SCOTTISHPOWER ENERGY RETAIL LIMITED

DIRECTORS' REPORT AND ACCOUNTS
for the year ended 31 December 2011

Registered No. SC190287

SCOTTISHPOWER ENERGY RETAIL LIMITED

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for the year ended 31 December 2011

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SCOTTISHPOWER ENERGY RETAIL LIMITED

DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2011.

ACTIVITIES AND REVIEW

The principal activity of ScottishPower Energy Retail Limited, registered company number SC190287, ("the company"), is the supply of electricity and gas to domestic and business customers throughout Great Britain along with associated customer services, such as customer registration, billing and receipting processes and handling enquiries in respect of these services. The company is the holder of the Scottish Power Limited group ("ScottishPower") supply licences. The company will continue with this activity for the foreseeable future.

On 1 July 2011, as part of an Iberdrola S.A. group ("group") restructuring exercise to align the operational structure of ScottishPower with the operational structure of the Iberdrola S.A. group, ownership of the company was transferred from ScottishPower Investments Limited to Scottish Power Generation Holdings Limited ("SPGH"), a subsidiary of Scottish Power UK plc ("SPUK").

KEY FACTORS AFFECTING THE BUSINESS

One of the key drivers impacting the company's financial performance is the ability to earn adequate net margins by managing customer tariffs relative to volatile commodity costs and other input costs such as electricity transmission and distribution and gas transportation costs, whilst recognising that the company is operating in a very competitive market place. Other factors affecting financial performance include variability in customer demand for energy, the weather, government obligations and the success of the company's pro-active approach to debt management.

The company's focus is on gaining profitable customers and maintaining the value of the existing customer base, whilst supporting where practical those customers whose energy cost is a significant proportion of their income. Customer numbers at 31 December 2011 were 5.2 million (2010 5.3 million[1]).

Energy markets remain very competitive. The company continues to focus on meeting customers' expectations by providing a range of competitive products, focusing on service through its "Customer First" programme and continual improvement in cost efficiency through its process improvement programme.

The company is an active participant in the Carbon Emissions Reduction Target ("CERT") Scheme. This is the government's main policy instrument for improving energy efficiency in the domestic sector. It requires energy suppliers with 250,000 or more domestic energy accounts ("obligated suppliers") to achieve a specified amount of carbon reduction, benchmarked against eligible measures such as cavity wall insulation, loft insulation and appliance improvements. CERT commenced in April 2008 and is due to run until December 2012.

The company is also an active participant in the Community Energy Savings Programme ("CESP"). This is an additional energy efficiency programme operated by obligated suppliers and large generators which is designed to achieve concentrated energy efficiency upgrades, largely going beyond the normal CERT measures, in a small number of targeted areas of intense economic need. Like CERT, CESP ends on 31 December 2012.

At the end of 2011, the United Kingdom ("UK") Government was consulting on plans for the Energy Company Obligation ("ECO"), a replacement scheme for CERT and CESP.

Warm Home Discount ("WHD") is a programme established under the Energy Act 2010 to require obligated suppliers to run programmes designed to relieve fuel poverty. The main element of the obligation is a "core group" where fixed rebates of £120 per year in 2011-12 are to be provided to low income pensioners mainly identified by the UK Government using a data matching process. There is a reconciliation mechanism so that any supplier with a higher than average number of such customers in relation to market share is compensated by suppliers with a lower than average number. The remainder of the obligation is to spend a certain amount of money on qualifying programmes, including similar discounts to the core group to be given to members of other fuel poverty risk groups. The total cost of WHD for the company in 2011-12 is likely to be of the order of £5 per customer account.

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[1] The basis for calculating customer numbers changed during the year. Previously this was calculated based on the number of services that a customer utilised, however, this has now changed to a count of Meter Point Administration Numbers for electricity customers and Meter Point Reference numbers for gas. Customer numbers for 2010 have therefore been restated accordingly.

SCOTTISHPOWER ENERGY RETAIL LIMITED

DIRECTORS' REPORT *continued*

MANAGEMENT OF RISKS
The business identifies and assesses the key business risks associated with the achievement of its strategic objectives. Any key actions needed to enhance the control environments are identified, along with the person responsible for the management of the specific risk.

The credit and energy market risks faced by the company are managed at a Liberalised (Energy Retail and Energy Wholesale) business unit level and the treasury risks faced by the company are managed at a ScottishPower group level. Further details of the risk management practices can be found in the most recent Directors' Report and Accounts of Scottish Power UK Holdings Limited ("SPUKH").

OPERATIONAL FINANCIAL PERFORMANCE
The company's loss from operations was £22.3 million, compared to a profit of £80.9 million in the prior year.

Revenue decreased mainly due to lower volumes supplied, largely as a result of milder weather compared to the prior year. This was partly offset by the impact of higher domestic tariffs.

Procurements decreased slightly year-on-year, largely as a result of the reduced volumes required in the current year due to the milder weather. However, this was partly offset by increased energy, network and certain government obligation costs.

Net staff costs increased compared to the prior year largely as a result of restructuring costs incurred during the year. Whilst staff numbers have reduced, pension and average salary costs have offset this.

Outside services increased primarily due to increased spend on Smart Metering and Energy Services (both of which relate to developments in the energy market), as well as training and other costs associated with preparation for a new billing system. In addition, corporate costs increased compared to the prior year.

Other operating income was down compared to the prior year due to the sale of the industrial and commercial gas customer base in the prior year.

Taxes other than income tax increased as a result of increased spending on the company's obligations for CERT, CESP and the introduction of WHD.

Depreciation and amortisation charge, allowances and provisions increased due to new provisions in the year.

Finance income was lower compared to the prior year due to a decrease in group loan balances receivable.

The **income tax** expense decreased during the year, as a direct result of the loss made during the year compared to the prior year's profit.

Overall, the directors are satisfied with the level of business and the year end financial position.

RESULTS AND DIVIDENDS
The net loss for the year amounted to £15.3 million (2010 profit of £67.9 million). The aggregate dividends paid during the year amounted to £nil (2010 £80.0 million).

FINANCING REVIEW
Capital and debt structure
The company is entirely funded by equity. All equity is held by the company's immediate parent undertaking, SPGH.

DIRECTORS' REPORT *continued*

FINANCING REVIEW *continued*

Treasury and interest policy

Treasury services are provided by Scottish Power Limited, the ultimate UK parent company. ScottishPower has a risk policy within treasury and financing which is designed to ensure that the company's exposure to variability of cash flows and asset values due to fluctuations in market interest rates and exchange rates are minimised and managed at acceptable risk levels. Further details of the treasury and interest policy for the ScottishPower group and how it manages them is included in the most recent Directors' Report and Accounts of SPUKH.

Funding

At the end of the year the company had net funds of £265.9 million (2010 £468.7 million).

Liquidity

The directors confirm that the company remains a going concern on the basis of its future cash flow forecasts and has sufficient working capital for present requirements. The directors consider that sufficient funding will be made available to the company to continue operations and to meet liabilities as they fall due. Further details of the going concern considerations made by the directors of the company are set out in Note 23.

COMPETITION

Retail market review

The Office of the Gas and Electricity Markets ("Ofgem") undertook a review of retail markets in the UK and published its conclusions on 21 March 2011. Ofgem concluded that, despite the new licence conditions implemented following previous studies, further action was still necessary in order to make the energy retail markets work better for consumers. Ofgem's concern was that there were a number of features remaining in the market, which were reducing the effectiveness of competition. Ofgem has set out a number of proposals for action, which are continuing to be developed during a lengthy consultation and negotiation process. These include:

- Tariff simplification – strict limitations on the type and number of tariffs offered, including restrictions to one "evergreen" tariff per method of payment which includes a standing charge set by Ofgem
- Liquidity – measures to improve liquidity of wholesale markets, in the absence of voluntary action by the industry to deal with this
- Better customer information
- New principles-based licence obligations

Ofgem also announced a tougher approach to enforcement of licence conditions as part of this review. Several enforcement cases were opened against ScottishPower in 2011; they are yet to be concluded.

The consultation on the various elements of Ofgem's proposals was continuing at the year end and has continued into 2012.

EMPLOYEES

Employment regulation

ScottishPower has well-defined policies in place throughout its businesses to ensure compliance with applicable laws and related codes of practice. These policies cover a wide range of employment issues such as disciplinary action, grievance, harassment, discrimination, stress and 'whistle-blowing' and have been brought together in the Code of Ethics of Iberdrola S.A., the company's ultimate parent company, and its group of companies (which also outlines expectations for employees' conduct). Further policies and measures were introduced in 2011 to ensure the group complies with the Bribery Act 2010.

SCOTTISHPOWER ENERGY RETAIL LIMITED

DIRECTORS' REPORT *continued*

EMPLOYEES *continued*

Employee consultation

Regular consultation takes place on key business initiatives of issues raised by employees using a variety of means, including monthly team meetings, team managers' conferences, business unit road shows, safety committees, presentations and employee magazines. The group believes that an important element of a positive working experience is stable employee and industrial relations; it recognises the legitimacy of trade union involvement and has formal agreements in place to foster open, two-way communication and consultation. Positive relationships and ongoing liaison with employees and their representatives are seen as contributing significantly to achieving the performance objectives of the businesses.

Equal opportunities

ScottishPower is committed to equal opportunities for all, irrespective of age, disability, gender reassignment, race, religion or belief, sex, sexual orientation, marriage and civil partnership, pregnancy and maternity or other considerations that do not affect a person's ability to perform their job. Further details of group workplace policy and performance can be found at www.scottishpower.com.

Employment of disabled persons

In support of the Policy on Equal Opportunities (above), ScottishPower expects all employees to be treated with respect and has a Policy on People with Disabilities to help ensure equality of employment opportunity for people with disabilities. The aim of the policy is to establish working conditions which encourage the full participation of people with disabilities, which may be achieved through activities such as: making adjustments and/or adaptations to premises; enabling access to the full range of recruitment and career opportunities including the provision of specialist training; and the retention of existing staff who are affected by disability, through rehabilitation, training and reassignment. ScottishPower also works with support organisations, such as the Employers' Forum on Disability, which provide support, guidance and sharing of best practice to enable companies to become disability confident.

Positive about disabled people - double tick accreditation

ScottishPower is a disability positive organisation and in February 2011 was re-accredited and retained the double tick symbol, which recognises the positive action and good practices the organisation has continuously adopted to ensure the required commitments to good employment practice specified by Jobcentre Plus are being met in areas such as recruitment and selection, career development, consultation, retention and redeployment of disabled people.

ENVIRONMENTAL REGULATION

Throughout its operations, the ScottishPower group strives to meet, or exceed, relevant legislative and regulatory environmental requirements and codes of practice. A more extensive description of how the ScottishPower group addresses environmental requirements can be found in the most recent Directors' Report and Accounts of SPUKH.

HEALTH AND SAFETY

The company has a clear strategy to continue to improve health and safety performance using ScottishPower group health and safety standards. A more extensive description of how the ScottishPower group addresses health and safety requirements can be found in the most recent Directors' Report and Accounts of SPUKH.

DIRECTORS

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

Neil Clitheroe	(appointed 14 November 2011)
Raymond Jack	(resigned 31 December 2011)
Aitor Moso Raigoso	(appointed 14 November 2011)
Marc Rossi	

SCOTTISHPOWER ENERGY RETAIL LIMITED

DIRECTORS' REPORT *continued*

CREDITOR PAYMENT POLICY AND PRACTICE

The group's policy and practice is to settle terms of payment when agreeing the terms of the transaction, to include the terms in contracts and to pay in accordance with its contractual and legal obligations. The company's creditor days at 31 December 2011 was 14 days (2010 8 days[2]).

DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

The directors are responsible for preparing the Directors' Report and Accounts in accordance with applicable laws and International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

The directors are responsible for preparing Accounts for each financial period which give a true and fair view, in accordance with IFRSs, of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those Accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the Accounts comply with IFRSs, subject to any material departures disclosed and explained in the Accounts and;
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the Accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the directors in office as at the date of this Directors' report and Accounts confirms that:

- so far as he is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are 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.

AUDITORS

Ernst & Young LLP were re-appointed auditors of the company for the year ended 31 December 2011.

ON BEHALF OF THE BOARD

Marc Rossi

Marc Rossi
Director
13 June 2012

[2] The basis for calculating creditor days was revised during the year. The calculation now includes only external balances. The prior year figure has therefore been restated accordingly.

INDEPENDENT AUDITORS' REPORT

to the member of ScottishPower Energy Retail Limited

We have audited the Accounts of ScottishPower Energy Retail Limited for the year ended 31 December 2011 which comprise the Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement, and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

This report is made solely to the company's member, 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 member those matters we are required to state in an auditors' 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the Accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Accounts in accordance with the applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE ACCOUNTS

An audit involves obtaining evidence about the amounts and disclosures in the Accounts sufficient to give reasonable assurance that the Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Accounts. In addition, we read all the financial and non-financial information in the Directors' Report and Accounts to identify material inconsistencies with the audited Accounts. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

OPINION ON ACCOUNTS

In our opinion the Accounts:

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the Accounts are prepared is consistent with the Accounts.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Accounts 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.

Ernst & Young LLP

James Douglas Nisbet (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
13 June 2012

SCOTTISHPOWER ENERGY RETAIL LIMITED
BALANCE SHEETS
as at 31 December 2011 and 31 December 2010

	Notes	2011 £m	2010* £m
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	**28.2**	26.7
Investments	4	**0.1**	0.1
Trade and other receivables	7	**13.2**	17.7
Deferred tax asset	5	**0.5**	3.2
NON-CURRENT ASSETS		**42.0**	47.7
CURRENT ASSETS			
Trade and other receivables	7	**630.2**	821.8
Current tax asset		**1.6**	-
Financial assets		**1.5**	0.1
Cash	6	1.5	0.1
CURRENT ASSETS		**633.3**	821.9
TOTAL ASSETS		**675.3**	869.6
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**79.5**	94.8
Share capital	8, 9	55.4	55.4
Retained earnings	9	24.1	39.4
TOTAL EQUITY		**79.5**	94.8
NON-CURRENT LIABILITIES			
Deferred income	10	**0.6**	0.5
Trade and other payables	12	**0.6**	0.7
NON-CURRENT LIABILITIES		**1.2**	1.2
CURRENT LIABILITIES			
Provisions	11	**23.3**	-
Trade and other payables	12	**571.3**	712.2
Current tax liabilities		**-**	61.4
CURRENT LIABILITIES		**594.6**	773.6
TOTAL LIABILITIES		**595.8**	774.8
TOTAL EQUITY AND LIABILITIES		**675.3**	869.6

*Comparative numbers have been restated (see Note 1)

Approved by the Board on 13 June 2012 and signed on its behalf by:

Marc Rossi

Marc Rossi
Director

The accompanying notes 1 to 23 are an integral part of the balance sheets as at 31 December 2011 and 31 December 2010.

SCOTTISHPOWER ENERGY RETAIL LIMITED
INCOME STATEMENTS
for the years ended 31 December 2011 and 31 December 2010

	Notes	2011 £m	2010* £m
Revenue		3,377.9	3,454.4
Procurements		(2,897.1)	(2,957.9)
		480.8	496.5
Staff costs	13	(89.3)	(83.7)
Capitalised staff costs	13	0.7	0.3
Outside services		(301.4)	(276.2)
Other operating income		21.1	24.3
		(368.9)	(335.3)
Taxes other than income tax	14	(75.7)	(47.8)
		36.2	113.4
Depreciation and amortisation charge, allowances and provisions	15	(58.5)	(32.5)
(LOSS)/PROFIT FROM OPERATIONS		**(22.3)**	80.9
Finance income	16	8.1	13.7
(LOSS)/PROFIT BEFORE TAX		**(14.2)**	94.6
Income tax	17	(1.1)	(26.7)
NET (LOSS)/PROFIT FOR THE YEAR	9	**(15.3)**	67.9

* Comparative numbers have been restated (see Note 1)

Net (loss)/profit for the current and prior year is wholly attributable to the equity holders of ScottishPower Energy Retail Limited.

All results relate to continuing operations.

The accompanying notes 1 to 23 are an integral part of the income statements for the years ended 31 December 2011 and 31 December 2010.

SCOTTISHPOWER ENERGY RETAIL LIMITED
STATEMENTS OF CHANGES IN EQUITY
for the years ended 31 December 2011 and 31 December 2010

	Ordinary share capital £m	Retained earnings £m	Total equity £m
At 1 January 2010	55.4	51.5	106.9
Total comprehensive income for the year	-	67.9	67.9
Dividends	-	(80.0)	(80.0)
At 1 January 2011	55.4	39.4	94.8
Total comprehensive income for the year	-	(15.3)	(15.3)
At 31 December 2011	**55.4**	**24.1**	**79.5**

Total comprehensive income for the year comprises net (loss)/profit for the year.

The accompanying notes 1 to 23 are an integral part of the statements of changes in equity for the years ended 31 December 2011 and 31 December 2010.

SCOTTISHPOWER ENERGY RETAIL LIMITED
CASH FLOW STATEMENTS
for the years ended 31 December 2011 and 31 December 2010

	2011 £m	2010 £m
Cash flows from operating activities		
(Loss)/profit before tax	(14.2)	94.6
Adjustments for:		
Depreciation and amortisation	1.1	1.0
Change in provisions	23.7	-
Capital grants	(0.1)	(0.1)
Finance income	(8.1)	(13.7)
Changes in working capital:		
Change in trade and other receivables	(13.7)	10.3
Change in trade payables	(141.1)	139.8
Provisions paid	(0.4)	-
Income taxes paid	(61.4)	(28.2)
Interest received	13.7	1.4
Net cash flows from operating activities (i)	**(200.5)**	205.1
Cash flows from investing activities		
Investments in property, plant & equipment	(2.5)	(3.3)
Deferred income relating to assets	0.2	-
Net cash flows from investing activities (ii)	**(2.3)**	(3.3)
Financing activities		
Dividends paid to company's equity holders	-	(80.0)
Net cash flows from financing activities (iii)	**-**	(80.0)
Net (decrease)/increase in cash and cash equivalents (i)+(ii)+(iii)	**(202.8)**	121.8
Cash and cash equivalents at beginning of year	**468.7**	346.9
Cash and cash equivalents at end of year	**265.9**	468.7

Cash and cash equivalents at end of year comprises:

Balance sheet cash	1.5	0.1
Receivables due from Iberdrola group companies - loans	264.4	468.6
Cash flow statement cash and cash equivalents	**265.9**	468.7

The accompanying notes 1 to 23 are an integral part of the cash flow statements for the years ended 31 December 2011 and 31 December 2010.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS
31 December 2011

1 BASIS OF PREPARATION OF THE ACCOUNTS

The company is required by law to prepare accounts and to deliver them to the Registrar of Companies. The Accounts have been prepared in accordance with International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations Committee ("IFRIC") Interpretations (collectively referred to as IFRS), as adopted by the EU as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 December 2011. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2.

In previous accounting periods, charges in respect of certain government obligations were presented within 'Outside services'. To align with Iberdrola's presentation, this charge is included within 'Taxes other than income tax' for the year ended 31 December 2011, and prior year amounts have been restated accordingly. This change in income statement presentation has no impact on the company's net profit or net assets in either the current and previous years.

In addition, in previous accounting periods, certain deposits paid to group companies were presented within 'trade and other receivables' as a current asset. Following a review of the treatment of these deposits, such amounts paid are included within 'trade and other receivables' as a non-current asset for the year ended 31 December 2011, and prior year amounts have been restated accordingly. This change in balance sheet presentation has no impact on the company's net profit or net assets in either the current and prior years.

The Accounts contain information about ScottishPower Energy Retail Limited as an individual company and do not contain consolidated information as the parent of a subsidiary company. The company is exempt under Section 400 of the Companies Act 2006 from the requirements to prepare consolidated Accounts as it and its subsidiary undertaking are included by full consolidation in the consolidated Accounts of Iberdrola S.A., a company incorporated in Spain.

2 ACCOUNTING POLICIES

The principal accounting policies applied in preparing the the company's Accounts are set out below.

A. REVENUE
B. PROPERTY, PLANT AND EQUIPMENT
C. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT
D. LEASED ASSETS
E. INVESTMENTS
F. FINANCIAL ASSETS AND LIABILITIES
G. TAXATION
H. CAPITAL GRANTS
I. RETIREMENT BENEFITS

A. REVENUE
Revenue comprises the sales value of energy supplied to customers during the year and excludes Value Added Tax. Revenue from the sale of energy is the value of units supplied during the year, and includes an estimate of the value of units supplied to customers between the date of their last meter reading and the year end, based on external data supplied by the electricity and gas market settlement processes. All revenue is earned wholly within the United Kingdom.

B. PROPERTY, PLANT AND EQUIPMENT
Property, plant and equipment is stated at cost and is generally depreciated on the straight-line method over the estimated operational lives of the assets. Property, plant and equipment includes capitalised employee, interest and other directly attributable costs. Reviews are undertaken annually of the estimated remaining lives and residual values of property, plant and equipment. Residual values are assessed based on prices prevailing at each balance sheet date.

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

	Years
Property, plant and equipment in use	3-15

2 ACCOUNTING POLICIES *continued*

C. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

At each balance sheet date, the company reviews the carrying amount of its property, plant and equipment 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 is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

D. LEASED ASSETS

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in the arrangement. For arrangements entered into prior to 1 April 2004, the date of inception is deemed to be 1 April 2004 in accordance with the transitional requirments of IFRIC 4 'Determining Whether an Arrangement Contains a Lease'.

The company classifies leases as finance leases whenever the lessor transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

E. INVESTMENTS

The company's investments are stated in the balance sheet at cost, or fair value of shares issued as consideration where applicable. Dividends are recognised when the rights to receive the dividend is established.

F. FINANCIAL ASSETS AND LIABILITIES

(a) Financial assets categorised as trade receivables are recognised and carried at original invoice amount less an allowance for impairment of doubtful debts. Allowance for doubtful debts has been estimated by management, taking into account future cash flows, based on past experience and assessment of the current economic environment within which the company operates.

(b) Cash in the balance sheet comprises cash on hand. In the cash flow statement, cash and cash equivalents includes the net of current loans receivable and payable from group companies.

(c) Financial liabilities categorised as trade payables are recognised and carried at original invoice amount.

(d) All interest bearing loans and borrowings are initially recognised at fair value, net of directly attributable transaction costs. Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method, except where the loan or borrowing is a hedged item in an effective fair value hedging relationship.

G. TAXATION

The company's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet 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 balance sheet 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 settled or the asset realised based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax is charged in 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 dealt with in equity and is shown in the statement of comprehensive income.

H. CAPITAL GRANTS

Capital grants in respect of additions to property, plant and equipment are credited to deferred income within non-current liabilities and are released to the income statement on a straight-line basis over the estimated operational lives of the related assets.

I. RETIREMENT BENEFITS

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

3 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

	Property, plant and equipment in use
Year ended 31 December 2010	£m
Cost:	
At 1 January 2010	63.3
Additions	3.5
At 31 December 2010	66.8
Depreciation:	
At 1 January 2010	39.1
Charge for the year	1.0
At 31 December 2010	40.1
Net book value:	
At 31 December 2010	26.7
At 1 January 2010	24.2

	Property, plant and equipment in use
Year ended 31 December 2011	£m
Cost:	
At 1 January 2011	66.8
Additions	2.6
At 31 December 2011	**69.4**
Depreciation:	
At 1 January 2011	40.1
Charge for the year	1.1
At 31 December 2011	**41.2**
Net book value:	
At 31 December 2011	**28.2**
At 1 January 2011	26.7

(i) The category "Property, plant and equipment in use" principally comprises land and buildings.
(ii) The cost of fully depreciated property, plant and equipment still in use at 31 December 2011 was £19.2 million (2010 £19.1 million).
(iii) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land, of £5.2 million (2010 £5.2 million).

(b) Operating lease arrangements

	2011	2010
(i) Operating lease payments	£m	£m
Minimum lease payments under operating leases recognised as an expense in the year	1.6	1.4
Contingent based operating lease rents recognised as an expense in the year	227.7	158.5
	229.3	159.9

The contingent based operating lease rents primarily relate to contracts under which the company purchases electricity. The expense recognised represents the invoiced amounts under these contracts.

	2011	2010
(ii) Operating lease commitments	£m	£m
The future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	1.7	0.6
Between one and five years	4.5	4.4
More than five years	6.8	7.8
	13.0	12.8

The company leases various property, plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

3 PROPERTY, PLANT AND EQUIPMENT *continued*

	2011	2010
(iii) Operating lease receivables	**£m**	£m
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	**0.9**	0.7
	0.9	0.7

The company leases buildings as a lessor under operating leases. The lease arrangements are renewed on a rolling one year basis.

4 INVESTMENTS

	Subsidiary undertaking shares	Joint venture shares	Total
(a) Cost and net book value:	£m	£m	£m
At 31 December 2011 and 31 December 2010	0.1	-	**0.1**

For the year ended 31 December 2010, included within shares in joint ventures is the cost of investment in N.E.S.T.Makers Limited of £22,500. During the year the company wrote down its investment in N.E.S.T.Makers to £nil, as the net assets of the joint venture no longer supported the carrying value.

(b) Shares in subsidiary undertaking and joint venture
The principal holdings of the company are as set out below:

Subsidiary undertaking	**Class of share capital**	**Place of incorporation or registration**	**Proportion of shares held %**	**Activity**
Manweb Energy Consultants Limited	Ordinary shares of £1 each	England and Wales	100	Provision of energy services
Joint venture				
N.E.S.T.Makers Limited	Ordinary shares of £1 each	England and Wales	50	Energy efficiency agent for the 'fuel poor'/ benefit market

5 DEFERRED TAX
Deferred tax recognised in the Accounts is as follows:

	Property, plant and equipment	Other temporary differences	Total
	£m	£m	£m
Deferred tax recognised at 1 January 2010	2.4	(10.4)	(8.0)
Charge to income statement	-	4.8	4.8
Deferred tax liability/(asset) recognised at 31 December 2010	2.4	(5.6)	(3.2)
Charge to income statement	-	2.7	2.7
Deferred tax liability/(asset) recognised at 31 December 2011	**2.4**	**(2.9)**	**(0.5)**

The government has announced that it intends to reduce the rate of UK corporation tax to 22% by 1 April 2014. The rate of corporation tax reduced from 28% to 26% on 1 April 2011 and a further reduction to 25%, effective from 1 April 2012, was enacted at the balance sheet date. These changes have reduced the tax rate expected to apply when temporary differences reverse.

In March 2012, the tax rate effective from 1 April 2012 was substantively enacted at 24% and two further reductions, each of 1%, are expected and will reduce the property, plant and equipment element of the deferred tax provision over two years. The estimated impact of these changes will be reductions of £0.2 million in the year ended 31 December 2012, and £0.1 million in the year ended 31 December 2013. It is not possible to quantify the impact of the rate reductions on the other elements of the deferred tax balance.

6 MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Categories of financial assets and liabilities

The table below sets out the carrying amount and fair value of the company's financial instruments.

	Notes	2011 Carrying amount £m	2011 Fair value £m	2010 Carrying amount £m	2010 Fair value £m
Financial assets					
Receivables		**643.4**	**643.4**	839.5	839.5
Cash	(i)	**1.5**	**1.5**	0.1	0.1
Financial liabilities					
Payables	(ii)	**(545.0)**	**(545.0)**	(687.2)	(687.2)

The carrying amount of these financial instruments is calculated as set out in Note 2F. The carrying value of financial instruments is a reasonable approximation of fair value.

(i) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits.

(ii) Balances outwith the scope of IFRS 7 'Financial Instruments: Disclosures' have been excluded, namely other taxes and social security.

(b) Borrowing facilities

The company had no undrawn committed borrowing facilities at 31 December 2011 or 31 December 2010.

7 TRADE AND OTHER RECEIVABLES

	2011 £m	2010 £m
Current receivables:		
Receivables due from Iberdrola group companies - trade	**32.9**	10.2
Receivables due from Iberdrola group companies - loans	**264.4**	468.6
Receivables due from Iberdrola group companies - interest	**7.8**	13.4
Trade receivables and accrued income	**325.1**	329.6
	630.2	821.8
Non-current receivables:		
Receivables due from Iberdrola group companies - trade	**13.2**	17.7
	13.2	17.7

(i) Interest on loans due from Iberdrola group companies is payable at 1% above the Bank of England base rate and the loans are repayable on demand.

(ii) Trade receivables are stated net of allowance for impairment of doubtful debts of £50.3 million (2010 £69.0 million). Provisions for doubtful debts have been estimated by management, taking into account future cash flows, based on prior experience, ageing analysis and an assessment of the current economic environment within which the company operates.

(iii) At 31 December 2011 trade receivables of £71.4 million (2010 £92.2 million) were past due but not impaired. These relate to Retail customers who have not paid the outstanding balance within agreed payment terms.

	2011 £m	2010 £m
Past due but not impaired:		
Less than 3 months	**37.5**	51.7
Between 3 and 6 months	**13.2**	14.4
Between 6 and 12 months	**14.4**	18.6
After more than 12 months	**6.3**	7.5
	71.4	92.2

(iv) Movements on the provision for impairment of trade receivables are as follows:

	2011 £m	2010 £m
At beginning of year	**69.0**	95.6
Receivables written off during the year as uncollectible	**(68.6)**	(72.1)
Provision for receivables impairment	**49.9**	45.5
At end of year	**50.3**	69.0

(a) The creation and release of provision for impaired receivables have been included in "Depreciation and amortisation charge, allowances and provisions" in the income statement (Note 15).

(b) The provision for impaired receivables relates to Retail customers where a low likelihood of collection has been assessed.

(c) At 31 December 2011, trade receivables of £57.2 million (2010 £64.2 million) were renegotiated that would otherwise be past due or impaired. These relate to Retail customers who, subsequent to defaulting on original payment terms, have made new arrangements to pay amounts owed.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2011

8 SHARE CAPITAL

	2011 £m	2010 £m
Authorised:		
100,000,000 ordinary shares of £1 each (2010 100,000,000)	**100.0**	100.0
	100.0	100.0
Allotted, called up and fully paid shares:		
55,407,000 ordinary shares of £1 each (2010 55,407,000)	**55.4**	55.4
	55.4	55.4

9 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SCOTTISHPOWER ENERGY RETAIL LIMITED

	Ordinary share capital £m	Retained earnings (note (a)) £m	Total £m
At 1 January 2010	55.4	51.5	106.9
Profit for the year attributable to equity holders of ScottishPower Energy Retail Limited	-	67.9	67.9
Dividends	-	(80.0)	(80.0)
At 1 January 2011	55.4	39.4	94.8
Loss for the year attributable to equity holders of ScottishPower Energy Retail Limited	-	(15.3)	(15.3)
At 31 December 2011	**55.4**	**24.1**	**79.5**

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

10 DEFERRED INCOME

Year ended 31 December 2010	At 1 January 2010 £m	Released to income statement £m	At 31 December 2010 £m
Capital grants	0.6	(0.1)	0.5
Total deferred income	0.6	(0.1)	0.5

Year ended 31 December 2011	At 1 January 2011 £m	Received during the year £m	Released to income statement £m	At 31 December 2011 £m
Capital grants	0.5	0.2	(0.1)	**0.6**
Total deferred income	0.5	0.2	(0.1)	**0.6**

11 PROVISIONS

Year ended 31 December 2011	Notes	At 1 January 2011 £m	New provisions £m	Utilised during the year £m	At 31 December 2011 £m
Restructuring	(a)	-	2.2	(0.4)	**1.8**
Other	(b)	-	21.5	-	**21.5**
		-	23.7	(0.4)	**23.3**

Analysis of total provisions	2011 £m	2010 £m
Current	**23.3**	-
	23.3	-

(a) The provision for restructuring is expected to be utilised during 2012.
(b) The provision for other relates to various contractual obligations and the estimated future costs associated with a regulatory review. This review is expected to be concluded in 2012.

12 TRADE AND OTHER PAYABLES

	2011 £m	2010 £m
Current trade and other payables:		
Payables due to Iberdrola group companies - trade	**276.8**	511.4
Trade payables and accrued expenses	**113.5**	97.7
Capital payables and accruals	**0.3**	0.2
Other taxes and social security	**26.9**	25.7
Other payables	**153.8**	77.2
	571.3	712.2
Non-current payables:		
Other payables	**0.6**	0.7
	0.6	0.7

13 EMPLOYEE INFORMATION

(a) Staff costs

	2011 £m	2010 £m
Wages and salaries	**67.8**	69.5
Social security costs	**5.5**	5.1
Pension and other costs	**16.0**	9.1
Total employee costs	**89.3**	83.7
Less: capitalised staff costs	**(0.7)**	(0.3)
Charged to the income statement	**88.6**	83.4

(b) Employee numbers

The year end and average numbers of employees (full and part-time) employed by the company, including executive directors where appropriate, were:

	Year end 2011	Average 2011	Year end 2010	Average 2010
Customer services	**1,598**	**1,699**	1,796	1,869
Administration	**911**	**987**	1,036	1,006
Total	**2,509**	**2,686**	2,832	2,875

The year end and average numbers of employees of full-time equivalent staff employed by the company, including executive directors where appropriate, were:

	Year end 2011	Average 2011	Year end 2010	Average 2010
Total	**2,274**	**2,443**	2,581	2,624

(c) Retirement benefits

The company's contributions payable in the year were £9.8 million (2010 £9.1 million). The company contributes to the ScottishPower group's defined benefit and defined contribution schemes in the UK. Full details of these schemes are provided in the most recent Scottish Power UK Holdings Limited Directors' Report & Accounts. As at 31 December 2011, the deficit in the ScottishPower group's defined benefit schemes in the UK amounted to £212.1 million (2010 £160.8 million). The employer contribution rate for these schemes in the year ended 31 December 2011 was 21.8%-23.3%. The employer contribution rate for the year ending 31 December 2012 is expected to be consistent with the year ended 31 December 2011.

14 TAXES OTHER THAN INCOME TAX

	Note	2011 £m	2010 £m
Other taxes	(a)	**75.7**	47.8
		75.7	47.8

(a) Other taxes mainly comprise certain obligations specific to the energy industry such as CERT, CESP and WHD.

15 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2011 £m	2010 £m
Property, plant and equipment depreciation charge	1.1	1.0
Grants and contributions related to assets transferred to income for the year	(0.1)	(0.1)
Charges, provisions and allowances	57.5	31.6
	58.5	32.5

16 FINANCE INCOME

	2011 £m	2010 £m
Interest receivable from Iberdrola group companies	8.1	13.7
	8.1	13.7

17 INCOME TAX

	2011 £m	2010 £m
Current tax:		
UK Corporation tax	(1.6)	21.4
Adjustments in respect of prior years	-	0.5
Current tax for the year	(1.6)	21.9
Deferred tax:		
Origination and reversal of temporary differences	2.6	5.2
Adjustments in respect of prior years	-	(0.5)
Impact of tax rate change	0.1	0.1
Deferred tax for the year	2.7	4.8
Income tax expense for the year	1.1	26.7

The tax expense on (loss)/profit on ordinary activities for the year varied from the standard rate of UK Corporation tax as follows:

	2011 £m	2010 £m
Corporation tax at 26.5% (2010 28%)	(3.8)	26.5
Adjustments in respect of prior periods	-	-
Impact of tax rate change	0.1	0.1
Other permanent differences	4.8	0.1
Income tax expense for the year	1.1	26.7

18 DIVIDENDS

	2011 pence per ordinary share	2010 pence per ordinary share	2011 £m	2010 £m
Interim dividend paid	-	144.4	-	80.0

19 FINANCIAL COMMITMENTS

Contractual commitments

(a) The company has other contractual commitments of £0.5 million for the year ending 31 December 2011 (2010 £2.2 million).

20 RELATED PARTY TRANSACTIONS

(a) Transactions and balances arising in the normal course of business

	2011		2010		
	Ultimate UK parent (Scottish Power Limited)	Other Iberdrola group companies	Ultimate UK parent (Scottish Power Limited)	Immediate parent (Scottish-Power Investments Limited) (Note (i))	Other Iberdrola group companies
	£m	£m	£m	£m	£m
Types of transaction					
Sales and rendering of services	-	26.8	-	-	21.6
Purchases and receipt of services	-	2,712.2	-	-	2,746.6
Finance income	7.8	0.3	13.4	-	0.3
Dividends paid	-	-	-	80.0	-
Balances outstanding					
Loans receivable	264.4	-	468.6	-	-
Trade receivables	-	46.1	-	-	27.9
Interest receivable	7.8	-	13.4	-	-
Trade payables	-	(276.8)	-	-	(511.4)

(i) On 1 July 2011, as part of a group restructuring exercise, ScottishPower Investments Limited transferred its investment in the company to ScottishPower Generation Holdings Limited.

(ii) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

(iii) During the year ended 31 December 2011, Scottish Power UK plc made pension contributions of £9.8 million (2010 £9.1 million) on behalf of the company.

(b) Remuneration of key management personnel

The remuneration of the key management personnel of the company is set out below. As all of the key management personnel are remunerated for their work for the group, it has not been possible to apportion the remuneration specifically in respect of services to this company. Two members of the key management personnel were paid by other companies within the group.

	2011	2010
	£'000	£'000
Short-term employee benefits	698	395
Post-employment benefits	146	138
Termination benefits	420	-
Share-based payments	134	-
	1,398	533

SCOTTISHPOWER ENERGY RETAIL LIMITED

NOTES TO THE ACCOUNTS *continued*

31 December 2011

20 RELATED PARTY TRANSACTIONS *continued*

(c) Directors' remuneration

The total emoluments of the directors that provided qualifying services to the company are shown below. As these directors are remunerated for their work for the group, it has not been possible to apportion the emoluments specifically in respect of services to this company.

	2011	2010
Executive directors	**£000**	£000
Basic salary	**318**	287
Bonus	**104**	105
Benefits in kind	**8**	3
Pension costs	**1**	-
Compensation for loss of office	**420**	-
Total	**851**	395

(i) Two directors (2010 two) have retirement benefits accruing under a defined benefit pension scheme. One director (2010 none) has retirement benefits accruing under a defined contribution pension scheme.
(ii) During the year, two directors (2010 none) received benefits under a long-term share incentive scheme.
(iii) During the year, two of the directors were paid by other companies within the group.

	2011	2010
Highest paid director	**£000**	£000
Basic salary	**174**	169
Bonuses	**32**	70
Benefits in kind	**1**	1
Compensation for loss of office	**420**	-
Total	**627**	240

(iv) The accrued pension entitlement of the highest paid director was £52,040 (2010 £46,820).
(v) The highest paid director received a benefit under a long-term share incentive scheme during the year (2010 none).

(d) Ultimate parent company

The directors regard Iberdrola S.A. as the ultimate parent company, which is also the parent company of the only group in which the results of the company are consolidated. The parent company of the smallest group in which the results are consolidated is Scottish Power UK plc.

Copies of the Consolidated Accounts of Iberdrola S.A. may be obtained from Iberdrola S.A., Plaza Euskadi 5, 48009, Bilbao, Spain. Copies of the Consolidated Accounts of Scottish Power UK plc are available from The Secretary, Scottish Power UK plc, 1 Atlantic Quay, Glasgow, G2 8SP.

21 AUDITORS' REMUNERATION

	2011	2010
	£m	£m
Audit of the company's annual accounts	**0.2**	0.2

22 ACCOUNTING DEVELOPMENTS

In preparing these Accounts, the company has applied all relevant IAS, IFRS and IFRIC Interpretations which have been adopted by the EU as of the date of approval of these Accounts and which are mandatory for the financial year ended 31 December 2011.

In addition, the EU has adopted certain IFRS standards which are not mandatory for the year ended 31 December 2011 including:

- Amendments to IFRS 7 'Financial Instruments: Disclosures - Transfer of Financial Assets'
- IAS 19 (Revised) 'Employee Benefits'
- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income'

The company has considered the impact of these but the standards have not been adopted early for year ended 31 December 2011.

In addition, the International Accounting Standards Board has also issued a number of pronouncements which have not yet been adopted by the EU and a number of exposure drafts.

- IFRS 9 'Financial Instruments' and subsequent amendments
- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'
- IFRS 13 'Fair Value Measurement'
- IAS 27 (Revised) 'Separate Financial Statements'
- IAS 28 (Revised) 'Investments in Associates and Joint Ventures'
- Amendments to IFRS 7 'Disclosures - Offsetting Financial Assets and Financial Liabilities'
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities'

The company is currently considering the impact of these pronouncements.

23 GOING CONCERN

The company's business activities are set out in the Directors' Report on pages 1 to 5.

The company has recorded a loss after tax in the current year and a profit after tax in the previous financial year and the company's balance sheet shows that it has net current assets of £38.7 million and net assets of £79.5 million at its most recent balance sheet date.

The company is ultimately owned by Iberdrola S.A. and it participates in the Iberdrola group's centralised treasury arrangements and so shares banking facilities with its parent companies and fellow subsidiaries. As a consequence, the company depends, in part, on the ability of the Iberdrola group to continue as a going concern.

The directors have considered the company's funding relationship with Iberdrola to date and have considered available relevant information relating to Iberdrola's ability to continue as a going concern. In addition, the directors have no reason to believe that Iberdrola group will not continue to fund the company, should it become necessary, to enable it to continue in operational existence.

On the basis of these considerations, the directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Therefore, they continue to adopt the going concern basis of accounting in preparing the Accounts.