehicle leases are considered short-term and the Company has elected not to recognise right-of-use assets and lease liabilities for these leases.

Other equipment

The Company leases office equipment with lease terms of typically seven years.

Variable lease payments

Certain building leases contain variable lease payments that are based on the building services supplied; a common payment term for this type of lease. The fixed annual payments for the year were £10.9 million compared to variable payments of £0.4 million. The Company expects the relative proportion of fixed and variable lease payments to remain broadly consistent in future years.

Extension options

Some building leases contain extension options exercisable by the Company at the end of the non-cancellable contract period or an agreed point before that date. Where practicable, the Company seeks to include extension options in leases to provide operational flexibility. Those 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.

SCOTTISH POWER UK PLC
 NOTES TO THE COMPANY ACCOUNTS *continued*
 31 December 2021

37 LEASING *continued*

37A LESSEE *continued*

(b) Right-of-use assets

Year ended 31 December 2020	Note	Buildings £m	Vehicles £m	Other equipment £m	Total £m
Cost					
At 1 January 2020		91.9	2.2	2.2	96.3
Additions		0.1	0.4	–	0.5
Adjustments for changes in liabilities	(i)	3.2	0.1	0.2	3.5
At 31 December 2020		95.2	2.7	2.4	100.3
Depreciation					
At 1 January 2020		6.0	0.5	0.5	7.0
Charge for the year		6.3	0.6	0.5	7.4
At 31 December 2020		12.3	1.1	1.0	14.4
Net book value					
At 31 December 2020		82.9	1.6	1.4	85.9
At 1 January 2020		85.9	1.7	1.7	89.3

Year ended 31 December 2021	Notes	Buildings £m	Vehicles £m	Other equipment £m	Total £m
Cost					
At 1 January 2021		95.2	2.7	2.4	100.3
Additions		4.7	0.1	–	4.8
Adjustments for changes in liabilities	(i)	3.4	–	0.7	4.1
Disposals		(1.2)	–	–	(1.2)
Impairment	(ii)	(0.6)	–	–	(0.6)
At 31 December 2021		101.5	2.8	3.1	107.4
Depreciation					
At 1 January 2021		12.3	1.1	1.0	14.4
Charge for the year		5.7	0.6	0.5	6.8
Disposals		(0.8)	–	–	(0.8)
At 31 December 2021		17.2	1.7	1.5	20.4
Net book value					
At 31 December 2021		84.3	1.1	1.6	87.0
At 1 January 2021		82.9	1.6	1.4	85.9

(i) Adjustments for changes in liabilities are movements in the right-of-use asset resulting from remeasurement of the associated lease liability to reflect changes to the lease payments due to any reassessment or lease modifications.

(ii) The £0.6 million impairment charge for the year relates to additions to a sub-leased property, for which the right-of-use asset has already been fully impaired.

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

(c) Lease liabilities

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

	2021 £m	2020 £m
Less than one year	9.6	10.8
One to five years	36.2	33.8
More than five years	103.6	106.2
Total undiscounted lease liabilities at 31 December	149.4	150.8
Finance cost	(35.3)	(37.4)
Total discounted lease liabilities	114.1	113.4
Analysis of total lease liabilities		
Non-current	107.9	106.5
Current	6.2	6.9
Total	114.1	113.4

Details of the Company's risk management strategy for liquidity risks inherent in its lease liability are described at Note 11(e)C1.

(d) Amounts recognised in Income statement

	Note	2021 £m	2020 £m
Interest on lease liabilities		(3.7)	(3.7)
Variable lease payment not included in the measurement of lease liabilities		(0.4)	(0.6)
Income from sub-leasing right-of-use assets		0.6	0.7
Expenses relating to short-term leases	(i)	–	(0.2)

(i) Expenses relating to short-term leases relate to leases for vehicles. The charge for the current year was less than £0.1 million. Future commitments relating to the portfolio of short-term leases are expected to be similar to the expense charged in the year.

SCOTTISH POWER UK PLC
 NOTES TO THE COMPANY ACCOUNTS *continued*
 31 December 2021

37 LEASING *continued*

37A LESSEE *continued*

(e) Amounts recognised in the Company statement of cash flows

	2021 £m	2020 £m
Payments of lease liabilities	(7.4)	(8.2)
Interest paid on lease liabilities	(3.5)	(3.7)
Payments for variable lease components	(0.4)	(0.6)
Payments for short-term leases	–	(0.1)
Total cash outflow for leases	(11.3)	(12.6)

37B LESSOR

The Company has contracts to lease buildings which have been classified as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. These leases have terms of between 19 and 21 years, and are due to end between 2022 and 2025. Lease income recognised by the Company during 2021 was £0.6 million (2020 £0.7 million). No income has been recognised in either year relating to variable lease payments that do not depend on an index or rate.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted payments to be received after the reporting date:

	2021 £m	2020 £m
Less than one year	0.3	0.6
One to two years	0.1	0.1
Two to three years	0.1	–
Total undiscounted lease payments	0.5	0.7

Details of the Company's risk management strategy for addressing and reducing the risks associated with the retained rights in the underlying assets are described in Note 11(e)C1.

38 RETIREMENT BENEFIT OBLIGATIONS

The amounts recognised in the Company statement of financial position in respect of net retirement benefit assets/obligations are detailed below:

	2021 £m	2020 £m
Non-current assets	291.7	–
Non-current liabilities	(99.5)	(558.6)

The Company recognises the respective pension scheme assets and deficits in its Statement of financial position for the schemes for which it is the sponsoring employer as there is no appropriate contractual agreement or group policy to allocate the assets and deficit on a legal entity basis. Detailed disclosures for accounting under IAS 19, under the provisions of IFRIC 14, are provided in Note 9G4 of the Group financial statements.

39 INVESTMENTS

	Note	Investment in subsidiaries £m	Other investments (Note (a)) £m	Total £m
At 1 January and 31 December 2020		5,123.5	0.2	5,123.7
Impairment	(b)	(100.0)	–	(100.0)
At 31 December 2021		5,023.5	0.2	5,023.7

(a) At 31 December 2021, the Company held investments of £0.2 million (2020 £0.2 million) for which no quoted market price is available and whose fair value could not be reliably measured.

(b) Prior to entering liquidation during 2021, the Company's subsidiary undertaking, ScottishPower Investments Limited ("SPIL"), reduced its share capital by £100.0 million. As a result an impairment charge of £100.0 million was recognised in respect of the Company's investment in SPIL.

(c) The company's subsidiaries and joint ventures are listed in Appendix 1.

40 FINANCIAL INSTRUMENTS

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

	Other investments £m	Derivative financial instruments £m
At 1 January 2020	0.2	46.1
Recorded in Income statement	–	(1.6)
Recorded in Cash flow hedge reserve	–	0.3
At 1 January 2021	0.2	44.8
Recorded in Income statement	–	(9.9)
Recorded in Cash flow hedge reserve	–	(1.4)
At 31 December 2021	0.2	33.5

The Company's derivatives comprise forward foreign exchange contracts and cross currency swaps. The Company uses foreign currency forwards in relation to asset purchases and other small items of general expenditure. For such items, the Company designates the entire value of the foreign currency forward in the hedge relationship. The tables on the following page illustrate the timing of the notional amount of the foreign currency forwards and the average forward price of the foreign currency forwards.

SCOTTISH POWER UK PLC
 NOTES TO THE COMPANY ACCOUNTS *continued*
 31 December 2021

40 FINANCIAL INSTRUMENTS *continued*

At 31 December 2021	Notional amount of hedging instrument (maturity profile) £m 1 year
EUR	2.8

At 31 December 2021	Average forward price (exchange rate) 1 year
EUR (GBP:EUR)	1.16

The Company has issued debt instruments denominated in JPY. As a result, the Company has entered into cross currency swaps and has designated these within a fair value hedging relationship where they meet the required hedging criteria to mitigate this risk. The carrying amount of the associated 10 billion JPY loan at 31 December 2021 is £81.8 million (2020 £91.7 million). The notional amount of the cross currency swaps is £51.4 million and the average hedge rate for the year (£:JPY) is 1:194.55.

41 TRADE AND OTHER RECEIVABLES

	Notes	2021 £m	2020 £m
Current receivables:			
Receivables due from Iberdrola Group companies – trade		8.7	7.9
Receivables due from Iberdrola Group companies – loans	(a)	192.0	216.0
Receivables due from Iberdrola Group companies – interest		17.3	23.1
Other receivables	(b)	–	76.7
Trade receivables		0.3	1.4
Prepayments		5.2	4.2
Other tax receivables		8.5	8.3
		232.0	337.6
Non-current receivables:			
Receivables due from Iberdrola Group companies – loans	(a)	2,535.1	2,082.3
Prepayments		0.2	–
Other receivables		0.2	0.1
		2,535.5	2,082.4

(a) Current loans due from Iberdrola Group companies at 31 December 2021 comprises instalments of £192.0 million due on loans with a final maturity date of 2022 with interest payable at a fixed rate of 3.416%. At 31 December 2020 current loans from Iberdrola Group companies comprised the instalments of £216.0 million due in 2021 on the loans with final maturity 2023 and 2025. The non-current loans with Iberdrola Group companies due to mature in 2023 and 2025 are repayable in equal instalments on a bi-annual basis. The non-current loans with Iberdrola Group companies due to mature in 2029 and 2030 are repayable, in full, at maturity.

(b) This balance at 31 December 2020 represented other receivables of £76.7 million recognised as part of a contractual renegotiation.

(c) Information about the Company's exposure to credit and market risks and net credit losses for Trade and other receivables are included in Note 11(e).

42 DEFERRED TAX

Deferred tax recognised/provided in the Accounts is as follows:

	Property, plant and equipment £m	Derivative financial instruments £m	Retirement benefits £m	Trading losses £m	Other temporary differences £m	Total £m
At 1 January 2020	2.3	(0.6)	111.1	–	2.7	115.5
Charge/(credit) to Income statement	0.2	–	2.2	–	(1.5)	0.9
Recorded in the Statement of comprehensive income	–	–	(7.2)	–	–	(7.2)
At 1 January 2021	2.5	(0.6)	106.1	–	1.2	109.2
Charge to Income statement	0.1	–	–	–	0.4	0.5
Recorded in the Statement of comprehensive income	–	0.2	(157.7)	18.2	0.1	(139.2)
At 31 December 2021	2.6	(0.4)	(51.6)	18.2	1.7	(29.5)

(a) At 31 December 2021, the Company had unutilised capital losses of £5.4 million (2020 £5.4 million). No deferred tax has been recognised in the Accounts due to the unpredictability of suitable future profit streams against which these losses may be utilised.

(b) Legislation was previously enacted to reduce the UK rate of Corporation Tax to 17% as from 1 April 2020. Accordingly, deferred tax balances were measured at the 17% rate, this being the tax rate enacted at that time, and the rate temporary differences were expected to reverse at. Further legislation which was substantively enacted on 17 March 2020 under The Provisional Collection of Taxes Act 1968 that maintained the 19% UK Corporation Tax rate. The 19% rate applied from 1 April 2020. This rate change increased the 31 December 2020 deferred tax asset by £13.3 million.

(c) 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 assets at 1 January 2021 have been increased by £17.8 million to reflect the rate that the temporary differences are expected to reverse at.

43 SHARE CAPITAL

	2021 £m	2020 £m
Allotted, called up and fully paid shares:		
7,103,427,542 ordinary shares of 50p each (2020 7,103,427,542)	3,551.7	3,551.7

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.

SCOTTISH POWER UK PLC
 NOTES TO THE COMPANY ACCOUNTS *continued*
 31 December 2021

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

	Share capital £m	Share premium (Note (a)) £m	Hedge reserve (Note (b)) £m	Other reserves (Note (c)) £m	Retained earnings (Note (d)) £m	Total £m
At 1 January 2020	3,551.7	398.2	3.0	420.4	761.8	5,135.1
Profit for the year attributable to equity holder of the Company	–	–	–	–	971.6	971.6
Changes in the value of cash flow hedges	–	–	(0.8)	–	–	(0.8)
Actuarial losses on retirement benefits	–	–	–	–	(8.4)	(8.4)
Tax relating to actuarial losses on retirement benefits	–	–	–	–	12.1	12.1
Dividends	–	–	–	–	(1,595.9)	(1,595.9)
At 1 January 2021	3,551.7	398.2	2.2	420.4	141.2	4,513.7
Profit for the year attributable to equity holder of the Company	–	–	–	–	586.3	586.3
Changes in the value of cash flow hedges	–	–	(1.4)	–	–	(1.4)
Actuarial gains on retirement benefits	–	–	–	–	586.0	586.0
Tax relating to cash flow hedges	–	–	0.2	–	–	0.2
Tax relating to actuarial gains on retirement benefits	–	–	–	–	(126.4)	(126.4)
At 31 December 2021	3,551.7	398.2	1.0	420.4	1,187.1	5,558.4

(a) The share premium account represents consideration received for shares issued in excess of their nominal amount.

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

(c) Other reserves as at 31 December 2021 comprises a capital redemption reserve of £8.2 million (2020 £8.2 million) and a capital contribution reserve of £412.2 million (2020 £412.2 million). The capital redemption reserve comprises the nominal value of the Company's ordinary share capital purchased by the Company in previous years.

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

45 PROVISIONS

Year ended 31 December 2020	Notes	At 1 January 2020 £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	At 31 December 2020 £m
Onerous contracts	(a)	10.4	–	–	(9.3)	(0.6)	0.5
Reorganisation and restructuring	(b)	0.5	–	–	(0.4)	(0.1)	–
Decommissioning	(c)	4.8	0.8	0.1	(0.4)	–	5.3
		15.7	0.8	0.1	(10.1)	(0.7)	5.8

Year ended 31 December 2021	Notes	At 1 January 2021 £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	At 31 December 2021 £m
Onerous contracts	(a)	0.5	–	–	(0.3)	(0.1)	0.1
Decommissioning	(c)	5.3	0.9	0.1	(1.6)	(0.3)	4.4
		5.8	0.9	0.1	(1.9)	(0.4)	4.5

Analysis of total other provisions	2021 £m	2020 £m
Non-current	3.0	3.5
Current	1.5	2.3
	4.5	5.8

(a) The provision for onerous contracts at 1 January 2020 primarily related to costs associated with the early termination of an IT contract. This provision was utilised during 2020. The balance of the onerous contracts provision is expected to be utilised in 2022.

(b) The provision for reorganisation and restructuring related to group-wide restructuring programmes and was fully utilised in 2020.

(c) The provision for decommissioning costs is the discounted future estimated costs of decommissioning certain non-current assets. The decommissioning is expected to occur over the period between 2022 and 2041.

SCOTTISH POWER UK PLC
 NOTES TO THE COMPANY ACCOUNTS *continued*
 31 December 2021

46 LOANS AND OTHER BORROWINGS

Analysis by instrument and maturity	Notes	Interest rate*	Maturity	2021 £m	2020 Restated* £m
Loans with Iberdrola Group companies		Base +1%	On demand	417.3	1,360.1
£300 million medium-term note	(a), (b)	5.9%	22 February 2021	–	299.9
£250 million euro-sterling bond	(b), (c)	6.75%	29 May 2023	249.8	249.6
£175 million inflation-linked bond	(a), (b), (d)	3.494% x RPI	13 October 2024	314.4	305.7
Loans with Iberdrola Group companies	(e)	LIBOR + 0.84%	1 March 2029	650.0	–
10 billion JPY loan	(f)	4.6%	27 July 2029	81.8	91.7
Loans with Iberdrola Group companies	(e)	LIBOR + 0.82%	1 March 2031	500.0	–
£50 million medium-term note	(a), (b)	5.75%	9 December 2039	50.0	50.0
£100 million medium-term note	(a), (b)	6.375%	31 May 2041	100.0	100.0
Accrued interest	(g)			30.5	31.4
				2,393.8	2,488.4

* Base – Bank of England Base Rate; RPI – Retail Price Index; LIBOR – London Inter-Bank Offer Rate.

Analysis of loans and other borrowings	Note	2021 £m	2020 Restated* £m
Non-current		1,946.2	797.2
Current	(h)	447.6	1,691.2
		2,393.8	2,488.4

* Comparative figures have been restated (refer to Note 34).

- (a) SPL and the Company have an established joint US\$7 billion euro medium-term note programme. SPL has not issued under the programme. Any future issuance under the programme will require the relevant programme documentation to be updated. The Company has in issue various notes in Sterling, which can be redeemed by the Company with 30 to 90 days' notice in case of unfavourable and unavoidable changes in the UK tax laws impacting on the note payments. The £300.0 million medium-term note matured in February 2021 and was repaid.
- (b) This note and bond contain a "Loss of licence" covenant that will require repayment of the outstanding amount should the Group lose the relevant licence (distribution, transmission and supply licences).
- (c) The £250 million euro-sterling bond due 2023 can be redeemed at any time by the Company at the higher of the principal amount or redemption price (as determined by HSBC Bank plc) giving 30 to 45 days' notice to the lender.
- (d) The £175 million inflation-linked bond contains non-financial loan covenants. A future breach of covenants may require the Company to repay the loans earlier than indicated in the above table. Under the agreements, the covenants are monitored on a regular basis by the ScottishPower treasury function and regularly reported to management to ensure compliance with the agreements.
- (e) These loans reference an interest rate benchmark which will be impacted by IBOR Reform. See Note 2B2 on the impact of changes to IAS relating to IBOR Reform.
- (f) The interest rate quoted above on the 10 billion JPY loan is fixed. This is changed to a variable rate by a cross currency swap.
- (g) Includes interest payable to Iberdrola Group companies of £12.9 million (2020 £7.4 million).
- (h) Current borrowings comprise loans with Iberdrola Group companies repayable on demand and accrued interest together with finance costs due to be amortised within one year. Current borrowings also includes the short-term element of fair value hedge adjustments and the adjustments on discontinued fair value hedges due to be amortised within one year; this totalled £(0.2) million (2020 £(0.2) million).
- (i) In May 2020 the Company entered into an intra-group committed revolving credit facility arrangement with SPL for £1.0 billion, with an expiry date of February 2025. The facility has never been drawn. During March 2021, an additional £500.0 million of committed revolving credit facility was agreed with SPL, which has an expiry date of March 2025. Therefore, at the date of signing these Accounts, the Company, has £1.5 billion of undrawn committed facilities available.

47 TRADE AND OTHER PAYABLES

	Notes	2021 £m	2020 Restated* £m
Current trade and other payables:			
Payables due to Iberdrola Group companies – trade		0.1	0.3
Payables due to Iberdrola Group companies – other	(a)	–	76.7
Trade payables	(b)	16.4	10.9
Other taxes and social security	(c)	1.0	49.3
Payables received on account		–	0.1
Capital payables		6.1	5.1
Other payables		9.9	8.2
		33.5	150.6
Non-current other payables:			
Other payables		3.7	2.0
		3.7	2.0

* Comparative figures have been restated (refer to Note 34).

- (a) This balance at 31 December 2020 represented other payables of £76.7 million recognised as part of a contractual renegotiation. This balance was settled during 2021.
- (b) During 2020, the Company operated a number of supplier financing arrangements under which certain suppliers could obtain accelerated settlement on invoices from the banking provider. These arrangements were a form of reverse factoring which the Company believed offered a benefit to its suppliers by giving them early access to funding. The supplier financing program allowed participating suppliers the ability to voluntarily elect to sell the Company's payment obligations to a designated third-party financial institution. The Company's obligations to its suppliers, including amounts due and scheduled payment terms, were not impacted by suppliers' decisions to sell amounts under these arrangements.
- During 2020, the Company agreed the extension of payment terms with some suppliers, which the Company deemed to be commercially reasonable and within the legal payment terms required. The payment period for those suppliers was extended to an average of 80 days. These suppliers could elect to be paid by a financial institution earlier than maturity under supplier financing arrangements.
- The supplier financing arrangements were reviewed to determine the appropriate accounting treatment. For the supplier financing arrangements in place at 31 December 2020, management determined that the original liabilities to which the arrangements apply had not been extinguished or substantially modified on entering into the arrangements. Therefore, the balances continued to be classed as Trade and other payables on the Statement of financial position and the associated cash flows were included in Cash flows from operating activities. At 31 December 2020, the amount of Trade and other payables under supplier financing arrangements was £0.4 million, which was within Trade payables. No such arrangements were in place at 31 December 2021.
- (c) Due to the impact of the COVID-19 pandemic, HMRC announced in March 2020 that companies could defer their VAT payments due between March 2020 and June 2020 until March 2021. The Company, as at 31 December 2020, had deferred £49.1 million of VAT. This was fully repaid, in one installment, in March 2021.

SCOTTISH POWER UK PLC
 NOTES TO THE COMPANY ACCOUNTS *continued*
 31 December 2021

48 COMPANY INCOME STATEMENT

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own income statement. The Company's income statement was authorised for issue by the Board on 22 April 2022. The profit for the financial year per the Accounts of the Company was £586.3 million (2020 £971.6 million).

49 EMPLOYEE INFORMATION

(a) Staff costs

	Note	2021 £m	2020 £m
Wages and salaries		42.5	35.7
Social security costs		4.9	4.0
Pension and other costs	(i)	(70.8)	12.6
Total staff costs		(23.4)	52.3
Less: capitalised staff costs		(1.2)	(0.7)
(Credited)/charged to the income statement		(24.6)	51.6

(i) Pension and other costs includes a credit of £85.7 million (2020 £nil) from a revaluation of a pension scheme (refer to Note 9) and costs of £2.6 million for group-wide restructuring programmes (2020 £0.7 million).

(b) Employee numbers

Details of the year end and average number of employees (full and part time) employed by the Company, including UK-based directors, can be found within the Corporate category of Note 23(b).

(c) Pensions

The Company's contributions in the year were £8.2 million (2020 £7.2 million). The Company contributes to the Group's defined benefit and defined contribution schemes in the UK. Full details of these schemes can be found in Note 9.

50 AUDITOR'S REMUNERATION

Auditor remuneration is billed on a group basis and not recharged to the Company. Of the total Group audit fee for the year ended 31 December 2021, £171,500 (2020 £140,000) related to the audit of the Company accounts. The total auditor remuneration for the Group is disclosed in Note 33 to the Consolidated Accounts.

51 DIVIDENDS

	2021 pence per ordinary share	2020 pence per ordinary share	2021 £m	2020 £m
Interim dividend paid	–	22.5	–	1,595.9

52 FINANCIAL COMMITMENTS

	2021						Total £m
	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 and thereafter £m	
Contractual commitments	3.2	1.0	0.2	0.1	–	–	4.5

	2020						Total £m
	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2026 and thereafter £m	
Contractual commitments	8.2	1.0	0.6	0.1	0.1	–	10.0

53 RELATED PARTY TRANSACTIONS

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

	2021		2020	
	Other Iberdrola Group companies £m	Subsidiary companies £m	Other Iberdrola Group companies £m	Subsidiary companies £m
Types of transaction				
Sales and rendering of services	0.1	0.2	0.3	1.3
Net losses on foreign exchange	–	–	–	(0.1)
Balances outstanding				
Trade and other receivables	0.1	–	0.3	–

(i) Movements in ECLs in respect of Loans and other receivables for both years was less than £0.1 million.

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

(b) Directors' remuneration

Details of directors' remuneration are set out at Note 32(c) to the Consolidated accounts.

SCOTTISH POWER UK PLC

APPENDIX 1: SUBSIDIARIES AND JOINT VENTURES

31 December 2021

SCOPE OF CONSOLIDATION

Subsidiaries and joint ventures

The table below sets out details of the subsidiaries and joint ventures of the Group and the Company at 31 December 2021. These are all included in the Consolidated accounts of the Group. All entities are indirect holdings unless specified. Shares owned by the Group are all ordinary shares.

Name	Principal activities	Registered office and country of incorporation (Note (vii))	Equity interest		
			2021	2020	
Energy Networks					
Subsidiaries					
Scottish Power Energy Networks Holdings Limited	Holding company	(A)	100%	(i)	100%
SP Distribution plc	Ownership and operation of distribution network within the Central Belt and Southern Scotland area	(A)	100%		100%
SP Manweb plc	Ownership and operation of distribution network within Cheshire, Merseyside, North Shropshire and North Wales area	(B)	100%		100%
SP Network Connections Limited	Design and construction of utility connections	(B)	100%		100%
SP Power Systems Limited	Provision of asset management services	(A)	100%		100%
SP Transmission plc	Ownership and operation of transmission network within the Central Belt and Southern Scotland area	(A)	100%		100%
Manweb Services Limited	Operation of a private electricity distribution network	(B)	100%		100%
Joint ventures					
NGET/SPT Upgrades Limited	Operation of offshore W-HVDC Transmission link	(C)	50%	(ii), (iii)	50%
Renewables					
Subsidiaries					
ScottishPower Renewable Energy Limited	Holding company	(A)	100%	(i)	100%
Coldham Windfarm Limited	Operation of an onshore wind farm	(B)	80%		80%
Cumberhead West Wind Farm Ltd.	Development of an onshore wind farm	(A)	72%	(iv)	72%
Douglas West Extension Limited	Development of an onshore wind farm	(A)	72%		72%
East Anglia One Limited	Operation of an offshore wind farm	(D)	60%		60%
East Anglia One North Limited	Development of an offshore wind farm	(D)	100%		100%
East Anglia Three Limited	Development of an offshore wind farm	(D)	100%		100%
East Anglia Two Limited	Development of an offshore wind farm	(D)	100%		100%
Hagshaw Hill Repowering Ltd	Development of an onshore wind farm	(A)	100%	(iv)	100%
ScottishPower Renewables (UK) Limited	Development, construction and operation of onshore wind farms	(E)	100%	(v)	100%
ScottishPower Renewables (WODS) Limited	Operation of an offshore wind farm	(A)	100%		100%
Joint ventures					
CeltPower Limited	Operation of an onshore wind farm	(B)	50%	(ii)	50%
East Anglia Offshore Wind Limited	Commercial operation of offshore meteorological mast	(D)	50%	(ii)	50%
Morecambe Wind Limited	Provision of operational services	(F)	50%	(ii)	50%

SCOTTISH POWER UK PLC
APPENDIX 1: SUBSIDIARIES AND JOINT VENTURES *continued*
 31 December 2021

SCOPE OF CONSOLIDATION *continued*

Subsidiaries and joint ventures

Name	Principal activities	Registered office and country of incorporation (Note (vii))	Equity interest	
			2021	2020
Energy Retail and Wholesale				
Subsidiaries				
Scottish Power Retail Holdings Limited	Holding company	(A)	100%	(i) 100%
ScottishPower (DCL) Limited	Holding company	(B)	100%	100%
ScottishPower Energy Management Limited	Wholesale energy management company engaged in purchase and sale of electricity and gas	(A)	100%	100%
ScottishPower Energy Management (Agency) Limited	Agent for energy management activity of ScottishPower Energy Management Limited and Scottish Power UK plc	(A)	100%	100%
ScottishPower Generation (Assets) Limited	Asset owning company	(A)	100%	100%
ScottishPower (SCPL) Limited	Holding company	(B)	100%	100%
ScottishPower Energy Retail Limited	Supply of electricity and gas to domestic and business customers	(A)	100%	100%
SP Dataserve Limited	Data collection, data aggregation, meter operation and revenue protection	(A)	100%	100%
SP Smart Meter Assets Limited	Provider of smart meter assets and services	(A)	100%	100%
Dormant subsidiaries in liquidation				
SP Gas Transportation Cockenzie Limited	In liquidation	(G)	100%	(vi) 100%
SP Gas Transportation Hatfield Limited	In liquidation	(G)	100%	(vi) 100%
ScottishPower Investments Limited	In liquidation	(G)	100%	(v), (vi) 100%
ScottishPower Renewables (UK Assets) Limited	In liquidation	(G)	100%	(vi) 100%

(i) The investment in this company is a direct holding of Scottish Power UK plc.

(ii) All joint ventures are accounted for using the equity method.

(iii) NGET/SPT Upgrades Limited has a non-conterminous year end date of 31 March. This is a contractual obligation as agreed in the joint operating agreement.

(iv) On 5 June 2020, ScottishPower Renewables (UK) Limited ("SPRUKL") acquired the entire share capital of Hagshaw Hill Repowering Ltd. On 28 August 2020, SPRUKL acquired 72% of the share capital of Cumberhead West Wind Farm Ltd.

(v) At various dates subsequent to the year end, SPRUKL, a subsidiary of the Group, acquired the entire share capital of the following entities for a total consideration of £32.6 million:

- Byrn Henllys SF Limited (formerly known as Lightsource SPV 75 Limited)
- Down Barn Farm SF Limited (formerly known as Lightsource SPV 174 Limited)
- EEB11 Limited
- EEB 22 Limited
- EEB24 Limited
- EEB28 Limited
- EEB30 Limited
- EEB33 Limited
- Milltown Airfield Solar PV Limited

(vi) SP Gas Transportation Cockenzie Limited, ScottishPower Investments Limited, ScottishPower Renewables (UK Assets) Limited and SP Gas Transportation Hatfield Limited were placed into member's voluntary liquidation on 10 December 2020, 14 June 2021, 22 June 2021 and 28 October 2021 respectively.

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

- | | |
|--|--|
| (A) 320 St. Vincent Street, Glasgow, G2 5AD, Scotland | (E) The Soloist, 1 Lanyon Place, Belfast, BT1 3LP, Northern Ireland |
| (B) 3 Prenton Way, Prenton, CH43 3ET, England | (F) 5 Howick Place, London, SW1P 1WG, England |
| (C) 1-3 Strand, London, WC2N 5EH, England | (G) Johnston Carmichael, 227 West George Street, Glasgow, G2 2ND, Scotland |
| (D) 3rd Floor, 1 Tudor Street, London, EC4Y 0AH, England | |

For those entities incorporated in Scotland, Northern Ireland and England and Wales, the principal place of business is considered to be the UK; for all other entities, the country of incorporation is the principal place of business.

Scottish Power UK plc

Registered office: 320 St. Vincent Street, Glasgow, Scotland, G2 5AD

Registered in Scotland: No. SC117120