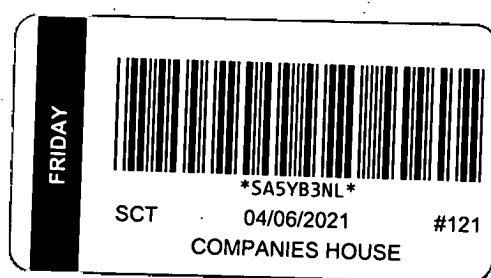


SCOTTISHPOWER ENERGY RETAIL LIMITED
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2020

Registered No. SC190287



SCOTTISHPOWER ENERGY RETAIL LIMITED
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2020

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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 2020. This includes an overview of the Company's structure, strategic outlook including 2020 performance, and principal risks and uncertainties.

STRATEGIC OUTLOOK

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, 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 the Smart Solutions activities of the Scottish Power Limited Group ("ScottishPower").

The Company is part of ScottishPower's Energy Retail business ("Energy Retail"). During 2020, an average of 4.65 million gas and electricity customers were supplied by Energy Retail. As at 31 December 2020, Energy Retail supplied 4.74 million gas and electricity customers.

The ultimate parent of the company is Iberdrola, S.A. ("Iberdrola") which is listed on the Madrid stock exchange and 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, of which the Company is a member.

During 2020, ScottishPower expanded its offerings to create a hydrogen department within the Company. This is a pioneering partnership that works with businesses to seek appropriate green hydrogen solutions. This new department fully supports the large-scale transformation to replace heavy diesel vehicles with cleaner, greener alternatives. This drive towards green economic recovery helps support the UK's efforts to achieve 'net zero' by 2050.

In the following sections, references to Energy Retail apply fully to the Company.

COVID-19

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, due to its rapid spread throughout the world. In common with many governments, the UK and devolved Governments put in place restrictive measures to contain the spread of the virus. These have been in place to various extents since March 2020 and are expected to endure in some form during 2021 and perhaps 2022.

The supply of electricity and gas to customers is an essential service and Energy Retail understands the challenges its customers may have faced, and continue to face, during this time, particularly the elderly and vulnerable, including those with underlying health conditions and households and businesses struggling to pay for energy due to loss of income.

Energy Retail has engaged regularly with the Department for Business, Energy and Industrial Strategy ("BEIS") and The Office of Gas and Electricity Markets ("Ofgem") since the initial lockdown period to demonstrate its quick action to ensure its customers can access the advice and support they need while also ensuring the safety of its staff, at all times taking account of the latest UK and local government advice.

Energy Retail's actions have included:

- implementing additional support measures at appropriate points throughout the pandemic for those customers impacted financially, or through the need to self-isolate. This included offering payment holidays, reduced Direct Debit ("DD") payment amounts, advanced credits for prepayment customers, and the pausing of debt follow up activity; and
- proactively contacting customers to provide guidance and signposting to support measures available.

Throughout the pandemic, Energy Retail has, and continues to, adjust its customer facing and operational activities to ensure Energy Retail can deliver the service and support customers require as circumstances change under the evolving national and local restrictions and associated government advice.

The specific risks presented by COVID-19 are considered as part of the 'Principal Risks and Uncertainties' section of the Strategic Report. Whilst acknowledging the risks faced by the Company, COVID-19 is not deemed to impact the conclusions that the Company will continue as a going concern.

SCOTTISHPOWER ENERGY RETAIL LIMITED

STRATEGIC REPORT *continued*

STRATEGIC OUTLOOK *continued*

Operating review

2020 continued to be a challenging year for Energy Retail with the ongoing presence of the cap on default tariff prices, the challenges from lower-cost new entrant suppliers, and the impact of the COVID-19 pandemic. Energy Retail's teams have worked hard to position the business positively with customers, government and Ofgem to mitigate the impact of current circumstances on the business and its customers, while seeking to influence the future market to benefit them. Refer to the 'Engaging with Stakeholders' section on page 11 for further detail on how Energy Retail has supported its most vulnerable customers.

Following the acquisition of SSE Energy Services by OVO in 2019, entrant suppliers now account for 44% of the domestic market share, up from around 27% in 2018. Customer switching figures at an industry level for 2020 were down 6.5% versus 2019 according to the latest Energy UK figures (published January 2021). This is largely as a result of COVID-19 which has impacted certain sales channels such as face-to-face sales. Aggressive pricing strategies continue to be deployed by both large and small suppliers, particularly in the more price-sensitive broker channel.

Ofgem implemented the price cap required by the Domestic Gas and Electricity (Tariff Cap) Act on 1 January 2019, which limits the rates charged for the supply of gas and electricity to domestic customers on default tariffs. This is extendable on an annual basis until 2023, and the Secretary of State confirmed, after the first assessment was undertaken and advised by Ofgem, that the current price cap will be extended at least until the end of 2021. The initial cap period (1 January to 31 March 2019) was set at £1,104 for dual fuel customers with typical consumption paying by DD, and £1,186 for those paying by standard credit ('SC'). In November 2019, Centrica won a judicial review challenging Ofgem's methodology for the allowance under the cap for this period, and after consultation, Ofgem implemented an adjustment for the cap period 1 October 2020 to 31 March 2021 to recover the wholesale cost allowance under-recovered during the first cap period. From 1 October 2020, Ofgem took over responsibility for the prepayment price cap from the Competition and Markets Authority ('CMA'), with the cap for October 2020 to March 2021 being set at £1,070. The table below shows the prices for the charge restriction periods impacting on the 2020 results (on an equivalent consumption basis based on Ofgem Typical Domestic Consumption Values).

| Period commencing/payment plan | October 2019 | April 2020 | October 2020 |
|--------------------------------|-----------------|---------------|-----------------|
| Direct Debit | £1,143 | £1,126 | £1,042 |
| Standing Credit | £1,227 | £1,210 | £1,121 |
| Prepayment | £1,182 | £1,163 | £1,070 |

Ofgem has consulted, and continues to consult, on its approach to setting cap levels for future periods, including for the smart meter allowance (with changes having been put in place from October 2020) and for COVID-19-related costs (with changes being put in place from April 2021). Ofgem has announced that from 1 April 2021 the price cap level will increase, principally as a result of changes in wholesale prices. For six months from 1 April 2021, the price cap will increase to £1,138 for DD customers, and £1,223 for SC customers with the prepayment cap now set at £1,156.

While the new entrant market share has increased, Energy Retail are continuing to see a decline in the number of active domestic suppliers, with several small to medium suppliers either choosing to cease trading or, due to liquidity challenges, being forced to exit, and then being swept up into the regulatory Supplier of Last Resort ('SoLR') process. Energy Retail was named as SoLR for Tonik Energy's 130,000 domestic customers in October 2020 and for Yorkshire Energy's 74,000 customers in December 2020. Energy Retail will continue to assess future SoLR opportunities as they arise.

Energy Retail remains committed to the rollout of smart meters across its domestic and small and medium-sized enterprises ("SME") customer base. Energy Retail strongly supports the aims and objectives of the smart meter programme and believes that this investment in its infrastructure is critical to realising the smart energy future that it aspires to deliver for its customers, for its business, and to enable the UK to meet its legally binding target of net zero emissions by 2050.

Notwithstanding the challenges of COVID-19 in 2020, Energy Retail has made significant efforts and investments to support its smart meter rollout target thus far and demonstrable progress has been made, having installed approximately 1.7 million smart meters across Great Britain as at the end of December 2020 with 34.6% of retail customers now having a smart meter installed. SP Smart Meter Assets Limited ("SPSMAL"), a fellow ScottishPower company, purchases the smart meters on behalf of the Company. Energy Retail has an established network of installers across Great Britain, who provide a strong platform to further increase the deployment capability for the remainder of the rollout. In 2020, Energy Retail has been actively increasing its installer engineer capacity through this network of installers, as well as increasing the number of customers who are eligible for a smart meter.

SCOTTISHPOWER ENERGY RETAIL LIMITED

STRATEGIC REPORT *continued*

STRATEGIC OUTLOOK *continued*

Energy Retail will continue to work with the UK Government to reach an appropriate policy for post June 2021 which takes into account any COVID-19 impact, in order to enable a safe and successful conclusion to the smart metering implementation programme.

Ofgem opened an investigation into whether the Company breached rules around its obligations to install smart meters for domestic consumers in 2019. The opening of this investigation does not imply that Ofgem have made any findings about non-compliance by the Company. It will continue to work with Ofgem to bring this to a satisfactory conclusion.

Energy Retail's Smart Solutions business continues to progress, despite the COVID-19 challenges throughout the year, with a comprehensive range of products and services across Smart Services and Smart Mobility in the growing electric vehicle ("EV") market. Energy Retail's product range and price points offer a wide selection of options for new and existing customers, whether for Boiler Care, Appliance Care or Plumbing, Drains and Electrical products. Added to this choice is the continued improvement to service levels from Energy Retail's strategic delivery partners, such as Domestic & General and AXA, who maintained this service provision and have continued to make emergency home visits throughout the COVID-19 lockdown when Energy Retail's customers needed them the most – taking the appropriate protective and social distancing measures, and always adhering to government guidelines.

As the UK promotes the switch to cleaner, greener transport, Energy Retail's Smart Mobility product offering continues to grow, increasing the number of EV charging installations carried out in homes, workplaces and public charging sites. Energy Retail continues to offer an end-to-end package for EV owners through its partnership with major car retailer, Arnold Clark, enabling EV buyers to organise their EV charger installation at the point of purchasing their EV, and then also benefit from Energy Retail's 100% renewable electricity tariff. Energy Retail's strategic early move into the EV market supports the noticeable switch to EVs as businesses and car owners across the UK make the move to support a net zero environment.

Energy Retail values in action

During 2020, governments and Ofgem continued to focus strongly on the need for suppliers to deliver a positive consumer experience for all customer groups, recognising the need for suppliers to identify the particular needs of their customers, especially those in vulnerable circumstances. 2020 has seen a significant focus on this due to the additional challenges posed by COVID-19 on consumer finances, and Ofgem has continued to focus on delivering a market whereby all consumers get a consistent experience, regardless of supplier.

During 2020, Energy Retail has supported its customers through its normal activity to identify customers' individual needs and offer support where needed, and, in response to the COVID-19 pandemic, offering additional support options to respond to the unprecedented circumstances and ensure its most vulnerable customers are supported. Ofgem introduced additional protections for domestic consumers struggling to pay for their energy in December 2020, with a particular focus on prepayment customers who self-disconnect. In the most part, Energy Retail had already been applying these protections, and these changes bring a consistency of experience for all customers regardless of their supplier, by placing previously voluntary obligations on all suppliers.

Energy Retail wants to ensure that it is there for its customers whenever they need them. That is why, in addition to Energy Retail's ongoing expansion of digital services, the business is working hard to answer calls from its customers as quickly as possible. The improvements Energy Retail has made in this area were highlighted in a recent mystery shop investigation by the consumer champion 'Which?', to reveal how long it took customer service teams to answer. ScottishPower performed second best of the largest ten suppliers, with its customer service team answering calls in an average time of two minutes and 28 seconds. This compared with other suppliers who averaged over 20 minutes to answer calls.

Energy Retail continued to provide direct financial support to its customers through a number of schemes during 2020. Since its launch in 2015, the ScottishPower Hardship Fund has provided direct support of around £24.5 million in response to applications from around 20,000 customers, and around a further £19 million of automatic awards have been made. Energy Retail's Prepayment Voucher Scheme has provided support of around £250,000 to 5,500 customers since its launch in 2017. Energy Retail has also continued to provide Warm Home Discount Scheme ("WHD") payments to eligible customers and provide energy efficiency measures through the Energy Company Obligation.

While gas and electricity continues to be the core business, Energy Retail aims to deliver end-to-end solutions to meet the changing needs of consumers, recognising the significant changes the future will present to both consumers and energy suppliers. Energy Retail aims to deliver this through the provision of Smart Solutions to consumers alongside their energy, including EV charging, smart home devices, and boiler and appliance care. Energy Retail are committed to delivering for the customer of the future, and its expansion of services recognises the changing needs of its customers.

SCOTTISHPOWER ENERGY RETAIL LIMITED

STRATEGIC REPORT *continued*

STRATEGIC OUTLOOK *continued*

In addition to meeting consumer needs as the market evolves, these actions also act to support the decarbonisation of energy and the transition to net zero. In early 2020, Energy Retail introduced a range of domestic fixed-term tariffs which provide 100% green electricity, backed by ScottishPower's UK-based wind farms. This includes its tariffs linked to its energy service offerings – its EV and 'smart time of use' tariffs. Energy Retail offer these to its customers alongside other tariffs where the energy mix will come from a combination of generation sources (both renewable and otherwise). Energy Retail continues to focus on the delivery of smart services to support the transition to net zero, facilitated by the rollout of smart meters to as many customers as possible, including in 2020, those customers who pay in advance via a prepayment meter, which will support further smart services being offered to consumers.

ScottishPower, and so Energy Retail, now believes that the UK needs to focus harder on decarbonisation, to benefit both the economy and the consumer. ScottishPower believes Energy Retail can play a key role in supporting this, and in late 2020, a new hydrogen department was created along with an expanded Smart Solutions team to assess alternative heat sources.

2020 Performance

The tables below provide key financial and non-financial information relating to the Company's performance during the year.

| | Revenue* | | Operating loss* | | Capital investment** | |
|--------------------------------------|----------|---------|-----------------|--------|----------------------|-------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Financial key performance indicators | £m | £m | £m | £m | £m | £m |
| SP Energy Retail | 3,693.2 | 3,875.6 | (61.1) | (80.8) | 87.8 | 113.5 |

*Revenue and operating loss are presented on page 22.

**Capital investment for 2020 is presented within Notes 3 and 4 on pages 33 and 34.

Revenue reduced by £182.4 million to £3,693.2 million in 2020. Retail domestic revenues dropped mainly as a result of tariff reductions. Whilst COVID-19 led to increased domestic demand (principally electricity), this was more than offset by lower average customer numbers across the year. The more material COVID-19 revenue impact was in business revenues which fell by £126.0 million as demand reduced due to lockdown conditions.

Operating losses reduced by £19.7 million to £61.1 million in 2020. Excluding the COVID-19 impact, estimated as a loss of £65 million, there was an underlying improvement of £84.7 million compared to 2019.

The COVID-19 £65 million impact is explained as follows:

- Gross margin reduction of £29 million, mainly in business customers which was impacted by lower demand and from the adverse impact of reversing hedged positions at lower market prices, estimated at £10 million. Domestic demand increases were more than offset by higher non-energy procurement unitary costs.
- Operating costs, other taxes and depreciation were lower by £22 million as lockdown restrictions impacted activities such as meter readings, debt collection, sales and smart meter installations.
- The estimated COVID-19 expected credit losses ("ECLs") of £58 million reflects the impact of lower cash collection and business insolvencies as well as the additional cash collection risks associated with forward-looking macro-economic indicators; such as increased unemployment, the withdrawal of government support schemes and the risk of further lockdowns.

The non-COVID-19 improvement in operating losses is mainly attributable to lower energy costs as well as lower personnel costs reflecting reorganisation costs incurred in 2019.

Capital investment decreased by £25.7 million to £87.8 million reflecting reduced smart meter infrastructure investment and a fall in new customer contract costs due to COVID-19 restrictions.

SCOTTISHPOWER ENERGY RETAIL LIMITED

STRATEGIC REPORT *continued*

STRATEGIC OUTLOOK *continued*

| Non-financial key performance indicators | Notes | 2020 | 2019 |
|--|-------|--------|--------|
| Volume supplied (GWh)* | (a) | 41,955 | 43,907 |
| Complaints handling | (b) | 5th | 6th |
| Smart meters in portfolio | (c) | 34.6% | 31.6% |
| Customers (thousands) | (d) | | |
| - Electricity | | 2,777 | 2,856 |
| - Gas | | 1,870 | 1,904 |
| | | 4,647 | 4,760 |

*Gigawatt hours ("GWh")

- (a) Lower volumes in 2020 due to a decrease in business demand related to COVID-19, and lower average customer numbers.
- (b) Based on the Citizens Advice Domestic Energy Suppliers' Customer Service Report. Rankings reflect Energy Retail's position relative to the other 'Big Seven' Energy Companies. Energy Retail has continued to invest in its customer service teams with a key focus on improving its timely management and resolution of complaints, coupled with an overall focus on service quality across all of the advisors.
- (c) Percentage of relevant Energy Retail customer base with a smart meter. Energy Retail continues to make progress towards our smart meter rollout plan that has been submitted to Ofgem.
- (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. The reduction in the portfolio volume year-on-year can be attributed to a lower volume of direct sales activity as a result of COVID-19.

Outlook for 2021 and beyond

Market consolidation continues, with 47 active domestic suppliers at December 2020, down from 51 active suppliers at December 2019. Energy Retail expects this trend to continue over the coming months and years, based on a combination of regulatory and competitive pressures; which may present opportunities for well-placed suppliers to grow. The continued growth of EVs presents further opportunity due to the related increase in electricity demand that this will provide. Environmental considerations have become an increasingly important factor for consumers in relation to choosing their energy supplier, as evidenced by Ofgem's own recent research, and Energy Retail expect that to increase further moving forward. Energy Retail is well-placed to take advantage of this evolving consumer mindset following the launch of its new consumer proposition in Q1 2020, whereby all of its new domestic fixed price tariffs include 100% green electricity supplied by ScottishPower's own wind farms in the UK. This proposition sets ScottishPower apart from many suppliers in the industry who either do not generate their own renewable electricity or who simply buy renewable electricity certificates (and not the associated electricity) to 'greenwash' their tariff offerings. Continued regulatory and competitive pressures mean that cost efficiency will remain a key consideration for suppliers to support profitability and growth objectives.

The continued digitisation of customer propositions and internal processes will be central to delivering these emerging market demands. Utilising in-house, customer-centric digital development capabilities enables the rapid evolution of Energy Retail's digital engagements with its customers. While Energy Retail continues to focus on providing a digital experience that benefits its customers, it will be harnessing the latest technologies and innovations, in areas such as artificial intelligence and machine learning, to further expand its retail digital offering and increased digital adoption amongst its customer base throughout 2021 and beyond.

Energy Retail's Smart Solutions business will continue to grow and expand throughout 2021 via customer growth from the current and expanding range of products and services, which will be supported by Energy Retail's strategic partners' ongoing focus and commitment to a good customer experience. In addition, during 2021 Energy Retail will be exploring the opportunities within Smart Solar and Smart Heating, understanding how Energy Retail can influence these markets to move forward faster and become more accessible to customers, achieving a better, cleaner future, quicker.

Energy Retail's range of EV products, services and tariffs support and enable the accelerating transition to EVs in the UK and will continue to expand and offer smarter solutions for EV charging in the coming year. Energy Retail will continue to build partnerships with manufacturers, installers and technology experts, not forgetting its core city region partnerships with Glasgow and Liverpool.

The decarbonisation of heat is an area of growing interest and Energy Retail are continuing to implement small pilot schemes to help understand the future heating technologies and how the UK heating market will transform in the coming years. The success of these schemes will continue to support the transition and decarbonisation of heating in the UK.

SCOTTISHPOWER ENERGY RETAIL LIMITED

STRATEGIC REPORT *continued*

STRATEGIC OUTLOOK *continued*

Energy Retail's aim is to support all of its customers to understand realistic steps they can take to decarbonise their energy consumption, and be there to help them make the transition. It is important to ScottishPower that it helps transform the UK from carbon-intensive energy sources; with greater electrification across the nation ScottishPower can achieve the goals set out by government. Where electrification is not economically viable, for many applications, Energy Retail believes green hydrogen is the appropriate and responsible solution. In 2020, Energy Retail created a hydrogen department to begin working with businesses to seek appropriate green hydrogen solutions. Unlike grey and blue hydrogen, green hydrogen is produced using renewable energy. Hydrogen fuel, which is particularly suitable for larger vehicles, is produced through a chemical process known as electrolysis, using an electrolyser to extract hydrogen from water. Powering the electrolyser from renewable sources, like wind and solar power, means the process is completed without any carbon emissions making the hydrogen 'green'. ScottishPower's significant generation of wind energy, supported by its expanding solar portfolio, places Energy Retail in a prominent position to generate genuine green hydrogen.

Ahead of the Conference of the Parties ("COP 26") event in Glasgow in 2021, Energy Retail is preparing to play its part in the transition to net zero and building on the changes it has already made. Energy Retail's role is to make this transition easy for its customers. Energy Retail are proud that all its new fixed price tariffs provide 100% renewable electricity.

As well as committing to fully green energy, Energy Retail are also working to promote the enabling technologies that encourage its use and take-up. One of these technologies is smart meters, which allow customers to see the power they are using, and their spending, in real time. Having a smart meter also makes EV and solar panel installations much easier. Energy Retail can provide its customers with this infrastructure along with tariffs offering a cheaper overnight price that can support EVs. In addition, Energy Retail have partnerships with some key car organisations to help them make the decision on using one of these vehicles. Workplace charging will also be a key enabler for EVs and will offer three distinct types of charging solutions; domestic, public and workplace. Indeed, Energy Retail will provide an EV charging hub for COP 26 delegates at the SEC venue. Energy Retail are also already actively working to incorporate the use of green hydrogen as a route towards decarbonisation for sectors where electrification is not feasible due to technological limitations, such as some industrial processes and heavy duty transport.

Financial instruments

Treasury services are provided by SPL. ScottishPower has a risk policy within treasury and financing which is designed to ensure that the Company's exposure to variability of cash flows and asset values due to fluctuations in market interest rates and exchange rates are minimised and managed at acceptable risk levels. Further details of the treasury and interest policy for ScottishPower and how it manages them is included in the most recent Annual Report and Accounts of SPL.

Brexit

Though the UK left the European Union ("EU") on 31 January 2020, all EU laws continued to apply until 31 December 2020. Following intensive negotiation, a UK/EU Trade and Cooperation Agreement was concluded on 24 December 2020 and is being applied provisionally pending ratification. The conclusion of the Trade and Cooperation Agreement greatly reduced the contractual and foreign exchange risks Brexit posed for the business. Key remaining risks are possible supply chain disruption and reduced mobility of labour; there is also continuing uncertainty about the EU's assessment of the adequacy of the UK Data Protection arrangements.

A cross-business operational working-group enabled ScottishPower, and so the Company, to monitor Brexit risks at all stages, and has ensured that they are now fully integrated into the assessment of risks to the business. Further details are provided in the 'Principal Risks and Uncertainties' section of the Strategic Report. ScottishPower, and so the Company, shall continue to monitor the consequences of Brexit, and will take mitigating action as appropriate.

PRINCIPAL RISKS AND UNCERTAINTIES

In order to deliver its strategy, ScottishPower, and therefore Energy Retail and the Company, are required to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting ScottishPower's 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 governance structure and risk management are provided in the most recent Annual Report and Accounts of SPL.

SCOTTISHPOWER ENERGY RETAIL LIMITED
STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

The principal risks and uncertainties of ScottishPower relevant to the Company and those specific to the Company, that may impact current, future operational and financial performance and the management of these risks, are described in the table below and on the following pages:

| FINANCIAL RISKS | |
|--|---|
| RISK | RESPONSE |
| Market Risk Impacts arising from COVID-19 and Brexit following market reactions to events. These could include increased volatility on the value of Sterling and foreign currencies; movement in the market price of electricity and gas; and in the longer term, there could be positive or negative changes in the UK economy. | In addition to monitoring ongoing developments related to COVID-19 and Brexit, ScottishPower has specific procedures in place to manage key market risks. Further details of the Treasury risk management policy is included in the most recent Annual Report and Accounts of SPL. |
| Credit Risk Deterioration in the level of overdue debt, driven by the impacts of COVID-19, impacting on the level of debt write-off required. This negative impact on the economy also increases the risk of supplier defaults, which may result in unpaid supplier charges being shared across the remaining industry. | There are measures in place across the Retail business to manage the key drivers of overdue debt, assess and implement remedial and preventative action, and to establish key metrics to monitor progress in reducing debt levels. Energy Retail also continues to consult with Ofgem, on its approach to setting price cap levels for future periods. |

| BUSINESS RISKS | |
|---|---|
| RISK | RESPONSE |
| Reduced customer demand driven in 2020 by the impact of COVID-19 could continue into 2021 and beyond. This would reduce revenue and would require a realignment of hedged positions and, given the lower price environment, could impact margins. | Analysis undertaken to assess the impact of changes in demand profile and the impacts on hedged positions. Details of the 2020 impact are detailed on page 4 of the Strategic Report. |
| Impact of competition on Energy Retail's market share and profitability. | Constantly managing Energy Retail's operating cost base to ensure that Energy Retail's profitability is protected and focusing on growth through organic and other acquisition opportunities. |

SCOTTISHPOWER ENERGY RETAIL LIMITED
STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

| OPERATIONAL RISKS | |
|---|--|
| RISK | RESPONSE |
| The impact of COVID-19 increases the risk of ScottishPower, and so Energy Retail, not being able to meet its obligations to maintain the continuity of electricity supply, and obligations as an energy supplier. Key areas of risk include supply chain disruption and mobility of labour, which are impacted also by the Brexit deal. | <p>Business continuity plans enacted with 'Gold Command'; making strategic decisions and determining priorities across ScottishPower. This is underpinned by 'Silver Groups' specific to each business division at an operational level to ensure continuity of decisions and communications. This ensures consistency in prioritising key issues, and timely and efficient escalation of matters to the appropriate level of management focusing on those issues which might impact the continuity of supply and the other obligations of ScottishPower, and so the Company.</p> <p>Supply chain monitoring groups were established across all business divisions to identify early shortages and gaps in the supply chain in terms of products, equipment and labour.</p> <p>This has been supplemented by emergency procurement procedures to expedite orders for replacements and utilising the framework agreements ScottishPower already has in place. An assessment of key equipment and components was undertaken and additional orders placed in order to increase stock levels prior to 31 December 2020, including any additional storage requirements.</p> <p>Notification has been provided to subcontractors highlighting their importance in the provision of essential services such that appropriate levels of labour are maintained within the UK and devolved Governments' social distancing guidelines.</p> <p>EU nationals who arrived in the UK before 31 December 2020 can continue living in the UK by registering under EU Settlement Scheme by 30 June 2021. During 2020, ScottishPower has been engaging with employees to ensure that they are informed of any actions they may need to take. Preparation for the new points-based global immigration system has commenced, including workshops with external immigration advisors and training of the ScottishPower Human Resources team.</p> |

SCOTTISHPOWER ENERGY RETAIL LIMITED
STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

| OPERATIONAL RISKS <i>continued</i> | |
|--|---|
| RISK | RESPONSE |
| A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment. | ScottishPower's Health and Safety function provides specialist services and support for the businesses, and so the Company, in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes, is established throughout ScottishPower, which aims to ensure not only continuing legal compliance but also to drive towards best practice in all levels of health and safety operations. |
| Breach in cyber security and unwanted infiltration of ScottishPower's IT infrastructure by internal and external parties impacting key infrastructure, networks or core systems. | Implementation of a cyber-risk policy which provides the framework for mitigation. Proactive approach to identifying where ScottishPower is vulnerable and addressing these points through technical solutions. Educating ScottishPower employees and contractors as to how behaviour can reduce this risk. Embedding cyber security in all projects where appropriate. |
| Reputational damage caused by poor customer service performance. | Continued investment in the simplification and enhancement of the processes customers use together with continual training of customer facing staff. Ongoing actions to remove the need for customers to contact ScottishPower via telephone, with greater flexibility for our customers to make contact through a variety of channels. |
| REGULATORY AND POLITICAL RISKS | |
| RISK | RESPONSE |
| Material deterioration in the relatively stable and predictable UK regulatory and political environment, including any sudden changes of policy, or interventions outside established regulatory frameworks. | 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. |
| Price cap values are not set at an accurate rate to reflect the real cost of servicing the customer preventing a reasonable profit margin. | Continued focus on encouraging competition and promoting the use of fixed-price products; ongoing support to the government and regulatory bodies to demonstrate the need for accurate price cap calculations. Lower proportion of customers on default tariffs reduces the impact in comparison to other major suppliers. |
| 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. Energy Retail is an active participant in industry bodies responsible for developing smart metering. |

SCOTTISHPOWER ENERGY RETAIL LIMITED

STRATEGIC REPORT *continued*

ENGAGING WITH STAKEHOLDERS

References to “ScottishPower” apply fully to Energy Retail, and so the Company.

The importance of engaging with stakeholders

As part of the Iberdrola Group, ScottishPower is developing a responsible and sustainable energy model which focuses on the wellbeing of people, the protection of the environment, and the economic and social progress in the communities in which ScottishPower operates. ScottishPower 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 ScottishPower, Energy Retail, and so the Company, engages with its stakeholders, and how these activities influence the Company’s operations, are set out below.

Key stakeholders

ScottishPower, and therefore Energy Retail and the Company has four key stakeholder categories: employees and energy customers; suppliers and contractors; government and regulators; and community and environment.

Behind these stakeholders are millions of people, and thousands of institutions, organisations and groups. All of them, with their decisions and opinions, influence ScottishPower, and they are also affected by ScottishPower’s activities. In addition, these stakeholders interact with each other, creating a universe of relationships that ScottishPower 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 also important to the Company and ScottishPower. All shareholder management activities are carried out on ScottishPower’s behalf by its ultimate parent company, Iberdrola, which is listed on the Madrid Stock exchange. Iberdrola is committed to dialogue, proximity and actions in favour of shareholders. Iberdrola is one of the first companies in the world, to formalise a Shareholder Engagement Policy focusing upon two-way interaction with the shareholders in order to forge a sense of belonging and to encourage their engagement in the corporate life of Iberdrola. Iberdrola’s Shareholder Engagement Policy is published at <https://www.iberdrola.com/corporate-governance/corporate-governance-system/corporate-policies/shareholder-engagement-policy>.

EMPLOYEES AND ENERGY CUSTOMERS

Employees

ScottishPower employs approximately 5,600 employees, working across a range of roles. The employees make a real difference in determining how successfully ScottishPower operates. The creativity, innovation and individuality of ScottishPower’s employees enables ScottishPower to build on its future capability to operate effectively in a competitive market, and continue to have aspirations which are challenging and rewarding. ScottishPower respects and recognises the importance of individuality as part of its ongoing commitment to promoting a culture where individuality is celebrated. ScottishPower also understands that being a diverse organisation goes beyond having legally compliant policies and practices; it includes a focus on creating an innovative, integrated organisation where people feel valued, inspiring them to perform at their best.

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

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

- impact of COVID-19;
- employment regulation;
- training;
- employee feedback and consultation;
- inclusion and diversity;
- rewards and benefits;
- employee health and wellbeing;
- Brexit; and
- employee volunteering.

SCOTTISHPOWER ENERGY RETAIL LIMITED

STRATEGIC REPORT *continued*

ENGAGING WITH STAKEHOLDERS *continued*

Health and Safety

The Company has a clear strategy to continue to improve health and safety performance using ScottishPower health and safety standards. A more extensive description of how ScottishPower, and therefore the Company, addresses health and safety requirements can be found in the most recent Annual Report and Accounts of SPL.

Modern Slavery Statement

The term 'modern slavery' covers both slavery and human trafficking. ScottishPower 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 was approved by the board of SPL. This statement is published on the ScottishPower website at:

https://www.scottishpower.com/userfiles/file/SP__Modern_Slavery_Statement_2019.pdf?v=1.2

Energy customers

As a group, ScottishPower provides energy and related services to millions of domestic and business customers. The Group's, and so Energy Retail's, success depends on its ability to understand and meet the needs of customers, and engagement is key to success in this rapidly changing environment. ScottishPower seeks feedback in several ways including forums, market research and product testing, as well as via complaints channels and surveys. More specifically, the Company engages with its customers in many different ways to ensure these business relationships are fostered in a manner which benefits and promotes the success of the Company.

Understanding Energy Retail's, and so the Company's, customers extends to the ability to identify their needs, in particular for vulnerable customers.

Energy Retail is continuing to focus on delivering customer service through a number of digital channels as well as retaining its traditional telephone and email service channels. Energy Retail has continued to promote its digital online web chat offering to support customers with product, tariff and account enquiries, and it has also seen a growth in the number of customers wanting to engage with Energy Retail via social media channels for customer service enquiries. Energy Retail has invested in its social media customer service support team this year, both in terms of training and expertise, and additional staff to support customers via this growth channel.

Through ongoing expansion of the range of digital services throughout 2020, Energy Retail has seen continued adoption of digital tools as the channel of choice amongst its customer base. With around 500,000 digital interactions per week with its customers, Energy Retail saw significant growth during the COVID-19 lockdown period of customers utilising digital channels and have maintained higher levels year on year following this initial spike. Previous investment supporting in-house digital development capabilities enabled the rapid design and creation of multiple new customer-centric processes and refinements to meet the immediate demands of customers, and helped to manage operational requirements in this unique period. Offering increased flexibility around payments and digital communication methods, Energy Retail were and are able to respond rapidly to the evolving situation and meet the needs of its customers.

This growth has been supported and sustained primarily through increased adoption and utilisation of more accessible, easier to use services such as web chat and a simplified approach to digital billing.

Energy Retail's Smart Solutions operation is all about serving its customers at a time when they need Energy Retail most. Energy Retail has a range of products and emergency services that its customers can call on, such as a central heating or boiler breakdown, a plumbing leak or a kitchen appliance breakdown. Energy Retail has long-term contracts with its strategic partners who provide these services on its behalf, and Energy Retail continues to work together focusing on the value and service being delivered for its customers, closely monitoring and learning from its customers' feedback. Looking to the future, in order to achieve the transition to EVs, it is essential that customers have easy access to the right charging solutions. Whether this is at home, work or in public areas, Energy Retail is committed to making it easy for customers to go 100% green.

For Energy Retail's most vulnerable customers, specific help is offered:

- The ScottishPower Hardship Fund continues to support the vulnerable customer base and has provided over £43 million in debt relief to customers with financial difficulties since its launch in 2015. Energy Retail is fully committed to the hardship fund as a cornerstone of the policy of alleviating the debt of the most vulnerable customers. In 2020, Energy Retail expanded the prepayment voucher fund to help more customers who have self-disconnected and who contact food banks and Citizens Advice Bureau. In 2020 the scheme provided £146,000 of support.
- Energy Retail has also helped to refer more than 14,000 customers in 2020 to get help with ongoing household budget and debt issues from the National Debtline.

SCOTTISHPOWER ENERGY RETAIL LIMITED

STRATEGIC REPORT *continued*

ENGAGING WITH STAKEHOLDERS *continued*

- Energy Retail has a wide range of categories of vulnerability for customer-facing staff to use to ensure that it understands customer circumstances, both temporary and longer term. This ensures that Energy Retail can offer appropriate support to customers on an ongoing basis, or through shorter periods of uncertainty.

As an energy company who wishes to remain in contact with its customers, Energy Retail is one of the very few who continue to offer a community liaison service where their service experts will visit customers throughout Great Britain to help resolve any service-related query. This in-person service was interrupted for a short period during the COVID-19 lockdown, but was promptly re-mobilised in early August 2020 to ensure that Energy Retail was accessible to all customers when it was needed most.

The delivery of energy efficiency measures continues to be an important responsibility of the Energy Retail business, and 2020 was the seventh year of delivery of the UK Government's Energy Company Obligation ('ECO'). The ECO scheme focuses on reducing heating costs for the most vulnerable customers and aims to improve the energy efficiency of properties. Energy Retail's programme was impacted by the COVID-19 lockdown with all non-urgent activity cancelled. However, it has amended its process to support its supply chain through this period and has recovered all activity stopped during lockdown. Despite localised restrictions, Energy Retail continues to make strong progress towards meeting its current obligations. Legislation which defines the 'ECO 3' scheme came into effect in December 2018 and covers the period from that date until 31 March 2022. There are now 24 obligated suppliers due to changes in the scheme which now requires the participation of some smaller suppliers who were previously exempt.

Energy Retail also supports vulnerable customers with their energy bills through the WHD. Now in its ninth year, the WHD is the UK Government's main policy for tackling fuel poverty. The scheme is delivered by energy suppliers to qualifying customers by providing rebates on electricity accounts to help when bills may be higher over the winter period. During scheme Year 9, which operated from 1 April 2019 to 31 March 2020, the company spent £29.2 million providing assistance to 208,449 customers by applying a rebate of £140 to their electricity account.

In addition, £4 million of funding was awarded to third party organisations to deliver industry initiative projects to provide a range of assistance to domestic customers. The demand for these support services is high with the impact of COVID-19 being felt in all households. Measures included fuel debt assistance, benefit entitlement checks and energy advice.

GOVERNMENT AND REGULATORS

Governments and regulators play a central role in shaping the energy sector. ScottishPower engages with them directly and through trade associations, responding to issues of concern and providing expertise to support policy development. Through this engagement, ScottishPower 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. In the early part of the year much of ScottishPower's engagement with government and Ofgem was focused on the response to COVID-19, including steps to reassure energy customers who might find themselves in financial difficulty, ensuring that key workers and engineers were able to continue the vital role in the communities we serve, and seeking appropriate adjustments of regulatory obligations affected by lockdown. ScottishPower has continued to engage extensively with governments, local authorities and other stakeholders on decarbonisation, publishing in June 2020 a report 'Unlocking Net Zero' setting out a ten point plan to deliver jobs and investment for a green recovery. Energy Retail, and so the Company, specifically has a role to help make this transition to net zero easy for its customers through its technologies such as smart meters, EV charging and green hydrogen solutions.

SUPPLIERS AND CONTRACTORS

As part of ScottishPower's mission for a better future, quicker, ScottishPower is always looking for new suppliers and contractors, and for ways to improve its working relationships with existing suppliers and contractors. ScottishPower has a broad and diverse supply chain with over 3,000 suppliers, and during 2020, was awarded contracts with a cumulative value of around £1.8 billion. Suppliers have a key role to play in the delivery of ScottishPower projects and services that ScottishPower is undertaking to provide a low-carbon future for the UK. ScottishPower aims to develop and maintain strong relationships across the supply base with a focus on health and safety, quality and cost. ScottishPower expect suppliers to operate to a high standard including working in an ethical and sustainable manner, and has a range of policies that all suppliers must adhere to including ScottishPower's Code of Ethics.

Engaging proactively with the supply chain is key in ensuring positive outcomes for both ScottishPower and its suppliers, and ScottishPower seeks to engage specifically with suppliers through a variety of methods including business update sessions focused on the supply chain, participation at trade fairs and the ScottishPower Supplier Awards, which recognise excellence in the supply chain along with giving a wide range of suppliers the opportunity to interact with both the procurement team and other ScottishPower employees.

SCOTTISHPOWER ENERGY RETAIL LIMITED

STRATEGIC REPORT *continued*

ENGAGING WITH STAKEHOLDERS *continued*

Engagement with the supply chain has been vital during the COVID-19 pandemic and allowed the impact to be assessed not only on its supply of goods, services and progress on works, but also how the pandemic was affecting suppliers. ScottishPower asked for suppliers to highlight significant risks they were facing and how this would affect its supplies, and this put them in a position to take any remedial action as required. In order to support suppliers, ScottishPower collated information on sources of government assistance and relevant contacts, which was shared within its organisation to ensure this information could reach as many suppliers as possible.

COMMUNITY AND ENVIRONMENT

Being a trusted, respected and integrated part of the community is something ScottishPower continually aims for. This is realised through operating with integrity, transparency, and working closely within the community to build relationships. ScottishPower aims to ensure it conducts its activities responsibly and makes a positive contribution to society.

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

Further details as to how ScottishPower, and so the Company, engages with communities and manages its impact on the environment are provided in the most recent Annual Report and Accounts of SPL.

INNOVATION

ScottishPower's future and strategic success relies on an innovative and dynamic culture in both internal initiatives and external collaborations. ScottishPower's diverse range of stakeholders helps it to deliver innovation activities across technical and commercial challenges. With consideration of ScottishPower values, collaboration features strongly in its open invitation model which allows close working relationships with academics, the supply chain, public agencies and customers, amongst others. Further details on the ScottishPower innovation activities relevant to the Company are provided in the most recent Annual Report and Accounts of SPL.

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 strategy of the Energy Retail business (headed by SPRH), of which the Company is a member, requires the Energy Retail business 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 Energy Retail business 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 Energy Retail business, and therefore the Company, and how we engage with them are as follows:

- **Customers:** details of how the Energy Retail business engages with its customers are explained in the 'Customers' sub-section of the Strategic Report, on page 11.
- **Employees:** details of how the Energy Retail business engages with its employees are set out in the 'Employees' sub-section of the Strategic Report, on page 10.

SCOTTISHPOWER ENERGY RETAIL LIMITED
STRATEGIC REPORT *continued*

SECTION 172 STATEMENT *continued*

- **Communities and the environment:** details of how the Energy Retail business engages with communities and considers the environment are set out in the 'Community and environment' section of the Strategic Report, on page 13.
- **Suppliers and contractors:** details of how the Energy Retail business engages with its suppliers are set out in the 'Suppliers and contractors' sub-section of the Strategic Report, on page 12.
- **Government and regulators:** details of how the Energy Retail business engages with governments and regulators are set out in the 'Government and regulators' section of the Strategic Report, on page 12.

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.

The directors, both individually and together as a board, consider that the decisions taken during the year ended 31 December 2020 in discharging the function of the Board ("the Board") were in conformance with their duty under section 172 of the Companies Act 2006.

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

ON BEHALF OF THE BOARD



Valerie Sim
Director
6 May 2021

SCOTTISHPOWER ENERGY RETAIL LIMITED

DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2020.

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 14.

- information on financial risk management and policies;
- information regarding future developments of the Company;
- 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 SPL.

RESULTS AND DIVIDEND

The net loss for the year amounted to £50.3 million (2019 net loss of £62.1 million). No dividend was paid during the year (2019 £nil).

DIRECTORS

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

Valerie Sim

Andrew Ward (appointed 12 February 2020)

At the date of this report, there have been no changes to the composition of the board of directors of the Company since the 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 Reports and Accounts, including a Strategic Report and Directors' Report, 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 (Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101").

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

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

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

SCOTTISHPOWER ENERGY RETAIL LIMITED
DIRECTORS' REPORT *continued*

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

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 differ from legislation in other jurisdictions.

Disclosure of information to auditor

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

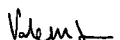
- so far as he or she is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he or she has taken all the steps that he ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's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

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

AUDITOR

KPMG LLP were re-appointed as the auditor of the company for the year ended 31 December 2021.

ON BEHALF OF THE BOARD



Valerie Sim
Director
6 May 2021

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 2020 which comprise the Balance Sheet, Income Statement and Statement of Other Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement 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 2020 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").

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

We also considered less predictable but realistic second order impacts, such as the impact of the Ofgem price cap on default tariffs on the Retail business, the adverse impact of milder weather and the further erosion of Retail market share due to industry-wide sustained high levels of customer switching activity.

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

Our procedures also included critically assessing assumptions in the Directors' initial downside scenarios relevant to liquidity, in particular in relation to the impact of an increase in customer debt due to the ongoing COVID-19 pandemic compared to recent past experience.

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

Our conclusions based on this work:

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

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

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

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

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

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts. We also assessed significant accounting estimates for bias.

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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. 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. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, Ofgem regulations, 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.

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

Fraud and breaches of laws and regulations – ability to detect *continued*

Context of the ability of the audit to detect fraud or breaches of law or regulation

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

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

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 15 and 16, 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SCOTTISHPOWER ENERGY RETAIL LIMITED *continued*

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
7 May 2021

SCOTTISHPOWER ENERGY RETAIL LIMITED
BALANCE SHEET
at 31 December 2020

| | Notes | 2020 £m | 2019 £m |
|---|-------|----------------|----------------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Intangible assets | 3 | 191.6 | 204.8 |
| Property, plant and equipment | 4 | 151.6 | 151.5 |
| Right-of-use assets | 5 | 0.5 | 0.4 |
| Trade and other receivables | 6 | 8.6 | 81.2 |
| NON-CURRENT ASSETS | | 352.3 | 437.9 |
| CURRENT ASSETS | | | |
| Inventories | 7 | 190.5 | 240.9 |
| Trade and other receivables | 6 | 743.6 | 769.2 |
| Current tax asset | | 7.6 | 4.4 |
| Cash | | 4.6 | 5.8 |
| CURRENT ASSETS | | 946.3 | 1,020.3 |
| TOTAL ASSETS | | 1,298.6 | 1,458.2 |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Of shareholders of the parent | | 67.4 | 117.7 |
| Share capital | 8, 9 | 55.4 | 55.4 |
| Retained earnings | 9 | 12.0 | 62.3 |
| TOTAL EQUITY | | 67.4 | 117.7 |
| NON-CURRENT LIABILITIES | | | |
| Provisions | 10 | 1.1 | 3.5 |
| Lease liabilities | 5 | 0.2 | 0.2 |
| Trade and other payables | 11 | 0.7 | 1.1 |
| Non-current income tax liabilities | | 5.0 | |
| Deferred tax liabilities | 12 | 6.0 | 8.7 |
| NON-CURRENT LIABILITIES | | 13.0 | 13.5 |
| CURRENT LIABILITIES | | | |
| Provisions | 10 | 292.5 | 315.1 |
| Bank borrowings and other financial liabilities | | 87.5 | 100.5 |
| Loans and other borrowings | 13 | 87.5 | 100.5 |
| Lease liabilities | 5 | 0.2 | 0.2 |
| Trade and other payables | 11 | 838.0 | 911.2 |
| CURRENT LIABILITIES | | 1,218.2 | 1,327.0 |
| TOTAL LIABILITIES | | 1,231.2 | 1,340.5 |
| TOTAL EQUITY AND LIABILITIES | | 1,298.6 | 1,458.2 |

Approved by the Board and signed on its behalf on 6 May 2021.



Valerie Sim
Director

The accompanying Notes 1 to 23 are an integral part of the balance sheet at 31 December 2020.

SCOTTISHPOWER ENERGY RETAIL LIMITED
INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2020

| | Notes | 2020 £m | 2019 £m |
|---|-------|----------------|----------------|
| Revenue | 14 | 3,693.2 | 3,875.6 |
| Procurements | | (3,020.1) | (3,300.3) |
| GROSS MARGIN | | 673.1 | 575.3 |
| NET OPERATING EXPENSES | | (413.3) | (423.0) |
| Net personnel expenses | | (68.4) | (95.8) |
| Staff costs | 15 | (69.3) | (96.5) |
| Capitalised staff costs | 15 | 0.9 | 0.7 |
| Net external services | | (344.9) | (327.2) |
| External services | | (364.1) | (346.1) |
| Other operating income | | 19.2 | 18.9 |
| Taxes other than income tax | 16 | (101.4) | (81.7) |
| GROSS OPERATING PROFIT | | 158.4 | 70.6 |
| Net expected credit losses on trade and other receivables | | (118.4) | (68.5) |
| Depreciation and amortisation charge, allowances and provisions | 17 | (101.1) | (82.9) |
| OPERATING LOSS | | (61.1) | (80.8) |
| Finance income | 18 | 1.0 | 3.4 |
| Finance costs | 19 | (0.8) | (0.1) |
| LOSS BEFORE TAX | | (60.9) | (77.5) |
| Income tax | 20 | 10.6 | 15.4 |
| NET LOSS FOR THE YEAR | | (50.3) | (62.1) |

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

Net loss for the current and prior year comprises total comprehensive income.

All results relate to continuing operations.

The accompanying Notes 1 to 23 are an integral part of the income statement and statement of other comprehensive income for the year ended 31 December 2020.

SCOTTISHPOWER ENERGY RETAIL LIMITED
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2020

| | Share capital £m | Retained earnings £m | Total £m |
|---|------------------------|----------------------------|-------------|
| At 1 January 2019 | 55.4 | 124.4 | 179.8 |
| Total comprehensive income for the year | - | (62.1) | (62.1) |
| At 1 January 2020 | 55.4 | 62.3 | 117.7 |
| Total comprehensive income for the year | - | (50.3) | (50.3) |
| At 31 December 2020 | 55.4 | 12.0 | 67.4 |

The accompanying Notes 1 to 23 are an integral part of the statement of changes in equity for the year ended 31 December 2020.

SCOTTISHPOWER ENERGY RETAIL LIMITED
CASH FLOW STATEMENT
for the year ended 31 December 2020

| | 2020 £m | 2019 £m |
|---|---------------|----------------|
| Cash flows from operating activities | | |
| Loss before tax | (60.9) | (77.5) |
| Adjustments for: | | |
| Depreciation and amortisation | 101.1 | 82.8 |
| Change in provisions | 397.9 | 489.5 |
| Capital grants | - | (0.1) |
| Net finance income and costs | (0.2) | (3.3) |
| Changes in working capital: | | |
| Change in trade and other receivables | 96.5 | (119.3) |
| Change in inventories | (370.5) | (445.4) |
| Change in trade payables | (66.9) | 22.4 |
| Provisions paid | (2.7) | (85.3) |
| Income taxes received/(paid) | 9.7 | (29.2) |
| Net cash flows from operating activities (i) | 104.0 | (165.4) |
| Cash flows from investing activities | | |
| Interest received | 2.8 | 3.6 |
| Investments in intangible assets | (72.1) | (86.6) |
| Investments in property, plant and equipment | (22.6) | (28.3) |
| Decrease in amounts due from Iberdrola Group companies - current loans receivable | - | 179.0 |
| Net cash flows from investing activities (ii) | (91.9) | 67.7 |
| Cash flows from financing activities | | |
| (Decrease)/increase in amounts due to Iberdrola Group companies - current loans payable | (13.0) | 100.5 |
| Payments of lease liabilities | (0.3) | (0.2) |
| Net cash flows from financing activities (iii) | (13.3) | 100.3 |
| Net (decrease)/increase in cash and cash equivalents (i)+(ii)+(iii) | (1.2) | 2.6 |
| Cash and cash equivalents at beginning of year | 5.8 | 3.2 |
| Cash and cash equivalents at end of year | 4.6 | 5.8 |
| Cash and cash equivalents at end of year comprises: | | |
| Cash | 4.6 | 5.8 |
| Cash flow statement cash and cash equivalents | 4.6 | 5.8 |

The accompanying Notes 1 to 23 are an integral part of the cash flow statement for the year ended 31 December 2020.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS
31 December 2020

1 BASIS OF PREPARATION

A COMPANY INFORMATION

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.

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") in conformity with the requirements of the Companies Act 2006 (refer to Note 1C1) including newly effective International Financial Reporting Standards ("IFRS") for the year ended 31 December 2020 (refer to Note 1C2), but has made amendments where necessary in order to comply with the Companies Act 2006 and has set out below where FRS 101 disclosure exemptions have been taken.

In these Accounts, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- reconciliation of movements of liabilities to cash flows arising from financing activities;
- certain disclosures regarding revenue;
- comparative period reconciliations for property, plant and equipment and intangible assets;
- 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, IFRS pronouncements; and
- disclosures in respect of the compensation of key management personnel.

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

B2. GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 1 to 14.

The Company's balance sheet presents net current liabilities of £271.9 million as at 31 December 2020. The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Company is part of the ScottishPower Group which is a significant component of Iberdrola, one of the world's largest integrated utilities. The Company participates in a UK treasury function operated by the Company's intermediate parent company SPL. The UK treasury function works closely with Iberdrola to manage the Company's funding requirements through the global treasury function. Scottish Power UK plc ("SPUK"), an immediate subsidiary company of SPL, has indicated its intention to provide the Company with the funding it requires, through the UK treasury function and utilising its committed facilities with SPL, for the period from the date of these financial statements to at least 31 December 2022. 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.

Throughout the year, and up to the date of signing, the economic environment has been affected by the global COVID-19 pandemic, however, due to the nature of the Company's core activities, the direct effects on cash flows are expected to be limited.

For the purposes of the directors' assessment of the Company's going concern position, and to satisfy them of the Company's ability to pay its liabilities as they fall due, the directors have prepared a company cash flow forecast for the period to 31 December 2022 which indicate that, after taking account of severe but plausible downsides including the impact of the COVID-19 pandemic, the Company's existing resources and facilities and the support noted above from SPUK are sufficient to enable it to trade and pay its liabilities as they fall due for the forecast period.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2020

1 BASIS OF PREPARATION *continued*

B BASIS OF PREPARATION *continued*

B2. GOING CONCERN *continued*

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for the period to 31 December 2022 and therefore have prepared the financial statements on a going concern basis.

C ACCOUNTING STANDARDS

C1. IMPACT OF BREXIT

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

In previous years, the Accounts have been prepared in accordance with FRS 101 applying the recognition, measurement and disclosure requirements of IFRS as adopted by the EU at the date of approval of the Accounts and which were mandatory for each financial year. In line with the above, the Accounts for the year ended 31 December 2020 have been prepared in accordance with FRS 101 applying the 'frozen' IFRS as adopted by the EU in accordance with the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019. The Accounts for financial year beginning 1 January 2021, will be prepared in accordance with FRS 101 applying the recognition, measurement and disclosure requirements of IFRS as adopted by the UK.

The changes in the way that IFRS are described as a result of the UK's exit from the EU, including the move to UK-adopted IFRS for accounting periods starting on or after 1 January 2021, do not represent a change in the basis of preparation which would necessitate a prior year restatement.

C2. IMPACT OF NEW IFRS

As noted above, these Accounts have been prepared in accordance with FRS 101. In preparing these Accounts, the Company has applied all relevant IASs, IFRSs and International Financial Reporting Interpretations Committee Interpretations ("IFRICs") (collectively referred to as "IFRS") that have been adopted by the EU/UK as of the date of approval of these Accounts and that are mandatory for the financial year ended 31 December 2020.

For the year ended 31 December 2020, the Company has applied the following amendments for the first time:

| Standard | Note |
|--|-------------|
| • Amendments to References to the Conceptual Framework in IFRS Standards | (a) |
| • Amendments to IFRS 3 'Business Combinations: Definition of a Business' | (a) |
| • Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors': 'Definition of Material' | (a) |
| • Amendments to IFRS 9 'Financial Instruments'; IAS 39 'Financial Instruments: Recognition and Measurement'; and IFRS 7 'Financial Instruments: Disclosures': 'Interest Rate Benchmark Reform' | (a) |

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES

In determining and applying accounting policies, judgement is often required in respect of items which have a significant effect on the reported amounts of assets, liabilities, income and expenses recognised in the financial statements. Other than those involving estimates, the Company has no such judgements. At 31 December 2020, assumptions made about the future and other major sources of estimation uncertainty which have significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year are detailed below:

- Accrued 'unbilled' revenue – Note 2A(a); and
- ECLs on trade receivables – Note 2H1.2(c).

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2020

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

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

- A REVENUE**
- B PROCUREMENTS**
- C INTANGIBLE ASSETS (COMPUTER SOFTWARE)**
- D INTANGIBLE ASSETS (CONTRACT COSTS)**
- E PROPERTY, PLANT AND EQUIPMENT**
- F LEASED ASSETS**
- G IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, LEASED ASSETS AND INTANGIBLE ASSETS**
- H FINANCIAL INSTRUMENTS**
- I RENEWABLES OBLIGATION CERTIFICATES**
- J RETIREMENT BENEFITS**
- K TAXATION**
- L CASH AND CASH EQUIVALENTS**

A 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 gas and/or electricity 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 gas and electricity. 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, revenue is 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.

The Company operates in the UK energy industry, whose nature is such that revenue recognition is subject to a degree of estimation. Revenue includes an estimate of the units supplied to customers between the date of their last meter reading and the year end. This estimate is based on external data supplied by the electricity and gas market settlement process and internal data relating to energy purchases where settlement data is not yet available. Where volumes are yet to reach final settlement, a provision is made against unbilled revenue recognised in respect of those volumes. The provision is determined by considering the current unbilled position, historical trends and any other known factors. The value assigned to these estimated volumes is based on a weighted average price per unit derived from the billing systems. This methodology is consistent with prior years and we deem this still to be appropriate, despite the impact of COVID-19, as it is believed to be the same method applied by the rest of the UK industry and the disruption to meter-reading activity experienced during the first half of 2020 recovered to a large extent towards the end of the year. The estimated value of energy delivered to customers is included within billed revenue (where an estimated reading is included within an issued invoice) and unbilled revenue (where no invoice has been invoiced).

Gross unbilled revenue included within the balance sheet at 31 December 2020 amounts to £563.9 million (2019 £582.0 million). This is before applying customer credit balances of £443.3 million (2019 £470.6 million), and £14.8 million (2019 £11.8 million) provision in respect of ECLs and a £24.3 million (2019 £18.0 million) provision in relation to energy volumes which have still to reach final settlement. This results in a net unbilled position at 31 December 2020 of £81.4 million (2019 £81.6 million) which relates primarily to energy delivered in the final months of the year.

Had actual consumption been 3% higher or lower than the estimate of units supplied (the average variance based on recent historical analysis), this would have resulted in revenue recognised for unbilled amounts being £23.7 million higher or lower respectively. The value assigned to this volume sensitivity is based on a weighted average price per unit derived from the billing systems. Approximately 92% of unbilled revenue relates to the most recent quarter where there is a higher level of estimation uncertainty.

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

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2020

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

A REVENUE *continued*

(b) Other revenue

Other revenues, which includes revenue in relation to the Smart Solutions business, are recognised based on the consideration specified in the relevant contract with the customers, to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur in the future. The 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 based on the performance obligations in the contract.

B PROCUREMENTS

Procurements principally comprises the cost of electricity and gas purchased during the year in relation to energy supply and related direct costs and services. Costs are recognised on an accruals basis.

C INTANGIBLE ASSETS (COMPUTER SOFTWARE)

The costs of acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software, and are amortised on a straight-line basis over their operational lives. 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 computer software costs is over periods of up to eight years.

D INTANGIBLE ASSETS (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.

E PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and depreciated on a straight-line basis over the estimated operational lives of the assets. Property, plant and equipment includes capitalised employee costs 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 balance sheet date.

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

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

F LEASED ASSETS

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

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.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2020

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

F LEASED ASSETS *continued*

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 account for the lease and non-lease components in a contract as a single lease component.

F1. LESSEE

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

The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date over the shorter of the useful life of the underlying asset and the lease term. The right-of-use asset is reduced by any impairment losses and adjusted for certain remeasurements of the lease liability. The Company presents right-of-use assets within Non-current assets in the balance sheet and the depreciation charge is recorded within Depreciation, amortisation and provisions in the income statement.

The lease liability recognised at the commencement date is measured initially at the present value of the lease payments that are not paid at that date. As the rates implicit in the leases cannot be readily determined, the liabilities are discounted using the Company's incremental borrowing rate. This 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 as 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 balance sheet; the discount on the liabilities unwinds over the term of the lease and is charged to Finance costs in the income statement.

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

G IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, LEASED ASSETS AND INTANGIBLE ASSETS

At each balance sheet date, the Company reviews the carrying amount of its property, plant and equipment, leased assets and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset 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.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2020

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

G IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, LEASED ASSETS AND INTANGIBLE ASSETS *continued*

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

H FINANCIAL INSTRUMENTS

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

H1 FINANCIAL ASSETS

H1.1 RECOGNITION AND INITIAL MEASUREMENT

Financial assets are classified as measured at amortised cost at initial recognition and subsequently. Trade receivables are initially recognised when they originate. All other financial assets are initially recognised when the Company becomes party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price determined under IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15").

H1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

(a) Classification

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. Such reclassifications are expected to be infrequent; no other reclassifications are permitted.

The Company's business model for managing financial assets refers to how it manages them in order 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 and determined from a higher level of aggregation.

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

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

Trade receivables that do not contain a significant financing component, and for which the Company has applied the simplified ECL model, are measured at the transaction price determined under IFRS 15.

(b) Subsequent measurement and gains and losses

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

Financial assets measured at amortised cost include external trade receivables and trade, loan and interest receivables due from Iberdrola Group companies.

(i) Derecognition

A financial asset (or, where applicable, a part of a financial asset) is primarily derecognised (i.e. removed from the Company's balance sheet) when the rights to receive cash flows from the asset have expired.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2020

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

H FINANCIAL INSTRUMENTS *continued*

H1 FINANCIAL ASSETS *continued*

H1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT *continued*

(c) Impairment of financial assets

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 segmented its trade receivables between those relating to energy supply customer debt and other trade receivables. For each grouping, 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.

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

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

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

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

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

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

(i) Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Twelve-month ECLs are the portion of ECLs resulting from default events that are possible within the twelve months after the reporting date (or a shorter period if the expected life of the instrument is less than twelve months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

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.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2020

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

H FINANCIAL INSTRUMENTS *continued*

H1 FINANCIAL ASSETS *continued*

H1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT *continued*

(c) Impairment of financial assets *continued*

(ii) Credit-impaired financial assets

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

(iii) Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

H2 FINANCIAL LIABILITIES

H2.1 RECOGNITION AND INITIAL MEASUREMENT

The Company's financial liabilities include trade and other payables. All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

H2.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

The Company's financial liabilities are subsequently measured at amortised cost using the effective interest method.

(a) Derecognition

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

I RENEWABLES OBLIGATION CERTIFICATES

The Company participates in the Renewables Obligation ("RO") scheme administered by Ofgem. As there are no specific rules under IFRS dealing with their treatment, the Company classifies Renewables Obligation Certificates ("ROCs") as inventories because they are consumed in the production process. ROCs are recognised at their acquisition cost and charged to the income statement as the obligations arise. Internally-generated ROCs are awarded by Ofgem and are recognised at their relevant buyout price and estimated recycle price at the balance sheet date.

The Company recognises liabilities in respect of its obligations to deliver ROCs at the value at which they were initially recorded on the balance sheet. Any estimated shortfall in the liability is calculated based on the relevant buyout price and estimated recycle price at the balance sheet date.

J 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.

K TAXATION

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

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

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2020

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

K TAXATION *continued*

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 balance sheet 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 other comprehensive income.

L CASH AND CASH EQUIVALENTS

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

3 INTANGIBLE ASSETS

| | | Computer software £m | Customer Contract Costs £m | Total £m |
|------------------------------------|-------------|----------------------------|-------------------------------------|--------------|
| Year ended 31 December 2020 | Note | | | |
| Cost: | | | | |
| At 1 January 2020 | | 290.7 | 168.7 | 459.4 |
| Additions | (a) | 12.2 | 59.9 | 72.1 |
| Disposals | | - | (26.1) | (26.1) |
| At 31 December 2020 | | 302.9 | 202.5 | 505.4 |
| Amortisation: | | | | |
| At 1 January 2020 | | 197.0 | 57.6 | 254.6 |
| Amortisation for the year | | 36.1 | 49.2 | 85.3 |
| Disposals | | - | (26.1) | (26.1) |
| At 31 December 2020 | | 233.1 | 80.7 | 313.8 |
| Net book value: | | | | |
| At 31 December 2020 | | 69.8 | 121.8 | 191.6 |
| At 1 January 2020 | | 93.7 | 111.1 | 204.8 |

(a) Included within additions is £0.6 million (2019 £0.1 million) from internal development.

(b) Included in the net book value of computer software at 31 December 2020 is £13.9 million (2019 £25.1 million) relating to the customer relationship management system which has two years of remaining amortisation and £29.3 million (2019 £42.3 million) relating to system upgrades for smart metering which has three years of remaining amortisation.

(c) The cost of fully amortised intangible assets still in use at 31 December 2020 was £5.3 million (2019 £1.9 million).

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2020

4 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

| Year ended 31 December 2020 | Meters and measuring devices £m | Other facilities (Note (ii)) £m | Other items of property, plant and equipment (Note (ii)) £m | Total £m |
|-----------------------------|------------------------------------|---------------------------------------|---|--------------|
| Cost: | | | | |
| At 1 January 2020 | 15.8 | 171.1 | 24.6 | 211.5 |
| Additions | 0.5 | 11.4 | 3.8 | 15.7 |
| At 31 December 2020 | 16.3 | 182.5 | 28.4 | 227.2 |
| Depreciation: | | | | |
| At 1 January 2020 | 11.2 | 34.7 | 14.1 | 60.0 |
| Depreciation for the year | 1.6 | 13.0 | 1.0 | 15.6 |
| At 31 December 2020 | 12.8 | 47.7 | 15.1 | 75.6 |
| Net book value: | | | | |
| At 31 December 2020 | 3.5 | 134.8 | 13.3 | 151.6 |
| At 1 January 2020 | 4.6 | 136.4 | 10.5 | 151.5 |

(i) The Other facilities category comprise smart meter infrastructure assets.

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

(iii) The cost of fully depreciated property, plant and equipment at 31 December 2020 was £7.5 million (2019 £4.2 million).

(iv) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land, of £0.2 million (2019 £0.2 million).

(v) The net book value of all property, plant and equipment at 31 December 2020 was categorised as in use.

(b) Capital commitments

The Company had £0.3 million at 31 December 2020 (2019 £1.2 million) of capital commitments contracted for but not provided that were due within one year in both years.

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 18 and 23 years. Certain leases have options to extend the term by up to one year at the end of the term. Some leases have options to terminate subject to a notice period typically of up to one month.

Vehicles

The Company lease vehicles with lease terms of four years, primarily being pool vehicles to mobilise its operational staff. Certain agreements can be terminated without notice. Certain vehicle leases are considered short-term and the Company has elected not to recognise right-of-use assets and lease liabilities for these leases. The charge for the year for the short-term leases was less than £0.1 million (2019 less than £0.1 million).

Extension options

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.

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.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2020

5 LEASES *continued*

(a) Lessee *continued*

(ii) Right-of-use assets

| Year ended 31 December 2019 | Note | Buildings £m | Vehicles £m | Total £m |
|--|------|-----------------|----------------|-------------|
| Cost: | | | | |
| On transition to IFRS 16 at 1 January 2019 | | 0.7 | - | 0.7 |
| Additions | | - | 0.4 | 0.4 |
| Adjustments for changes in liabilities | (a) | (0.5) | - | (0.5) |
| At 31 December 2019 | | 0.2 | 0.4 | 0.6 |
| Depreciation: | | | | |
| On transition to IFRS 16 at 1 January 2019 | | - | - | - |
| Charge for the year | | 0.1 | 0.1 | 0.2 |
| At 31 December 2019 | | 0.1 | 0.1 | 0.2 |
| Net book value: | | | | |
| At 31 December 2019 | | 0.1 | 0.3 | 0.4 |
| On transition to IFRS 16 at 1 January 2019 | | 0.7 | - | 0.7 |

| Year ended 31 December 2020 | Note | Buildings £m | Vehicles £m | Total £m |
|--|------|-----------------|----------------|-------------|
| Cost: | | | | |
| At 1 January 2020 | | 0.2 | 0.4 | 0.6 |
| Additions | | - | 0.2 | 0.2 |
| Adjustments for changes in liabilities | (a) | 0.1 | - | 0.1 |
| At 31 December 2020 | | 0.3 | 0.6 | 0.9 |
| Depreciation: | | | | |
| At 1 January 2020 | | 0.1 | 0.1 | 0.2 |
| Charge for the year | | 0.1 | 0.1 | 0.2 |
| At 31 December 2020 | | 0.2 | 0.2 | 0.4 |
| Net book value: | | | | |
| At 31 December 2020 | | 0.1 | 0.4 | 0.5 |
| At 1 January 2020 | | 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.

(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.

| | 2020 £m | 2019 £m |
|--|------------|------------|
| Less than one year | 0.2 | 0.2 |
| One to five years | 0.2 | 0.2 |
| Total discounted lease liabilities | 0.4 | 0.4 |
| Analysis of total lease liabilities | | |
| Non-current | 0.2 | 0.2 |
| Current | 0.2 | 0.2 |
| Total | 0.4 | 0.4 |

Details of ScottishPower's, and so the Company's, risk management strategy for liquidity risks inherent in its lease liability is included in the most recent Annual Report and Accounts of SPL.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2020

5 LEASES *continued*

(a) Lessee *continued*

(iv) Amounts recognised in the cash flow statement

| | 2020 £m | 2019 £m |
|--------------------------------------|--------------|--------------|
| Payment of lease liabilities | (0.3) | (0.2) |
| Total cash outflow for leases | (0.3) | (0.2) |

6 TRADE AND OTHER RECEIVABLES

| | Notes | 2020 £m | 2019 £m |
|---|----------|------------|------------|
| Current receivables: | | | |
| Receivables due from Iberdrola Group companies - trade | (a) | 1.5 | 51.3 |
| Receivables due from Iberdrola Group companies - other | (b) | 76.7 | - |
| Receivables due from Iberdrola Group companies - interest | | 0.7 | 2.6 |
| Trade receivables and accrued income | (a) | 648.7 | 714.2 |
| Prepayments | | 1.0 | 1.1 |
| Other receivables | | 15.0 | - |
| | (c), (d) | 743.6 | 769.2 |
| Non-current receivables: | | | |
| Receivables due from Iberdrola Group companies - other | (b) | - | 81.2 |
| Prepayments | | 0.2 | - |
| Other receivables | | 8.4 | - |
| | | 8.6 | 81.2 |

- (a) 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 2020, the Company posted cash collateral of £25.2 million (2019 £24.3 million) and posted letters of credit of £31.9 million (2019 £24.6 million).
- (b) This balance represents receivables due from Iberdrola Group companies as part of a contractual renegotiation, the balance was recognised as a current receivable during 2020 but as a non-current receivable in 2019.
- (c) Included within the gross carrying amount of trade receivables, £721.9 million (2019 £746.8 million) relates to billed receivables due from energy supply customers. The loss allowance in relation to these billed receivables is £186.2 million (2019 £126.7 million). In relation to these billed receivables, the actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating profit positively or negatively. At 31 December 2020, the loss allowance for these billed receivables of £186.2 million (2019 £126.7 million) was supported by a projection based on a 36-month cash collection performance (nine months of which was during the period affected by COVID-19). Based on the weighted average loss rates, a 5% increase in the overall expected loss rate would result in an increase to the loss allowance of £36.1 million (2019 £37.3 million). A 5% decrease would result in a decrease to the loss allowance of £36.1 million (2019 £37.3 million).
- (d) The following table provides information about IFRS 15 contract balances included within trade and other receivables.

| | Note | 2020 £m | 2019 £m |
|-------------|------|------------|------------|
| Receivables | (i) | 703.2 | 737.1 |

- (i) £118.5 million (2019 £68.4 million) of impairment losses were recognised during the year on receivables arising from the Company's contracts with customers.

7 INVENTORIES

| | Note | 2020 £m | 2019 £m |
|------|------|------------|------------|
| ROCs | (a) | 190.5 | 240.9 |

- (a) Inventories with a value of £389.4 million (2019 £412.1 million) were recognised as an expense in the year.

8 SHARE CAPITAL

| | 2020 £m | 2019 £m |
|---|------------|------------|
| Allotted, called up and fully paid shares: | | |
| 55,407,000 ordinary shares of £1 each (2019 55,407,000) | 55.4 | 55.4 |

- (a) 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.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2020

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

| | Share capital £m | Retained earnings (Note (a)) £m | Total £m |
|--|---------------------|---------------------------------------|-------------|
| At 1 January 2019 | 55.4 | 124.4 | 179.8 |
| Loss for the year attributable to equity holder of the Company | - | (62.1) | (62.1) |
| At 1 January 2020 | 55.4 | 62.3 | 117.7 |
| Loss for the year attributable to equity holder of the Company | - | (50.3) | (50.3) |
| At 31 December 2020 | 55.4 | 12.0 | 67.4 |

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

10 PROVISIONS

| | Notes | At 1 January 2019 £m | New provisions £m | Transfers £m | Utilised during year £m | Released during year £m | At 31 December 2019 £m |
|----------------------------------|-------|----------------------------|----------------------|-----------------|-------------------------------|-------------------------------|---------------------------------|
| Year ended 31 December 2019 | | | | | | | |
| Reorganisation and restructuring | (a) | 1.1 | 3.4 | - | (1.1) | - | 3.4 |
| Renewables Obligation | (b) | 320.8 | 422.4 | - | (428.3) | - | 314.9 |
| Overtime and commission | (c) | 0.9 | - | - | (0.8) | (0.1) | - |
| Capacity Market | (d) | - | 63.6 | 19.8 | (83.4) | - | - |
| Other | (e) | 0.1 | 0.4 | - | - | (0.2) | 0.3 |
| | | 322.9 | 489.8 | 19.8 | (513.6) | (0.3) | 318.6 |

| | Notes | At 1 January 2020 £m | New provisions £m | Utilised during year £m | At 31 December 2020 £m |
|----------------------------------|-------|-------------------------------|----------------------|-------------------------------|---------------------------------|
| Year ended 31 December 2020 | | | | | |
| Reorganisation and restructuring | (a) | 3.4 | - | (2.7) | 0.7 |
| Renewables Obligation | (b) | 314.9 | 397.9 | (420.9) | 291.9 |
| Other | (e) | 0.3 | 0.7 | - | 1.0 |
| | | 318.6 | 398.6 | (423.6) | 293.6 |

| | 2020 £m | 2019 £m |
|-------------------------------------|--------------|--------------|
| Analysis of total provisions | | |
| Non-current | 1.1 | 3.5 |
| Current | 292.5 | 315.1 |
| | 293.6 | 318.6 |

- (a) The opening 2019 provision for reorganisation and restructuring related to group-wide restructuring programmes launched during 2017 and 2018 and was fully utilised during 2019. The new provision in 2019 related to an Energy Retail restructuring programme launched during 2019. The remaining provision at 31 December 2020 is expected to be utilised in 2021.
- (b) The provision for Renewables Obligation principally represents the value of ROCs for 2020 expected to be delivered in 2021 and 2022.
- (c) The provision for overtime and commission comprised probable holiday pay entitlements under the Working Time Regulations arising from commission and overtime. The provision was fully utilised or released during 2019.
- (d) The provision relates to unpaid UK Capacity Market payments during the suspension of the 2018/19 UK capacity market. This provision was fully utilised in 2019.
- (e) The 'Other' category at 31 December 2020 includes a new provision during 2020 for £0.7 million in respect of interest on an ongoing tax dispute. This provision is expected to be utilised in the period up to 2022. The remaining balance comprises various insurance provisions, which are not individually material to warrant separate disclosure.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2020

11 TRADE AND OTHER PAYABLES

| | Notes | 2020 £m | 2019 £m |
|---|-------|------------|------------|
| Current trade and other payables: | | | |
| Payables due to Iberdrola Group companies - trade | (a) | 479.7 | 521.3 |
| Trade payables | (a) | 173.2 | 157.7 |
| Other taxes and social security | | 60.1 | 68.3 |
| Payments received on account | | 0.4 | 1.8 |
| Capital payables and accruals | | 37.4 | 44.3 |
| Other payables | | 87.2 | 117.8 |
| | (b) | 838.0 | 911.2 |
| Non-current other payables: | | | |
| Other payables | | 0.7 | 1.1 |
| | (b) | 0.7 | 1.1 |

(a) 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 2020, the Company held cash collateral of £3.2 million (2019 £1.4 million) and letters of credit held of £4.7 million (2019 £6.0 million).

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

| | Note | 2020 £m | 2019 £m |
|----------------------|------|------------|------------|
| Contract liabilities | (i) | 78.5 | 112.5 |

(i) The amount of contract liabilities recognised as income in the year is £91.4 million (2019 £47.0 million). This balance consists of DD customer payments that are in excess of the associated units of energy delivered (final customer credits).

12 DEFERRED TAX

Deferred tax recognised in the Accounts is as follows:

| | Property, plant and equipment £m | Other temporary differences £m | Total £m |
|--------------------------------|---|---|-------------|
| At 1 January 2019 | 7.6 | 4.7 | 12.3 |
| Credit to the income statement | (0.6) | (3.0) | (3.6) |
| At 1 January 2020 | 7.0 | 1.7 | 8.7 |
| Credit to the income statement | (1.4) | (1.3) | (2.7) |
| At 31 December 2020 | 5.6 | 0.4 | 6.0 |

(a) Legislation was previously enacted to reduce the UK rate of UK Corporation Tax to 17% on 1 April 2020. Accordingly deferred tax balances were measured at the 17% rate at 31 December 2019. Further legislation was enacted on 22 July 2020 under the Finance Act 2020 that maintains the 19% UK Corporation Tax rate. The 19% rate applies from 1 April 2020. This rate change has increased the deferred tax liability by £1.0 million.

(b) In the 3 March 2021 Budget, the Chancellor of the Exchequer announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the Company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax liability would have been £0.4 million higher.

13 LOANS AND BORROWINGS

| Instrument | Interest rate* | Maturity | 2020 £m | 2019 £m |
|--------------------------------------|----------------|-----------|------------|------------|
| Loans with Iberdrola Group companies | Base + 1% | On demand | 87.5 | 100.5 |

*Base – Bank of England Base Rate.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2020

14 REVENUE

Disaggregation of revenue

| | 2020 £m | 2019 £m |
|--|----------------|----------------|
| Supply of electricity | 2,719.4 | 2,804.2 |
| Supply of gas | 967.7 | 1,062.8 |
| Other | 6.1 | 8.6 |
| Charged to the income statement | 3,693.2 | 3,875.6 |

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

15 EMPLOYEE INFORMATION

(a) Staff costs

| | Note | 2020 £m | 2019 £m |
|--|------|-------------|-------------|
| Wages and salaries | | 55.5 | 55.4 |
| Social security costs | | 5.6 | 5.5 |
| Pension and other costs | (i) | 8.2 | 35.6 |
| Total staff costs | | 69.3 | 96.5 |
| Less: capitalised staff costs | | (0.9) | (0.7) |
| Charged to the income statement | | 68.4 | 95.8 |

(i) Pension and other costs in 2020 includes a credit of £7.8 million (2019 £21.8 million charge) for a restructuring programme.

(b) Employee numbers

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

| | Average 2020 | Average 2019 |
|----------------------|-----------------|-----------------|
| Administrative staff | 670 | 645 |
| Operations | 674 | 764 |
| Total | 1,344 | 1,409 |

(c) Retirement benefits

The Company's contributions payable in the year were £15.4 million (2019 £14.9 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 SPL.

As at 31 December 2020, the deficit in the ScottishPower's defined benefit schemes in the UK amounted to £558.6 million (2019 £651.7 million). The employer contribution rate for these schemes in the year ended 31 December 2020 was 47.9% - 51.0%.

16 TAXES OTHER THAN INCOME TAX

| | 2020 £m | 2019 £m |
|-------------|------------|------------|
| Other taxes | 101.4 | 81.7 |

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

17 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

| | 2020 £m | 2019 £m |
|---|--------------|-------------|
| Property, plant and equipment depreciation charge | 15.6 | 13.9 |
| Intangible asset amortisation charge | 85.3 | 68.7 |
| Right-of-use asset depreciation charge | 0.2 | 0.2 |
| Charges and provisions, allowances and impairment of assets | - | 0.1 |
| | 101.1 | 82.9 |

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2020

18 FINANCE INCOME

| | 2020 | 2019 |
|--|------------|------------|
| | £m | £m |
| Interest on bank and other deposits | - | 0.1 |
| Interest receivable from Iberdrola group companies | 0.9 | 2.8 |
| Foreign exchange gains | 0.1 | 0.5 |
| | 1.0 | 3.4 |

19 FINANCE COSTS

| | 2020 | 2019 |
|---|------------|------------|
| | £m | £m |
| Reversal of impairment of financial investments | (0.2) | (0.3) |
| Interest on Corporation Tax | 0.7 | - |
| Foreign exchange losses | 0.3 | 0.3 |
| Other finance costs | - | 0.1 |
| | 0.8 | 0.1 |

20 INCOME TAX

| | 2020 | 2019 |
|---|---------------|---------------|
| | £m | £m |
| Current tax: | | |
| UK Corporation Tax credit on losses for the year | (7.6) | (9.4) |
| Adjustments in respect of prior years | (0.3) | (2.4) |
| Current tax for the year | (7.9) | (11.8) |
| Deferred tax: | | |
| Origination and reversal of temporary differences | (3.8) | (5.2) |
| Adjustments in respect of prior years | 0.1 | 1.7 |
| Impact of tax rate change | 1.0 | (0.1) |
| Deferred tax for the year | (2.7) | (3.6) |
| Income tax credit for the year | (10.6) | (15.4) |

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:

| | 2020 | 2019 |
|---|---------------|---------------|
| | £m | £m |
| Corporation Tax at 19% (2019 19%) | (11.6) | (14.7) |
| Adjustments in respect of prior years | (0.2) | (0.7) |
| Impact of tax rate change | 1.0 | (0.1) |
| Non-deductible expenses and other permanent differences | 0.2 | 0.1 |
| Income tax credit for the year | (10.6) | (15.4) |

Legislation was previously enacted to reduce the UK rate of UK Corporation Tax to 17% on 1 April 2020. Accordingly deferred tax balances were measured at the 17% rate at 31 December 2019. Further legislation was enacted on 22 July 2020 under the Finance Act 2020 that maintains the 19% UK Corporation Tax rate. The 19% rate applies from 1 April 2020. This rate change increased the 31 December 2020 deferred tax liability by £1.0 million. Refer to Note 12(b) for details of future tax rate changes.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2020

21 FINANCIAL COMMITMENTS

| | 2020 | | | | | 2026 and | Total |
|-------------------------------|------|------|------|------|------|------------|-------|
| | 2021 | 2022 | 2023 | 2024 | 2025 | thereafter | |
| | £m | £m | £m | £m | £m | £m | £m |
| Other contractual commitments | 18.4 | - | - | - | - | - | 18.4 |

| | 2019 | | | | | 2025 and | Total |
|-------------------------------|------|------|------|------|------|------------|-------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | thereafter | |
| | £m | £m | £m | £m | £m | £m | £m |
| Other contractual commitments | 7.3 | 1.5 | 1.5 | 0.6 | - | - | 10.9 |

22 RELATED PARTY TRANSACTIONS

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

| | 2020 | 2019 |
|-----------------------------------|---------------------------------------|---------------------------------------|
| | Other Iberdrola Group companies £m | Other Iberdrola Group companies £m |
| Types of transaction | | |
| Sales and rendering of services | 0.2 | 0.2 |
| Purchases and receipt of services | (76.9) | (9.8) |
| Balances outstanding | | |
| Trade and other receivables | 0.4 | 0.1 |
| Trade and other payables | (14.8) | (5.9) |

(i) 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 (2019 three) of the directors who served during the year were remunerated directly by the Company.

| | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| Aggregate remuneration in respect of qualifying services | 555 | 713 |
| Aggregate compensation for loss of office | - | 918 |
| 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 |

| | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| Highest paid director | | |
| Aggregate remuneration | 376 | 350 |
| Aggregate compensation for loss of office | - | 298 |
| Accrued pension benefit | 58 | - |

(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.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2020

22 RELATED PARTY TRANSACTIONS *continued*

(c) Ultimate parent company

The immediate parent company is SPRH. The registered office of SPRH is 320 St Vincent Street, Glasgow, Scotland, G2 5AD.

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

Copies of the consolidated Accounts of Iberdrola, S.A. may be obtained from Iberdrola, S.A., at its registered office, Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain. Copies of the consolidated Accounts of Scottish Power UK plc 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 Company's parent undertakings disclosed above.

23 AUDITOR REMUNERATION

| | 2020 | 2019 |
|--|------|------|
| | £m | £m |
| Audit of the Company's annual Accounts | 0.4 | 0.2 |