

SP MANWEB PLC
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2021

Registered No. 2366937

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SP MANWEB PLC

STRATEGIC REPORT

The directors present their Strategic Report on SP Manweb plc (“the Company”) for the year ended 31 December 2021. This includes an overview of the Company’s structure, strategic outlook including 2021 performance, and principal risks and uncertainties.

INTRODUCTION

The principal activity of the Company, registered Company number 2366937, is the ownership of the electricity distribution network within Cheshire, Merseyside, North Shropshire and North Wales. The network is used to distribute electricity, which has been transmitted to grid supply points, for electricity supply companies for onward sales to their customers. This activity will continue for the foreseeable future.

The ultimate parent of the Company is Iberdrola, S.A. (“Iberdrola”) which is listed on the Madrid stock exchange. The immediate parent of the Company is Scottish Power Energy Networks Holdings Limited (“SPENH”), the holding company of the Scottish Power Energy Networks Holdings Limited Group (“SPENH Group” or “Energy Networks”). Scottish Power Limited (“SPL”) is the United Kingdom (“UK”) holding company of the Scottish Power Limited Group (“ScottishPower”) of which the Company is a member.

Energy Networks owns three regulated electricity network businesses in the UK. The Company and fellow subsidiary companies, SP Distribution plc and SP Transmission plc, are ‘asset-owner companies’ holding the regulated assets and Electricity Distribution and Transmission licences of ScottishPower, and are regulated monopolies. Energy Networks owns and operates the network of cables and power lines transporting electricity to around 3.5 million connected customers in Central and Southern Scotland, Cheshire, Merseyside, North Shropshire and North Wales.

The Company is a Distribution Network Operator (“DNO”). The electricity distribution networks are regional grids that transport electricity at a lower voltage from the national transmission grid and embedded generators and connect to industrial, commercial and domestic users.

The Company is a natural monopoly and is regulated by The Office of Gas and Electricity Markets (“Ofgem”) via a regulatory price control. The primary objective of the regulation of the electricity networks is the protection of consumers’ interests while ensuring that demand can be met and companies are able to finance their activities. Price controls are the method by which the amount of allowed revenue is set for network companies over the period of the price control. Price control processes are designed to cover the Company’s efficient costs and allow it to earn a reasonable return, provided the Company acts in an efficient manner, delivers value for customers, and meets Ofgem targets. Price controls are delivered on a regulatory basis covering April to March of any given year. Therefore, a majority of the Company’s performance and key deliverables are measured and reported on this basis.

STRATEGIC OUTLOOK

Operating review

The Company continues to serve its distribution customers in Cheshire, Merseyside, North Shropshire and North Wales at a cost which equates to 31 pence per day.

During 2021, the Company moved into the seventh year of the eight-year RIIO-ED1 (Revenue = Incentives + Innovation + Outputs) price control period. The Company is on track to deliver its agreed outputs during the remainder of the period and is performing on, or ahead of, targets in its approach to safety, reliability and availability, and customer service.

Energy Networks has been working hard to ensure that the next price control running from 2023 to 2028, RIIO-ED2, is set in a way which readies the UK for an electric future. Energy Networks’ final business plan was submitted to Ofgem in December 2021. Over the RIIO-ED2 period it is proposing to spend £3.3 billion over its two distribution networks to make sure that it can enable the path to net zero. To do this, Energy Networks will create more than 1,100 jobs. It now awaits Ofgem’s draft determination which will be published in summer 2022.

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

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STRATEGIC REPORT *continued*

STRATEGIC OUTLOOK *continued*

Following the severe impact on the electricity network caused by Storm Arwen, the Company is offering additional compensation of £150 per household, on top of payments under its Guaranteed Standard of Service, to those without power for more than 48 hours as an apology for the disruption caused. In December 2021, the Company confirmed that former UK Energy Minister, Rt Hon Charles Hendry CBE, has agreed to lead an internal review of the Company's operational response to Storm Arwen, with a particular focus on the rural communities worst affected. Mr Hendry's review will be supported by an expert panel drawn from local communities, and its findings are expected to be published in Summer 2022.

Values in action

Net zero has continued to attract huge public attention in 2021, not least due to the climate change conference, The Conference of the Parties ("COP26"). Energy Networks, therefore, continues to collaborate with governments to deliver their sustainability plans and meet the challenges of the low-carbon revolution. For example, this year the Company has welcomed the publication of the UK Government's Net Zero Strategy which recognises the important role that electricity networks have in the journey to reach net zero.

Energy Networks has developed design tools to quickly identify where the adoption of flexibility can save consumers money by upgrading its network. In April 2021 it launched a significant flexibility tender to fill outstanding requirements and also for new services identified for the period 2023 to 2028. This tender concluded in November and Energy Networks was able to accept bids for 555 megawatts from a variety of providers including those offering demand side response from electric vehicle ("EV") charging.

With energy decarbonisation, digitisation and decentralisation, Energy Networks is moving towards a new model that requires Distribution System Operators ("DSOs") to play an active coordinating role between all market participants. Energy Networks is already demonstrating benefits of system operation through transport planning, digital substations and artificial intelligence in its Active Network Management ("ANM") and sequence switching schemes, as well as its market-making flexibility tenders.

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

The Company and Energy Networks were recognised at the 2021 Utility Week Awards, which took place on 21 March 2022 as follows:

- Innovation Award – iIdentify project (Shortlisted – Energy Networks distribution (Company and SP Distribution plc))
- Utility of the Year (Shortlisted – Energy Networks)

2021 Performance

The table below provides key financial information relating to the Company's performance during the year.

Financial key performance indicators	Revenue*		Operating profit*		Capital investment**	
	2021	2020	2021	2020	2021	2020
	£m	£m	£m	£m	£m	£m
SP Manweb plc	418.1	408.4	165.3	167.8	195.0	192.0

* Revenue and Operating profit are presented in the Income statement and statement of other operating income on page 23.

** Capital investment is presented within Note 3 on pages 34 and 35.

Revenue is £9.7 million higher than the prior year. Distribution revenues saw increased customer demand mainly due to the adverse COVID-19 impact in 2020.

Operating profit decreased by £2.5 million to £165.3 million in 2021, reflecting higher revenue and lower procurement costs (gross margin increase of £12.7 million) being partially offset by higher operating costs and other taxes (£5.7 million), increased depreciation and charges (£5.9 million) and an adverse bad debt impact (£3.6 million) due to market conditions and failed energy supply companies.

The Company continues its commitment to capital investment in the UK energy market, with investment slightly higher (£3.0 million) than in 2020.

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STRATEGIC REPORT *continued*

STRATEGIC OUTLOOK *continued*

The Company is required to prepare regulatory financial performance reporting for the years ending 31 March. Reporting of key performance indicators is aligned to the regulatory year end. Consequently, the latest available data for the last regulatory year for the Company has been disclosed below, with the exception of distributed energy that is reported for the years ending 31 December. The table below provide key non-financial performance indicators relating to the Company's operational performance.

	Notes	Actual 2021	Target 2021	Actual 2020	Target 2020
Distributed energy (GWh)	(a)	13,662	N/A	13,696	N/A
Customer interruptions ("CI")	(b)	30.5	36.1	32.3	36.4
Customer minutes lost ("CML")	(c)	28.8	36.8	34.0	38.2

(a) Gigawatt hours ("GWh")

(b) Customer interruptions are reported as the number of customers, per 100 customers, that are affected during the year by power cuts that last three minutes or more.

(c) Customer minutes lost is reported as the average number of minutes that a customer is without power during a year due to power cuts that last for three minutes or more.

Underlying CI and CML, quoted in the table above, are key statistics which measure the reliability and security of supply typically provided to customers. The Company is focused on minimising CI and CML to outperform the System Performance (Interruption Incentive Scheme) targets agreed with Ofgem.

The underlying CI and CML for the year to 31 March 2021 were 30.5 and 28.8 respectively. These values have been validated and confirmed by Ofgem and were published in November 2021. During 2020/21 the supply of energy to customers was disrupted by one major storm event in August 2020 which met Ofgem's 'exceptional event' exclusion criterion (one exceptional storm event in 2019/20).

The long-term safety and reliability of Energy Networks' electricity distribution networks and their impact on customers are key business priorities. Whilst working to improve reliability and restoration, the networks are designed and operated in a way that ensures the safety of the public and employees, with a minimal number and duration of supply interruptions.

Outlook for 2022 and beyond

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

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

Within the next ten years, Energy Networks expects the number of EVs it supplies on its two distribution networks to increase by up to 1.7 million and EV charging can double the demand of a domestic property. Through various innovation projects that it has carried out, Energy Networks has identified a key strategic role that it can play in the design and siting of cost-effective EV charging infrastructure. It will also play a key role in the decarbonisation of heat. Heat in buildings is responsible for a fifth of the UK's greenhouse gas ("GHG") emissions and Energy Networks has forecast up to 1.1 million heat pump installations by 2030 across its two distribution licence areas.

The Company has focused on developing plans across its network to help facilitate the regional ambitions of the cities and rural communities it serves to decarbonise heat, transport and energy. All forecast scenarios show a significant increase in the volume of customer demand and generation that it will need to serve on its distribution network.

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STRATEGIC REPORT *continued*

STRATEGIC OUTLOOK *continued*

COVID-19

As the COVID-19 crisis has developed and ScottishPower's response has evolved, it has been committed to taking all necessary measures to help to protect the safety and wellbeing of its employees, its customers and the communities it serves. ScottishPower, Energy Networks, and so the Company, has been working closely with government departments, Ofgem and industry bodies to ensure that they continue to follow the latest advice. Through membership of the Energy Networks Association, ScottishPower has contributed to ongoing cross-industry activities to focus on supporting vulnerable people through the disruption caused by COVID-19.

At a ScottishPower level, several measures were implemented to ensure it is well positioned to respond to the significant challenges posed by COVID-19. These include ongoing reviews of business continuity, IT resilience, supply chain operations, and the safety and wellbeing of critical and non-critical employees.

LIQUIDITY AND CASH MANAGEMENT

Cash and net debt

Net cash flows from operating activities increased by £35.7 million to £281.3 million for the year, as detailed on page 25. As detailed in the table below, net debt increased by £31.8 million to £1,494.6 million. Cash decreased by £2.0 million. Net loans payable to Iberdrola Group companies increased by £31.5 million and external loans payable increased by £0.3 million. Lease liabilities decreased by £0.2 million and accrued interest decreased by £1.8 million.

	Notes	2021 £m	2020 Restated* £m
Analysis of net debt			
Cash	(a)	12.3	14.3
Loans receivable from Iberdrola Group companies	(b)	56.7	35.2
Loans payable to Iberdrola Group companies	(c)	(1,147.0)	(1,094.0)
External loans payable	(c)	(348.1)	(347.8)
Lease liabilities	(d)	(58.2)	(58.4)
Accrued interest	(c)	(10.3)	(12.1)
Net debt		(1,494.6)	(1,462.8)

* Net debt has been restated to include Accrued interest (refer to Note 1B2).

(a) As detailed on the Statement of financial position on page 22.

(b) As detailed in Note 6 on page 39.

(c) As detailed in Note 13 on page 44.

(d) As detailed in Note 4 on page 37.

Capital and debt structure

The Company is funded by a combination of debt and equity in accordance with the directors' objectives of establishing an appropriately funded business consistent with the requirements of the Utilities Act 2000 and the objectives of the Iberdrola Group. All of the equity is held by the Company's immediate parent undertaking, SPENH. Treasury services are provided by SPL. Further details of the treasury and interest rate policy for ScottishPower and how it manages the related risks are included in Note 8.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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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 and future operational and financial performance and the management of these risks are described below:

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.
Failure to deliver the distribution outputs agreed with Ofgem in the RIIO-ED1 price control.	Mitigating actions include formulating detailed investment, resource, outage, contingency plans supported by an extensive procurement strategy and having a funding strategy in place to support delivery. Good communication and co-ordination of activities across the business is integral to success, complemented by a comprehensive monitoring regime that provides early warning of potential issues.
DNOs have a distribution licence condition requiring them to compensate suppliers, following an application process and assessment by Ofgem, of their valid Supplier of Last Resort (“SoLR”) costs. (SoLR procedures ensure that when a supplier failure occurs, affected customers are guaranteed continuity of supply). The distribution licence contains a corresponding condition which facilitates seeking a derogation, from Ofgem, when claims exceed a materiality threshold, to increase tariffs to fund SoLR costs over the same period as they are paid to reduce cash flow pressure.	The Company has promptly applied for derogations, in accordance with the licence, to accommodate the financing of any SoLR claims. The Company continually engages positively and constructively with key industry stakeholders including Ofgem and various government departments.
FINANCIAL RISKS	
RISK	RESPONSE
Impacts arising from market and regulatory reactions to events including COVID-19 and Brexit. These could include: increased volatility on the value of Sterling and foreign currencies and, in the longer term, there could be positive or negative changes in the UK economy.	In addition to monitoring ongoing developments, ScottishPower and so the Company has specific procedures in place to manage these key market risks. Further details of the Treasury risk management policy is included in the most recent Annual Report and Accounts of SPL. Treasury risk, comprising liquidity and interest rate risks are discussed further in Note 8.
In light of the outbreak of war in Ukraine during early 2022, ScottishPower, and therefore the Company, continues to assess the impact of this on foreign exchange rates and the global supply chain through its market risk management policies noted above and continued engagement with suppliers.	No material operational issues have arisen to date or are expected, however ScottishPower will continue to monitor the situation and put mitigating actions in place if and when appropriate.
BUSINESS RISKS	
RISK	RESPONSE
Network operators are key facilitators to governments’ net zero ambitions and the failure of Energy Networks, and so the Company, to respond to customers’ changing requirements through the low-carbon transition (for example EVs, distributed generation and storage), could result in a failure to meet these targets.	Mitigating actions influencing developments at industry forums, undertaking scenario modelling of the impact of low-carbon technologies, considering technical and commercial innovation projects, engaging with key stakeholders and owning a clear DSO vision.

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STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

BUSINESS RISKS <i>continued</i>	
RISK	RESPONSE
<p>The risk that Iberdrola's, ScottishPower's, and therefore the Company's strategy, investments or operations have an unacceptable impact on the environment and on national and international targets to tackle climate change, or that climate change has an unacceptable impact on assets and/or operations.</p> <p>The impacts of climate change include: the risks of transition (regulatory, market, technological, reputational changes, lawsuits, demand variations); physical risks (increase in temperatures, rise in sea level, variation in the rainfall pattern, increase in extreme meteorological phenomena in frequency and intensity etc.); and other risks such as the credit deterioration of counterparties (suppliers, banks, others), social phenomena (humanitarian crises, impacts on crops and fishing, refugee crises, epidemics) and greater competition for financial resources.</p>	<p>Iberdrola's, ScottishPower's, and so the Company's, commitment to tackle climate change is reflected in the Company's strategy. The potential impact from climate change factors on operations is mitigated through consideration of temperature and demand trends as part of demand forecasting employed by the Company. Furthermore, the Company is fully engaged with the UK Government and Ofgem on regulatory policy change in relation to climate change targets that may impact on the Company.</p> <p>Further details of Iberdrola's, ScottishPower's, and so the Company's, key measures to mitigate climate change risks are set out in the most recent Annual Report and Accounts of SPL.</p> <p>Overall, the opportunities deriving from the decarbonisation of the global economy outweigh the risks.</p> <p>For further information, please refer to Iberdrola's latest Integrated Report and Sustainability Report. In addition, Iberdrola's Climate Change policy is available at www.iberdrola.com.</p>

OPERATIONAL RISKS	
RISK	RESPONSE
<p>A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.</p>	<p>ScottishPower, and so the Company, has certified management systems in place to deliver activities as safely as possible. In addition, a ScottishPower Health and Safety function exists and provides specialist services and support for the businesses, 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.</p>
<p>Breach in cyber security and unwanted infiltration of ScottishPower's IT infrastructure by internal and external parties impacting key infrastructure, networks or core systems.</p>	<p>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 and the Company's employees and contractors as to how behaviour can reduce this risk. Embedding cyber security in all projects where appropriate.</p>
<p>Reduced security of supply due to potential asset failures alongside reduced generation capacity. Reduced security of supply has the potential to disrupt many of Energy Networks' customers, in both its own licence areas and beyond.</p>	<p>Risk-based asset investment programme in place, business continuity and emergency planning well established including Electricity System Restoration Strategic spares policy in place. Continue to engage with the Department of Business, Energy & Industrial Strategy and Ofgem on Great Britain resilience.</p>
<p>Inability to recruit or retain an appropriately skilled workforce within the Company to deliver agreed distribution outputs.</p>	<p>A Strategic Workforce Planning and Implementation plan has been put in place that incorporates a) retirement profiles with demographics; b) a one-year ahead strategic recruitment plan; and c) a ten-year strategic recruitment plan. In addition to this the Company has undertaken a strategic workforce skills review and identified key future skills areas. The output from this review is shaping ongoing trainee programmes, skills development plans and external recruitment.</p>

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STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

OPERATIONAL RISKS <i>continued</i>	
RISK	RESPONSE
Failure to protect Energy Networks' customer service performance. This has the potential to severely damage the Company's reputation as one of the UK's top DNOs for customer satisfaction and adversely impact its performance against its regulated customer satisfaction financial incentive.	Well-established customer service processes to respond to power loss, including storm readiness. Priority Service Register to protect vulnerable customers in the event of power loss. Implementation of a single emergency number to route customer queries.

ENGAGING WITH STAKEHOLDERS

References to "ScottishPower" apply fully to Energy Networks and therefore to 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 Networks, 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 Networks and the Company, has four key stakeholder categories: employees and customers; government and regulators; suppliers and contractors; 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/corporategovernance-system/corporate-policies/shareholder-engagement-policy>.

EMPLOYEES AND CUSTOMERS

Employees

ScottishPower employs approximately 5,700 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.

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STRATEGIC REPORT *continued*

ENGAGING WITH STAKEHOLDERS *continued*

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:

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

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. Energy Networks, and so the Company is committed to human and labour rights and to eliminating modern slavery that could in any way be connected to its business. In accordance with the Modern Slavery Act 2015, ScottishPower has produced its own Modern Slavery Statement, which was approved by the board of directors of SPL. This statement is published on the ScottishPower website at:

https://www.scottishpower.com/pages/scottishpowers_modern_slavery_statement.aspxCustomers

Customers

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

Delivering for customers

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

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

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

Stakeholder engagement

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

SP MANWEB PLC

STRATEGIC REPORT *continued*

ENGAGING WITH STAKEHOLDERS *continued*

Maintaining a reliable supply of electricity

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

The Company's commitment to its customers is reflected in its customer service scores, which are trending upwards. In the regulatory year 2020/21, the Company achieved a customer satisfaction score of 9.24 out of 10.

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 course of the year ScottishPower has committed significant resource in its capacity as a principal sponsor to supporting the UK Government in delivering COP26 in Glasgow, highlighting priorities for decarbonising the energy sector and achieving a just transition.

ScottishPower, Energy Networks, and so the Company, has also continued its engagement with governments, Ofgem and other stakeholders on the RIIO-ED2 price control, highlighting the need for appropriate levels of ambition towards achieving net zero and appropriate incentive mechanisms for network investment. In July and December 2021, ScottishPower published its draft and final business plan for the 'RIIO-ED2' distribution network price control, detailing the £3.3 billion worth of spending considered necessary to ready the UK for an electric future. (Further information in relation to engagement with government and regulators is set out in the 'Outlook for 2022 and beyond' section of the Strategic Report).

SUPPLIERS AND CONTRACTORS

As part of its 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's suppliers have a key role to play in the delivery of the 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 its supply base with a focus on health and safety, quality, cost and sustainability.

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

As part of ScottishPower, Energy Networks, and so the Company's engagement with its suppliers and contractors is driven by the decisions, policies and procedures in place at a ScottishPower level. Further details as to how ScottishPower, and so the Company, engages with its supply chain are provided in the most recent Annual Report and Accounts of SPL.

COMMUNITY AND ENVIRONMENT

ScottishPower continually strives to be a trusted, respected and integrated part of the community, by operating with integrity, transparency, and working closely within the community to build relationships. ScottishPower aims to ensure it conducts its activities responsibly and makes a positive contribution to society. As key stakeholders, engaging with communities is essential to delivering ScottishPower's objectives.

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

Further details as to how ScottishPower, Energy Networks, 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.

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STRATEGIC REPORT *continued*

INNOVATION

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

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

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

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

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

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

- **Customers:** details of how the Company engages with its customers are explained in the 'Customers' sub-section of the Strategic Report, on page 8.
- **Employees:** details of how Energy Networks, and so the Company, engages with its employees are set out in the 'Employees' sub-section of the Strategic Report, on page 7.
- **Communities and the environment:** details of how Energy Networks, and so the Company, engages with communities and considers the environment are set out in the 'Community and environment' sub-section of the Strategic Report, on page 9.
- **Suppliers and contractors:** details of how Energy Networks, and so the Company, engages with its suppliers are set out in the 'Suppliers and contractors' sub-section of the Strategic Report, on page 9.
- **Government and regulators:** details of how Energy Networks, and so the Company, engages with governments and regulators are set out in the 'Government and regulators' sub-section of the Strategic Report, on page 9.

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 7.

SP MANWEB PLC
STRATEGIC REPORT *continued*

SECTION 172 STATEMENT *continued*

The directors, both individually and together as the board of SP Manweb plc ("the Board"), consider that the decisions taken during the year ended 31 December 2021 in discharging the function of the Board were in conformance with their duty under section 172 of the Companies Act 2006.

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

ON BEHALF OF THE BOARD



Scott Mathieson
Director
10 June 2022

SP MANWEB PLC

DIRECTORS' REPORT

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

INFORMATION CONTAINED WITHIN THE STRATEGIC REPORT

The directors have chosen to disclose information on the following, required by the Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 11:

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

STREAMLINED ENERGY AND CARBON REPORTING

The Company is exempt under section 20A of Part 7A of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 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 profit for the year amounted to £36.5 million (2020 £80.7 million). A dividend of £85.5 million was paid during the year (2020 £73.0 million).

CORPORATE GOVERNANCE

Statement regarding the corporate governance arrangements of the SPENH Group

As required by section 7.2 of the Disclosure Guidance and Transparency Rules, the directors of the Company have set out a corporate governance statement for the Company.

The ultimate parent of the Company is Iberdrola, S.A., which is listed on the Madrid stock exchange. The Company, which has as its direct parent company SPENH and is part of the SPENH Group, does not apply a corporate governance code on the basis that it, as part of the SPENH Group, has adopted the rules and principles of the SPENH Group as they have been set by the board of directors of SPENH ("the SPENH Board"), in accordance with its terms of reference and the Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation ("the Group Governance Framework"), all of which are based on widely recognised good governance recommendations ("the SPENH Group corporate governance system"). Those rules and principles of the SPENH Group corporate governance system that applied to the Company as part of the SPENH Group during 2021 are set out as follows:

The terms of reference of the SPENH Board are published on www.spenergynetworks.co.uk under 'Corporate Governance'.

The Group Governance Framework is published on www.scottishpower.com ("the SPL Corporate website") under 'Corporate Governance' / 'Governance and Sustainability System' / 'Corporate Governance'.

Corporate governance system

The Company is governed by the Board, which consists of five directors who bring a broad range of skills and experience to the Company. The Board is regulated in accordance with the Company's Articles of Association.

In discharging its responsibilities and in the exercise of its decision-making powers, and in accordance with the Company's Articles of Association, the Board has, in accordance with the Group Governance Framework, adhered to the SPENH Group corporate governance system which applies to the Company as part of the SPENH Group. The SPENH Group corporate governance system includes the internal corporate rules (including the Purpose and Values of the Iberdrola Group, the Code of Ethics, corporate policies and other internal codes and procedures) that make up the corporate governance system of ScottishPower and, ultimately, of the Iberdrola Group.

Board composition

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

Frank Mitchell

Scott Mathieson

Alison McGregor

Professor Dame Lesley Anne Glover

Liam O'Sullivan

Suzanne Fox was appointed on 2 February 2022. Professor Dame Lesley Anne Glover resigned on 20 March 2022.

SP MANWEB PLC

DIRECTORS' REPORT *continued*

CORPORATE GOVERNANCE *continued*

There is no separate Appointments Committee within the SPENH Group. Instead, appointment matters relevant to the SPENH Group and the Company are dealt with by the Iberdrola, S.A. Appointments Committee ("IAC"). The IAC has a function to report on the process of selection of directors and senior managers of the Iberdrola Group companies.

Purpose and values

The structure of the Company, and the SPENH Group, is set out in the Strategic Report. During 2021, the Board has taken into account the purpose and values of the Iberdrola Group and the Code of Ethics which are published on www.spenergynetworks.co.uk under 'Corporate Governance'. These documents define and promote the purpose, values and culture of the Company and the SPENH Group.

Director responsibilities

The directors are fully aware of their duties under the Companies Act 2006, including as set out in section 172 of the same. The primary responsibility of the Board is to supervise and make decisions as required in relation to the activities of the Company's business and the SPENH Group, in accordance at all times with the SPENH Group corporate governance system and the provisions of all applicable legislation and regulations.

The SPENH Board has the responsibility of carrying out the day-to-day management and effective administration, and for the ordinary control, of the SPENH Group overall.

Further relevant information on the administrative, management and supervisory bodies of the boards of the Company's parents, as they are pertinent to the SPENH Group and the Company, are described in the section below.

Opportunity and risk

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

To maintain this strategic direction, Energy Networks develops and implements risk management policies and procedures and promotes a robust control environment at all levels of the organisation. Details of the applicable risk policies are published on www.spenergynetworks.co.uk under 'Corporate Governance'.

During 2021, the governance structure was supported by the risk policies of the SPENH Group. Its business risk assessment team and independent risk management function supported the Board in the execution of due diligence and risk management, as described in the 'Principal Risks and Uncertainties' section of the Strategic Report.

Remuneration

The directors of the Company are subject to an annual evaluation of their performance in respect of their executive responsibilities as part of the performance management framework which is in place throughout the SPENH Group.

There is no separate Remuneration Committee within the SPENH Group. Instead, remuneration matters relevant to the SPENH Group and the Company are dealt with and reviewed by the Iberdrola, S.A. Remuneration Committee ("IRC"). The IRC has a function to report on the remuneration of directors and senior managers of the Iberdrola Group companies.

Stakeholders

The Board fully recognises that effective and meaningful engagement with stakeholders is key to promoting the success of the Company. The details of key stakeholders, why they are important to the Company, and how it engages with its stakeholders are an integral part of its strategic goals and are described in the Strategic Report.

Administrative, management and supervisory bodies

Scottish Power Limited Board ("SPL Board")

The primary responsibilities of the SPL Board, which has its own management team, include disclosing, implementing, and ensuring compliance with the policies, strategies and general guidelines of ScottishPower overall, in accordance at all times with the provisions of all applicable legislation and regulations.

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

SP MANWEB PLC

DIRECTORS' REPORT *continued*

CORPORATE GOVERNANCE *continued*

The directors of the SPL Board were:

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

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

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

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

The terms of reference of the SPL Board are published on the SPL Corporate website under 'Corporate Governance' / 'Governance and Sustainability System' / 'Corporate Governance'.

Scottish Power Limited Audit and Compliance Committee ("SP ACC")

The SP ACC, a permanent internal body, has an informative and consultative role, without executive functions, with powers of information, assessment and presentation of proposals to the SPL Board within its scope of action, which is governed by the Articles of Association of SPL and by the terms of reference of the SP ACC.

The SP ACC's responsibilities include:

- monitoring the financial and non-financial reporting processes for ScottishPower;
- monitoring the effectiveness of ScottishPower's internal control, internal audit, compliance and risk management systems;
- monitoring the statutory audit of the Annual Report and Accounts of ScottishPower; and
- monitoring the independence of the external auditor and recommending to the SPL Board, the appointment or re-appointment of the auditor and the associated terms of reference.

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

SP MANWEB PLC

DIRECTORS' REPORT *continued*

CORPORATE GOVERNANCE *continued*

Membership and attendance

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

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

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

In addition to the attendance set out above, the ScottishPower Control and Administration Director, Head of Internal Audit, and the Compliance Director normally attend, by invitation, all meetings of the SP ACC. Other members of senior management are also invited to attend as appropriate. During the year under review, the external auditor attended (in part) four meetings of the SP ACC.

Matters considered by the SP ACC during 2021

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

ScottishPower Management Committee ("SPMC")

The SPMC is a permanent internal body, which was established by the SPL Board to provide an informative and coordinating role for the activities of ScottishPower. In accordance with the corporate governance arrangements of ScottishPower and the separation of regulated activities, the SPMC does not exercise any executive function as a decision-making body. The SPMC meets weekly and receives regular information on the activities of ScottishPower in order to support the corporate functions and lines of business in understanding the local, legal, regulatory and market specifics in the UK and in order to assist the ScottishPower Chief Executive Officer ("CEO") in the performance of his duties. The CEO defines the composition of the SPMC, having regard to the duties assigned thereto. Those persons that the CEO deems appropriate may also attend its meetings as invitees, either regularly or at a specific meeting.

SPENH Board

The SPENH Board is responsible for the effective management of the Energy Networks business, in accordance with the strategy of the SPENH Group. The SPENH Board meets regularly and reviews strategy, operational performance and risk issues on behalf of the SPENH Group.

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

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

Suzanne Fox was appointed on 1 February 2022 as an independent, non-executive director. Professor Dame Lesley Anne Glover resigned on 20 March 2022.

The terms of reference of the SPENH Board are published on www.spenergynetworks.co.uk under 'Corporate Governance'.

SPENH Audit and Compliance Committee ("SPENH ACC")

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

SP MANWEB PLC

DIRECTORS' REPORT *continued*

CORPORATE GOVERNANCE *continued*

The SPENH ACC, a permanent internal body, has an informative and consultative role, without executive functions, with powers of information, assessment and presentation of proposals to the SPENH Board within its scope of action, which is governed by the Articles of Association of SPENH and by the terms of reference of the SPENH ACC.

The SPENH ACC's responsibilities include:

- monitoring the financial and non-financial reporting processes for the SPENH Group;
- monitoring the effectiveness of the SPENH Group's internal control, internal audit, compliance and risk management systems;
- monitoring the statutory audit of the Annual Report and Accounts of the SPENH Group; and
- monitoring the independence of the external auditor and recommending to the SPENH Board, the appointment or re-appointment of the auditor and the associated terms of reference.

The issues that the SPENH ACC specifically addressed are detailed in its report which is published on www.spenergynetworks.co.uk under 'Corporate Governance' / 'Board of Directors'.

For the year ended 31 December 2021 there were no significant financial statement reporting issues for entities within the SPENH Group.

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

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

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

DIRECTORS' INDEMNITY

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

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with international accounting standards as adopted by the UK as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 December 2021 ("UK-adopted international accounting standards") and applicable law.

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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- state whether they have been prepared in accordance with UK-adopted international accounting standards and applicable law;
- 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 its 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.

SP MANWEB PLC
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, Directors' Report, and Corporate Governance Statement 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 which is included on the ScottishPower website. Legislation in the UK governing the preparation and dissemination of the financial statements differs from legislation in other jurisdictions.

Disclosure of information to auditor

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

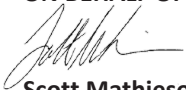
- so far as he or she is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that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

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

AUDITOR

KPMG LLP was re-appointed as the auditor of the Company for the year ended 31 December 2022.

ON BEHALF OF THE BOARD



Scott Mathieson

Director

10 June 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SP MANWEB PLC

1 Our opinion is unmodified

We have audited the financial statements of SP Manweb plc ("the Company") for the year ended 31 December 2021 which comprise the Statement of financial position, Income statement and statement of comprehensive income, Statement of changes in equity, Statement of cash flows, and the 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 Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 11 January 2018. The period of total uninterrupted engagement is for the 5 financial years ended 31 December 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

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

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

Capital expenditure

(£195.0 million; 2020 £192.0 million)

Refer to page 29 (accounting policy) and pages 34 and 35 (financial disclosures).

The risk – Accounting Treatment - The Company continues to undertake major capital projects, including significant enhancements to the distribution networks. Property, plant and equipment (including those assets in the course of construction) is quantitatively the most significant amount on the Company's Statement of financial position and is the most significant area of audit effort. The determination of project costs as capital or operating expenditure is inherently judgemental as there is a need to distinguish between enhancement and maintenance works.

Our response - Our procedures included:

Control design and observation: Evaluating the design and operating effectiveness of a selection of the Company's controls over the capital expenditure process including the approval of the capital expenditure. Tests of effectiveness were performed by re-performing a sample selected on the basis of the frequency of control operation and were designed to verify that appropriate procedures were followed in each instance.

Test of details: We assessed the Company's capitalisation policy for compliance with relevant accounting standards. We critically assessed the capital nature of a sample of projects, focussing on additional spend in the year. We assessed the adequacy of the Company's disclosures of its capitalisation policy including the judgement involved in assessing expenditure as capital.

Our results - We found the accounting treatment for capital expenditure to be acceptable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SP MANWEB PLC *continued*

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

Materiality for the financial statements as a whole was set at £15.0 million (2020 £15.0 million), determined with reference to a benchmark of total assets, of which it represents 0.42% (2020 0.43%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 75% (2020 75%) of materiality for the financial statements as a whole, which equates to £11,200,000 (2020 £11,250,000). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.75 million (2020 £0.75 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was performed by a single audit team.

4 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 twelve months 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 a reduction in energy volumes which would lead to reduced revenue in the period. It is important to note however that any such reductions in volumes would only create a short-term cash flow impact as under the Company's regulatory mechanism, the shortfall would be recoverable through allowable revenues in future periods.

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. Furthermore, we assessed the ability and intent of the parent company to continue to support the company should any such support be required.

We considered whether the going concern disclosure in Note 1 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; and
- we found the going concern disclosure in Note 1 to be acceptable.

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

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SP MANWEB PLC *continued*

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

- 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/Audit Committee/Group Disclosure Committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

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

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. On this audit we do not believe there is a fraud risk related to revenue recognition because the Company's revenue consists entirely of routine, non-complex transactions which are subject to systematic processing and do not require significant judgements.

We did not identify any additional fraud risks.

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

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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

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

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

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

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

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, environmental protection legislation and 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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SP MANWEB PLC *continued*

6 We have nothing to report on the other information in the Annual Report

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

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

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

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, 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.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 16 and 17, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the 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 other irregularities (see below), 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, other irregularities 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.

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

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



**Gordon Herbertson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants
319 St. Vincent Street
Glasgow
G2 5AS

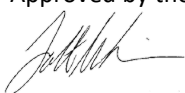
13 June 2022

SP MANWEB PLC
STATEMENT OF FINANCIAL POSITION
at 31 December 2021

	Notes	2021 £m	2020 Restated* £m
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		3,368.9	3,268.7
Property, plant and equipment in use	3	3,059.6	2,927.7
Property, plant and equipment in the course of construction	3	309.3	341.0
Right-of-use assets	4	56.8	56.8
Investments in subsidiaries	5	0.1	0.1
Non-current trade and other receivables	6	0.6	0.3
TOTAL NON-CURRENT ASSETS		3,426.4	3,325.9
CURRENT ASSETS			
Inventories	7	15.7	17.6
Current trade and other receivables	6	124.5	105.4
Cash	8	12.3	14.3
TOTAL CURRENT ASSETS		152.5	137.3
TOTAL ASSETS		3,578.9	3,463.2
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parents		983.7	1,032.7
Share capital	9, 10	300.0	300.0
Share premium	10	3.3	3.3
Other reserves	10	6.0	6.0
Retained earnings	10	674.4	723.4
TOTAL EQUITY		983.7	1,032.7
NON-CURRENT LIABILITIES			
Non-current deferred income	11	541.0	527.1
Non-current provisions	12	1.8	1.6
Non-current loans and other borrowings	13	1,440.4	1,320.1
Non-current lease liabilities	4	52.6	52.9
Non-current trade and other payables	14	-	0.1
Deferred tax liabilities	15	277.6	202.6
TOTAL NON-CURRENT LIABILITIES		2,313.4	2,104.4
CURRENT LIABILITIES			
Current deferred income	11	18.2	-
Current provisions	12	0.5	0.4
Current loans and other borrowings	13	65.0	133.8
Current lease liabilities	4	5.6	5.5
Current trade and other payables	14	188.5	181.6
Current income tax liabilities		4.0	4.8
TOTAL CURRENT LIABILITIES		281.8	326.1
TOTAL LIABILITIES		2,595.2	2,430.5
TOTAL EQUITY AND LIABILITIES		3,578.9	3,463.2

* Comparative figures have been restated (refer to Note 1B2).

Approved by the Board and signed on its behalf on 10 June 2022:



Scott Mathieson
Director

The accompanying Notes 1 to 26 are an integral part of the Statement of financial position at 31 December 2021.

SP MANWEB PLC
INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Revenue	16	418.1	408.4
Procurements		(17.9)	(20.9)
GROSS MARGIN		400.2	387.5
Staff costs	17	(59.1)	(59.9)
Capitalised staff costs	17	46.2	44.0
External services		(90.9)	(81.3)
Other operating results		12.0	10.9
Net operating costs		(91.8)	(86.3)
Taxes other than income tax	18	(23.7)	(23.5)
GROSS OPERATING PROFIT		284.7	277.7
Net expected credit losses on trade and other receivables		(4.2)	(0.6)
Depreciation and amortisation charge, allowances and provisions	19	(115.2)	(109.3)
OPERATING PROFIT		165.3	167.8
Finance income	20	1.2	0.1
Finance costs	21	(37.6)	(41.5)
PROFIT BEFORE TAX		128.9	126.4
Income tax	22	(92.4)	(45.7)
NET PROFIT FOR THE YEAR		36.5	80.7

Net profit for both years is wholly attributable to the equity holders of SP Manweb plc.

Net profit for both years comprises total comprehensive income.

All results relate to continuing operations.

The accompanying Notes 1 to 26 are an integral part of the Income statement and statement of comprehensive income for the year ended 31 December 2021.

SP MANWEB PLC
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2021

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2020	300.0	3.3	6.0	715.7	1,025.0
Total comprehensive income for the year	-	-	-	80.7	80.7
Dividends	-	-	-	(73.0)	(73.0)
At 1 January 2021	300.0	3.3	6.0	723.4	1,032.7
Total comprehensive income for the year	-	-	-	36.5	36.5
Dividends	-	-	-	(85.5)	(85.5)
At 31 December 2021	300.0	3.3	6.0	674.4	983.7

The accompanying Notes 1 to 26 are an integral part of the Statement of changes in equity for the year ended 31 December 2021.

SP MANWEB PLC
STATEMENT OF CASH FLOWS
for the year ended 31 December 2021

	2021	2020
	£m	£m
Cash flows from operating activities		
Profit before tax	128.9	126.4
Adjustments for:		
Depreciation, amortisation and impairment	113.9	108.1
Change in provisions	0.3	0.2
Transfer of assets from customers	(16.7)	(16.3)
Net finance income and costs	36.4	41.4
Net losses on disposal/write-off non-current assets	0.9	0.7
Changes in working capital:		
Change in trade and other receivables	2.5	(3.7)
Change in inventories	(15.5)	(23.5)
Change in trade and other payables	0.4	(4.0)
Provisions paid	-	(0.1)
Assets received from customers	48.4	44.9
Income taxes paid	(18.2)	(28.5)
Net cash flows from operating activities (i)	281.3	245.6
Cash flows from investing activities		
Interest received	0.8	0.1
Investments in property, plant and equipment	(185.5)	(212.2)
Proceeds from disposal of property, plant and equipment	0.1	-
Net cash flows from investing activities (ii)	(184.6)	(212.1)
Cash flows from financing activities		
Net decrease in amounts due to/from Iberdrola Group companies - current loans	(143.5)	(97.9)
Increase in amounts due to Iberdrola Group companies - non-current loans payable	175.0	175.0
Dividends paid to the Company's equity holders	(85.5)	(73.0)
Interest paid	(37.7)	(41.0)
Payments of lease liabilities	(5.4)	(5.7)
Interest paid on lease liabilities	(1.6)	(0.9)
Net cash flows from financing activities (iii)	(98.7)	(43.5)
Net decrease in cash and cash equivalents (i)+(ii)+(iii)	(2.0)	(10.0)
Cash and cash equivalents at beginning of year	14.3	24.3
Cash and cash equivalents at end of year	12.3	14.3

Cash and cash equivalents at end of year comprises:

Statement of financial position cash	12.3	14.3
Statement of cash flows cash and cash equivalents	12.3	14.3

The accompanying Notes 1 to 26 are an integral part of the Statement of cash flows for the year ended 31 December 2021.

SP MANWEB PLC
NOTES TO ACCOUNTS
31 December 2021

1 BASIS OF PREPARATION

A COMPANY INFORMATION

SP Manweb plc, registered company number 2366937, is a private company limited by shares, incorporated in England and Wales and its registered address is 3 Prenton Way, Prenton, CH43 3ET.

B BASIS OF PREPARATION

B1 BASIS OF PREPARATION OF THE ACCOUNTS

The Company is required by law to prepare accounts for the Company and to deliver them to the Registrar of Companies. The Accounts have been prepared in accordance with UK-adopted international accounting standards (refer to Note 1C1 below). The Accounts are prepared in accordance with the accounting policies set out in Note 2. Monetary amounts are presented in pounds Sterling and rounded to the nearest hundred thousand unless otherwise indicated. The Accounts are prepared on the historical cost basis.

The Accounts contain information about SP Manweb plc as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. Under Section 402 of the Companies Act 2006, the Company has not prepared consolidated accounts as the inclusion of its subsidiary undertakings in consolidated accounts is not material for the purpose of giving a true and fair view.

The Company has one operating segment for management reporting purposes which operates in a single geographical area and reports revenues from a single activity.

B2 CHANGES IN PRESENTATION

B2.1 DEFERRED INCOME

The Company receives contributions from its customers for the construction of grid connection facilities or is assigned assets used to connect those customers to a network. Both the cash and the fair value of the facilities received are credited to Deferred income in the Statement of financial position as this is a contract liability. In prior years, the full liability was classified as non-current, however, during the year, the directors have reviewed the classification of such balances and concluded that the value of deferred income which is expected to be released to the Income statement and statement of comprehensive income within the next year should be recorded within current liabilities. The effect of this change has not been reflected as a restatement to prior year deferred income and current liabilities as the directors do not consider this to have had a material impact.

B2.2 VOLUNTARY CHANGE TO STATEMENT OF FINANCIAL POSITION

Effective from 1 January 2021, the Company modified the format of its Statement of financial position in line with Iberdrola Group policy to reclassify interest payable from Current trade and other payables to current Loans and other borrowings. This change is deemed to provide more useful information to users of the financial statements and bring the Company into line with industry practice. This is a voluntary change in accounting policy resulting in the restatement of the prior year comparatives. Therefore, in the 2020 Statement of financial position, Current trade and other payables has been reduced by £12.1 million and current Loans and other borrowings increased by £12.1 million. This restatement has had no impact on the net assets position shown on the Statement of financial position or the net profit for the year shown in the Income statement and statement of comprehensive income.

B3 GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 1 to 11.

The Statement of financial position presents net current liabilities of £129.3 million as at 31 December 2021. 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 ScottishPower 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.

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

1 BASIS OF PREPARATION *continued*

B BASIS OF PREPARATION *continued*

B3 GOING CONCERN *continued*

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 cash flow forecast to December 2023 including the cash flow of longer-term strategies and projects. The cash flow forecast takes account of severe, but plausible, downsides.

The cash flow forecast indicates that, even under the severe, but plausible, downside scenario, the Company's existing resources and committed facilities, including £250.0 million of credit committed until February 2025 (refer to Note 13(a)(xii)) are sufficient to enable it to trade and pay its liabilities as they fall due for the forecast period.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least one year from the date of approval of the financial statements and therefore have prepared the aforementioned 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 IASs adopted by the EU at that time were 'frozen' into UK law thus considered as in force in the UK at the end of the transition period. Adoptions, interpretations and amendments of IAS endorsed by the EU ("EU-adopted IAS") after the transition period will no longer apply in the UK. Since the end of the transition period, UK-registered companies must use IAS as adopted by the UK ("UK-adopted IAS"). At the end of the transition period, those standards were identical to the EU-adopted IAS in force on that date, but subsequently the UK has established its own endorsement process to adopt UK-adopted IFRS, interpretations and amendments of IFRS. For the year ended 31 December 2020, UK companies therefore had the option to use any standards which had been adopted for use within the UK in addition to the frozen EU-adopted IAS.

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

C2 IMPACT OF NEW IFRS

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

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

Standard	Notes
• Amendments to IFRS 16 'Leases: Covid-19-Related Rent Concessions' and 'Covid-19-Related Rent Concessions beyond 30 June 2021'	(a), (b)
• Amendments to IFRS 9 'Financial Instruments'; IAS 39 'Financial Instruments: Recognition and Measurement'; IFRS 7 'Financial Instruments: Disclosures'; IFRS 4 'Insurance Contracts'; and IFRS 16 'Leases': 'Interest Rate Benchmark Reform – Phase 2'	(b), (c)
• Amendments to IFRS 4 'Insurance Contracts: Extension of the Temporary Exemption from Applying IFRS 9'	(b)
(a) The first-noted amendment to IFRS 16 makes available a practical expedient around rent concessions affecting payments originally due on or before 30 June 2021 and was applied by the Company on 1 January 2021. The latter amendment extends the time that the practical expedient is available and is effective for periods commencing on or after 1 April 2021.	
(b) The application of these amendments has not had a material impact on the Company's accounting policies, financial position or performance.	
(c) Phase 1 of the Interest Rate Benchmark Reform ("IBOR Reform") was applied by the Company effective 1 January 2020. The Company has applied the requirements of Phase 2 of this reform from 1 January 2021 including the provided modification accounting reliefs. The Company holds debt instruments referencing LIBOR (London Inter-Bank Offer Rate). These are highlighted in Note 13(a). The Company and all relevant counterparties have signed the International Swaps and Derivatives Association's ("ISDA") IBOR Fallbacks Protocol, and accordingly all debt instruments will be revised to reference the appropriate new benchmark rates from 1 January 2022. Additional risk management disclosure has been provided in line with the revised requirements contained in the amendments to IFRS 7 (refer to Note 8B2).	

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

C2 IMPACT OF NEW IFRS *continued*

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

Standard	Notes	IASB effective date (for periods commencing on or after)	Planned date of application by the Company
• Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract'	(d)	1 January 2022	1 January 2022
• Amendments to IFRS 3 'Business Combinations: Reference to the Conceptual Framework'	(d)	1 January 2022	1 January 2022
• Amendments to IAS 16 'Property, Plant and Equipment: Proceeds before Intended Use'	(d)	1 January 2022	1 January 2022
• Annual Improvements to IFRS Standards 2018-2020 Cycle	(d)	1 January 2022	1 January 2022
• IFRS17 'Insurance Contracts' including 'Amendments to IFRS17'	(d)	1 January 2023	1 January 2023
• Amendments to IAS 1 'Presentation of Financial Statements: Classification of Liabilities as Current or Non-current' and 'Deferral of Effective Date'	(d),(e)	1 January 2023	1 January 2023
• Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2: 'Disclosure of Accounting Policies'	(d),(e)	1 January 2023	1 January 2023
• Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates'	(d),(e)	1 January 2023	1 January 2023
• IAS 12 'Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction'	(d),(e)	1 January 2023	1 January 2023
• IFRS 14 'Regulatory Deferral Accounts'	(d),(e),(f)	1 January 2016	To be decided
• Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures': 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	(d),(e),(g)	Deferred indefinitely	To be decided

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

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

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

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES PRINCIPAL 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 2021, there are no assumptions made about the future or other major sources of estimation uncertainty which have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

ScottishPower, Energy Networks, and so the Company, considers that the impact of climate change risk and opportunities does not create any additional estimation uncertainty.

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

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

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

- A REVENUE
- B PROCUREMENTS
- C PROPERTY, PLANT AND EQUIPMENT
- D LEASED ASSETS
- E IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND LEASED ASSETS
- F FINANCIAL INSTRUMENTS
- G INVENTORIES
- H OTHER OPERATING RESULTS
- I RETIREMENT BENEFITS
- J TAXATION

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) Electricity distribution

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

(b) Transfers of assets from customers

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

B PROCUREMENTS

Procurements principally comprises use of system charges from the system operator, National Grid. Costs are recorded on an accruals basis.

C PROPERTY, PLANT AND EQUIPMENT

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

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

	Years
Distribution facilities	40
Meters and measuring devices	2 - 23
Other items of property, plant and equipment	4 - 50

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

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

D LEASED ASSETS

A contract is, or contains a lease if, at its 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.

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

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

D1 LESSEE

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

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

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

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

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

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.

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

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

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

D LEASED ASSETS *continued*

D2 LESSOR

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

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

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

E IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND LEASED ASSETS

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

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

F FINANCIAL INSTRUMENTS

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

F1 FINANCIAL ASSETS

F1.1 CLASSIFICATION

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

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

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

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

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

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

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

F FINANCIAL INSTRUMENTS *continued*

F1 FINANCIAL ASSETS *continued*

F1.2 RECOGNITION AND MEASUREMENT

(a) Initial recognition and measurement

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

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

(b) Subsequent measurement and gains and losses

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

(c) Derecognition

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

(d) Impairment of financial assets

(i) Measurement of Expected Credit Losses ("ECLs")

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

In applying the simplified model, loss allowances for trade receivables are measured at an amount equal to a lifetime ECL. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for, where possible, forward-looking factors specific to the debtors and the economic environment. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and those the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

ECLs for all other financial assets are recognised using the general model which works as follows:

- for credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses resulting from default events that are considered possible within the shorter of the next twelve months and the life of the financial asset (a twelve-month ECL); and
- for credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

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

F FINANCIAL INSTRUMENTS *continued*

F1 FINANCIAL ASSETS *continued*

F1.2 RECOGNITION AND MEASUREMENT *continued*

(d) Impairment of financial assets *continued*

(i) Measurement of Expected Credit Losses (“ECLs”) *continued*

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.

(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.

F2 FINANCIAL LIABILITIES

F2.1 CLASSIFICATION

Financial liabilities are classified as measured amortised cost.

F2.2 RECOGNITION AND MEASUREMENT

(a) Initial recognition and measurement

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

(b) Subsequent measurement and gains and losses

Financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in the Income statement and statement of comprehensive income. Any gain or loss on derecognition is also recognised in the Income statement and statement of comprehensive income. This is the category most relevant to the Company as it includes interest-bearing loans and borrowings, and trade and other payables.

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

(c) 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 and statement of comprehensive income.

G INVENTORIES

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

H OTHER OPERATING RESULTS

Other operating results is principally comprised of recharges, primarily in relation to the Companies’ unregulated income. The line item also includes compensation and rebates received, lease income, and gains/losses on disposal of non-current assets.

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

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

I RETIREMENT BENEFITS

ScottishPower operates two defined benefit schemes and one defined contribution retirement benefit scheme in the UK. SP Manweb plc 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 and statement of comprehensive income in respect of pension costs is the contributions payable in the year.

J TAXATION

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

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

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised based on tax rates and laws enacted, or substantively enacted, at the reporting date.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Income statement and statement of comprehensive income. For income tax arising on dividends, the related tax is recognised in the Income statement and statement of comprehensive income, consistent with the transactions that generated the distributable profits.

3 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

	Distribution facilities	Meters and measuring devices	Other items of property, plant and equipment in use (Note(i))	Plant in the course of construction (Note(ii))	Total
	£m	£m	£m	£m	£m
Year ended 31 December 2020					
Cost:					
At 1 January 2020	3,918.0	84.6	22.5	428.9	4,454.0
Additions (Note (iii))	0.5	0.4	1.3	189.8	192.0
Transfers from plant in the course of construction to plant in use	293.3	-	1.5	(294.8)	-
Transfers from inventories	-	-	-	17.1	17.1
Disposals	(6.9)	(15.5)	-	-	(22.4)
At 31 December 2020	4,204.9	69.5	25.3	341.0	4,640.7
Depreciation:					
At 1 January 2020	1,214.5	69.0	4.7	-	1,288.2
Depreciation for the year	100.2	4.0	0.9	-	105.1
Disposals	(5.8)	(15.5)	-	-	(21.3)
At 31 December 2020	1,308.9	57.5	5.6	-	1,372.0
Net book value:					
At 31 December 2020	2,896.0	12.0	19.7	341.0	3,268.7
At 1 January 2020	2,703.5	15.6	17.8	428.9	3,165.8
The net book value of property plant and equipment at 31 December 2020 is analysed as follows:					
Property, plant and equipment in use	2,896.0	12.0	19.7	-	2,927.7
Property, plant and equipment in the course of construction	-	-	-	341.0	341.0
	2,896.0	12.0	19.7	341.0	3,268.7

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

3 PROPERTY, PLANT AND EQUIPMENT *continued*

(a) Movements in property, plant and equipment *continued*

	Distribution facilities £m	Meters and measuring devices £m	Other items of property, plant and equipment in use (Note(i)) £m	Plant in the course of construction (Note(ii)) £m	Total £m
Year ended 31 December 2021					
Cost:					
At 1 January 2021	4,204.9	69.5	25.3	341.0	4,640.7
Additions (Note (iii))	0.3	0.3	2.1	192.3	195.0
Transfers from plant in the course of construction to plant in use	240.5	-	0.9	(241.4)	-
Transfers from inventories	-	-	-	17.4	17.4
Disposals	(8.4)	(5.9)	-	-	(14.3)
At 31 December 2021	4,437.3	63.9	28.3	309.3	4,838.8
Depreciation:					
At 1 January 2021	1,308.9	57.5	5.6	-	1,372.0
Depreciation for the year	106.0	3.9	1.1	-	111.0
Disposals	(7.2)	(5.9)	-	-	(13.1)
At 31 December 2021	1,407.7	55.5	6.7	-	1,469.9
Net book value:					
At 31 December 2021	3,029.6	8.4	21.6	309.3	3,368.9
At 1 January 2021	2,896.0	12.0	19.7	341.0	3,268.7

The net book value of property plant and equipment

at 31 December 2021 is analysed as follows:

Property, plant and equipment in use	3,029.6	8.4	21.6	-	3,059.6
Property, plant and equipment in the course of construction	-	-	-	309.3	309.3
	3,029.6	8.4	21.6	309.3	3,368.9

- (i) The category Other items of property, plant and equipment in use principally comprises other technical installations, communications equipment and land.
- (ii) The category Plant in the course of construction principally comprises distribution facilities in the course of construction.
- (iii) Additions of meters and measuring devices of £0.3 million (2020 £0.4 million) were purchased from other Iberdrola Group companies, as shown in Note 25.
- (iv) The cost of fully depreciated property, plant and equipment still in use at 31 December 2021 was £133.7 million (2020 £124.3 million).
- (v) Included within the cost of property, plant and equipment as at 31 December 2021 are assets in use not subject to depreciation, being land of £6.0 million (2020 £6.0 million).
- (vi) Included in Distribution facilities at 31 December 2021 are assets with a carrying value of £0.1 million (2020 £0.1 million) which the Company leases to third parties via operating leases.

(b) Capital commitments

	2021					2027 and thereafter £m	Total £m
	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m		
Contracted but not provided	56.9	5.8	0.5	-	-	-	63.2
	2020					2026 and thereafter £m	Total £m
	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m		
Contracted but not provided	67.9	10.7	2.2	-	-	-	80.8

(c) Research and development expenditure

The amount of research and development expenditure recognised as an expense during the year was £0.2 million (2020 £0.6 million).

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

4 LEASING

4A LESSEE

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

(a) Nature of leases

Land

The Company holds agreements to lease land and for the assignment of rights to use land, primarily relating to operational assets, with typical lease terms running between 13 and 40 years. Certain agreements contain the right to extend the terms by up to 50 years and other contracts can be terminated with up to twelve months' notice.

Vehicles

The Company leases vehicles with lease terms of between three and eight years, primarily being pool vehicles to mobilise its operational staff and other specialist vehicles.

Buildings

The Company leases buildings primarily as operational depots. The leases typically have terms ranging between nine and 25 years. Certain leases have options to extend the term by up to 25 years at the end of the term whilst others have options to terminate subject to a notice period of up to three months.

Other equipment

The Company leases operating plant, with lease terms of up to 42 years. Certain agreements have rights to extend the term by up to five years and can be terminated with up to twelve months' notice. Certain plant leases for generators and temporary site security systems are considered short-term and the Company has elected not to recognise right-of-use assets and lease liabilities for these leases.

Variable lease payments

Certain land leases contain variable lease payments that are based on the building services supplied or radio hill site usage. The fixed annual payments for the year were £7.0 million compared to variable payments made of less than £0.1 million. The Company expects the relative proportions of fixed and variable lease payments to remain broadly consistent in future years.

Extension options

Some leases, in particular of land and buildings, contain extension options exercisable by the 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.

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

4 LEASING *continued*

4A LESSEE *continued*

(b) Right-of-use assets

Year ended 31 December 2020	Note	Land £m	Vehicles £m	Buildings £m	Other equipment £m	Total £m
Cost:						
At 1 January 2020		43.8	9.2	2.8	0.2	56.0
Additions		4.7	4.1	-	-	8.8
Adjustments for changes in liabilities	(i)	1.6	1.0	-	0.1	2.7
Disposals		(0.3)	-	-	-	(0.3)
At 31 December 2020		49.8	14.3	2.8	0.3	67.2
Depreciation:						
At 1 January 2020		2.1	2.4	0.4	0.1	5.0
Charge for the year		2.1	3.2	0.1	0.1	5.5
Disposals		(0.1)	-	-	-	(0.1)
At 31 December 2020		4.1	5.6	0.5	0.2	10.4
Net book value:						
At 31 December 2020		45.7	8.7	2.3	0.1	56.8
At 1 January 2020		41.7	6.8	2.4	0.1	51.0

Year ended 31 December 2021	Note	Land £m	Vehicles £m	Buildings £m	Other equipment £m	Total £m
Cost:						
At 1 January 2021		49.8	14.3	2.8	0.3	67.2
Additions		3.2	2.2	-	-	5.4
Adjustments for changes in liabilities	(i)	(0.3)	0.2	-	0.1	-
Disposals		(0.1)	(0.1)	-	-	(0.2)
At 31 December 2021		52.6	16.6	2.8	0.4	72.4
Depreciation:						
At 1 January 2021		4.1	5.6	0.5	0.2	10.4
Charge for the year		2.1	2.8	0.2	0.1	5.2
At 31 December 2021		6.2	8.4	0.7	0.3	15.6
Net book value:						
At 31 December 2021		46.4	8.2	2.1	0.1	56.8
At 1 January 2021		45.7	8.7	2.3	0.1	56.8

- (i) Adjustments for changes in liabilities are movements in the right-of-use asset resulting from remeasurement of the associated lease liability to reflect changes to the lease payments due to any reassessment or lease modifications.
(ii) There are no right-of-use assets measured at revalued amounts.

(c) Lease liabilities

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

	2021 £m	2020 £m
Less than one year	6.5	6.4
One to five years	17.6	18.7
More than five years	55.2	55.3
Total undiscounted lease liabilities at 31 December	79.3	80.4
Finance cost	(21.1)	(22.0)
Total discounted lease liabilities	58.2	58.4
Analysis of total lease liabilities		
Non-current	52.6	52.9
Current	5.6	5.5
Total	58.2	58.4

Details of the Company's risk management strategy for liquidity risks inherent in the Company's lease liability are described at Note 8.

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

4 LEASING *continued*

4A LESSEE *continued*

(d) Amounts recognised in Income statement and statement of comprehensive income

	Note	2021 £m	2020 £m
Interest on lease liabilities		(1.6)	(1.6)
Expenses relating to short-term leases	(i)	(2.6)	(2.4)

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

(e) Amounts recognised in the Statement of cash flows

	2021 £m	2020 £m
Payments of lease liabilities	(5.4)	(5.7)
Interest paid on lease liabilities	(1.6)	(0.9)
Payments for short-term leases	(2.4)	(2.3)
Total cash outflow for leases	(9.4)	(8.9)

4B LESSOR

The Company has contracts to lease land and buildings which have been classified as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. These leases have terms of up to two years.

Lease income recognised by the Company during 2021 was £0.4 million (2020 £0.5 million). No income relating to variable lease payments that do not depend on an index or rate has been recognised.

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

	2021 £m	2020 £m
Less than one year	0.4	0.4
One to two years	0.3	0.3
Two to three years	0.1	0.1
Total undiscounted lease payments	0.8	0.8

Details of the Company's risk management strategy for addressing and reducing the risks associated with the retained rights in the underlying assets are described in Note 8.

5 INVESTMENTS

			Investment in subsidiaries		
			£m		
At 1 January 2020, 1 January 2021 and 31 December 2021			0.1		
Subsidiary	Principal activities	Notes	Country of incorporation	Equity interest 2021	2020
Manweb Services Limited	Operation of a private electricity distribution network	(a), (b)	England and Wales	100%	100%

(a) The registered office of Manweb Services Limited is 3 Prenton Way, Prenton, CH43 3ET, England.

(b) This investment is a direct holding of the Company.

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

6 TRADE AND OTHER RECEIVABLES

	Notes	2021 £m	2020 £m
Current receivables:			
Receivables due from Iberdrola Group companies - trade		5.7	8.3
Receivables due from Iberdrola Group companies - loans	(a)	56.7	35.2
Receivables due from Iberdrola Group companies - interest		0.4	-
Trade receivables (including accrued income)		61.0	61.3
Prepayments		0.1	-
Other tax receivables (including rates prepayments)		0.6	0.6
	(b)	124.5	105.4
Non-current receivables:			
Prepayments		0.6	0.3
		0.6	0.3

- (a) Loans receivables due from Iberdrola Group companies are repayable on demand and earn interest Bank of England base rate ("Base") +1%.
(b) Trade and other receivables includes £64.7 million (2020 £67.3 million) of IFRS 15 receivables (refer to Note 16(b)).
(c) Information about the Company's exposure to credit and market risks, and impairment losses for trade receivables are included in Note 8.

7 INVENTORIES

	Notes	2021 £m	2020 £m
Inventories	(a),(b)	15.7	17.6

- (a) Inventories with a value of £1.9 million (2020 £2.5 million) were recognised as an expense during the year.
(b) Inventories with a value of £0.1 million (2020 £0.1 million) were written off during the year.

8 FINANCIAL INSTRUMENTS

(a) Carrying value of financial instruments

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

	Classification	Notes	2021		2020 Restated*	
			Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets						
Receivables	Amortised cost	(i)	123.8	123.8	104.8	104.8
Cash	Amortised cost	(ii)	12.3	12.3	14.3	14.3
Financial liabilities						
Loans and other borrowings	Amortised cost	(iii)	(1,505.4)	(1,613.1)	(1,453.9)	(1,557.1)
Payables	Amortised cost	(i)	(138.6)	(138.6)	(118.2)	(118.2)

* Comparative figures have been restated (refer to Note 1B2).

The carrying amount of these financial instruments is calculated as set out in Note 2F. With the exception of Loans and other borrowings, the carrying value of financial instruments is a reasonable approximation of fair value. The fair value of Loans and other borrowings is calculated as set out in footnote (iii) below.

- (i) Balances outwith the scope of IFRS 7 'Financial Instruments: Disclosure' ("IFRS 7") and IFRS 9 'Financial Instruments' ("IFRS 9") have been excluded, namely Prepayments, Other tax receivables, Payments received on account and Other taxes and social security.
(ii) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits. Cash as at 31 December 2021 comprised deposits with banks of £12.3 million (2020 £14.3 million) in respect of ring-fenced funds received from third parties for use on specific innovation projects and are not available to finance the Company's day-to-day operations.
(iii) The fair value of listed debt is calculated using the most recently traded price to the year-end date. The fair value of all other loans and borrowings is calculated using a discounted cash flow.

(b) Financial risk management

The Company's financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company's financial assets are primarily trade and loan receivables and cash that arise directly from its operations.

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

8 FINANCIAL INSTRUMENTS *continued*

(b) Financial risk management *continued*

The Company has exposure to the following risks arising from its financial instruments:

- A Credit risk; and
- B Treasury risk (comprising both liquidity and market risk).

An extensive description of this risk management framework of ScottishPower, and therefore the Company, can be found in the most recent Annual Report and Accounts of SPL.

A CREDIT RISK

Credit risk is the risk that a counterparty will not meet its contractual obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions.

The carrying amount of financial assets represents the maximum credit exposure to the Company.

A1 CREDIT RISK MANAGEMENT

The Company is exposed to both settlement risk (defined as the risk of a counterparty failing to pay for services which have been delivered), as well as replacement risk (defined as the risk of incurring additional costs in order to replace a sale or purchase contract following a counterparty default).

Further details on the credit risk management strategy adopted for significant types of financial asset are as follows:

- Credit risk in respect of customers is mitigated by contracting with multiple counterparties and limiting exposure to individual counterparties to clearly defined limits based upon the risk of counterparty default.
- Credit risk from balances with banks and financial institutions is managed by ScottishPower's treasury department in accordance with Iberdrola's cash investment procedure. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty by Corporate Risk Management.
- The Company provides funding in the form of interest-bearing on demand loans to other Iberdrola Group companies. Credit risk from Iberdrola Group companies is considered to be low as the Company is part of the Iberdrola Group's centralised treasury function and no Group company has a credit rating lower than BBB+ (in line with Standards & Poors external credit ratings).

At 31 December 2021 and 2020, the Company evaluated the concentration of risk with respect to financial assets as low, with no material concentration of credit risk in the Company arising from one particular counterparty.

Expected credit loss assessment

For trade receivables, the Company applies the simplified approach for calculation of ECLs. For all other financial assets measured at amortised cost, the Company applies the general approach for calculation of ECLs.

A2 TRADE RECEIVABLES

The Company uses the simplified model to measure ECLs for trade receivables. The provision rates represent a lifetime ECL and are based on the Iberdrola Group's historical loss experience and default rates (adjusted for COVID-19 as appropriate).

The tables below illustrate the ECL on trade receivables:

	0-6 months	Greater than 6 months	Total
	£m	£m	£m
At 31 December 2021			
Weighted average expected loss rate (%)	5.7%	87.5%	7.7%
Gross carrying amount	64.5	1.6	66.1
Loss allowance	(3.7)	(1.4)	(5.1)
Net carrying amount	60.8	0.2	61.0
	0-6 months	Greater than 6 months	Total
	£m	£m	£m
At 31 December 2020			
Weighted average expected loss rate (%)	1.1%	85.7%	2.1%
Gross carrying amount	61.9	0.7	62.6
Loss allowance	(0.7)	(0.6)	(1.3)
Net carrying amount	61.2	0.1	61.3

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

8 FINANCIAL INSTRUMENTS *continued*
(b) Financial risk management *continued*
A CREDIT RISK *continued*
A2 TRADE RECEIVABLES *continued*

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company.

Refer to the table reconciling the movement in the opening to the closing loss allowance at Note 8(b)A5 on the following page.

A3 RECEIVABLES DUE FROM IBERDROLA GROUP COMPANIES £62.8 million (2020 £43.5 million)

The loss allowance recognised in the Statement of financial position in both the current and prior year is less than £0.1 million as is the movement in the ECL in the year.

A4 CASH £12.3 million (2020 £14.3 million)

The cash is held with banks and financial institution counterparties, which are rated BBB- to AAA, based on Standard & Poor's ratings. Impairment on cash has been measured on a three month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash has low credit risk based on the external credit ratings of the counterparties. The loss allowance recognised in the Statement of financial position in both the current and prior year is less than £0.1 million as is the movement in the ECL in the year.

A5 RECONCILIATION OF OPENING TO CLOSING LOSS ALLOWANCE

The closing loss allowances for all financial assets measured at amortised cost, as at 31 December 2021 reconciles to the opening loss allowances as follows:

	Note	£m
At 1 January 2020		2.1
Increase in loss allowance recognised in the Income statement and statement of comprehensive income		0.6
Utilisation of provision		(1.4)
At 1 January 2021		1.3
Increase in loss allowance recognised in the Income statement and statement of comprehensive income	(i)	3.8
At 31 December 2021		5.1

(i) Net credit losses on trade and other receivables per the Income statement and statement of comprehensive income of £4.2 million (2020 £0.6 million), includes £0.4 million (2020 £nil) of additional bad debt write offs. The overall increase in the loss allowance of £3.8 million from 31 December 2020 is primarily related to changes in market conditions resulting in a higher likelihood of customers entering into administration.

B TREASURY RISK

Treasury risk is comprised of liquidity risk and market risk. ScottishPower's cash management and short-term financing activity, and therefore that of the Company, is integrated with Iberdrola's. The Company produces short-term rolling cash flow requirements and, if necessary, any required funding is obtained via ScottishPower's credit facilities already in place.

B1 TREASURY LIQUIDITY RISK MANAGEMENT

ScottishPower's liquidity position and short-term financing activities, and therefore that of the Company, are integrated and aligned with Iberdrola's. Liquidity risk, the risk that the Company will have insufficient funds to meet its liabilities, is managed by Iberdrola Group treasury, who are responsible for arranging banking facilities on behalf of ScottishPower. Scottish Power UK plc ("SPUK") is the principal counterparty for the loan balances due from the Company.

The tables below and on the following page summarise the maturity profile of the Company's financial liabilities as at 31 December based on contractual undiscounted payments.

	2021						Total
	2022	2023	2024	2025	2026	2027 and thereafter	
	£m	£m	£m	£m	£m	£m	£m
Cash outflows							
Loans and other borrowings	94.6	159.7	34.4	134.4	31.8	1,282.8	1,737.7
Payables	138.6	-	-	-	-	-	138.6
	233.2	159.7	34.4	134.4	31.8	1,282.8	1,876.3

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

8 FINANCIAL INSTRUMENTS *continued*

(b) Financial risk management *continued*

B TREASURY RISK *continued*

B1 TREASURY LIQUIDITY RISK MANAGEMENT *continued*

	2020					2026 and thereafter	Total
	2021	2022	2023	2024	2025		
	£m	£m	£m	£m	£m	£m	£m
Cash outflows							
Loans and other borrowings	154.2	84.5	150.0	25.9	126.4	1,111.7	1,652.7
Payables	118.1	0.1	-	-	-	-	118.2
	272.3	84.6	150.0	25.9	126.4	1,111.7	1,770.9

The interest payments on variable interest rate loans and bond issues in the table on the previous page reflect market forward interest rates at the reporting date and these amounts may change as market interest rates change.

B2 TREASURY MARKET RISK MANAGEMENT

Market risk is the risk of loss that results from changes in market rates (e.g. interest rates and foreign currency). Within the treasury function, ScottishPower, and therefore the Company, utilises a number of financial instruments to manage interest rate exposures. The management of interest rate risk is unaffected by IBOR reform (refer to Note 1C2).

B2.1 INTEREST RATE RISK

In order to adequately manage and limit this risk, the Iberdrola Group annually determines the desired structure of the debt between fixed and floating interest rate, taking into account the indexing of income either interest rate or price index. The ScottishPower treasury function then takes actions over the course of the year to work towards these desired Iberdrola Group ratios. Actions may include obtaining new sources of financing (at a fixed, floating or indexed rate) and/or utilising interest rate derivatives. The table below shows the debt structure of the Company excluding accrued interest.

	2021	2020
	£m	£m
Fixed rate	505.1	566.8
Variable rate	990.0	875.0
	1,495.1	1,441.8

The Company's borrowings are held at amortised cost. The reference interest rate for the variable rate borrowings of £990.0 million (2020 £875.0 million) is London Inter-Bank Offer Rate ("LIBOR"). With the cessation of LIBOR rates at the end of 2021, all current LIBOR variable rate loans will be switched to an alternative reference rate (Sterling Overnight Index Average ("SONIA") Term SONIA or UK Base rate) during 2022.

B2.2 SENSITIVITY ANALYSIS ON INTEREST RATE CHANGES

The table below illustrates the impact on the annual interest rate charge considering various rate changes. The analysis assumes all other factors remain constant.

Debt category		Interest rate	Change in rate	Impact on interest rate charge in 2021	Impact on interest rate charge in 2020
				£m	£m
Loans payable	LIBOR debt	LIBOR	+ 0.25%	2.5	2.2
			+0.50%	5.0	4.4
			-0.25%	(2.5)	(2.2)
			- 0.50%	(5.0)	(4.4)
Loans receivable	Short-term variable rate	Base	+ 0.25%	(0.1)	(0.1)
			+0.50%	(0.3)	(0.2)
			-0.25%	0.1	0.1
			- 0.50%	0.3	0.2

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

9 SHARE CAPITAL

	2021	2020
	£m	£m
Allotted, called up and fully paid shares:		
600,000,000 ordinary shares of 50p each (2020 600,000,000)	300.0	300.0

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

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

	Share capital £m	Share premium (Note (a)) £m	Other reserves (Note (b)) £m	Retained earnings (Note (c)) £m	Total £m
At 1 January 2020	300.0	3.3	6.0	715.7	1,025.0
Profit for the year attributable to equity holders of the	-	-	-	80.7	80.7
Dividends	-	-	-	(73.0)	(73.0)
At 1 January 2021	300.0	3.3	6.0	723.4	1,032.7
Profit for the year attributable to equity holders of the	-	-	-	36.5	36.5
Dividends	-	-	-	(85.5)	(85.5)
At 31 December 2021	300.0	3.3	6.0	674.4	983.7

- (a) Share premium represents consideration received for shares issued in excess of their nominal amount.
(b) Other reserves comprises the nominal value of the Company's ordinary share capital purchased by the Company in previous years.
(c) Retained earnings comprise the cumulative balance of profits and losses recognised in the financial statements as adjusted for transactions with shareholders, principally dividends.

11 DEFERRED INCOME

	At 1 January 2020 £m	Disposals £m	Receivable during year £m	Released to Income statement £m	At 31 December 2020 £m
Year ended 31 December 2020					
Transfer of assets from customers	498.4	(0.4)	45.4	(16.3)	527.1
	At 1 January 2021 £m	Disposals £m	Receivable during year £m	Released to Income statement £m	At 31 December 2021 £m
Year ended 31 December 2021					
Transfer of assets from customers	527.1	(0.4)	49.2	(16.7)	559.2
Analysis of total deferred income			Note	2021 £m	2020 £m
Non-current				541.0	527.1
Current*				18.2	-
			(a)	559.2	527.1

* There has been a change in the classification of Deferred income in the current year (refer to Note 1B2).

(a) Transfer of assets from customers is an IFRS 15 contract liability (refer to Note 16(b)).

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

12 PROVISIONS

		At 1 January 2020	New provisions £m	Utilised during year £m	Released during year £m	At 31 December 2020 £m
Year ended 31 December 2020	Notes	£m	£m	£m	£m	£m
Onerous contracts	(a)	0.3	-	(0.1)	-	0.2
Insurance	(b)	1.1	0.6	-	(0.3)	1.4
Decommissioning	(c)	0.5	-	-	(0.1)	0.4
		1.9	0.6	(0.1)	(0.4)	2.0

		At 1 January 2021	New provisions £m	Released during year £m	At 31 December 2021 £m
Year ended 31 December 2021	Notes	£m	£m	£m	£m
Onerous contracts	(a)	0.2	-	-	0.2
Insurance	(b)	1.4	0.6	(0.3)	1.7
Decommissioning	(c)	0.4	-	-	0.4
		2.0	0.6	(0.3)	2.3

		2021 £m	2020 £m
Analysis of total provisions			
Non-current		1.8	1.6
Current		0.5	0.4
		2.3	2.0

- (a) The provision for onerous contract costs relates to a property contract. The provision is expected to be utilised in 2026.
(b) The provision for insurance principally represents the value of claims reserves. The provision is expected to be utilised between 2022 and 2023.
(c) The provision for decommissioning costs is the discounted future estimated costs of decommissioning certain non-current assets. The decommissioning is expected to occur in 2040.

13 LOANS AND OTHER BORROWINGS

(a) Analysis by instrument and maturity

Instrument	Notes	Interest rate	Maturity	2021 £m	2020 Restated* £m
Loans with Iberdrola Group companies	(i),(ii)	3.416%	21 December 2022	55.0	55.0
Loans with Iberdrola Group companies	(i),(iii)	3.570%	20 December 2023	22.0	44.0
Loans with Iberdrola Group companies	(i),(iv)	2.821%	31 March 2025	80.0	120.0
£350 million euro-sterling bond	(v),(vi)	4.875%	20 September 2027	348.1	347.8
Loans with Iberdrola Group companies	(vii)	LIBOR + 0.78%	20 December 2027	180.0	240.0
Loans with Iberdrola Group companies	(i),(viii)	LIBOR + 3.365%	28 January 2029	110.0	110.0
Loans with Iberdrola Group companies	(i),(viii)	LIBOR + 1.025%	27 December 2029	350.0	350.0
Loans with Iberdrola Group companies	(ix)	LIBOR + 0.78%	22 December 2030	350.0	175.0
Accrued interest	(x)			10.3	12.1
				1,505.4	1,453.9

		2021 £m	2020 Restated* £m
Analysis of total loans and other borrowings	Note	£m	£m
Non-current		1,440.4	1,320.1
Current	(xi)	65.0	133.8
		1,505.4	1,453.9

* Comparative figures have been restated (refer to Note 1B2).

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

13 LOANS AND OTHER BORROWINGS *continued*

(a) Analysis by instrument and maturity *continued*

- (i) Under the conditions of this long-term loan agreement, the Company has an option, without fee or penalty, to make a repayment in whole or in part, of the then outstanding loan principal, plus accrued interest thereon, by providing SPUK with written notice at least five business days before the intended repayment date.
- (ii) The loan that is repayable in December 2022, is repayable in equal instalments on a biennial basis. The repayment of £55.0 million that is due in 2022 is classified as current in the 2021 analysis above.
- (iii) The loan that is repayable in December 2023, is repayable in equal instalments on a biennial basis. The repayment of £22.0 million that was due in 2021 is classified as current in the 2020 analysis above.
- (iv) The loan that is repayable in March 2025, is repayable in equal instalments on a biennial basis. The repayment of £40.0 million that was due in 2021 is classified as current in the 2020 analysis above.
- (v) This bond contains a 'Loss of licences' covenant that will require repayment of the outstanding amount should the Company lose its relevant licences.
- (vi) The £350 million euro-sterling bond will be redeemed at its principal amount on 20 September 2027 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the Company at a higher redemption price (as determined by a financial advisor appointed by the Company and Fiscal Agent) giving 30 to 60 days' notice. The bond is shown net of finance costs of (£0.3) million (2020 £(0.3) million), which are classified as current in the analysis above.
- (vii) The loan that is repayable in December 2027, is repayable in equal instalments on a biennial basis. The repayment of £60.0 million that was due in 2021 is classified as current in the 2020 analysis above.
- (viii) The loans that are repayable in January and December 2029 are repayable in full at maturity.
- (ix) The loan with that is repayable in December 2030 is repayable in full at maturity.
- (x) Accrued interest includes amounts due to Iberdrola Group companies of £5.5 million (2020 £7.3 million).
- (xi) Current borrowings as at 31 December 2021 comprise the short-term element of the 2022 loan (refer to footnote (ii) above), accrued interest payable and finance costs due to be amortised within one year which totalled £(0.3) million. Current borrowings as at 31 December 2020 comprised the short-term element of the 2023 loan (refer to footnote (iii) above), the short-term element of the 2025 loan (refer to footnote (iv) above), the short-term element of the LIBOR 2027 loan with (refer to footnote (vii) above), accrued interest payable and finance costs due to be amortised within one year which totalled £(0.3) million.
- (xii) In July 2020, the Company entered into an intra-group committed revolving credit facility arrangement with SPUK for £250.0 million, with an expiry date of February 2025. Therefore, at the date of signing these Accounts, the Company has £250.0 million of undrawn committed facilities available.

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Notes	Liabilities			Total £m
		Lease liabilities £m	Loans and other borrowings (Current) £m	Loans and other borrowings (Non-current) £m	
At 1 January 2020*		52.1	75.7	1,266.8	1,394.6
(Decrease)/increase in amounts due to Iberdrola Group companies	(i)	-	(62.7)	175.0	112.3
Payments of lease liabilities		(5.7)	-	-	(5.7)
Interest paid		(0.9)	(41.0)	-	(41.9)
Total movements from financing cashflows		(6.6)	(103.7)	175.0	64.7
Transfer from non-current to current		-	122.0	(122.0)	-
Other movements	(ii)	12.9	39.8	0.3	53.0
Total liability-related movements		12.9	161.8	(121.7)	53.0
At 31 December 2020		58.4	133.8	1,320.1	1,512.3

	Notes	Liabilities			Total £m
		Lease liabilities £m	Loans and other borrowings (Current) £m	Loans and other borrowings (Non-current) £m	
At 1 January 2021		58.4	133.8	1,320.1	1,512.3
(Decrease)/increase in amounts due to Iberdrola Group companies	(i)	-	(122.0)	175.0	53.0
Payments of lease liabilities		(5.4)	-	-	(5.4)
Interest paid		(1.6)	(37.7)	-	(39.3)
Total movements from financing cash flows		(7.0)	(159.7)	175.0	8.3
Transfer from non-current to current		-	55.0	(55.0)	-
Other movements	(ii)	6.8	35.9	0.3	43.0
Total liability-related movements		6.8	90.9	(54.7)	43.0
At 31 December 2021		58.2	65.0	1,440.4	1,563.6

- (i) The cash outflow in the Statement of cash flows for the year ended 31 December 2021 for Net decrease in amounts due to/from Iberdrola Group companies – current loans of £143.5 million (2020 £97.9 million) comprises a decrease of £122.0 million (2020 decrease of £62.7 million) in current loans due to Iberdrola Group companies (above) and an increase of £21.5 million (2020 increase of £35.2 million) in current loans receivable from Iberdrola Group companies (included within Trade and other receivables - refer to Note 6).
- (ii) Other movements include non-cash movements, including accrued interest expense and the acquisition of lease liabilities.

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

14 TRADE AND OTHER PAYABLES

	Notes	2021 £m	2020 *Restated £m
Current trade and other payables:			
Payables due to Iberdrola Group companies - trade		76.4	71.1
Payables due to Iberdrola Group companies- other	(a)	4.6	4.6
Trade payables		20.1	12.2
Other taxes and social security		11.0	9.7
Payments received on account	(b)	38.9	53.8
Capital payables and accruals		30.6	24.1
Other payables	(a)	6.9	6.1
		188.5	181.6
Non-current other payables:			
Other payables		-	0.1
		-	0.1

* Comparative figures have been restated (refer to Note 1B2).

- (a) The Company utilises forms of collateral to manage its credit exposure in respect of the provision of network services. All collateral held is settled in cash. At 31 December 2021, the Company held cash collateral of £10.4 million (2020 £9.4 million) of which £4.6 million (2020 £4.6 million) is payable Iberdrola Group companies.
- (b) Trade and other payables includes £38.9 million (2020 £53.8 million) of IFRS 15 contract liabilities (refer to Note 16(b)).

15 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Notes	Property, plant and equipment £m	Other temporary differences £m	Total £m
At 1 January 2020		182.7	(0.1)	182.6
Charge to the Income statement and statement of comprehensive income	(a)	20.0	-	20.0
At 1 January 2021		202.7	(0.1)	202.6
Charge to the Income statement and statement of comprehensive income	(b)	75.0	-	75.0
At 31 December 2021		277.7	(0.1)	277.6

- (a) Legislation was previously enacted to reduce the UK rate of Corporation Tax to 17% on 1 April 2020. Accordingly, the deferred tax balances as at 1 January 2020 were measured at the 17% rate, this being the tax rate enacted at that time, and the rate temporary differences were expected to reverse at. Further legislation which was substantively enacted on 17 March 2020 under The Provisional Collection of Taxes Act 1968 maintained the 19% UK Corporation Tax rate. The 19% rate applied from 1 April 2020. This rate change increased the deferred tax liability at 31 December 2020 by £21.0 million.
- (b) Legislation was enacted on 10 June 2021 under the Finance Act 2021 that will increase the UK Corporation Tax rate to 25% from 1 April 2023. Accordingly, the deferred tax balances at 1 January 2021 have been increased by £64.1 million to reflect the rate that the temporary differences are expected to reverse at.
- (c) At 31 December 2021, the Company had unutilised capital losses of £6.1 million (2020 £6.1 million). No deferred tax asset was recognised in either year due to the unpredictability of suitable future profit streams against which these losses may be utilised.

16 REVENUE

(a) Disaggregation of revenue

	2021 £m	2020 £m
Electricity distribution	401.4	392.1
Transfers of assets from customers	16.7	16.3
	418.1	408.4

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

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

16 REVENUE *continued*

(b) Contract balances

	Notes	2021 £m	2020 £m	2019 £m
Receivables	(i), (ii)	64.7	67.3	64.5
Contract liabilities	(iii), (iv)	(598.1)	(580.9)	(562.4)

(i) Included within Trade and other receivables (refer to Note 6).

(ii) £3.8 million (2020 £0.6 million) of net expected credit losses were recognised during the year on receivables arising from the Company's contracts with customers (refer to Note 8).

(iii) £559.2 million (2020 £527.1 million) of contract liabilities relates to the transfer of assets from customers which is recorded within Deferred income (refer to Note 11). The remainder is included with Trade and other payables (refer to Note 14).

(iv) The movement in the contract liabilities in the year comprises an increase in transfers of assets from customers and payments on account of £33.9 million (2020 £34.8 million) less contract liabilities recognised as income in the year of £16.7 million (2020 £16.3 million).

17 EMPLOYEE INFORMATION

(a) Staff costs

	Note	2021 £m	2020 £m
Wages and salaries		43.2	44.4
Social security costs		4.5	4.7
Pension and other costs	(i)	11.4	10.8
Total staff costs		59.1	59.9
Less: capitalised staff costs		(46.2)	(44.0)
Charged to the income statement and statement of comprehensive income		12.9	15.9

(i) The employee costs do not include the directors of the Company as they do not have a contract of service with the Company. The emoluments of all directors are included within the employee costs of other ScottishPower companies. Details of directors' emoluments are set out in Note 25(c).

(b) Employee numbers

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

	Average 2021	Average 2020
Administrative staff	214	226
Operations	610	643
Total	824	869

(c) Pensions

The Company's contributions payable in the year were £10.5 million (2020 £9.8 million). The Company contributes to the ScottishPower Group'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 2021, the net asset in ScottishPower's defined benefit schemes in the UK amounted to £192.2 million (2020 net liability of £558.6 million). The employer contribution rate for these schemes in the year ended 31 December 2021 was 47.9% - 51.0%.

18 TAXES OTHER THAN INCOME TAX

	2021 £m	2020 £m
Property taxes	23.7	23.5

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

19 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2021	2020
	£m	£m
Property, plant and equipment depreciation charge	111.0	105.1
Right-of-use asset depreciation charge	5.2	5.5
Charges and provisions, allowances and impairment of assets	1.3	1.2
	117.5	111.8
Capitalised right-of-use asset depreciation	(2.3)	(2.5)
	115.2	109.3

20 FINANCE INCOME

	2021	2020
	£m	£m
Interest on bank and other deposits	0.1	0.1
Interest receivable from Iberdrola Group companies	1.1	-
	1.2	0.1

21 FINANCE COSTS

	2021	2020
	£m	£m
Interest on amounts due to Iberdrola Group companies	18.7	22.6
Interest on other borrowings	17.5	17.5
Interest on lease liabilities	1.6	1.6
	37.8	41.7
Capitalised interest	(0.2)	(0.2)
	37.6	41.5

22 INCOME TAX

	2021	2020
	£m	£m
Current tax:		
UK Corporation Tax charge on profits for the year	17.5	21.5
Adjustments in respect of prior years	(0.1)	4.2
Current tax for the year	17.4	25.7
Deferred tax:		
Origination and reversal of temporary differences	10.7	3.1
Adjustments in respect of prior years	0.2	(4.1)
Impact of tax rate change on opening deferred tax balance	64.1	21.0
Deferred tax for the year	75.0	20.0
Income tax expense for the year	92.4	45.7

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

	2021	2020
	£m	£m
Corporation Tax at 19% (2020 19%)	24.5	24.0
Adjustments in respect of prior years	0.1	0.1
Impact of tax rate change on opening deferred tax balance	64.1	21.0
Impact of tax rate change on current year charge	2.9	-
Non-deductible expenses and other permanent differences	0.8	0.6
Income tax expense for the year	92.4	45.7

SP MANWEB PLC
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31 December 2021

22 INCOME TAX *continued*

Legislation was previously enacted to reduce the UK rate of Corporation Tax to 17% on 1 April 2020. Accordingly deferred tax balances were measured at the 17% rate, this being the tax rate enacted at the reporting date of 31 December 2019, and the rate temporary differences were expected to reverse. Further legislation which was substantively enacted on 17 March 2020 under The Provisional Collection of Taxes Act 1968 maintained the 19% UK Corporation Tax rate. The 19% rate was applicable from 1 April 2020. This rate change increased the deferred tax liability at 31 December 2020 by £21.0 million.

Further legislation was enacted on 10 June 2021 under the Finance Act 2021 that will increase the UK Corporation Tax rate to 25% from 1 April 2023. Accordingly, the deferred tax balances at 1 January 2021 increased by £64.1 million reflecting the rate that the temporary differences are expected to reverse at.

23 DIVIDENDS

	2021	2020	2021	2020
	pence per ordinary share	pence per ordinary share	£m	£m
Interim dividend paid	14.3	12.2	85.5	73.0

24 FINANCIAL COMMITMENTS

	2021						
	2022	2023	2024	2025	2026	2027 and thereafter	Total
	£m	£m	£m	£m	£m	£m	£m
Contractual commitments	8.8	0.1	-	-	-	-	8.9

	2020						
	2021	2022	2023	2024	2025	2026 and thereafter	Total
	£m	£m	£m	£m	£m	£m	£m
Contractual commitments	9.7	0.2	0.1	-	-	-	10.0

25 RELATED PARTY TRANSACTIONS

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

	2021		2020	
	Immediate parent (SPENH)	Other Iberdrola Group companies	Immediate parent (SPENH)	Other Iberdrola Group companies
	£m	£m	£m	£m
Types of transaction				
Sales and rendering of services	-	54.7	-	56.9
Purchases and receipt of services	-	(79.2)	-	(73.9)
Purchases of property, plant and equipment	-	(0.3)	-	(0.4)
Interest income	-	1.1	-	-
Interest costs (excluding ECLs)	-	(18.7)	-	(22.6)
Dividends paid	(85.5)	-	(73.0)	-
Balances outstanding				
Loans receivable	-	56.7	-	35.2
Trade and other receivables	-	5.7	-	8.3
Interest receivable	-	0.4	-	-
Loans payable	-	(1,147.0)	-	(1,094.0)
Trade and other payables	-	(81.0)	-	(75.7)
Interest payable	-	(5.5)	-	(7.3)

- (i) During the year ended 31 December 2021, SPUK made pension contributions of £10.5 million on behalf of the Company (2020 £9.8 million).
- (ii) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received in relation to the above related party transactions.

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2021

25 RELATED PARTY TRANSACTIONS *continued*

(b) Remuneration of key management personnel

The remuneration of the key management personnel of the Company is set out below. As all of the key management personnel are remunerated for their work for Energy Networks, it has not been possible to apportion the remuneration specifically in respect of services to this Company. Of the seven (2020 16) key management personnel, six (2020 14) were remunerated by other ScottishPower companies during the year.

	2021	2020
	£000	£000
Short-term employee benefits	1,708	2,129
Post-employment benefits	296	299
Termination benefits	-	221
Share-based payments	2,265	2,104
	4,269	4,753

(c) Directors' remuneration

The total remuneration of the directors that provided qualifying services to the Company are shown below. As these directors are remunerated for their work for Energy Networks, it has not been possible to apportion the remuneration specifically in respect of services to this Company. Of the five (2020 seven) directors, four (2020 five) were remunerated by other ScottishPower companies during the year.

	2021	2020
	£000	£000
Aggregate remuneration in respect of qualifying services	1,353	1,349
Aggregate compensation for loss of office	-	104
Number of directors who exercised share options	2	2
Number of directors who received shares under a long-term incentive scheme	2	3
Number of directors accruing retirement benefits under a defined benefit scheme	2	2

	2021	2020
	£000	£000
Highest paid director		
Aggregate remuneration	804	830
Accrued pension benefit	102	101

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

(d) Immediate and ultimate parent company

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

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

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

In addition to the parent undertakings disclosed above, the Company's other related undertaking is disclosed in Note 5.

26 AUDITOR'S REMUNERATION

	2021	2020
	£000	£000
Audit of the Annual accounts	141	109
Audit-related assurance services	6	62
Total	147	171