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

Registered No. SC190287

CONTENTS

SCOTTISHPOWER ENERGY RETAIL LIMITED
STRATEGIC REPORT

The directors present their Strategic Report on ScottishPower Energy Retail Limited ("the Company") for the year ended 31 December 2022. This includes an overview of the Company's structure, strategic outlook including 2022 performance, and principal risks and uncertainties.

INTRODUCTION
The principal activity of the Company, registered company number SC190287, is the supply of electricity and gas to domestic and business customers throughout Great Britain ("GB"), including customer registration, billing and handling enquiries in respect of these services. The Company is also responsible for the associated metering activity, including the smart meter installation programme, and managing its smart solutions activities which launched the UK's first nationwide installation service for air source heat pumps, solar panels, batteries and electric vehicle ("EV") charging in 2022. In a pioneering strategic move to support the UK's efforts to achieve 'net zero' by 2050, the Company's Hydrogen department was established in 2020 and is working with businesses to seek appropriate green hydrogen solutions.

The ultimate parent of the Company is Iberdrola, S.A. ("Iberdrola") which is listed on the Madrid stock exchange. The immediate parent of the Company is Scottish Power Retail Holdings Limited ("SPRH"). Scottish Power Limited ("SPL") is the United Kingdom ("UK") holding company of the Scottish Power Limited Group ("ScottishPower") of which the Company is a member.

The Company is part of ScottishPower's Energy Retail business ("Energy Retail"), which is also known as the Customers' business. During 2022, an average of 4.8 million gas and electricity customers were supplied by Energy Retail. At 31 December 2022, Energy Retail supplied 4.7 million gas and electricity customers.

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

STRATEGIC OUTLOOK

Operating review
2022 Supply market conditions
Over the course of 2022, the future of energy in the UK became an issue of critical importance. Post-pandemic demand increases, combined with supply constraints linked first to the pandemic and then to the war in Ukraine, caused global wholesale gas prices to rocket and remain volatile throughout the year. The Company has operated in challenging conditions as a result of unprecedented volatility and increased costs in wholesale energy markets. The Company recognises the negative impact that the cost of living crisis is having on its customers and has played a leading role in policy debates with government and regulatory stakeholders on the measures required to mitigate the worst impacts of high energy prices for domestic and non-domestic consumers and to ensure the energy supplier market can fully recover its costs and operate on a more sustainable footing.

Furthermore, the unprecedented increase in wholesale costs experienced since mid-2021 has continued to have a significant impact on the supply market landscape. A significant number of suppliers failed during 2021 leaving substantial levels of mutualisation and industry levy costs to be recovered from the remaining suppliers (and ultimately consumers) through the course of the current and future years. As a direct consequence of increased costs, there are very few products available on the market and as such a significant proportion of consumers across the industry have defaulted on to the standard variable tariff ("SVT") price cap. This resulted in the Company purchasing energy at higher market costs which were not recovered through the equivalent price cap period. These unrecovered costs will be reclaimed through the price cap in 2023.

Government support schemes
With continuing increases in energy prices presenting real challenges, protecting customers through this period has been a key priority. Alongside the Company's actions to help manage customer payments and offer support, the measures taken by the UK Government to support customers have been welcomed. The Company has worked hard to support the delivery of a succession of government support schemes, which have included the Energy Bill Support Scheme ("EBSS") and the Energy Price Guarantee ("EPG") for domestic customers, and the Energy Bill Relief Scheme ("EBRS") for non-domestic customers.

On 8 September 2022, the UK Government announced the EPG scheme which is an initial six-month intervention which the UK Government states will ensure that a typical household in GB has energy bills that equate to an annualised cost of £2,500, and a monthly average cost of £208 for the six months from 1 October 2022. This compares to The Office of Gas and Electricity Markets' ("Ofgem") price cap level which increased from £3,549 to £4,279 for a typical household effective 1 January 2023 had it not been for this intervention. The EPG provides support to domestic consumers from the UK Government, with suppliers being compensated for the cost of the EPG, and the Company has been working closely

STRATEGIC OUTLOOK *continued*
with the UK Government to implement this scheme as efficiently as possible. Customers on fixed-term tariffs are also covered by the scheme with the level of support depending on the price of their tariff compared to the average £2,500 level for variable tariffs. On 17 November 2022, in the Autumn Statement, the Chancellor announced that the EPG will continue from 1 April 2023 for a further year at an increased level of £3,000 for a typical household, although the 2023 Budget announcement delayed this increase until 1 July 2023. From 1 April 2023, the Ofgem price cap reduced from £4,279 to £3,280 for a typical household. Ofgem's announcement on 25 May 2023 further reduced the price cap to £2,074 effective from 1 July 2023. This will bring the price cap below the level of EPG government support. The EPG will remain in place to safeguard customers against the price cap reverting to amounts greater than £3,000. At 31 December 2022, £513.6 million of revenue had been recognised in the Income statement in relation to the EPG (refer to Note 14), and £461.1 million had been received from the UK Government with £52.5 million expected to be received in 2023. Refer to Note 7 and Note 2I(a) which details information on the accounting policy.

The UK Government also introduced the EBSS scheme which provides support to customers by giving a £400 credit to domestic electricity customers over a six-month period (October 2022 to March 2023; £66-£67 per month). This has resulted in the Company providing £519.5 million in EBSS rebates to customers during Q4 2022. This includes an £8.8 million prepayment made in December 2022, which distributed timely support to vulnerable customers over the New Year holiday period. At 31 December 2022, there was an EBSS liability on the Statement of financial position of £174.1 million included within Note 12, and therefore a net EBSS liability of £165.3 million. This largely represents funds received from the UK Government that as at 31 December were yet to be transferred to customers. Refer to accounting policy at Note 2O.

However, even with these interventions, wholesale prices are contributing to energy bills well above historical levels presenting those most vulnerable households with real financial challenge. The Company considers it urgent that the UK Government continues to support those customers most in need, and is therefore pleased with the extension to the EPG announced in the Autumn Statement and Budget. The UK Government has also announced more targeted support for subsets of households as the cost of living rises, including a £150 rebate for some Council Tax bands, and additional support for customers in receipt of some benefits, including those with low income, disabilities and pensioners. While further support has been announced, the Company continues to believe more government assistance is needed on an enduring basis to ease the burden on households who need it most. As set out in the 'Outlook for 2023 and beyond' section of the Strategic Report, the Company will continue to engage with the UK Government and Ofgem through key consultations regarding market reform and the fair recovery of the costs incurred over this volatile period.

Recognising the pressure on non-domestic customers, the UK Government introduced a support scheme for such customers, similar to the domestic EPG. Through the new EBRS scheme, which runs for a six-month period from 1 October 2022, the UK Government is providing a discount on energy prices for all non-domestic customers. This support applies to fixed contracts agreed on or after 1 December 2021, as well as deemed, variable and flexible tariffs, applying to energy usage from 1 October 2022 to 31 March 2023. At 31 December 2022, £77.9 million of revenue had been recognised in the Income statement in relation to EBRS (refer to Note 14) and £17.2 million has been received from the UK Government. This leaves £60.7 million as a receivable from the UK Government at year end, included within Note 7 (refer to accounting policy at Note 2I(a)). On 9 January 2023, the UK Government announced that the EBRS would be replaced by a new Energy Bill Discount Scheme ("EBDS") which will run from 1 April 2023 until 31 March 2024, but which will offer a lower level of support compared to the EBRS.

The Company recognises the negative impact the cost of living crisis is having on its customers, particularly over the recent winter period, which is why the Company has continued to engage with the UK Government offering solutions (such as EPG, EBSS and EBRS), backed by the industry, to support the UK economy, and so these interventions are a welcome support for customers. Further information regarding the support the Company offers to customers is set out in the 'Energy customers' section of the Strategic Report.

Company changes
In 2022, the Company expanded its restructuring programme announced in 2021 to ensure that it can continue to operate sustainably in these unprecedented challenging market conditions, and in the future, with this programme delivering a transformation of the business from 2022 and beyond. This has resulted in a transitory headcount reduction, with a view to developing existing staff and conducting recruitment to support the restructuring in the coming years (refer to Note 11).

STRATEGIC OUTLOOK *continued*

In Q1 2022, a decision was made to exit the industrial and commercial ("I&C") supply market over a period through the introduction of a number of targeted actions to maximise the value of this segment. This decision was made largely due to the volatility experienced in this segment, particularly around balancing costs as a result of the unprecedented rise in market prices and mutualisation costs from failed suppliers, and the resultant risk on existing tight margins across this segment. All existing customers will continue to be serviced as normal until contracts naturally mature between now and 2025. This decision has had no material impact on the 2022 financial results.

Ofgem activity

In response to the widespread failure of energy suppliers, Ofgem has tightened the rules governing market entry for new suppliers, and of the ongoing monitoring of existing suppliers, focused on operational capability and financial resilience. This has included regular financial stress testing alongside general reporting requirements, and an ongoing programme of market compliance reviews focused on supplier compliance of key operational processes.

As a result of its market compliance review activity, Ofgem commenced compliance or enforcement activity with almost all suppliers even where only minor weaknesses were identified. Ofgem ranked the Company as amongst the best performing energy suppliers in its direct debit and vulnerability review categories, with no material weaknesses for direct debit and only minor weaknesses for vulnerability. For customers in payment difficulty, Ofgem noted appropriate processes as being in place, but issued a Provisional Order in relation to agent adherence to company policy, which was subsequently revoked in December 2022 with no further action against the Company due to Ofgem being satisfied that it had taken action to address the weakness.

Customer debt

Despite the significant increase in revenues driven by the higher wholesale costs, measures have been taken to reduce the impact on the Company's debt book. These measures include the aforementioned support schemes introduced by the UK Government (EBSS, EPG, EBRS and EBDS), which together offer significant protection to both domestic and non-domestic customers from the rising cost of energy bills. This mitigates much of the bad debt risk that may otherwise have been apparent from non-payment of bills. From an expected credit losses perspective, the key risk is the collection of cash from the customer, as the funds to be received from the UK Government are considered to carry significantly lower risk. Even with UK Government support, the underlying tariffs are still higher year-on-year for the average customer, and as such, the operational focus remains on prompt cash collection and the retention of customers on secure payment plans. On 18 April 2023, Ofgem published its new voluntary Code of Practice for the forced installations of prepayment meters and the conditions suppliers will need to meet prior to recommencing such activity. While there is a route under which such installations may now resume, the circumstances in which they are permitted have been narrowed. This may limit the Company's ability to offer customers a good option to have more control over their energy costs and may also have an adverse impact on future cash collection. The level of customer debt as a percentage of billing, is trending down from 2021 and 2020 levels. This is driven by actions the Company has taken to engage with customers who are able to pay but chose not to. Refer to the 'Energy customers' section of the Strategic Report for further details on how the Company engages with and supports customers. Refer to the 'Principal risks and uncertainties' section of the Strategic Report for further details on recoverability of the debt book.

Smart solutions, smart metering and hydrogen

The Company's smart solutions operation is all about helping customers decarbonise their lives and serving customers at a time when they need it most. The Company has a range of products and emergency services that customers can call on, such as a national service for central heating or boiler breakdown, a plumbing leak, or a kitchen appliance breakdown. The Company has long-term contracts with strategic partners who provide these services on its behalf. The Company continues to work together with them focusing on the value and service being delivered for customers, closely monitoring and learning from customers' feedback.

The Company offers a range of charging solutions for customers with EVs be it at home, in the workplace or public charging. The journey away from burning gas to heat homes is being helped with the Company's electric heating solutions, in particular air source heat pump design and installation. The Company also helps customers and businesses generate their own green energy through its solar solutions, and with batteries, the energy they generate can be stored for when it is needed.

The Company continues to make significant efforts and investments to support its smart meter rollout which, in conjunction with its app, provides customers with a useful way to monitor and manage energy consumption. Despite the benefit a smart meter can provide, in 2022, the industry is behind its collective target.

STRATEGIC OUTLOOK *continued*

The Hydrogen department is focussed on producing green hydrogen. Only green hydrogen will support the UK's vision of achieving the net zero target, and together with ScottishPower's Renewables business ("Renewables") plans to deliver these ambitions at scale. The Company has signed twenty partnerships with businesses across the UK to produce green hydrogen and has been engaging with the UK Government to support the latest projects.

Values in action

During 2022, governments and Ofgem continued to focus strongly on the need for suppliers to deliver a positive consumer experience for all customer groups, recognising the need for suppliers to identify the needs of their customers, especially those in vulnerable circumstances, with Ofgem issuing a number of market-wide reviews of supplier compliance. After the challenges facing consumers as a result of the COVID-19 pandemic, the impact of rising energy prices and broader cost of living challenges, 2022 has seen a significant focus on this. The Company has taken action to ensure delivery for customers in this challenging environment. This includes actions taken to support customers directly, as well as supporting customers in accessing support from relevant third parties and influencing the UK Government to implement support interventions. Refer to the 'Energy customers' section of the Strategic Report for further details.

2022 Performance

	Revenue*		Operating loss*		Capital investment**	
	2022	2021	**2022**	2021	**2022**	2021
Financial key performance indicators	**£m**	£m	**£m**	£m	**£m**	£m
SP Energy Retail	**6,346.4**	4,009.4	**(323.1)**	(305.4)	**39.4**	103.7

*Revenue and Operating loss are presented on the Income statement on page 23.
**Capital investment for 2022 is presented within Notes 3 and 4 on page 35.

The Company's revenue increased by £2,337.0 million to £6,346.4 million in 2022. This is predominantly due to an increase in domestic revenues as a result of tariff increases driven by higher energy costs, partly offset by lower volumes from milder weather. Non-domestic business revenues have also increased due to the higher cost of energy.

The Company's operating loss has increased by £17.7 million to £323.1 million. Whilst revenues increased, so did procurements (mainly due to higher energy costs but also higher network costs). As a result, gross margin was £101.7 million lower year on year. The unprecedented rise in energy costs in the latter part of 2021 continued to influence results in 2022. Negative impacts included: continued exposure to high energy costs due to variable renewable wind generation; inability to pass on energy costs due to deficiencies in the price cap mechanism; and higher balancing and Balancing Services Use of System charges ("BSUoS") costs. It is expected that a significant proportion of the losses incurred in 2022 will be recoverable in 2023 via changes to the price cap methodology. These changes include a move to a quarterly price cap update, and additional allowances for historic loss recovery. Operating costs and other taxes decreased by £69.0 million primarily as a result of lower Energy Company Obligation ("ECO") scheme activity, lower staff costs and an increase in income from company recharges to Other Iberdrola Group companies. Bad debt costs also decreased by £10.0 million.

Capital investment has decreased by £64.3 million primarily due to decreased customer contract acquisition costs. This reflects the downturn in supply market competition following the increase in energy costs.

Statement of financial position

Net liabilities of the Company increased by £306.6 million in the year to £488.4 million. This reflects the impact of the statutory loss of £258.1 million and the impact of the adjustment to reserves in respect of the amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract' of £48.6 million (refer to Note 1C(a)).

Impact of energy market volatility

The unprecedented rise in energy costs in the latter part of 2021 continued through most of 2022. This commodity market volatility resulted in significant year-on-year movements in the Statement of financial position. Current trade and other receivables increased by £886.4 million in the year due to the impact of higher revenues on customer receivables, additional receivables recognised in respect of the UK Government assistance schemes implemented during 2022 (refer to Note 7) and greater loan receivables due from other Iberdrola Group companies. Current trade and other payables rose by £1,219.7 million in the year. This was primarily due to the value of customer credits increasing as a result of higher commodity costs flowing through to customer bills and a new payable being recognised in the year in respect of the EBSS scheme (refer to Note 12). The value of customer credits is expected to reduce in the first half of 2023 with seasonal demand peaks.

STRATEGIC OUTLOOK *continued*

Non-financial key performance indicators ("KPIs")	Notes	2022	2021
Volume supplied (GWh)*	(a)	**38,199**	43,742
Complaints handling	(b)	**3rd**	4th
Smart meters in portfolio	(c)	**51.2%**	41.3%
Customers (thousands)	(d)		
- Electricity		**2,862**	2,757
- Gas		**1,934**	1,856
		4,796	4,613

*Gigawatt hours ("GWh")

(a) Decrease due to reduced customer demand resulting from high energy costs and economic crisis throughout 2022.
(b) Based on the Citizens Advice Domestic Energy Suppliers' Customer Service Report. Rankings reflect ScottishPower and therefore, the Company's, position relative to the other 'Big Seven' energy companies. The Company has continued to invest in its customer service teams with a key focus on improving timely management and resolution of complaints, coupled with an overall focus on service quality across all of its advisors.
(c) Percentage of relevant customer base with a smart meter.
(d) Customer numbers are based on the average number of Meter Point Administration Numbers for electricity customers and Meter Point Reference Numbers for gas customers during the year to 31 December.

Outlook for 2023 and beyond

During 2022, there continued to be a strong focus on the default tariff cap methodology and on the financial resilience of suppliers after the significant level of suppliers failing during the second half of 2021 and into 2022, with a number of consultations being issued by Ofgem which will likely lead to changes into 2023 and beyond.

The new quarterly price cap methodology introduced in August 2022 will continue into 2023 alongside the additional allowances introduced to recover supplier losses relating to historic 'unexpected SVT' and backwardation costs. Ofgem has issued consultations on the methodology in a number of areas, most notably proposals relating to the appropriateness of the current 1.9% earnings before interest and tax ("EBIT") margin allowance, seeking views on the inputs to the allowance including how it is implemented, and in relation to the bad debt allowance and operating costs more generally. Ofgem has also extended the temporary measures to protect suppliers against further impacts in the circumstances of increased switching due to falling wholesale prices via a Market Stabilisation Charge ("MSC") paid by the gaining supplier to the losing supplier, and a ban on acquisition-only tariffs ("BAT") to March 2024. Looking beyond this, Ofgem are also considering implementing the BAT on an enduring basis.

Longer-term, the future of the price cap will be influenced by the content of the Energy Bill published on 6 July 2022 by the UK Government, which proposed to enable extensions of the cap beyond 2023 without a replacement longstop, instead the relevant Secretary of State ("SoS") will be able to seek parliamentary approval for extensions of one or two years through secondary legislation. The July 2022 Energy Bill also proposed to introduce an ECO buyout mechanism to facilitate removing the small supplier threshold. The Energy Prices Act 2022 received royal assent on 25 October 2022 with provisions to enable the SoS to terminate the cap on notice and requiring Ofgem to take account of the impact on public spending (having regard to information or guidance provided by the SoS) when setting the price cap level. The Company continues to lobby and influence the UK Government and Ofgem regarding the need for suppliers to recover efficiently incurred costs and be able to finance their businesses in a sustainable manner, and the need to protect the most financially vulnerable consumers in a targeted manner via a social tariff.

Ofgem published financial resilience proposals in late 2022 which would require suppliers to protect Renewable Obligations payments, prepare significant additional annual reporting requirements around financial and operational resilience, and require suppliers to hold sufficient capital requirement by the end of March 2025. At this point, Ofgem is not requiring suppliers to protect customer credit balances and instead will rely on the proposed minimum capital and additional reporting requirements, but with additional powers to require ringfencing of credits where a supplier's reporting breaches particular triggers. In April 2023, Ofgem published its decision to introduce protections for Renewables Obligations payments from November 2023 for the 2023/24 scheme obligations, and for the new annual reporting requirements to be in place by the end of March 2024. It has issued further consultation on its proposals around minimum capital requirements and additional powers for the ringfencing of credits, however, the aim remains to have requirements fully in place by the end of March 2025.

The Company expects Ofgem to continue with its increased monitoring of supplier operational processes and capability into 2023 via its ongoing programme of market compliance reviews to ensure suppliers are compliant with all licence

STRATEGIC OUTLOOK *continued*
conditions, including revisiting market compliance reviews undertaken in 2022.

In the years ahead, the Company's smart solutions department plans to make solutions more accessible and increase engagement through monitoring and optimisation services. Physical solutions such as EV charging, solar generation, battery storage and renewable heating will be more accessible as the Company innovates to reduce costs and offer financial solutions alongside partners.

As the cost of energy is in sharp focus for households and businesses, the Company will help customers engage with their energy consumption through services such as its energy insight app and new monitoring and optimisation services that will link in with low-carbon technologies and the grid. When the energy wholesale market conditions are right, the Company will offer supporting tariffs that will help customers shift their consumption to periods of lower carbon intensity and lower cost.

The Company has positioned itself as the leading voice in the development of a green hydrogen industry in the UK. On the back of significant customer interest in the region, the Company is developing a 20 MW facility at its existing Whitelee Windfarm, which is intended to produce green hydrogen in 2024, subject to planning consent. The Company has also made significant progress in the North of Scotland Hydrogen Project located in the Cromarty region, which has been developed to produce green hydrogen for the Highlands. The first phase of this project is a 29 MW electrolyser which has multiple industrial offtakes and is intended to produce hydrogen in 2025. Following the public consultations held in 2022, the Company is aiming for the Cromarty project to progress with the local planning authority through 2023 allowing the project to progress towards its target for the Commercial Operational Date ("COD") during 2025. These production facilities will be amongst the very first commercial scale green hydrogen sites in the UK and will support the growth of hydrogen economies across Scotland.

The Company aims to hold a share of the UK Government's target of 10 GW of green hydrogen production by 2030. As such, 2023 will see the Company develop several large sites to create a portfolio of hydrogen opportunities.

Financial instruments
As at 31 December 2022 the Company's financial instruments include Trade and other receivables, Cash, Loans and interest due from Iberdrola Group companies and Trade and other payables. The Company is therefore exposed to credit risk and treasury risk (comprising both liquidity and market risk) arising from these financial instruments. Throughout 2022, the Company was also exposed to energy market risk associated with fluctuations in the market price of electricity and gas.

Credit risk
Credit risk is the risk that a counterparty will not meet its contractual obligations under a financial instrument or customer contract, leading to a financial loss. The credit risk management strategy adopted for significant types of financial asset are as follows:

- Exposure to credit risk in the supply of electricity and gas arises from the potential that customers default on their invoiced payables. Both domestic and business customers' creditworthiness is reviewed from a variety of internal and external information sources including customer payment history and credit checks. Recognising the current level of energy market disruption, including the ongoing cost of living crisis, and the forecast uncertainty in macro-economic indicators, in line with IFRS 9 'Financial Instruments' ("IFRS 9"), a forward-looking provisioning methodology has been utilised to ensure that external factors are appropriately mitigated. Details of the Company's provisioning methodology and the significant estimation uncertainty associated with it are included in Note 2.
- Credit risk from balances with banks and financial institutions is managed by ScottishPower's treasury department in accordance with Iberdrola's cash investment procedure. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty by the Corporate Risk Management department.
- The Company provides funding in the form of interest-bearing on demand loans to other Iberdrola Group companies. Credit risk from Iberdrola Group companies is considered to be low as the Company is part of the Iberdrola Group's centralised treasury function and no Group company has a credit rating lower than BBB+ (in line with Standards & Poor's external credit ratings).

STRATEGIC OUTLOOK ***continued***

Treasury risk

Liquidity risk is the risk that the Company will have insufficient funds to meet its liabilities and market risk is the risk of loss that results from changes in market rates (e.g. interest rates). The Company's liquidity position and short-term financing activities are integrated and aligned with both ScottishPower's and Iberdrola's. ScottishPower operates and manages a centralised cash management model within the UK, with liquidity being managed at a company level. The Company's objective is to retain sufficient liquid resources and facilities to cover anticipated cash flow requirements for a period in excess of twelve months. Both liquidity and market risk are managed by ScottishPower's treasury department, who are responsible for arranging banking facilities on behalf of the Company. The Company produces short-term rolling cash flow requirements and if necessary, any required funding is obtained via credit facilities already in place.

Energy market risk

ScottishPower's Energy Wholesale business ("Energy Wholesale") is responsible for managing exposure to the UK wholesale electricity and gas markets for both the Company and ScottishPower's Renewables business ("Renewables"). Energy Wholesale do this via trading strategies that utilise derivative financial instruments which 'lock in' energy prices which are ultimately passed on to the Company. This approach has contributed to the Company's navigation of the volatile energy markets.

PRINCIPAL RISKS AND UNCERTAINTIES

To deliver its strategy, ScottishPower and therefore the Company conducts business in a manner benefitting customers through balancing cost and risk, while delivering shareholder value and protecting its performance and reputation by prudently managing the risks inherent in the business. To maintain this strategic direction, ScottishPower develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation. Further details of ScottishPower's risk management practices can be found in the most recent Annual Report and Accounts of SPL.

The principal risks and uncertainties of the Company, that may impact current and future operational and financial performance and the management of these risks are described on pages 7 to 10.

RISK	RESPONSE
Regulatory and political Compliance with regulatory obligations especially in the context of sudden changes of policy, or interventions outside established regulatory frameworks.	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained, and public backing is secured for the necessary investment in the UK energy system. Providing stakeholders with evidence of the risks of *ad hoc intervention in markets.*
Structural uncertainty resulting from unprecedented volatility in wholesale energy prices and regulatory market interventions.	Positive and constructive engagement with key industry stakeholders including both Ofgem and various government departments regarding the requirement for suppliers to recover all costs incurred for 2022, and the need to make fundamental changes to the market to ensure efficient suppliers can recover costs in the future. Engagement includes responding to consultations, and proactively lobbying key stakeholders providing evidence on the Company's costs and preferred regulatory amendments.

PRINCIPAL RISKS AND UNCERTAINTIES ***continued***

RISK	RESPONSE
Regulatory and political ***continued*** Because of unprecedented high wholesale energy prices and ongoing volatility, despite changes implemented by Ofgem to the price cap methodology and temporary measures to mitigate the impact of falling prices, there remains risks to suppliers recovering the real cost of supplying and servicing the customer, preventing the Company achieving a reasonable profit margin. There also remains uncertainty over what other measures the UK Government may take to protect consumers and whether such measures will be funded through the price cap mechanism.	Engaging with the UK Government and Ofgem to advocate for a price cap that accurately reflects the cost of supplying energy to customers, and the need to extend Ofgem's temporary Market Stabilisation Charge and Ban on Acquisition only Tariffs measures.
The potential for non-compliance with the UK Government's mandate to complete the rollout of smart metering to customers in accordance with prescribed timescales.	Dedicated project team focused on ensuring adequate business processes and systems are developed. The team is responsible for ensuring the rollout capability is secured to enable deployment of meters.
Global financial market volatility Impacts arising from market and regulatory reactions to events including the Ukraine war, as well as positive or negative changes in the UK economy. This includes the movement in the market price of electricity and gas.	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained, and public backing is secured for the necessary investment in the UK energy system. Providing stakeholders with evidence of the risks of ad hoc intervention in markets. In addition to monitoring ongoing developments, the Company has specific procedures in place to manage these key market risks. The Company adheres to a ScottishPower Treasury risk management policy (comprising foreign currency, liquidity and interest rate risk) to hedge financial risks. This is discussed further within the Financial instruments section on page 6. The mitigation of energy market risk is coordinated strategically by SottishPower via the use of derivative financial instruments and collateral taken out largely by other ScottishPower companies to hedge volatility of wholesale energy prices incurred by the Company.

PRINCIPAL RISKS AND UNCERTAINTIES ***continued***

RISK	RESPONSE
Climate change The risk that the Company's strategy, investments or operations have a significant impact on the environment and on national and international targets to tackle climate change. The impacts of climate change include the risks of transition (regulatory, market and demand variations), physical risks (increase in temperatures) and greater competition for financial resources.	The Company's commitment to tackle climate change is reflected in its strategy e.g. establishment of a smart solutions department to facilitate the uptake of low-carbon technologies, delivering the Company's ECO4 programme and preparing for Great British Insulation Scheme ("GBIS"), (formerly known as "ECO+") and the creation of its Hydrogen department to seek green hydrogen solutions. The potential impact from climate change factors on operations is mitigated through consideration of temperature and demand trends as part of demand forecasting employed by the Company. Furthermore, the Company is fully engaged with the UK Government and Ofgem on regulatory policy change in relation to climate change targets that may impact upon the Company.
Health and safety A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.	The Company has certified management systems in place to deliver activities as safely as possible. A ScottishPower Health and Safety function also exists and provides specialist services and support for the Company in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes is established, which aims to ensure not only continuing legal compliance but also to drive towards best practice in all levels of health and safety operations.
Cyber security The Company operates within an environment where there is the presence of sophisticated and opportunistic cyber security threat actors motivated to identify and take advantage of flaws and weaknesses in the Company's cyber security defences. The Company, in alignment with UK Regulation, takes the protection of its data and the provision of its essential services very seriously. The Company, as part of ScottishPower, continues to invest significantly in its people, processes, and technologies to enhance its capabilities to prevent, detect and respond to security threats. The main risks are related to operational technology used to manage the production, management and distribution of energy, or physical safety systems (fire protection, CCTV, alarm reception centres); information technology ("IT") that enables the Company to operate critical services; the confidentiality, integrity, and availability of key information assets; and cyber security risks impacting reputation.	The Company continues to focus on its enterprise security risks through enhanced internal governance, complemented by the adoption of a three lines of defence model with clear roles and responsibilities established across the ScottishPower Group, and therefore the Company. These risks are managed in accordance with the basic principles defined in internal cyber security rules promoting the safe handling of data, use of IT and communications systems, use of operational technology systems and assets, and other cyber assets, reinforcing detection, prevention, defence, and response capabilities against possible attacks. The Iberdrola Group has specific insurance against cyber risks, under the terms allowed by the insurance market, which is revised and updated periodically in view of the rapid evolution and wide variety of cyber risks.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

RISK	RESPONSE
Cost of living crisis Increased focus on affordability due to the cost of living crisis creates a greater number of consumers at risk and a greater burden on suppliers to service and support customers. The future level of support offered by the UK Government which deliver benefits to customers struggling with their energy bills may be lower. Increase in the level of overdue debt, driven by the impact of rising bills, high cost of living and deterioration in the economy, impacting on the level of debt write-off required.	The Company continues to deliver on improvement actions in relation to vulnerability and affordability. Engagement continues with the UK Government, third parties and Ofgem, on the challenges facing suppliers in supporting customers during the ongoing cost of living crisis, and the need for more targeted consumer protection for its most vulnerable customers. There are measures in place across the Company to manage the key drivers of overdue debt, assess and implement remedial and preventative action, and to establish key metrics to monitor progress in reducing debt levels. Key measures include monitoring cash collection as bills increase, prompt re-assessment of customer payment terms, and support being offered to customers as soon as possible to agree on appropriate debt prevention measures, particularly for vulnerable customers.
Market position Impact of competition on the Company's market share and profitability.	Constantly managing the operating cost base to ensure that profitability is protected and focusing on growth through organic and other acquisition opportunities.

ENGAGING WITH STAKEHOLDERS

The importance of engaging with stakeholders

The Company strongly believes that effective and meaningful engagement with stakeholders, especially employees, is key to promoting its success and values. Meaningful engagement with stakeholder groups supports the ethos of section 172 of the Companies Act 2006 which states that directors should have regard to stakeholder interests when discharging their duty to promote, in good faith, the success of the Company for the benefit of its members as a whole. Details of how the Company, engages with its stakeholders, and how these activities influence the Company's operations, are set out below.

Key stakeholders

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

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

Shareholders are important to the Company. The Company's relationship with its shareholders is governed by the Company's Articles of Association and provisions of the Governance and Sustainability System which apply to the Company and ScottishPower, of which the Company is a member. As the Company is ultimately wholly-owned by Iberdrola, all ultimate shareholder management activities are carried out by Iberdrola in accordance with its own Shareholder Engagement Policy as published at www.iberdrola.com.

ENGAGING WITH STAKEHOLDERS ***continued***

EMPLOYEES

As at 31 December, the Company had 932 employees, working across a range of roles. These employees make a real difference in determining how successfully the Company operates. The creativity, innovation and individuality of the Company's employees enables the Company to build on its future capability to operate effectively in a competitive market and continue to have aspirations which are challenging and rewarding. The Company respects and recognises the importance of individuality as part of its ongoing commitment to promoting a culture where individuality is celebrated. The Company also understands that being a diverse business goes beyond having legally compliant policies and practices; it includes a focus on creating an innovative, integrated organisation where people feel valued and inspiring them to perform at their best.

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

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

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

Modern Slavery Statement

The term 'modern slavery' covers both slavery and human trafficking. ScottishPower, and so the Company, is committed to human and labour rights and to eliminating modern slavery that could in any way be connected to its business. In accordance with the Modern Slavery Act 2015, ScottishPower has produced its own Modern Slavery Statement, which is subject to annual approval by the Board of Directors of SPL. This statement is published at www.scottishpower.com / 'Sustainability'/ 'Sustainable business'/'ScottishPower's Modern Slavery Statement'.

ENERGY CUSTOMERS

The Company provides energy and related services to millions of domestic and business customers. The Company's success depends on its ability to understand and meet the needs of its customers, and engagement is key to its success in this rapidly changing environment. The Company seeks feedback in several ways including forums, market research and product testing, as well as via complaints channels and surveys.

Customer service

Delivering excellent customer service to customers continues to be the Company's key priority. The customer is at the centre of everything the Company does and is its focus. The Company continually assesses its processes and customer journeys and identifies and implements improvements to ensure it meets its expectations and those of its customers. The Company is relentless in its pursuit to improve customer experience.

The Company continues to focus on delivering customer service through a number of digital channels as well as retaining traditional telephone channels. Digital tools are the channel of choice amongst the Company's customer base with mobile apps now being the most frequently utilised self-service tool, alongside digital online web chats. In 2022, the Company was recognised for its digital commitment by providing customers with a 'best in class' user experience across its iOS and Android apps through the award of the eCommerce 'App of the Year'. Web chats have seen a rapid growth in 2022 and greater use of automation. Continued investment supporting in-house digital development capabilities enabled the rapid design and creation of multiple new customer centric processes and refinements to meet the continued demands of customers and help manage operational requirements.

Offering increased flexibility around payments and digital communication methods allows the Company to respond rapidly to evolving situations and meet the needs of customers. In addition to the growth and enhancements to key self-service account tools, there has been a continued focus on leveraging the capabilities of smart meters to deliver automated services and insights to help customers gain a better understanding of their energy usage and digitise processes such as smart prepayment top-ups and more granular consumption insights.

ENGAGING WITH STAKEHOLDERS *continued*

Customer support

A key issue in 2022 was the impact of the cost of living crisis including the increase in energy prices in the UK. In response, the UK Government launched various support schemes; further details of these schemes are included in the 'Operating review' section of the Strategic Report. The importance of these payments to customers and a general concern around affordability has resulted in a significant increase in customers contacting the Company across all contact channels and in particular those customers that are financially and non-financially vulnerable.

Prior to the increase in energy costs, the Company already had a range of support measures in place for customers in vulnerable circumstances, whether financial or non-financial (and recognising that there can quite often be an overlap between the two). These services include:

- a range of contact options for customers to use to get in touch with the Company;
- automatic routing of customer calls to specialist support teams to manage contacts from customers who the Company identifies may need additional support to manage their account, based on account information the Company holds (including those with prepayment meters);
- support options offered under the Company's Priority Services Register for those non-financially vulnerable customers who may find it more challenging to manage their energy account;
- alternative payment options and tariffs for different customer circumstances;
- flexible repayment schemes for those who have built up debt;
- advice on how to reduce energy consumption through simple actions by the customer or via the ECO scheme;
- signposting to third parties who can offer additional guidance and support;
- signposting to the ScottishPower Hardship Fund and the Company's Prepayment Voucher Scheme; and
- a dedicated team of National Community Liaison Officers whose sole purpose is to provide in home support.

The Company has further reviewed its approach to ensure it is doing as much as it can to support customers struggling to pay for their energy, and in 2022 implemented the following:

- Setting up, and continuing to increase, resources within a dedicated Affordability Team, consisting of specially trained customer service agents, to provide customers either at risk of, or already experiencing, payment difficulty with tailored information, tools and support at a time when they need it most.
- Strengthening links with key third party organisations to help inform and adapt the Company's approach moving forward. This includes a new partnership with StepChange, the UK's leading provider of free, independent debt advice. This partnership supports the Company in its signposting for customers to receive additional support, and the Company has also utilised StepChange in its training of agents within its new Affordability Team.

The Company's focus is on prompting customers to engage with it as early as possible so that it can provide the support they need, whether that be within the actions it can take itself, or in ensuring those customers who need broader support than the Company can offer, have direct access to third parties who can provide it.

The Company is also raising awareness of the measures customers can take to reduce the impact of increasing energy costs. This includes arranging for a smart meter to be installed, which is the best way to track energy consumption by showing a customer the cost of the energy they are using and ensures they only pay for the energy they use by providing the Company with regular, automatic meter readings.

The Company further supports vulnerable customers with their energy bills through the Warm Home Discount Scheme ("WHD"). Now in its twelfth year, the WHD is the UK Government's main policy for tackling fuel poverty. The scheme is delivered by energy suppliers, principally to qualifying customers, by providing rebates on electricity accounts to help when bills may be higher over the winter period. During scheme year eleven, which operated from 1 April 2021 to 31 March 2022, the Company spent £28.2 million providing assistance to 201,782 customers by applying a rebate of £140 to their electricity account.

In addition, £3.6 million of funding was awarded to eight third-party organisations to deliver industry initiative projects to provide a range of assistance to domestic customers. The Company's partners delivered energy efficiency advice, energy efficient white goods, and measures to improve the energy efficiency of the property where they lived. Other projects focused on further financial support providing fuel debt assistance and benefit entitlement checks.

ENGAGING WITH STAKEHOLDERS *continued*

Energy efficiency

The delivery of energy efficiency measures continues to be an important responsibility of the Company, and 2022 was the ninth year of delivery of the UK Government's ECO scheme. The ECO scheme is fundamental to improving the fabric of British homes in the Company's pursuit of achieving net zero and focuses on reducing heating costs for the most vulnerable customers and improving the energy efficiency of properties.

The Company successfully delivered two of its sub-obligations for the ECO3 programme in early Q4 2021 and the delivery of its overall obligation was completed in December 2021, three months ahead of the legislative deadline. The Company continued with its ECO3 programme in 2022 with surplus delivery being carried over to ECO4. This ensured that the households could receive the benefit of the measures as early as practicable and maintained activity for the Company's supply chain partners.

In July 2022, the ECO4 legislation came into effect and the obligation will run until March 2026. The focus of ECO4 is the most vulnerable households in the least efficient homes (Energy Performance Certificates ("EPC") Bands E, F and G) and targets a whole house improvement project based on a fabric-first approach. This will see a drop in the number of properties treated, however, the majority of those treated will be improved by a minimum of two EPC bands with multiple measures delivered to each home. The Company's supply chain commenced delivery of ECO4 measures in August 2022 but delivery is cautious while the supply chain and obligated suppliers adjust to the new requirements of the obligation.

In December 2022, the UK Government launched and closed a consultation on a new government funded programme, the GBIS. This new £1 billion three-year programme will look to deliver loft and cavity wall insulation to hundreds of thousands of the least energy efficient homes in the lower Council Tax bands, as well as targeting the most vulnerable homes across the country. Ofgem have not yet confirmed their timescales for consultation or publication of scheme guidance, however the Company expect the Government to lay scheme legislation in the summer of 2023. The Company will look to commence delivery of this programme as early as practicable to deliver support to homes as soon as possible.

GOVERNMENT AND REGULATORS

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

The Company has also worked closely with the UK Government and Ofgem to respond to the unprecedented increases in wholesale energy costs following the war in Ukraine, making the case for additional government support for domestic energy bills over winter 2022-23, notably the EBSS and EPG for domestic customers, and the EBRS for non-domestic customers. Simultaneously, the Company encouraged longer-term reforms (including changes made by Ofgem to the retail price cap) to ensure the sustainability of the supply sector. (Refer to 'Operating review' and 'Outlook for 2023 and beyond' sections of the Strategic Report for further details.)

SUPPLIERS AND CONTRACTORS

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

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

In 2022, the Company continued to increase its focus on the Environmental, Social and Governance ("ESG") credentials of its main suppliers using its supplier risk management system, Go Supply, which was introduced in 2021. This system has provided significant additional insight into ESG factors of the Company's supply chain. The Company also works closely with those suppliers that have been identified as having weaker ESG traits. This supports their development through improvement plans and guidance.

ENGAGING WITH STAKEHOLDERS *continued*

Engagement with the supply chain is always a critical activity for the Company but continues to become more important as the Company adapts to the current geopolitical and macroeconomic challenges. The Company is experiencing cost pressures due to high global commodity prices along with increasing labour costs. The Company has looked to support its supply chain during these challenging times by working collaboratively on forecasting its requirements and has established customs brokerage services.

COMMUNITY AND ENVIRONMENT

The Company continually strives to be a trusted, respected and integrated part of the community, by operating with integrity, transparency, and working closely within the community to build relationships. The Company is committed to being a good neighbour throughout all of its operations to ensure the benefits are realised in local areas by helping to create local employment and enabling improvements to local infrastructure and services.

The Company is committed to reducing its environmental footprint by: minimising energy consumption and use of natural and man-made resources; sourcing material resources responsibly, cutting waste and encouraging re-use and recycling; and promoting smart solutions.

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

In addition to supporting customers, the Company also supports the charity sector, particularly its longstanding relationship with Cancer Research UK. During this difficult period for charities, customers on the 'Help Beat Cancer' tariffs continue to make a vital contribution to the incredible work of Cancer Research UK. The Company has raised over £35 million to date through a combination of sponsorship of events like Stand Up to Cancer, sales of the 'Help Beat Cancer' tariffs, and fundraising activities.

The Company engages regularly with the key industry stakeholders such as Ofgem, Citizens Advice and Ombudsman Services, to keep them fully updated of its community actions.

Following the ban on involuntary installations of prepayment meters under warrant and Smart change of mode to prepayment, the Company has signed up to Ofgem's Code of Practice, which aims to strengthen protections for customers in vulnerable situations.

The Company is one of the remaining suppliers that have National Community Liaison Officers ("CLOs"). Its CLOs focus on supporting customers who have concerns over their energy consumption or billing to ensure clear understanding. They also provide support for those struggling with their energy bills. This is done in the customer's home. The Company's CLOs also provide locational support to its business customers.

The Company's Hydrogen department is continually working with businesses across the UK to help support their strategic aims to decarbonise their operations. For two years, the Company has supported the Scottish Schools Hydrogen Challenge with the purpose of educating young people about the importance of green hydrogen in tackling the climate emergency.

INNOVATION

It is crucial that the Company, continues to innovate and drive forward towards a decarbonised smart energy future. By championing innovative technologies, bringing down the costs of decarbonisation and ensuring that no communities are left behind on the road to net zero, the Company continues to lead by example in making sure clean, affordable energy is available to all.

The Company continues to address the challenges of finding a sustainable and affordable solution for domestic heat, having already launched a nationwide installation service for air source heat pumps, solar panels, batteries and EV charging.

INNOVATION *continued*

The Company has been developing a concept for an industry-leading home energy management system to solve the problem of adoption of new smart home technologies, caused by their lack of control, insight and inter-operability. This solution will create a modular hub including a customer access device within the home which will provide real time home consumption data and optimise performance of smart devices. The trial of this solution will be undertaken in conjunction with external software and hardware providers. The outcome will provide customers with a product that helps them reduce their energy consumption as well as additional income opportunities through system balancing. The Company is also exploring the potential of a brand-new customer-facing app to help customers reduce their consumption and make positive impacts on their carbon footprint, whilst also saving money.

SECTION 172 STATEMENT

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

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

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

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

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

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

- **Energy customers:** details of how the Company engages with its customers are explained in the 'Energy customers' section of the Strategic Report, on page 11.
- **Employees:** details of how the Company engages with its employees are set out in the 'Employees' section of the Strategic Report, on page 11. During the year, the Company's board of directors ("the Board") had regard to the fact that ScottishPower's, and the Company's, success depended on its ability to understand and meet the needs of customers, and that engagement was key.
- **Communities and the environment:** details of how the Company engages with communities and considers the environment are set out in the 'Community and environment' section of the Strategic Report, on page 14. During the year, the Board noted that the Company was committed to promoting products and technologies such as the installation of charging infrastructure for EVs as part of the transition to a low-carbon future.
- **Suppliers and contractors:** details of how the Company engages with its suppliers are set out in the 'Suppliers and contractors' section of the Strategic Report, on page 13. During the year, the Board considered and made its statements on the Hydrogen department's pipeline of projects as reported in the prior year's Strategic Report.
- **Government and regulators:** details of how the Company engages with governments and regulators are set out in the 'Government and regulators' section of the Strategic Report, on page 13. During the year, the Board noted that the Company was committed to supporting the energy market to evolve and most notably decarbonise and meet the ambitions of net zero, and that it continued to engage with governments and Ofgem across a number of policy areas to ensure the regulatory framework was fit for purpose and fair.

In addition, a statement in relation to the Company's interaction with its shareholders is described in the introduction to the 'Engaging with stakeholders' section of the Strategic Report on page 10.

SECTION 172 STATEMENT *continued*

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

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

ON BEHALF OF THE BOARD

Valerie Sim
Director
8 June 2023

SCOTTISHPOWER ENERGY RETAIL LIMITED
DIRECTORS' REPORT

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

INFORMATION CONTAINED WITHIN THE STRATEGIC REPORT

The directors have chosen to disclose information on the following, required by the Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 16:

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

STREAMLINED ENERGY AND CARBON REPORTING

The Company is exempt under section 20A of The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 from the requirements to present disclosures concerning greenhouse gas emissions, energy consumption and energy efficiency action as such disclosures relating to the SPL Group, of which the Company is a part, are presented in the most recent Annual Report and Accounts of Scottish Power UK plc ("SPUK").

RESULTS AND DIVIDEND

The net loss for the year was £258.1 million (2021 £249.1 million). No dividend was paid during the year (2021 £nil).

DIRECTORS

The directors who held office during the year were as follows:
Valerie Sim
Andrew Ward

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

DIRECTORS INDEMNITY

In terms of the Company's Articles of Association, a qualifying third-party indemnity provision is in force for the benefit of all the directors of the Company and has been in force during the financial year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101").

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS ***continued***
reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and Directors' Report that complies with that law and those regulations.

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

Disclosure of information to auditor
Each of the directors in office as at the date of this Annual Report and Accounts confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

AUDITOR
KPMG LLP was re-appointed as the auditor of the Company for the year ending 31 December 2023.

ON BEHALF OF THE BOARD

Valerie Sim
Director
8 June 2023

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

Opinion

We have audited the financial statements of ScottishPower Energy Retail Limited ("the Company") for the year ended 31 December 2022 which comprise the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and related notes, including the accounting policies in Note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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

Our conclusions based on this work:

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

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risk") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

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

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

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as recognition of accrued income and valuation of billed debt.

Fraud and breaches of laws and regulations – ability to detect *continued*
On this audit we do not believe there is a fraud risk related to revenue recognition because, with the exception of the accrued revenue, the Company's revenues consist entirely of routine, non-complex transactions which are subject to systematic processing and do not require significant judgements.

We identified a fraud risk related to the accounting for the domestic 'Energy Price Guarantee' mechanism applicable to the Company and the determination of the amounts payable to or receivable from the government in connection with this scheme.

We performed procedures including
- identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts, including additional unexpected combinations associated with the energy retail discount accounts. Testing the design, implementation and operating effectiveness of internal controls related to quarterly balance sheet reconciliations for the Energy Price Guarantee receivables balance, as well as performing tests of details over the year end balance sheet reconciliation.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and others management (as required by auditing standards) and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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

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

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

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

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

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

Strategic report and directors' report
The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities
As explained more fully in their statement set out on pages 17 and 18, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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

8 June 2023

SCOTTISHPOWER ENERGY RETAIL LIMITED
STATEMENT OF FINANCIAL POSITION
for the year ended 31 December 2022

	Notes	2022 £m	2021 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	3	**115.2**	178.9
Property, plant and equipment	4	**141.6**	151.2
Right-of-use assets	5	**0.1**	0.4
Deferred tax assets	6	**16.5**	-
Non-current trade and other receivables	7	**9.2**	19.9
TOTAL NON-CURRENT ASSETS		**282.6**	350.4
CURRENT ASSETS			
Inventories	8	**257.4**	190.4
Current trade and other receivables	7	**1,736.0**	849.6
Current tax asset		**64.5**	61.6
Cash		**7.2**	7.3
TOTAL CURRENT ASSETS		**2,065.1**	1,108.9
TOTAL ASSETS		**2,347.7**	1,459.3
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**(488.4)**	(181.8)
Share capital	9,10	55.4	55.4
Hedge reserve	10	-	(0.1)
Retained losses	10	(543.8)	(237.1)
TOTAL EQUITY		**(488.4)**	(181.8)
NON-CURRENT LIABILITIES			
Non-current provisions	11	**4.1**	15.2
Non-current lease liabilities	5	**-**	0.1
Non-current trade and other payables	12	**1.0**	0.9
Non-current income tax liabilities		**6.2**	6.2
Deferred tax liabilities	6	**-**	4.2
TOTAL NON-CURRENT LIABILITIES		**11.3**	**26.6**
CURRENT LIABILITIES			
Current provisions	11	**326.8**	335.7
Bank borrowings and other current financial liabilities		**-**	0.3
Loans and other borrowings	13	-	0.2
Derivative financial instruments		-	0.1
Current lease liabilities	5	**0.1**	0.3
Current trade and other payables	12	**2,497.9**	1,278.2
TOTAL CURRENT LIABILITIES		**2,824.8**	1,614.5
TOTAL LIABILITIES		**2,836.1**	1,641.1
TOTAL EQUITY AND LIABILITIES		**2,347.7**	1,459.3

Approved by the Board and signed on its behalf on 8 June 2023.

Valerie Sim
Director

The accompanying Notes 1 to 23 are an integral part of the Statement of financial position as at 31 December 2022.

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

	Notes	**2022 £m**	2021 £m
Revenue	14	6,346.4	4,009.4
Procurements		(5,979.5)	(3,541.8)
GROSS MARGIN		**366.9**	467.6
Net staff costs	15	(71.5)	(90.3)
External services		(391.2)	(385.8)
Other operating results		49.1	26.4
Net operating costs		**(413.6)**	(449.7)
Taxes other than income tax	16	**(77.8)**	(110.7)
GROSS OPERATING LOSS		**(124.5)**	(92.8)
Net expected credit losses on trade and other receivables		(85.5)	(95.5)
Depreciation and amortisation charge, allowances and provisions	17	(113.1)	(117.1)
OPERATING LOSS		**(323.1)**	(305.4)
Finance income	18	0.5	0.4
Finance costs	19	(0.2)	(0.4)
LOSS BEFORE TAX		**(322.8)**	(305.4)
Income tax	20	64.7	56.3
NET LOSS FOR THE YEAR		**(258.1)**	(249.1)

Net loss for both the current and prior years is wholly attributable to the equity holder of ScottishPower Energy Retail Limited.

All results relate to continuing operations.

The accompanying Notes 1 to 23 are an integral part of the Income statement for the year ended 31 December 2022.

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

	Note	2022 £m	2021 £m
NET LOSS FOR THE YEAR		**(258.1)**	(249.1)
OTHER COMPREHENSIVE INCOME			
Items that may be subsequently reclassified to the Income statement:			
Cash flow hedges:			
Change in the value of cash flow hedges	10	**0.1**	(0.1)
Tax relating to cash flow hedges		**-**	-
		0.1	(0.1)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**0.1**	(0.1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(258.0)**	(249.2)

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

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2022

	Share capital £m	Hedge reserve £m	Retained earnings / (losses) £m	Total £m
At 1 January 2021	55.4	-	12.0	67.4
Total comprehensive income for the year	-	(0.1)	(249.1)	(249.2)
At 31 December 2021	55.4	(0.1)	(237.1)	(181.8)
Adjustments due to impact of IAS 37 amendments (refer to Note 1C(a))	-	-	(48.6)	(48.6)
Adjusted balance at 1 January 2022	55.4	(0.1)	(285.7)	(230.4)
Total comprehensive income for the year	-	0.1	(258.1)	(258.0)
At 31 December 2022	**55.4**	**-**	**(543.8)**	**(488.4)**

The accompanying Notes 1 to 23 are an integral part of the Statement of comprehensive income and the Statement of changes in equity for the year ended 31 December 2022.

1 BASIS OF PREPARATION

A COMPANY INFOMATION

ScottishPower Energy Retail Limited, registered company number SC190287, is a private company limited by shares, incorporated in Scotland and its registered address is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD.

B BASIS OF PREPARATION

B1 BASIS OF PREPARATION OF THE ACCOUNTS

The Company is required by law to prepare Accounts and to deliver them to the Registrar of Companies. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2. Monetary amounts are presented in pounds Sterling and are rounded to the nearest hundred thousand unless otherwise indicated. The Accounts are prepared on the historical cost basis apart from certain financial liabilities which are measured at fair value.

The Accounts have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"). In preparing these financial statements, the Company has applied the recognition, measurement and disclosure requirements of international accounting standards ("IAS") as adopted by the UK ("UK-adopted IAS") in conformity with the requirements of the Companies Act 2006 including newly effective IAS for the year ended 31 December 2022 (refer to Note 1C). In applying FRS 101, the Company has made amendments where necessary in order to comply with the Companies Act 2006 and has set out below where FRS 101 disclosure exemptions have been taken:

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

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

B2 GOING CONCERN

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

The principal activity of the Company is to undertake the retail sale of electricity and gas within the group headed by Scottish Power UK plc ("the SPUK Group"). SPUK, the Company's intermediate parent company, is itself a subsidiary of Iberdrola, S.A., the ultimate parent undertaking. The Company's cash flows are therefore dependent on the continuation, volume, and pricing of those operations and have been considered as part of the SPUK Group's cash flow forecasts, on which the directors of the SPUK Group have performed an assessment of reasonably possible downsides.

To meet its working capital requirements, the Company participates in a UK centralised treasury function operated by the Company's intermediate parent company SPL, the parent company of SPUK. At 31 December 2022, the Company had a loan receivable of £570.1 million with SPL. ScottishPower's treasury function works closely with Iberdrola to manage the Company's funding requirements. There has been no indication that these arrangements may change.

The directors have performed a going concern assessment which indicates that, in the case of reasonably possible downsides, the Company will require additional funds, through funding from SPUK, to meet its liabilities as they fall due for at least one year from the date of approval of these financial statements.

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

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

1 BASIS OF PREPARATION *continued*

C IMPACT OF NEW IAS

As noted on the previous page, these Accounts have been prepared in accordance with UK-adopted IAS. In preparing these Accounts, the Company has applied all relevant standards and interpretations that have been adopted by the UK as of the date of approval of these Accounts and that are mandatory for the financial year ended 31 December 2022.

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

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

(a) With effect from 1 January 2022, the Company has adopted the amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract'. Following the amendments, the costs to be considered to fulfil a contract when assessing if a contract is onerous or not is defined as being both the incremental costs and an allocation of other costs that relate directly to fulfilling a contract. Upon application of this amendment, certain contracts with retail customers defaulting on to the standard variable tariff were considered to be onerous as the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received from them. As at 1 January 2022, a provision for £60.0 million, the related current tax asset of £11.4 million and a reduction in retained earnings of £48.6 million were recognised to reflect this in line with the transitional provisions of this amendment, therefore, comparative information has not been restated. This provision was fully utilised during the year to 31 December 2022 (refer to Note 11).

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND PRINCIPAL ACCOUNTING POLICIES

In determining and applying accounting policies, judgement and estimation is often required in respect of items which have a significant effect on the reported amounts of assets, liabilities, income and expenses recognised in the financial statements. Management considers significant judgements and estimates to be those with a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year due to the inherent uncertainty regarding estimates and assumptions.

SIGNIFICANT JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES

Retail energy onerous contracts

The assessment of contracts to determine if they are onerous or not, is subject to a degree of judgement. The assessment includes consideration of both the unavoidable costs of meeting the contract and the economic benefits expected to be received under it. Judgement was applied to assess the future revenues, incremental costs (including the cost of energy committed where relevant) and the expected customer life (i.e. the contract period). While these assumptions are believed to be appropriate, a change in these assumptions could materially impact the value of the onerous contract recorded within the next twelve months. (Refer to Note 2H).

OTHER JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES

Consideration of climate change

The impact of climate change, including the risk identified in the Strategic Report on page 9, of the financial statements has been considered. No material impact on the judgements and estimates made in the preparation of the financial statements has been identified. This consideration focussed on the Company's going concern position, including the cash flow forecasts prepared for the directors' assessment referred to in Note 1B2. Additionally, consideration has been given to any estimates over the longer-term which should be disclosed to allow for an understanding of the financial statements. The Company has no estimates of this nature to disclose.

SIGNIFICANT ESTIMATION UNCERTAINTIES IN APPLYING THE COMPANY'S ACCOUNTING POLICIES

Expected credit losses ("ECLs") on trade receivables

The Company applies the IFRS 9 simplified model to measure ECLs, which uses a lifetime expected loss allowance, for all customer receivables. The Company has adopted the practical expedient whereby it calculates the ECL on customer receivables using a provision matrix. In line with previous years, with the exception of I&C customers, the provision rates are based upon the customers' payment plan, historical credit loss experience and, where possible, adjusted for forecast information. To establish levels of ECLs for these customers, the recoverability of equivalent balances from the previous three years have been reviewed. In terms of assessing the loss allowance for I&C customers, the ECL is based on external credit scoring.

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

There is a level of estimation uncertainty in determining the provision, recognising the current level of energy market disruption, including the ongoing cost of living crisis, and the forecast uncertainty in macro-economic indicators. In line with IFRS 9, a forward-looking loss allowance has also been included to ensure that external factors are appropriately mitigated. Given the Company's decision to exit the I&C market, to mitigate any debt impacts of this decision, security deposits are being requested for customers who have previously paid late. Additionally, maturing and late-paying customers are being placed on deemed higher rates.

While the assumptions are believed to be appropriate, a change in these assumptions could materially impact the value of the ECLs recorded within the next twelve months. Refer to Note 2F1.2(d) for further information on the provisioning methodology and Note 7(c) for sensitivity analysis.

Accrued 'unbilled' revenue

The Company operates in the GB energy industry, whose nature is such that revenue recognition is subject to a degree of estimation. Revenue includes an estimate of the units supplied to customers between the date of their last meter reading and the year end. This estimate is based on external data supplied by the electricity and gas market settlement process and internal data relating to energy purchases where settlement data is not yet available. While these assumptions are believed to be appropriate, a change in these assumptions could materially impact the value of the accrued revenue recorded within the next twelve months. Where volumes are yet to reach final settlement, a provision is made against unbilled revenue recognised in respect of those volumes. The provision is determined by considering the current unbilled position, historical trends, and any other known factors. The value assigned to these estimated volumes is based on a weighted average price per unit derived from the billing systems. This methodology is consistent with prior years and in line with prior years, settlement data received post year end was reviewed and supported the provisioning level. Refer to Note 2I(a) for key assumptions used and Note 14(a) for sensitivity analysis relating to accrued revenue.

The value of gross unbilled revenue in the Statement of financial position is £1,263.7 million (2021 £655.6 million). The increase in the year is as a result of higher tariffs reflecting increased energy costs.

PRINCIPAL ACCOUNTING POLICIES

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

A INTANGIBLE ASSETS (COMPUTER SOFTWARE)
B INTANGIBLE ASSETS (CUSTOMER CONTRACT COSTS)
C PROPERTY, PLANT AND EQUIPMENT
D LEASED ASSETS
E IMPAIRMENT OF INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND LEASED ASSETS
F FINANCIAL INSTRUMENTS
G RENEWABLE OBLIGATION CERTIFICATES ("ROCs")
H ONEROUS CONTRACTS
I REVENUE
J PROCUREMENTS
K OTHER OPERATING RESULTS
L FOREIGN CURRENCIES
M RETIREMENT BENEFITS
N TAXATION
O GOVERNMENT SUPPORT SCHEMES (ENERGY BILL SUPPORT SCHEME)

A INTANGIBLE ASSETS (COMPUTER SOFTWARE)

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

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

Costs directly attributable to the development of computer software programmes, that are expected to generate economic benefits over a period in excess of one year, are capitalised and amortised on a straight-line basis over their estimated operational lives. Costs include employee costs relating to software development and an appropriate proportion of relevant overheads directly attributable to bringing the software into use. Amortisation of developed computer software costs is over periods of up to eight years.

B INTANGIBLE ASSETS (CUSTOMER CONTRACT COSTS)

The Company capitalises the incremental costs of obtaining certain customer contracts, principally sales commissions, if they are expected to be recovered. These are recorded as a separate asset class within Intangible assets and amortised on a systematic basis according to the average expected life of contracts with customers that are associated with such costs. The amortisation period is between two and four years. The Company has elected to apply the amortisation period to a portfolio of contracts with similar characteristics as the Company expects that the effect on the financial statements is not materially different from applying it to the individual contracts.

C PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and depreciated on a straight-line basis over the estimated operational lives of the assets. Property, plant and equipment includes capitalised employee costs and other directly attributable costs. Reviews of the estimated remaining lives and residual values of property, plant and equipment are undertaken annually. Residual values are assessed based on prices prevailing at each reporting date.

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

	Years
Smart meters and measuring devices	10
Other facilities	10
Other items of property, plant and equipment	4 - 50

D LEASED ASSETS

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

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

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

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

D1 LESSEE

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

The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date over the shorter of the useful life of the underlying asset and the lease term. The right-of-use asset is reduced by any impairment

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND PRINCIPAL ACCOUNTING POLICIES *continued*
losses and adjusted for certain remeasurements of the lease liability. The Company presents Right-of-use assets within Non-current assets in the Statement of financial position and the deprecation charge is recorded within Depreciation, amortisation and provisions in the Income statement.

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

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

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

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

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

F FINANCIAL INSTRUMENTS
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

F1 FINANCIAL ASSETS
F1.1 CLASSIFICATION
Financial assets are classified as being measured at amortised cost. The classification of financial assets depends on the Company's business model for managing them to generate cash flows.

The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The business model of the Company does not depend on the intentions of management for an individual instrument. Therefore, it is not an instrument-by-instrument classification approach but determined from a higher level of aggregation.

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

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the 'SPPI' test.

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

F1.2 RECOGNITION AND MEASUREMENT

(a) Initial recognition and measurement

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

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

(b) Subsequent measurement and gains and losses

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

(c) Derecognition

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

(d) Impairment of financial assets

(i) Measurement of ECLs

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

In applying the simplified model, loss allowances for trade receivables are measured at an amount equal to lifetime ECL. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for, where possible, forward-looking factors specific to the debtors and the economic environment in which they operate (refer to Note 2).

ECLs are calculated based upon a provision matrix approach that reflects the risk inherent in different payment plans, the differences in collection rates between debt attributable to current or lost (final) customers and the greater challenge in collecting older debt balances. For I&C customers, the ECL is based on external credit scoring. The Company's Credit Risk and Corporate Risk teams remain vigilant in tracking any liquidity issues on existing customers to identify any pre-emptive actions required, including putting collateral or letters of credit in place.

Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and those the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

ECLs for all other financial assets are recognised using the general model which works as follows:
for credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses resulting from default events that are considered possible within the shorter of the next twelve months and the life of the financial asset (a twelve-month ECL); and

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

- for credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

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

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

The Company has different definitions of default (risk of non-payment) for different groups of customers and receivables. For some groups it is based upon the number of days past due and for others it is when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amount in full (before taking into account any credit enhancements held by the Company). These varying definitions of default are inherent in the loss allowances applied in both the simplified and general ECL models.

(ii) Credit-impaired financial assets

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

F2 FINANCIAL LIABILITIES

F2.1 CLASSIFICATION

Financial liabilities are classified as measured at amortised cost.

F2.2 RECOGNITION AND MEASUREMENT

(a) Initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of payables, net of directly attributable transaction costs.

(b) Subsequent measurement and gains and losses

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

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

(c) Derecognition

The Company derecognises a financial liability when the obligation under that liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the original liability is derecognised and a new liability recognised. The difference in their respective carrying amounts is recognised in the Income statement.

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

F2.3 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

F3 FAIR VALUATION OF FINANCIAL INSTRUMENTS

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

G RENEWABLES OBLIGATION CERTIFICATES

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

The Company recognises liabilities in respect of its obligations to deliver ROCs at the value at which they were initially recorded on the Statement of financial position. Any estimated shortfall in the liability is calculated based on the relevant buyout price at the reporting date. ROCs surrendered to meet the RO utilises the related provision and is a non-cash movement.

H ONEROUS CONTRACTS

An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relates directly to the contract. Until 31 December 2021, this was considered to be the incremental costs of fulfilling that contract and a provision recognised for any onerous contracts identified to the present value of the obligations under them. Following the implementation of the Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract' on 1 January 2022 (refer to Note 1C(a)), the cost of fulfilling a contract comprises both the incremental costs of and also an allocation of other costs that directly relate to fulfilling that contract. The assessment of contracts to determine if they are onerous or not, is subject to a degree of judgement.

In the prior year, certain contracts, in particular those with domestic retail customers defaulting on to the standard variable tariff, were assessed to consider if the costs to supply these customers exceeded the price cap level. The net cost of continuing with the contracts was considered after taking into account revenues directly related to the contracts. Judgement was applied to assess the future revenues, incremental costs (including the cost of energy committed where relevant) and the expected customer life (i.e. the contract period). As at 31 December 2021, these contracts were not considered to be onerous thus no provision was recognised. However, upon application of the Amendment to IAS 37, and taking into consideration both the incremental costs and other costs directly related to fulfilling these contracts, these contracts were deemed to be onerous. Therefore, a £60.0 million provision was recognised at 1 January 2022, which has been fully utilised in the current year. At 31 December 2022, these contracts are no longer considered onerous as the economic benefits expected to be received from them now exceed the unavoidable costs of meeting the obligations under the contracts. This is partly due to the changes that have been made to the Ofgem price cap mechanism and the government support schemes that have been put in place during 2022.

I REVENUE

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

(a) Supply of electricity and gas

The Company's performance obligations are the supply of electricity and/or gas to customers. Both these performance obligations are satisfied over time as the customer simultaneously receives and consumes the benefits of the Company's performance as it supplies electricity and gas. The Company has a right to consideration in an amount that corresponds directly with the value to the customer of the Company's performance to date. Therefore, in line with IFRS 15, revenue is

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

recognised in the amount to which the Company has a right to invoice based on the volume of units supplied during the year and the tariff agreed with the customer. Effective 1 October 2022, the Company is participating in the EPG and EBRS schemes which are designed to support energy customers in GB through the current cost of living crisis. The EPG scheme (which runs until 31 March 2024) requires suppliers to charge a reduced tariff to domestic customers. The EBRS scheme (which runs until 31 March 2023) requires suppliers to apply a discount to the bills of non-domestic customers. Therefore, following the implementation of these schemes, the revenue recognised from 1 October 2022 (and for the duration of these schemes) is, in line with IFRS 15, based on the volume of units supplied to customers and the reduced or discounted tariff as determined by the scheme rules.

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

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

Government support will be received by the Company to fund the EPG and EBRS schemes. Government grants are assistance by government in the form of transfers of resources in return for past or future compliance with certain conditions relating to the operating activities of the entity. Such grants are recognised in the Income statement on a systematic basis over the periods in which the costs for which the grants are intended to compensate are expensed; where the income receivable is compensation for expenses or losses already incurred, the grant income is recognised in the Income statement in the period in which it becomes receivable. Both schemes are considered to be a government grant with the income received being recognised in line with the energy consumption by each eligible customer throughout the scheme periods. The income recognised in line with IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' ("IAS 20") is recorded in Revenue – Revenue received from government support schemes in the Income statement as the funding is support for lost customer revenue. There is no difference in the timing of the recognition of this revenue under IAS 20 compared to under IFRS 15 had the schemes not be in place. As the grant funding is paid in arrears, the amounts due from the UK Government will be accrued within Other receivables – Receivables in respect of government support schemes on the Statement of financial position until paid.

(b) Other revenues

Other revenues, comprises various revenue streams which are all individually immaterial, including revenues in relation to the Smart Solutions business. For each revenue stream, revenue is recognised based on the consideration specified in the relevant contract with the customers, to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur in the future. As relevant for each revenue stream, and in line with the performance obligations in each contract, the Company recognises revenue either at a specific point in time or over a period of time based on when control is transferred to the customer.

J PROCUREMENTS

Procurements principally comprises the cost of electricity and gas purchased in relation to energy supply, and related direct costs and services for the of use of the energy network. Costs are recorded on an accruals basis.

K OTHER OPERATING RESULTS

Other operating results is principally comprised of recharges of company activities to other Iberdrola Group companies.

L FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the spot rate at the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date, with exchange gains and losses recognised in Finance income and costs in the Income statement.

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

M RETIREMENT BENEFITS

ScottishPower operates two defined benefit schemes and one defined contribution retirement benefit scheme in the UK.

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

N TAXATION

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

Deferred tax is the tax expected to be payable, or recoverable, on the difference between the carrying amounts of assets and liabilities in the Statement of financial position and the corresponding tax bases used in the computation of taxable profits (temporary differences) and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, unused tax losses or credits can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the period in which the liability is expected to be settled, or the asset realised, based on tax rates and laws enacted, or substantively enacted, at the reporting date. Deferred tax is charged to the Income statement, except where it relates to items charged or credited to equity (via the Statement of comprehensive income), in which case the deferred tax is also recognised in equity and is shown in the Statement of comprehensive income.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or shown in the Statement of comprehensive income.

O GOVERNMENT SUPPORT SCHEMES (ENERGY BILL SUPPORT SCHEME)

The Company is participating in the EBSS which is designed to support energy customers in GB through the current cost of living crisis, running alongside the EPG and EBRS schemes discussed at Note 2I(a). The EBSS was effective from 25 September 2022 and requires suppliers to provide £400 to domestic electricity customers between October 2022 and March 2023. The Company generally received funding from the UK Government in advance of the payments being made to customers. The funds are recorded as Other payables – Payables in respect of government support schemes until the customer payments are made. Income is recognised as Revenue – Revenue received from government support schemes in the Income statement upon making the customer payment. In line with IFRS 15, the consideration payable to the customer is recorded as a reduction to Revenue. Where customer payments have been made in advance of the government funding being received, the costs are recorded as prepaid scheme obligation costs. The Company is restricted in how it can use the cash received from the UK Government and held in a ring-fenced bank account in relation to the EBSS. The restricted cash balance in relation to the government support schemes at 31 December 2022 equated to £3.2 million. The restrictions do not change the nature of the assets, only the purpose for which they can be used, thus the funds should be considered as a component of Cash equivalents.

3 INTANGIBLE ASSETS

Year ended 31 December 2022	Note	Computer software (Notes (a), (b)) £m	Customer contract costs £m	Total £m
Cost:				
At 1 January 2022		316.5	248.2	564.7
Additions	(c)	10.6	21.8	32.4
Disposals		(0.7)	(56.0)	(56.7)
At 31 December 2022		**326.4**	**214.0**	**540.4**
Amortisation:				
At 1 January 2022		272.0	113.8	385.8
Amortisation for the year		29.2	66.9	96.1
Disposals		(0.7)	(56.0)	(56.7)
At 31 December 2022		**300.5**	**124.7**	**425.2**
Net book value:				
At 31 December 2022		**25.9**	**89.3**	**115.2**
At 1 January 2022		44.5	134.4	178.9

(a) The cost of fully amortised computer software still in use at 31 December 2022 was £278.9 million (2021 £7.2 million). During 2022, the customer relationship management system, with a cost of £214.0 million became fully amortised.

(b) Included in the net book value of computer software is £3.2 million (2021 £16.2 million) for an asset relating to system upgrades for smart metering which has less than one year of amortisation remaining. In 2021, there was also £2.8 million relating to the customer relationship management system which had less than one year of remaining amortisation.

(c) Included within Computer software additions is £1.1 million (2021 £1.3 million) from internal development.

4 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment in use

Year ended 31 December 2022	Smart meters and measuring devices £m	Other facilities (Note (i)) £m	Other items of property, plant and equipment (Note (ii)) £m	Total £m
Cost:				
At 1 January 2022	14.2	197.0	24.1	235.3
Additions	0.2	6.4	0.4	7.0
Disposals	(3.6)	-	(1.2)	(4.8)
At 31 December 2022	**10.8**	**203.4**	**23.3**	**237.5**
Depreciation:				
At 1 January 2022	11.7	60.9	11.5	84.1
Charge for the year	1.0	14.7	0.9	16.6
Disposals	(3.6)	-	(1.2)	(4.8)
At 31 December 2022	**9.1**	**75.6**	**11.2**	**95.9**
Net book value:				
At 31 December 2022	**1.7**	**127.8**	**12.1**	**141.6**
At 1 January 2022	2.5	136.1	12.6	151.2

(i) Other facilities comprises smart meter infrastructure assets.

(ii) Other items of property, plant and equipment principally comprises land and buildings, and IT equipment.

(iii) The cost of fully depreciated property, plant and equipment still in use at 31 December 2022 was £13.8 million (2021 £11.3 million).

(iv) Included within the cost of property, plant and equipment at 31 December 2022 are assets in use not subject to depreciation, being land, of £0.2 million (2021 £0.2 million).

(b) Capital commitments

The Company had £2.0 million (2021 £0.8 million) of capital commitments at 31 December 2022 expected to be settled within one year in both the current and prior year.

5 LEASES

(a) Lessee

The Company leases buildings and vehicles. Information about leases for which the Company is a lessee is presented below.

(i) Nature of leases

Buildings

The Company leases buildings primarily for office space. The leases have terms of between 20 and 23 years. Certain leases have options to terminate subject to a notice period typically of up to one month.

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

Vehicles

The Company leases vehicles with lease terms of four years, primarily being pool vehicles to mobilise its operational staff. Certain agreements can be terminated without notice.

Other information

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

(ii) Right-of-use assets

Year ended 31 December 2021	Note	Buildings £m	Vehicles £m	Total £m
Cost:				
At 1 January 2021		0.3	0.6	0.9
Additions		-	0.1	0.1
Adjustments for changes in liabilities	(a)	0.1	-	0.1
At 31 December 2021		0.4	0.7	1.1
Depreciation:				
At 1 January 2021		0.2	0.2	0.4
Charge for the year		0.1	0.2	0.3
At 31 December 2021		0.3	0.4	0.7
Net book value:				
At 31 December 2021		0.1	0.3	0.4
At 1 January 2021		0.1	0.4	0.5

Year ended 31 December 2022	Note	Buildings £m	Vehicles £m	Total £m
Cost:				
At 1 January 2022		0.4	0.7	1.1
Adjustments for changes in liabilities	(a)	0.1	-	0.1
At 31 December 2022		**0.5**	**0.7**	**1.2**
Depreciation:				
At 1 January 2022		0.3	0.4	0.7
Charge for the year		0.2	0.2	0.4
At 31 December 2022		**0.5**	**0.6**	**1.1**
Net book value:				
At 31 December 2022		**-**	**0.1**	**0.1**
At 1 January 2022		0.1	0.3	0.4

(a) Adjustments for changes in liabilities are movements in the right-of-use asset resulting from remeasurement of the associated lease liability to reflect changes to the lease payments due to any reassessment or lease modifications.

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

5 LEASES ***continued***

(iii) Lease liabilities

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

	2022 £m	2021 £m
Less than one year	0.1	0.3
One to five years	-	0.1
Total undiscounted lease liabilities at 31 December	**0.1**	0.4
Analysis of total lease liabilities		
Non-current	-	0.1
Current	0.1	0.3
Total	**0.1**	0.4

Details of ScottishPower's, and therefore the Company's, risk management strategy for liquidity risks inherent in its lease liability are described in the Financial instruments section of the Strategic Report.

(iv) Total cash outflow for leases

	2022 £m	2021 £m
Total cash outflow for leases	**(0.3)**	(0.4)

6 DEFERRED TAX

Deferred tax recognised in the Accounts is as follows:

	Notes	Property, plant and equipment £m	Trading losses £m	Other temporary differences £m	Total £m
At 1 January 2021		(5.6)	-	(0.4)	(6.0)
Credit to the Income statement	(a)	1.0	-	0.8	1.8
At 1 January 2022		(4.6)	-	0.4	(4.2)
Credit to the Income statement	(b)	1.0	18.9	0.8	20.7
At 31 December 2022		**(3.6)**	**18.9**	**1.2**	**16.5**

(a) Legislation was enacted on 10 June 2021 under the Finance Act 2021 that will increase the UK Corporation Tax rate to 25% from 1 April 2023. Accordingly, the deferred tax balances at 1 January 2021 were increased by £0.5 million to reflect the rate that the temporary differences are expected to reverse at.

(b) Deferred tax assets have been recognised in respect of income tax losses as it has been assessed that it is probable that these losses will be utilised against future taxable profits, which are expected to arise in future years. This includes deferred tax assets in respect of the past trading losses given the expected improved profitability of the business.

(c) Deferred tax assets, recognised in respect of trading losses, are expected to be recovered within the next two years based on the current forecast profitability of the Company. The forecasts used in assessing deferred tax asset recoverability are consistent with those used for the Company's impairment and going concern assessments.

(d) At 31 December 2022, the Company had unutilised capital losses of £15.1 million (2021 £15.1 million). No deferred tax asset was recognised in either year due to the unpredictability of suitable future profit streams against which these losses may be utilised.

7 TRADE AND OTHER RECEIVABLES

	Notes	2022 £m	2021 £m
Current receivables:			
Receivables due from Iberdrola Group companies - trade		6.7	2.8
Receivables due from Iberdrola Group companies - loans	(a)	570.1	138.7
Receivables due from Iberdrola Group companies - other	(b)	15.0	15.0
Receivables due from Iberdrola Group companies - interest		0.2	-
Trade receivables and accrued income	(c)	995.6	665.9
Prepayments		1.1	1.3
Receivables in respect of government support schemes	(d)	122.0	-
Other receivables	(b)	25.3	25.9
	(e)	1,736.0	849.6
Non-current receivables:			
Trade receivables and accrued income		-	2.9
Prepayments		-	0.1
Other receivables		9.2	16.9
		9.2	19.9

(a) Current loans due from Iberdrola Group companies are receivable on demand with interest linked to the Bank of England base rate ("Base").

(b) The Company utilises forms of collateral, externally and internally with ScottishPower companies, to manage its credit exposure in respect of the provision of network services. All collateral posted is settled in cash. At 31 December 2022, the Company posted cash collateral of £38.1 million (2021 £32.2 million) and posted letters of credit of £15.7 million (2021 £29.8 million).

(c) Included within the gross carrying amount of trade receivables is £1,134.9 million (2021 £783.1 million) that relates to billed receivables due from energy supply customers. The loss allowance in relation to these billed receivables is £261.7 million (2021 £202.6 million). The actual level of billed receivables collected may differ from the estimated levels of recovery, which could impact operating profit positively or negatively. At 31 December 2022, the loss allowance for billed receivables of £261.7 million (2021 £202.6 million) was supported by a projection based on a 36-month cash collection performance. Based on the weighted average expected loss rates, a 5% increase in the overall expected loss rate would increase the loss allowance by £56.7 million (2021 £39.2 million). A 5% decrease would decrease the loss allowance by £56.7 million (2021 £39.2 million). Given the three year average movement in the loss allowance percentage and recognising the ongoing risk in customers' ability to pay due to the cost of living crisis, a 5% loss allowance sensitivity is considered appropriate.

(d) At 31 December 2022, the Company had receivables due from the UK Government for £52.5 million and £60.7 million relating to the EPG and EBRS schemes respectively. This balance also includes £8.8 million of prepaid EBSS obligation costs relating to payments made to certain customers in advance of the year end.

(e) The following table provides information about IFRS 15 contract balances included within Trade and other receivables.

	2022 £m	2021 £m
Receivables	973.7	650.8

£82.1 million (2021 £89.2 million) of impairment losses were recognised during the year on receivables arising from the Company's contracts with customers.

8 INVENTORIES

	Notes	2022 £m	2021 £m
ROCs	(a)	256.8	190.2
Other inventories		0.6	0.2
	(b)	257.4	190.4

(a) ROCs surrendered in the year are used to settle the provision for the Renewables Obligation. Refer to Note 2G and Note 11.

(b) Inventories with a value of £426.6 million (2021 £428.4 million) were recognised as an expense in the year.

9 SHARE CAPITAL

	2022 £m	2021 £m
Allotted, called up and fully paid shares:		
55,407,000 ordinary shares of £1 each (2021 55,407,000)	55.4	55.4

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

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

	Share capital £m	Hedge reserve (Note (a)) £m	Retained earnings / (losses) (Note (b)) £m	Total £m
At 1 January 2021	55.4	-	12.0	67.4
Loss for the year attributable to equity holder of the Company	-	-	(249.1)	(249.1)
Changes in the value of cash flow hedges	-	(0.1)	-	(0.1)
At 31 December 2021	55.4	(0.1)	(237.1)	(181.8)
Adjustments due to impact of IAS 37 amendments (refer to Note 1C(a))	-	-	(48.6)	(48.6)
Adjusted balance at 1 January 2022	55.4	(0.1)	(285.7)	(230.4)
Loss for the year attributable to equity holder of the Company	-	-	(258.1)	(258.1)
Changes in the value of cash flow hedges	-	0.1	-	0.1
At 31 December 2022	**55.4**	**-**	**(543.8)**	**(488.4)**

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

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

11 PROVISIONS

Year ended 31 December 2021	Notes	At 1 January 2021 £m	New provisions £m	Utilised during year £m	At 31 December 2021 £m
Reorganisation and restructuring	(a)	0.7	4.8	(0.7)	4.8
Renewables Obligation	(b)	291.9	458.7	(405.9)	344.7
Other	(c)	1.0	0.4	-	1.4
		293.6	463.9	(406.6)	350.9

Year ended 31 December 2022	Notes	At 31 December 2021 £m	Adjustment due to IAS 37 £m	Adjusted balance at 1 January 2022 £m	New provisions £m	Utilised during year £m	Released during year £m	At 31 December 2022 £m
Reorganisation and restructuring	(a)	4.8	-	4.8	5.3	(5.8)	(1.5)	**2.8**
Renewables Obligation	(b)	344.7	-	344.7	434.1	(452.1)	-	**326.7**
Onerous contracts	(d)	-	60.0	60.0	-	(60.0)	-	**-**
Other	(c)	1.4	-	1.4	-	-	-	**1.4**
		350.9	60.0	410.9	439.4	(517.9)	(1.5)	**330.9**

Analysis of total provisions	2022 £m	2021 £m
Non-current	**4.1**	15.2
Current	**326.8**	335.7
	330.9	350.9

(a) The opening 2021 provision related to a restructuring programme launched in 2019. That provision was fully utilised in 2021. A further provision was created in 2021 in respect of a new restructuring programme launched in that year. During 2022, this restructuring provision was increased to reflect various factors impacting upon operational performance and overall future profitability of the Company. The majority of the provision was utilised or released in the year. The remaining balance of this provision is expected to be utilised in 2023.

(b) The provision for Renewables Obligation at 31 December 2022 principally represents the value of ROCs for 2022 expected to be delivered in 2023 and 2024. The utilisation of £452.1 million in the year represents the ROCs surrendered to meet the annual RO. The provision is not discounted. Refer to Note 2G for the accounting policy.

(c) Other includes a £0.7 million (2021 £0.7 million) provision for interest in relation to an ongoing investigation into a tax dispute and includes a provision for £0.5 million (2021 £0.4 million) in respect of legal fees. Both provisions are expected to be utilised in 2023. The remaining provisions are not individually material to warrant separate disclosure and are expected to be utilised in 2023.

(d) Amendments to IAS 37 was effective for the Company from 1 January 2022. The impact of these amendments at 1 January 2022 was the recognition of a provision for £60.0 million, relating to onerous contracts, which was fully utilised by 31 December 2022 (refer to Note 1C(a)). At 31 December 2022, these contracts are no longer onerous as the economic benefits expected to be received from them now exceed the unavoidable costs of meeting the obligations under the contracts. This is partly due to the changes that have taken place to the Ofgem price cap mechanism.

12 TRADE AND OTHER PAYABLES

	Notes	2022 £m	2021 £m
Current trade and other payables:			
Payables due to Iberdrola Group companies - trade		**1,548.0**	915.6
Trade payables		**170.2**	152.1
Other taxes and social security		**112.3**	62.6
Payments received on account		**0.5**	2.6
Capital payables and accruals		**23.2**	32.7
Payables in respect of government support schemes	(a)	**174.1**	-
Other payables	(b)	**469.6**	112.6
	(c)	**2,497.9**	1,278.2
Non-current other payables:			
Other payables		**1.0**	0.9
	(c)	**1.0**	0.9

(a) This balance primarily reflects funds received from the UK Government in relation to the EBSS which have not yet been paid to customers.

(b) Other payables is primarily comprised of customer credits totalling £459.8 million (2021 £102.5 million). Customer credits have increased as a result of higher commodity costs flowing through to customer bills. It also includes collateral. The Company utilises forms of external collateral to manage its credit exposure in respect of business customer accounts. All collateral held is settled in cash. At 31 December 2022, the Company held cash collateral of £3.9 million (2021 £3.9 million) and letters of credit held of £5.3 million (2021 £4.2 million). The remaining balance is not individually material to warrant separate disclosure.

(c) The following table provides information about IFRS 15 contract liabilities included within Trade and other payables.

	2022 £m	2021 £m
Contract liabilites	**634.4**	102.5

Contract liabilities consists of direct debit customer payments that are in excess of the associated units of energy delivered and final customer credits. The amount of contract liabilities recognised as income in the year is £85.4 million (2021 £58.2 million).

13 LOANS AND BORROWINGS

Instrument	2022 £m	2021 £m
Accrued interest due to Iberdrola Group companies	-	0.2

Interest is linked to Base.

14 REVENUE

Disaggregation of revenue

	Notes	2022 £m	2021 £m
Supply of electricity	(a)	**4,234.8**	3,007.8
Supply of gas	(a)	**1,511.8**	995.1
Revenue received from government support schemes	(b)	**591.5**	-
Other		**8.3**	6.5
		6,346.4	**4,009.4**

(a) As explained in Note 2I(a), Revenue from the supply of electricity and gas includes an estimate of the units supplied to customers between the date of their last meter reading and the year end. The estimated value of energy delivered to customers is included within billed revenue (where an estimated reading is included within an issued invoice) and unbilled revenue (where no invoice has been issued). Gross unbilled revenue included within the Statement of financial position at 31 December 2022 amounts to £1,263.7 million (2021 £655.6 million). This is before applying customer credit balances of £1,124.7 million (2021 £526.5 million), a £28.0 million (2021 £21.3 million) provision in respect of ECLs and a £20.9 million (2021 £30.2 million) provision in relation to energy volumes which have still to reach final settlement. This results in a net unbilled position at 31 December 2022 of £90.1 million (2021 £77.6 million), which relates primarily to energy delivered in the final months of the year.

Had actual consumption been 4.0% higher or lower than the estimate of units supplied (the average variance based on recent historical analysis), this would have resulted in revenue recognised for unbilled amounts being £51.4 million higher and lower respectively. The value assigned to this volume sensitivity is based on a weighted average price per unit derived from the billing systems. Approximately 93% of unbilled revenue relates to the most recent quarter where there is a higher level of estimation uncertainty.

(b) Revenue received for the year ended 31 December 2022 in respect of the EPG and EBRS schemes (accounted for as government grants) was £513.6 million and £77.9 million respectively. Revenue received in relation to the EBSS scheme (accounted for under IFRS 15) was £498.5 million offset by an equal amount being the consideration paid to customers.

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

15 EMPLOYEE INFORMATION

(a) Staff costs

	Note	2022 £m	2021 £m
Wages and salaries		51.9	55.7
Social security costs		5.6	5.6
Pension and other costs	(i)	15.1	30.3
Total staff costs		**72.6**	91.6
Less: capitalised staff costs		(1.1)	(1.3)
Charged to the Income statement		**71.5**	90.3

(i) Pension and other costs in 2022 include a credit of £0.9 million for a restructuring programme (2021 £11.2 million costs).

(b) Employee numbers

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

	Average 2022	Average 2021
Administrative staff	**635**	677
Operations	**522**	587
Total	**1,157**	1,264

(c) Retirement benefits

The Company's contributions payable in the year were £15.2 million (2021 £17.8 million). The Company contributes to ScottishPower's defined benefit and defined contribution schemes in the UK and the contributions payable in the year reflect the contributions payable in respect of active participants in the group schemes who are employed by the Company. Full details of these schemes are provided in the most recent Annual Report and Accounts of SPUK, the intermediate holding company and the sponsoring company of the retirement benefit schemes. As at 31 December 2022, the surplus in ScottishPower's defined benefit schemes in the UK amounted to £240.0 million (2021 £192.2 million). The employer contribution rate for these schemes in the year ended 31 December 2022 was 52.9-53.4%.

16 TAXES OTHER THAN INCOME TAX

	2022 £m	2021 £m
Other taxes	**77.8**	110.7

Other taxes mainly comprises obligations specific to the energy industry, principally ECO and WHD.

17 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2022 £m	2021 £m
Property, plant and equipment depreciation charge	**16.6**	15.4
Right-of-use asset depreciation charge	**0.4**	0.3
Intangible asset amortisation charge	**96.1**	101.4
	113.1	117.1

18 FINANCE INCOME

	2022 £m	2021 £m
Interest receivable from Iberdrola Group companies	**0.4**	0.2
Foreign exchange gains	**0.1**	0.2
	0.5	0.4

19 FINANCE COSTS

	2022 £m	2021 £m
Interest on amounts due to Iberdrola Group companies	-	0.3
Foreign exchange losses	**0.2**	0.1
	0.2	0.4

20 INCOME TAX

	2022 £m	2021 £m
Current tax:		
UK Corporation Tax credit on losses for the year	**(46.4)**	(55.4)
Adjustments in respect of prior years	**2.4**	0.9
Current tax for the year	**(44.0)**	(54.5)
Deferred tax:		
Origination and reversal of temporary differences	**(14.7)**	(2.5)
Adjustments in respect of prior years	**(2.6)**	0.2
Impact of tax rate change on opening deferred tax balance	-	0.5
Impact of tax rate change on current year charge	**(3.4)**	-
Deferred tax for the year	**(20.7)**	(1.8)
Income tax credit for the year	**(64.7)**	(56.3)

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

	2022 £m	2021 £m
Corporation Tax at 19% (2021 19%)	**(61.3)**	(58.0)
Adjustments in respect of prior years	**(0.2)**	1.1
Impact of tax rate change on opening deferred tax balance	-	0.5
Impact of tax rate change on current year charge	**(3.4)**	0.1
Non-deductible expenses and other permanent differences	**0.2**	-
Income tax credit for the year	**(64.7)**	(56.3)

Legislation was enacted on 10 June 2021 under the Finance Act 2021 that will increase the UK Corporation Tax rate to 25% from 1 April 2023. Accordingly, deferred tax balances at 1 January 2021 increased by £0.5 million reflecting the rate that the temporary differences are expected to reverse at.

21 FINANCIAL COMMITMENTS

2022	2023 £m	2024 £m	2025 £m	2026 £m	2027 £m	2028 and thereafter £m	Total £m
Contractual commitments	30.8	0.4	-	-	-	-	**31.2**

2021	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 and thereafter £m	Total £m
Contractual commitments	19.7	0.4	0.2	-	-	-	20.3

22 RELATED PARTY TRANSACTIONS

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

	2022 Other Iberdrola Group companies £m	2021 Other Iberdrola Group companies £m
Types of transaction		
Sales and rendering of services	**0.5**	0.2
Purchases and receipt of services	**(468.8)**	(320.0)
Balances outstanding		
Trade and other receivables	**0.5**	0.3
Trade and other payables	**(50.6)**	(79.0)

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

(b) Directors' remuneration

The remuneration of the directors that provided qualifying services to the Company is shown below. As these directors are remunerated for their work for the group headed by SPRH, it has not been possible to apportion the remuneration specifically in respect of services to this company. Both (2021 both) of the directors who served during the year were remunerated directly by the Company.

	2022 £000	2021 £000
Aggregate remuneration in respect of qualifying services	**559**	630
Number of directors who exercised share options	**2**	2
Number of directors who received shares under a long-term incentive scheme	**2**	2
Number of directors accruing retirement benefits under a defined benefit scheme	**2**	2

Highest paid director	2022 £000	2022 £000
Aggregate remuneration	**388**	441
Accrued pension benefit	**77**	65

(i) The highest paid director received shares under a long-term incentive scheme during both years.
(ii) The highest paid director exercised share options in both years.

c) Immediate and ultimate parent company

The immediate parent company is SPRH. Copies of the accounts of SPRH may be obtained from its registered office at 320 St Vincent Street, Glasgow, Scotland, G2 5AD.

The directors regard Iberdrola, S.A. (incorporated in Spain) as the ultimate parent company, which is also the parent company of the largest group in which the results of the Company are consolidated. The parent company of the smallest group in which the results of the Company are consolidated is SPUK.

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

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

23 AUDITOR'S REMUNERATION

	2022 £m	2021 £m
Audit of the Annual accounts	**0.6**	0.5