SCOTTISHPOWER ENERGY RETAIL LIMITED

DIRECTORS' REPORT AND ACCOUNTS
for the year ended 31 December 2010

Registered No. SC190287

SCOTTISHPOWER ENERGY RETAIL LIMITED

DIRECTORS' REPORT AND ACCOUNTS
for the year ended 31 December 2010

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SCOTTISHPOWER ENERGY RETAIL LIMITED

DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2010.

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 will continue with this activity for the foreseeable future.

The company's Accounts for the year ended 31 December 2010 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, with prior year comparatives restated on a consistent basis. Details of the basis of preparation of the Accounts under IFRS are set out at Note 1 and the detailed disclosures concerning the transition from UK Generally Accepted Accounting principles ("UK GAAP") to IFRS are set out at Note 25.

KEY FACTORS AFFECTING THE BUSINESS

The company is an integral component of ScottishPower's Energy Retail business and is the holder of the ScottishPower group supply licences. 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. Customers numbers at 31 December 2010 were 5.2 million (2009 5.2 million).

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 main government policy instrument for improving energy efficiency in the domestic sector. It imposes a requirement on the main energy suppliers to reduce emissions by a specific amount by promoting and installing a range of energy efficiency measures, such as cavity wall insulation, loft insulation and more efficient electrical appliances. The previous government committed to extending the CERT programme to December 2012.

The company is also an active participant in the Community Energy Savings Programme ("CESP"). This is a carbon saving obligation placed on both major energy suppliers and electricity generators. This is a scheme to look at a co-ordinated house-by-house, street-by-street energy efficiency delivery model, targeting some of the most deprived areas in the UK, tackling hard to treat properties with energy-saving measures. The CESP programme runs from October 2009 to December 2012.

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 price risks faced by the company are managed at an Energy Retail & Wholesale business unit level and the liquidity and cash flow risks faced by the company are managed at a ScottishPower group level. Further details of the risk management practices can be found in the Directors' Report and Accounts of Scottish Power UK Holdings Limited ("SPUKH") for the year ended 31 December 2010.

SCOTTISHPOWER ENERGY RETAIL LIMITED

DIRECTORS' REPORT *continued*

OPERATIONAL FINANCIAL PERFORMANCE
The company's profit from operations was £80.9 million, a decrease of £62.0 million compared to the prior year.

Revenue decreased mainly due to the full year effect of lower tariffs as lower average wholesale commodity costs were passed back to Retail customers.

Procurements decreased slightly year-on-year.

Net staff costs increased compared to the prior year due to increased headcount following the transfer of staff from other ScottishPower entities, and higher pension costs.

Outside services decreased due to the delivery of cost saving initiatives and lower CERT and metering costs.

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

Depreciation and amortisation charge, allowances and provisions decreased due to a reduction in bad debt costs.

Net finance income was higher compared to the prior year due to an increase in group loan balances.

The **income tax** expense decreased during the year, as a direct result of decreased profits.

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

RESULTS AND DIVIDENDS
The net profit for the year amounted to £67.9 million (2009 £105.5 million). The aggregate dividends paid during the year amounted to £80.0 million (2009 £100.0 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, ScottishPower Investments Limited.

Treasury and interest policy
Treasury services are provided by Scottish Power Limited ("ScottishPower"). ScottishPower and its subsidiary undertakings ("ScottishPower group") 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 inflation 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 Directors' Report and Accounts of SPUKH for the year ended 31 December 2010.

Funding
At the end of the year the company had net funds of £486.4 million (2009 £346.9 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 24.

SCOTTISHPOWER ENERGY RETAIL LIMITED

DIRECTORS' REPORT *continued*

COMPETITION

Electricity and Gas Supply Market Report

The Office of the Gas and Electricity Markets ("Ofgem") publishes its Electricity and Gas Market Report on a quarterly basis, which presents Ofgem's analysis of retail pricing and margins. In December 2010, the report suggested that retail margins for domestic suppliers had increased by £25 for the average Dual Fuel customer since September 2010. As a result, Ofgem decided to review the energy supply market ("The Retail Market Review") to increase the transparency in the market and ensure that it is working in the interests of customers. The review would also look to test the effectiveness of the new Licence Conditions that Ofgem introduced in 2010, following the Retail Market Probe ("the Probe remedies") and to test the market 'from the customers' perspective'.

Ofgem published the conclusions of its review on 21 March 2011. Ofgem concluded that, despite the new Licence Conditions implemented under the Probe, 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 in the market that remained, which were reducing the effectiveness of competition. Ofgem has set out a number of proposals for action which will be developed during a lengthy consultation and negotiation process. Ofgem also announced an additional investigation on particular company behaviour as part of this review. The first stage of the consultation closed in June 2011 and suppliers have attempted to be constructive in working with Ofgem on this process. Ofgem's latest Electricity and Gas Supply Market Report indicates that retail margins have reduced since December. Ofgem has indicated that it is keen to press ahead with a radical overhaul of the market.

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). This document was recently re-launched to employees in November 2010.

Employee consultation

The group's businesses use employee/staff surveys and other tools to understand the key issues for employees within each business unit. Regular consultation takes place 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.

SCOTTISHPOWER ENERGY RETAIL LIMITED

DIRECTORS' REPORT *continued*

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, 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 Directors' Report and Accounts of SPUKH for the year ended 31 December 2010.

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 Directors' Report and Accounts of SPUKH for the year ended 31 December 2010.

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

Raymond Jack	
Donald Joyce	(resigned 13 August 2010)
Marc Rossi	(appointed 13 August 2010)

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 2010 was 1 day (2009 3 days).

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.

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.

SCOTTISHPOWER ENERGY RETAIL LIMITED

DIRECTORS' REPORT *continued*

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 2010.

ON BEHALF OF THE BOARD

Marc Rossi

Marc Rossi
Director
28 June 2011

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 2010 which comprise the Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement, and the related notes 1 to 25. These Accounts have been prepared under the accounting policies set out therein. 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 and as applied in accordance with the provisions of the Companies Act 2006.

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 pages 4 and 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 2010 and of its profit for the year then ended;
- the Accounts have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- the Accounts 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
28 June 2011

SCOTTISHPOWER ENERGY RETAIL LIMITED
BALANCE SHEETS
at 31 December 2010, 31 December 2009 and 1 January 2009

	Notes	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	3	**26.7**	24.2	25.0
Non-current financial assets		**3.3**	8.1	0.1
Investments in subsidiaries	4	0.1	0.1	0.1
Deferred tax asset	5	3.2	8.0	-
NON-CURRENT ASSETS		**30.0**	32.3	25.1
CURRENT ASSETS				
Trade and other receivables	6,7	**839.5**	720.5	724.5
Current financial assets		**0.1**	-	3.2
Cash and cash equivalents and term deposits	7	0.1	-	3.2
CURRENT ASSETS		**839.6**	720.5	727.7
TOTAL ASSETS		**869.6**	752.8	752.8
EQUITY AND LIABILITIES				
EQUITY				
Of shareholders of the Parent		**94.8**	106.9	101.4
Share capital	8,9	55.4	55.4	55.4
Retained earnings	9	39.4	51.5	46.0
TOTAL EQUITY		**94.8**	106.9	101.4
NON-CURRENT LIABILITIES				
Deferred income	10	**0.5**	0.6	0.7
Trade and other payables	12	**0.7**	-	-
Deferred tax liabilities	5	-	-	1.5
NON-CURRENT LIABILITIES		**1.2**	0.6	2.2
CURRENT LIABILITIES				
Provisions	11	-	-	0.1
Bank borrowings and other non-current financial liabilities		-	4.7	45.8
Loans and other borrowings	13	-	4.7	45.8
Trade and other payables	12	**712.2**	572.9	551.0
Current tax liabilities		**61.4**	67.7	52.3
CURRENT LIABILITIES		**773.6**	645.3	649.2
TOTAL LIABILITIES		**774.8**	645.9	651.4
TOTAL EQUITY AND LIABILITIES		**869.6**	752.8	752.8

Approved by the Board on 28 June 2011 and signed on its behalf by:

Marc Rossi

Marc Rossi
Director

The accompanying notes 1 to 25 are an integral part of the balance sheets as at 31 December 2010, 31 December 2009 and 1 January 2009.

SCOTTISHPOWER ENERGY RETAIL LIMITED
INCOME STATEMENTS
for the years ended 31 December 2010 and 31 December 2009

	Notes	**2010**	2009
		£m	£m
Revenue		3,454.4	3,625.2
Procurements		(2,957.9)	(2,997.6)
		496.5	627.6
Staff costs	14	(83.7)	(77.1)
Capitalised staff costs	14	0.3	-
Outside services		(324.0)	(374.8)
Other operating income		24.3	18.6
		(383.1)	(433.3)
		113.4	194.3
Depreciation and amortisation charge, allowances and provisions	15	(32.5)	(51.4)
PROFIT FROM OPERATIONS		**80.9**	142.9
Finance income	16	13.7	4.5
Finance costs	17	-	(0.1)
PROFIT BEFORE TAX		**94.6**	147.3
Income tax	18	(26.7)	(41.8)
NET PROFIT FOR THE YEAR	9	**67.9**	105.5

Net profit for both years is wholly attributable to the equity holders of ScottishPower Energy Retail Limited.

All results relate to continuing operations.

The accompanying notes 1 to 25 are an integral part of the income statements for the years ended 31 December 2010 and 31 December 2009.

SCOTTISHPOWER ENERGY RETAIL LIMITED
STATEMENTS OF CHANGES IN EQUITY
for the years ended 31 December 2010 and 31 December 2009

	Ordinary share capital £m	Retained earnings £m	Total equity £m
At 1 January 2009	55.4	46.0	101.4
Total comprehensive income for the year	-	105.5	105.5
Dividends	-	(100.0)	(100.0)
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 31 December 2010	**55.4**	**39.4**	**94.8**

Total comprehensive income for the year comprises net profit for the year.

The accompanying notes 1 to 25 are an integral part of the statements of changes in equity for the years ended 31 December 2010 and 31 December 2009.

SCOTTISHPOWER ENERGY RETAIL LIMITED
CASH FLOW STATEMENTS
for the years ended 31 December 2010 and 31 December 2009

	2010 £m	2009 £m
Cash flows from operating activities		
Profit before tax	94.6	147.3
Adjustments for:		
Depreciation and amortisation	1.0	1.0
Capital grants	(0.1)	(0.1)
Finance income and costs	(13.7)	(4.4)
Changes in working capital:		
Change in trade and other receivables	28.0	122.3
Change in trade payables	139.8	21.9
Provisions paid	-	(0.1)
Income taxes paid	(28.2)	(35.9)
Interest received	1.4	4.2
Net cash flows from operating activities (i)	**222.8**	**256.2**
Cash flows from investing activities		
Investments in property, plant & equipment	(3.3)	(0.2)
Net cash flows from investing activities (ii)	**(3.3)**	**(0.2)**
Financing activities		
Dividends paid to company's equity holders	(80.0)	(100.0)
Interest paid	-	(0.1)
Net cash flows from financing activities (iii)	**(80.0)**	**(100.1)**
Net increase in cash and cash equivalents (i)+(ii)+(iii)	**139.5**	**155.9**
Cash and cash equivalents at beginning of year	**346.9**	**191.0**
Cash and cash equivalents at end of year	**486.4**	**346.9**

Cash and cash equivalents at end of year comprises:

	2010 £m	2009 £m
Balance sheet cash and cash equivalents and term deposits	0.1	-
Bank overdraft	-	(4.7)
Receivables due from Iberdrola group companies - loans	486.3	351.6
Cash flow statement cash and cash equivalents	**486.4**	**346.9**

The group loan arrangements of ScottishPower Limited and its subsidiaries (including ScottishPower Energy Retail Limited) were restructured during the year ended 31 December 2009. As a consequence of this loan restructuring, the company has classified group loans payable within one year as cash equivalents for the purposes of the cash flow statement. This is consistent with the way in which the group manages its group loan current balances; that is, on a net basis.

The accompanying notes 1 to 25 are an integral part of the cash flow statements for the years ended 31 December 2010 and 31 December 2009.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS
31 December 2010

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 ("IFRS") and International Finance 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 2010. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2 'Accounting Policies'.

The company's Accounts are prepared for the first time in accordance with IFRS. In previous years, the Accounts were prepared in accordance with UK Generally Accepted Accounting principles ("UK GAAP"). The disclosures concerning the transition from UK GAAP to IFRS required by IFRS 1 'First-time Adoption of International Financial Reporting Standards' (Revised 2007) are set out in Note 25 to the Accounts.

In addition, the format of the company's income statement has been changed to align with the format applied by Iberdrola S.A. The principal change from the company's previous format is that expenditure is now analysed by nature rather than by function.

The cash flow statement prepared in conformity with IFRS is set out on page 10. In prior years, the Accounts were prepared under UK GAAP and the company took advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements' (Revised 1996) as the company was included in the Accounts of Iberdrola S.A., which were publicly available.

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

2 ACCOUNTING POLICIES *continued*

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

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.

2 ACCOUNTING POLICIES *continued*

D. LEASED ASSETS

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

F. FINANCIAL ASSETS AND LIABILITIES

(a) 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 and cash equivalents and term deposits in the balance sheet comprise cash on hand and term deposits which are readily convertible into a known amount of cash without a significant risk of changes in value. In the cash flow statement, cash and cash equivalents exclude term deposits which have a maturity of more than 90 days at the date of acquisition and include bank overdrafts repayable on demand the next business day and the net of current loans receivable and payable from group companies.

(c) 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

Year ended 31 December 2009	Property, plant and equipment in use £m
Cost:	
At 1 January 2009	63.1
Additions	0.2
At 31 December 2009	63.3
Depreciation:	
At 1 January 2009	38.1
Charge for the year	1.0
At 31 December 2009	39.1
Net book value:	
At 31 December 2009	24.2
At 1 January 2009	25.0

Year ended 31 December 2010	Property, plant and equipment in use £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

(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 2010 was £19.1 million (31 December 2009 £16.7 million, 1 January 2009 £16.4 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 (31 December 2009 £5.2 million, 1 January 2009 £5.2 million).

(b) Operating lease arrangements

(i) Operating lease payments	**2010 £m**	2009 £m
Minimum lease payments under operating leases recognised as an expense in the year	**0.8**	0.6
Contingent based operating lease rents recognised as an expense in the year	**158.5**	109.5
Sublease payments recognised as an expense in the year	**0.6**	0.4
	159.9	110.5

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.

The future minimum lease payments under non-cancellable operating leases are as follows:

Within one year	**0.6**	0.3
Between one and five years	**4.4**	0.1
More than five years	**7.8**	-
	12.8	0.4

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

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2010

3 PROPERTY, PLANT AND EQUIPMENT ***continued***

	2010	2009
(ii) Operating lease receivables	**£m**	£m
The future minimum lease payments receivable under non-cancellable operating leases are as follows		
Within one year	**0.7**	0.1
	0.7	0.1

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

4 OTHER NON-CURRENT INVESTMENTS

	Subsidiary undertaking shares	Joint venture shares	Total
(a) Cost and net book value:	£m	£m	£m
At 31 December 2010, 31 December 2009 and 1 January 2009	0.1	-	**0.1**

Included within shares in joint ventures is the cost of investment in N.E.S.T.Makers Limited of £22,500 (31 December and 1 January 2009 £22,500).

(b) Shares in subsidiary undertaking and joint venture

The principal holdings of the company are as set out below:

	Class of share capital	Place of incorporation or registration	Proportion of shares held %	Activity
Subsidiary undertaking				
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 provided/(recognised) in the Accounts is as follows:

	Property, plant and equipment	Other temporary differences	Total
	£m	£m	£m
Deferred tax provided at 1 January 2009	2.5	(1.0)	1.5
Credit to income statement	(0.1)	(9.4)	(9.5)
Deferred tax asset recognised at 31 December 2009	2.4	(10.4)	(8.0)
Charge to income statement	-	4.8	4.8
Deferred tax asset recognised at 31 December 2010	**2.4**	**(5.6)**	**(3.2)**

(a) In his budget speech of 22 June 2010, the Chancellor announced that the main rate of UK corporation tax would be reduced from the current rate of 28% to 24% on 1 April 2014 by a series of 1% annual reductions. In his budget speech in March 2011, he announced that there would be a 2% reduction on 1 April 2011 and this was enacted in the Provisional Collection of Taxes Act. Further 1% annual reductions will continue to apply, now lowering the rate to 23% on 1 April 2014.

The reduction to 27% was included in the Finance Act that received Royal Assent on 27 July 2010. As this change was enacted at the balance sheet date and reduces the tax rate expected to apply when temporary differences reverse, it had the effect of reducing the deferred tax asset by £0.1 million. The reduction to 26%, however, was not enacted at the balance sheet date.

The further rate reductions are to be incorporated within future Finance Acts and hence will not be substatively enacted until later periods. It is not possible to quantify the impact of the future rate reductions on the deferred tax provision.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2010

6 TRADE AND OTHER RECEIVABLES

	Notes	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Current receivables:				
Receivables due from Iberdrola group companies - trade and other receivables		**10.2**	6.4	7.0
Receivables due from Iberdrola group companies - loans	(a)	**486.3**	351.6	233.6
Receivables due from Iberdrola group companies - interest	(a)	**13.4**	1.1	0.8
Trade receivables and accrued income	(b)	**329.6**	361.4	483.1
		839.5	720.5	724.5

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

(b) Trade receivables are stated net of allowance for impairment of doubtful debts of £69.0 million (31 December 2009 £95.6 million, 1 January 2009 £102.2 million). Trade receivables are assumed to approximate their fair values due to the short term nature of trade receivables. 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.

(c) At 31 December 2010 trade receivables of £92.2 million (31 December 2009 £113.8 million, 1 January 2009 £155.3 million) were past due but not impaired. These relate to Retail customers who have not paid the outstanding balance within agreed payment terms.

	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Past due but not impaired:			
Less than 3 months	**51.7**	58.3	88.6
Between 3 and 6 months	**14.4**	22.7	24.5
Between 6 and 12 months	**18.6**	25.2	25.2
After more than 12 months	**7.5**	7.6	17.0
	92.2	113.8	155.3

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

	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
At beginning of year	**95.6**	102.2	65.8
Receivables written off during the year as uncollectible	**(72.1)**	(57.1)	(55.3)
Provision for receivables impairment	**45.5**	50.5	91.7
At end of year	**69.0**	95.6	102.2

(i) 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).

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

(iii) At 31 December 2010, trade receivables of £64.2 million (31 December 2009 £60.8 million, 1 January 2009 £51.1 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.

7 FINANCIAL ASSETS

Categories of financial assets	Notes	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Cash and cash equivalents and term deposits				
- Cash	(a)	**0.1**	-	3.2
		0.1	-	3.2
Other financial assets:				
- Receivables	(b)	**839.5**	720.5	724.5
- Other non-current investments		**0.1**	0.1	0.1
Total		**839.7**	720.6	727.8

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

(b) Balances outwith the scope of IFRS 7, principally taxation, has been excluded.

(c) The fair values of the financial assets are not materially different from their book values.

8 SHARE CAPITAL

	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Authorised:			
100,000,000 ordinary shares of £1 each (31 December 2009 and 1 January 2009 100,000,000)	**100.0**	100.0	100.0
	100.0	100.0	100.0
Allotted, called up and fully paid shares:			
55,407,000 ordinary shares of £1 each (31 December 2009 and 1 January 2009 55,407,000)	**55.4**	55.4	55.4
	55.4	55.4	55.4

9 ANALYSIS OF MOVEMENT 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 2009	55.4	46.0	101.4
Profit for the year attributable to equity holders of ScottishPower Energy Retail Limited	-	105.5	105.5
Dividends	-	(100.0)	(100.0)
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 31 December 2010	**55.4**	**39.4**	**94.8**

(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 2009	At 1 January 2009 £m	Released to income statement £m	At 31 December 2009 £m
Capital grants	0.7	(0.1)	0.6
Total deferred income	0.7	(0.1)	0.6

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**

11 PROVISIONS

Year ended 31 December 2009	At 1 January 2009 £m	Utilised during year £m	At 31 December 2009 £m
Other	0.1	(0.1)	-
	0.1	(0.1)	-

Year ended 31 December 2010	At 1 January 2010 £m	Utilised during year £m	**At 31 December 2010 £m**
Other	-	-	-
	-	-	-

Analysis of total provisions	**31 December 2010 £m**	31 December 2009 £m	1 January 2009 £m
Current	-	-	0.1
	-	-	0.1

(a) The other category comprises various provisions which are not sufficiently material to warrant separate disclosure.

12 TRADE AND OTHER PAYABLES

	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Current trade and other payables:			
Payables due to Iberdrola group companies - trade and other payables	**511.4**	411.8	413.7
Trade payables and accrued expenses	**97.7**	75.6	95.6
Other taxes and social security	**25.7**	31.3	38.0
Payments received on account	-	0.9	1.4
Capital payables and accruals	**0.2**	-	-
Other payables	**77.2**	53.3	2.3
	712.2	572.9	551.0
Non-current other payables:			
Other payables	**0.7**	-	-
	0.7	-	-

13 FINANCIAL LIABILITIES
(a) Categories of financial liabilities

	Notes	**31 December 2010 £m**	31 December 2009 £m	1 January 2009 £m
Loans and other borrowings (current):				
- External borrowings	(i)	-	4.7	-
- Loans with Iberdrola group companies	(i), (ii)	-	-	45.8
		-	4.7	45.8
Other financial liabilities:				
- Payables		**686.5**	540.7	511.6
Total		**686.5**	545.4	557.4

(i) Loans and other borrowings are accounted for at amortised cost.

(ii) The loans from Iberdrola group companies comprise loans that are repayable on demand and have an interest rate of 1% above the UK base rate.

(iii) Balances outwith the scope of IFRS 7, principally other taxes and social security and other amounts not contractually committed, have been excluded. The fair value of payables disclosed above is not materially different from their book values.

(b) Borrowing facilities

The company had no undrawn committed borrowing facilities at 31 December 2010, 31 December 2009 or 1 January 2009.

14 EMPLOYEE INFORMATION

(a) Staff costs

	2010	2009
	£m	£m
Wages and salaries	**69.5**	66.6
Social security costs	**5.1**	4.9
Pension and other costs	**9.1**	5.6
Total employee costs	**83.7**	77.1
Less: capitalised staff costs	**(0.3)**	-
Charged to the income statement	**83.4**	77.1

(b) Employee numbers

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

	Year end 2010	Average 2010	Year end 2009	Average 2009
Customer services	**1,796**	**1,869**	1,923	1,993
Administration	**1,036**	**1,006**	828	783
Total	**2,832**	**2,875**	2,751	2,776

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

	Year end 2010	Average 2010	Year end 2009	Average 2009
Total	**2,581**	**2,624**	2,513	2,540

(c) Pensions

The company's contributions payable in the year were £9.1 million (31 December 2009 £5.6 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 Scottish Power UK Holdings Limited Directors' Report & Accounts.

As at 31 December 2010, the deficit in the ScottishPower group's defined benefit schemes in the UK amounted to £160.8 million (31 December 2009 £119.3 million, 1 January 2009 surplus of £163.9 million).

The employer contribution rate for these schemes in the year ended 31 December 2010 was 21.8%-23.3%. The employer contribution rate for the year ending 31 December 2011 is expected to be consistent with the year ended 31 December 2010.

15 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2010	2009
	£m	£m
Property, plant and equipment depreciation charge	**1.0**	1.0
Grants and contributions related to assets transferred to income for the year	**(0.1)**	(0.1)
Charges, provisions and allowances	**31.6**	50.5
	32.5	51.4

16 FINANCE INCOME

	2010	2009
	£m	£m
Interest receivable from Iberdrola group companies	**13.7**	4.5
	13.7	4.5

17 FINANCE COSTS

	2010	2009
	£m	£m
Interest on amounts due to Iberdrola group companies	-	0.1
	-	0.1

18 INCOME TAX

	2010	2009
	£m	£m
Current tax:		
UK Corporation tax	**21.4**	39.5
Adjustments in respect of prior years	**0.5**	11.8
Total current tax for the year	**21.9**	51.3
Deferred tax:		
Origination and reversal of timing differences	**5.2**	2.0
Impact of change of rate on deferred tax	**0.1**	-
Adjustments in respect of prior years	**(0.5)**	(11.5)
Total deferred tax charge/(credit)	**4.8**	(9.5)
Total income tax expense for the year	**26.7**	41.8

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

	2010	2009
	£m	£m
Corporation tax at 28%	**26.5**	41.2
Adjustments in respect of prior periods	-	0.3
Impact of change of rate on deferred tax	**0.1**	-
Other permanent differences	**0.1**	0.3
Income tax expense for the year	**26.7**	41.8

19 DIVIDENDS

	2010	2009	2010	2009
	pence per ordinary share	pence per ordinary share	£m	£m
Interim dividend paid	**144.4**	180.5	80.0	100.0

20 FINANCIAL COMMITMENTS

Contractual commitments

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

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2010

21 RELATED PARTY TRANSACTIONS
(a) Trading transactions and balances arising in the normal course of business

	Sales/(purchases) to/(from) related parties		Amounts due from/(to) related parties		
			31 December	31 December	1 January
	2010	2009	**2010**	2009	2009
Type of related party	**£m**	£m	**£m**	£m	£m
Sales					
Fellow subsidiary companies	**21.6**	17.4	**10.2**	6.4	7.0
Purchases					
Fellow subsidiary companies	**(2,746.6)**	(2,836.4)	**(511.4)**	(411.8)	(413.7)

(i) Sales comprises revenue from related parties which is included within "Revenue" in the income statement and management charge and other income which is included within "Other operating income".

(ii) Purchases comprise purchases from related parties which is included within "Procurements" in the income statement and management charge and other costs which is included within "Outside Services".

(b) Funding transactions and balances arising in the normal course of business

	Interest receivable from / (payable to) related parties		Amounts due from/(to) related parties		
			31 December	31 December	1 January
	2010	2009	**2010**	2009	2009
Type of related party	**£m**	£m	**£m**	£m	£m
Ultimate UK parent company	**13.4**	-	**481.9**	333.9	-
Immediate parent company	**-**	-	**-**	-	(45.8)
Fellow subsidiary companies	**0.3**	4.4	**17.8**	18.8	234.4

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

(ii) During the year ended 31 December 2010, dividends paid to the immediate parent company amounted to £80.0 million (2009 £100.0 million).

(iii) During the year ended 31 December 2010, the company's immediate parent company, Scottish Power UK plc made pension contributions of £9.1 million on behalf of the company (2009 £5.6 million).

(c) Remuneration of key management personnel

The remuneration of the key management personnel of the company (which comprises the Board of Directors) is set out below.

	2010	2009
	£'000	£'000
Short-term employee benefits	**395**	693
Post-retirement benefits	**138**	70
	533	763

(d) 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 ScottishPower group as a whole, it has not been possible to apportion the emoluments specifically in respect of services to this company.

	2010	2009
Executive directors	**£000**	£000
Basic salary	**287**	482
Bonuses	**105**	191
Benefits in kind	**3**	20
Total	**395**	693

(i) Two directors (2009 two) had retirement benefits accruing under defined benefit pension schemes.

	2010	2009
Highest paid director	**£000**	£000
Basic salary	**169**	138
Bonuses	**70**	68
Benefits in kind	**1**	1
Total	**240**	207

(ii) The accrued pension entitlement of the highest paid director was £46,820 (2009 £35,327).

21 RELATED PARTY TRANSACTIONS *continued*

(e) Ultimate parent company

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

Copies of the Consolidated Accounts of Iberdrola S.A. may be obtained from Iberdrola S.A., Calle Gardoqui 8, Bilbao, Spain. Copies of the Consolidated Accounts of Scottish Power UK plc may be obtained from The Secretary, Scottish Power UK plc, 1 Atlantic Quay, Glasgow, G2 8SP.

22 AUDITORS' REMUNERATION

	2010	2009
Type of related party	**£m**	£m
Audit of the company's annual accounts	**0.2**	0.3
Total	**0.2**	0.3

23 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 2010.

The EU has adopted certain revised IAS and IFRIC interpretations which are not mandatory for the year ended 31 December 2010.

- IAS 32 'Amendment Classification of Rights Issues'
- IAS 24 'Related Party Disclosure'

The company has considered the impact of these but none of the relevant standards have been adopted early for year ended 31 December 2010.

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. The company is currently considering the impact of these pronouncements.

24 GOING CONCERN

The company's business activities together with the factors likely to affect its future development and position are set out in the Directors' Report on pages 1 to 5.

The company has recorded a profit after tax in both the current and previous financial years and the company's balance sheet shows that it has net current assets of £66.0 million and net assets of £94.8 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.

25 RECONCILIATION OF PREVIOUSLY REPORTED FINANCIAL STATEMENTS UNDER UK GAAP TO IFRS

The company's Accounts for the year ended 31 December 2010 are its first annual Accounts prepared under accounting policies that comply with IFRS.

ScottishPower Energy Retail Limited company's transition date to IFRS is 1 January 2009. The company prepared its opening IFRS balance sheet as at that date.

The following disclosures are provided below:

(a) Reconciliation of the Profit and Loss account under UK GAAP to the Income Statement under IFRS for the year ended 31 December 2009;

(b) Reconciliation of the Balance Sheet under UK GAAP to IFRS as at 1 January 2009;

(c) Reconciliation of the Balance Sheet under UK GAAP to IFRS as at 31 December 2009;

(d) Notes to the balance sheet reclassifications; and

(e) Notes to the IFRS remeasurements.

On transition to IFRS, the company has taken advantage of the following exemption contained within IFRS 1 'First - time Adoption of International Financial Reporting Standards':

- Investments at deemed cost: the company has opted to continue to measure investments in subsidiary entities as stated in the balance sheet at cost being the previous carrying amount under UK GAAP.

The format of the income statement and balance sheet has been prepared in accordance with the requirements of IAS 1 and reflects the impact of adopting IFRS compliant Accounts. This is also the first year that the company Accounts has presented a cash flow statement. In prior years due to the company Accounts being prepared under UK GAAP, the company had taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements (revised 1996)' as the company was included in the Accounts at Iberdrola S.A., which were publicly available.

As stated in the accounting policies the format of the Company's income statement has been changed to align with the format applied by Iberdrola S.A., the ultimate parent company. The principal change from the Company's previous format is that expenditure is now analysed by nature rather than by function. Therefore, staff costs, depreciation and amortisation charges and taxes (other than income taxes), previously included within cost of sales, distribution costs and administrative and selling expenses, are now shown separately. Costs relating directly to revenue have now been included within procurements, other costs are now included in outside services. Certain non-energy related income, previously accounted for within revenue, has now been reclassified to other operating income. The above changes have no impact on profit before operations.

The UK GAAP column of the reconciliation of the Profit and Loss Account under UK GAAP to the Income Statement under IFRS for the year ended 31 December 2009 has been prepared reflecting these format changes.

(a) Reconciliation of the Profit and Loss Account under UK GAAP to the Income Statement under IFRS for the year ended 31 December 2009

	UK GAAP	IFRS Reclassifications	IFRS Remeasurements IAS 16	IFRS
	£m	£m	£m	£m
Revenue	3,625.2	-	-	3,625.2
Procurements	(2,997.6)	-	-	(2,997.6)
	627.6	-	-	**627.6**
Staff costs	(77.1)	-	-	(77.1)
Outside services	(374.8)	-	-	(374.8)
Other operating income	18.6	-	-	18.6
	(433.3)	-	-	**(433.3)**
	194.3	-	-	**194.3**
Depreciation and amortisation charge, allowances and provisions	(52.2)	-	0.8	(51.4)
PROFIT FROM OPERATIONS	**142.1**	-	**0.8**	**142.9**
Finance income	4.5	-	-	4.5
Finance costs	(0.1)	-	-	(0.1)
PROFIT BEFORE TAX	**146.5**	-	**0.8**	**147.3**
Income tax	(41.6)	-	(0.2)	(41.8)
NET PROFIT FOR THE YEAR	**104.9**	-	**0.6**	**105.5**

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2010

25 RECONCILIATION OF PREVIOUSLY REPORTED FINANCIAL STATEMENTS UNDER UK GAAP TO IFRS ***continued***

(b) Reconciliation of the Balance Sheet under UK GAAP to IFRS as at 1 January 2009

			IFRS Remeasurements	
	UK GAAP	IFRS Reclassifications	IAS 16	IFRS
	£m	£m	£m	£m
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	**21.3**	**-**	**3.7**	**25.0**
Non-current financial assets	**0.1**	**-**	**-**	**0.1**
Other non-current investments	0.1	-	-	0.1
NON-CURRENT ASSETS	**21.4**	**-**	**3.7**	**25.1**
CURRENT ASSETS				
Current trade and other receivables	**724.5**	**-**	**-**	**724.5**
Current financial assets	**3.2**	**-**	**-**	**3.2**
Cash and cash equivalents and term deposits	3.2	-	-	3.2
CURRENT ASSETS	**727.7**	**-**	**-**	**727.7**
TOTAL ASSETS	**749.1**	**-**	**3.7**	**752.8**
EQUITY AND LIABILITIES				
EQUITY				
Of shareholders of the parent	**98.8**	**-**	**2.6**	**101.4**
Share capital	55.4	-	-	55.4
Retained earnings	43.4	-	2.6	46.0
TOTAL EQUITY	**98.8**	**-**	**2.6**	**101.4**
NON-CURRENT LIABILITIES				
Deferred income	**0.7**	**-**	**-**	**0.7**
Provisions	**0.1**	**(0.1)**	**-**	**-**
Deferred tax liabilities	**0.4**	**-**	**1.1**	**1.5**
NON-CURRENT LIABILITIES	**1.2**	**(0.1)**	**1.1**	**2.2**
CURRENT LIABILITIES				
Provisions	**-**	**0.1**	**-**	**0.1**
Bank borrowings and other current financial liabilities	**45.8**	**-**	**-**	**45.8**
Loans and other borrowings	45.8	-	-	45.8
Trade and other payables	**603.3**	**(52.3)**	**-**	**551.0**
Current tax liabilities	**-**	**52.3**	**-**	**52.3**
CURRENT LIABILITIES	**649.1**	**0.1**	**-**	**649.2**
TOTAL LIABILITIES	**650.3**	**-**	**1.1**	**651.4**
TOTAL EQUITY AND LIABILITIES	**749.1**	**-**	**3.7**	**752.8**

25 RECONCILIATION OF PREVIOUSLY REPORTED FINANCIAL STATEMENTS UNDER UK GAAP TO IFRS *continued*

(c) Reconciliation of the Balance Sheet under UK GAAP to IFRS as at 31 December 2009

			IFRS Remeasurements	
	UK GAAP	IFRS Reclassifications	IAS 16	IFRS
	£m	£m	£m	£m
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	**19.7**	**-**	**4.5**	**24.2**
Non-current financial assets	**0.1**	**9.3**	**(1.3)**	**8.1**
Other non-current investments	0.1	-	-	0.1
Deferred tax asset	-	9.3	(1.3)	8.0
NON-CURRENT ASSETS	**19.8**	**9.3**	**3.2**	**32.3**
CURRENT ASSETS				
Current trade and other receivables	**729.8**	**(9.3)**	**-**	**720.5**
CURRENT ASSETS	**729.8**	**(9.3)**	**-**	**720.5**
TOTAL ASSETS	**749.6**	**-**	**3.2**	**752.8**
EQUITY AND LIABILITIES				
EQUITY				
Of shareholders of the parent	**103.7**	**-**	**3.2**	**106.9**
Share capital	55.4	-	-	55.4
Retained earnings	48.3	-	3.2	51.5
TOTAL EQUITY	**103.7**	**-**	**3.2**	**106.9**
NON-CURRENT LIABILITIES				
Deferred income	**0.6**	**-**	**-**	**0.6**
NON-CURRENT LIABILITIES	**0.6**	**-**	**-**	**0.6**
CURRENT LIABILITIES				
Bank borrowings and other current financial liabilities	**4.7**	**-**	**-**	**4.7**
Loans and other borrowings	4.7	-	-	4.7
Trade and other payables	**640.6**	**(67.7)**	**-**	**572.9**
Current tax liabilities	**-**	**67.7**	**-**	**67.7**
CURRENT LIABILITIES	**645.3**	**-**	**-**	**645.3**
TOTAL LIABILITIES	**645.9**	**-**	**-**	**645.9**
TOTAL EQUITY AND LIABILITIES	**749.6**	**-**	**3.2**	**752.8**

(d) Notes to the balance sheet reclassifications

Certain balances, previously reported under UK GAAP, have been reclassified to comply with the format of the company's Accounts as presented under IFRS. None of these reclassifications have any effect on the company's previously reported net assets or shareholders' funds.

IAS 12 - Deferred and Income taxes

Deferred tax asset balances of £9.3 million (1 January 2009 £nil) previously included within current trade and other receivables have been reclassified to non-current assets and shown separately on the face of the balance sheet.

Current corporate tax balances of £67.7 million (1 January 2009 £52.3 million) previously included within current trade and other payables have been shown separately on the face of the balance sheet.

25 RECONCILIATION OF PREVIOUSLY REPORTED FINANCIAL STATEMENTS UNDER UK GAAP TO IFRS *continued*

(e) Notes to the IFRS remeasurements

IAS 16 - Property, plant and equipment

The company calculates its depreciation charge in respect of property, plant and equipment based on cost less estimated residual values at current prices as required by IAS 16.

Previously, under UK GAAP, the company calculated its depreciation charge for property, plant and equipment based on cost or revalued amounts less estimated residual values at prices prevailing at the time of the initial recognition of the asset on subsequent revaluation.