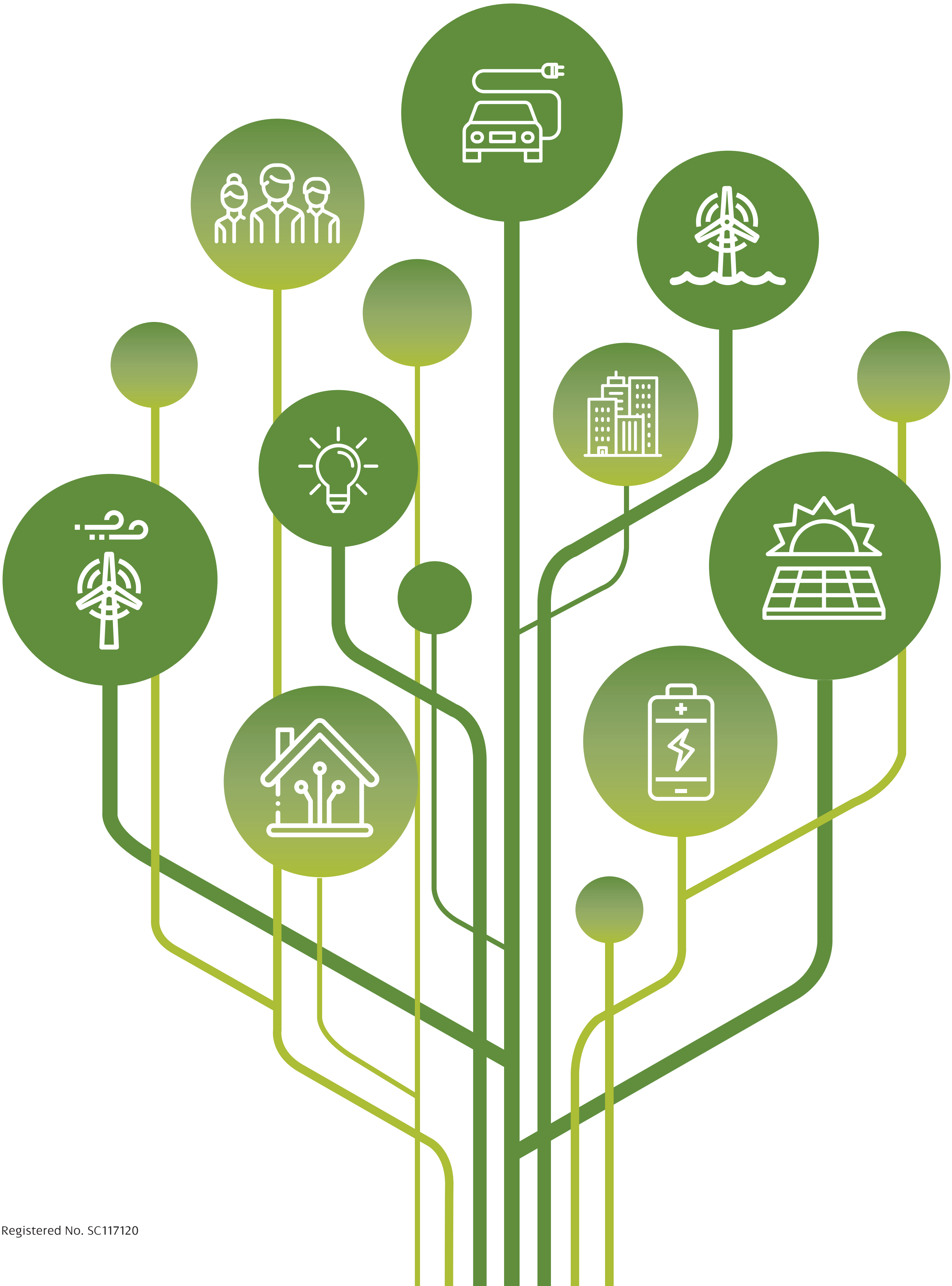
SCOTTISHPOWER

SCOTTISH POWER UK PLC
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2023



Registered No. SC117120

CONTENTS

Some of the statements contained herein are forward looking statements about Scottish Power UK plc and its subsidiaries, and Iberdrola, S.A.'s strategic plans. Although Scottish Power UK plc and Iberdrola, S.A. believe that the expectations reflected in such statements are reasonable, the statements are not guarantees as to future performance and undue reliance should not be placed on them.

The directors present their Strategic Report on the Scottish Power UK plc Group for the year ended 31 December 2023.

SCOTTISHPOWER TODAY

ScottishPower: creating a better future, quicker, by delivering a low-carbon future for the UK

WHO WE ARE

Scottish Power UK plc ("the Company"), registered company number SC117120, acts as the holding company of the Scottish Power UK plc Group ("the Group") whose activities comprise the generation, transmission and distribution of electricity, energy management and the supply of electricity and gas principally in the United Kingdom ("UK"). The Company is a wholly-owned subsidiary of Iberdrola, S.A. ("Iberdrola"), one of the largest utility companies in the world and a leader in renewable energy.

Scottish Power Limited ("SPL") is the UK holding company of the Scottish Power Limited Group ("ScottishPower") of which the Company is a member.

The three divisions operated by the Group during the year were Energy Networks, Renewable production (formerly known as Renewables), and Customer business (formerly known as Energy Retail and Wholesale), which are owned by their respective Head of Business Sub-holding companies: Scottish Power Energy Networks Holdings Limited ("SPENH"), ScottishPower Renewable Energy Limited ("SPREL"), and Scottish Power Retail Holdings Limited ("SPRH").

The Head of Business Sub-holding companies have their own boards of directors with the necessary autonomy to carry out the day-to-day management and effective administration of their division.

Further information regarding the corporate governance and board structure of ScottishPower is set out in the 'Corporate Governance section' of the Directors' Report' on page 56.

OUR ACTIVITIES

The Group has three divisions:

Energy Networks
Energy Networks is responsible for three regulated electricity network businesses in the UK. These businesses are 'asset-owner companies', holding the regulated assets and electricity transmission and distribution licences of the Group, and are regulated monopolies. They own and operate the network of cables, power lines and substations transporting electricity to around 3.5 million connected customers in the Central Belt and South of Scotland, Cheshire, Merseyside, North Shropshire and North Wales.

Renewable production
Renewable production is responsible for the origination, development, construction, operation and decommissioning of renewable energy generation plants, principally onshore and offshore wind, with a growing presence in battery storage and solar. Renewable production's ambitious growth plans include expansion of our existing onshore portfolio harnessing a pipeline of over 6 gigawatts ("GW"), investing in new large-scale onshore wind, solar deployment and Battery Energy Storage Systems ("BESS"). The UK offshore pipeline stands at 10 GW, with 2.9 GW of consented projects at our East Anglia Hub, 1.4 GW of which is under construction, and 7 GW of early development potential in our three ScotWind offshore projects. The division has over 40 operational wind farms, including our offshore wind farms West of Duddon Sands ("WoDS") and East Anglia One ("EA1"), and produces 3 GW of clean, renewable energy which supplies the equivalent of more than two million homes.

Customer business
Our Customer business is responsible for the supply of electricity and gas to almost five million domestic and business customers throughout the UK, including customer registration, billing and handling enquiries in respect of these services. The division is also responsible for the associated metering activity, and the smart meter installation programme, and for managing the Group's smart solutions activities including the UK's first nationwide installation service for air source heat pumps, solar panels, batteries and electric vehicle ("EV") charging. Scaling up green hydrogen production is a key strategic focus for the Iberdrola Group, with the aim of producing more than 350,000 tonnes of green hydrogen a year by 2030. Our Green Hydrogen department is aligned with the Group's ambitions in this growth area. The division is also responsible for managing the Group's exposure to the UK wholesale electricity and gas markets and the optimisation of gas storage.

2023 financial highlights

REVENUE £9,454.1m
(2022 £8,434.9m)

OPERATING PROFIT £1,911.3m
(2022 £834.5m)

CAPITAL INVESTMENT £1,844.4m[1]
(2022 £930.1m)

NET DEBT £(6,315.3)m[2]
(2022 (£5,360.2)m)

1 Represents additions to Intangible assets (refer to Note 7 on page 92), additions to Property, plant and equipment and in 2022 the reassessment of decommissioning asset within Property, plant and equipment (refer to Note 8 on page 94).
2 As detailed in the 'Liquidity and cash management' section on page 15.

OUR PURPOSE, VALUES, STRATEGY AND ROLE

Iberdrola and ScottishPower are "committed to an energy model that prioritises the wellbeing of people and the preservation of the planet."

OUR PURPOSE

Shaping the future of energy in the UK

We were the first integrated energy utility in the UK to have 100% of its generation of electricity derived from renewable energy sources. Our focus is on wind energy, smart grids, and driving the change to a cleaner, electric future. We are playing a leading role in the delivery of a clean, low-carbon system for the UK, currently investing £8 million every working day between 2023 and 2025 to create a better future, quicker. Increased investment in renewable energy and the electricity grid, alongside measures to support the electrification of heat and transport, remain crucial pillars in achieving the UK's climate targets and energy security goals.

With our plans to invest significantly in renewables generation and the electricity network infrastructure that will support the green transition, we are well-placed to contribute to the UK achieving its net zero ambitions. With more than £1.8 billion invested in the UK as part of a previously announced £6.7 billion programme for the years 2023 to 2025, the Group plans to build on this with investments of over £7 billion more in the years 2026 to 2028. This amounts to a £12 billion investment programme for the years 2024 to 2028.

The UK has led the world in decarbonising the power sector. In September 2023, Prime Minister Rishi Sunak set out the UK Government's updated pathway to net zero, which maintained the overall 2050 target while modifying the timeline for a ban on the sale of new petrol and diesel cars and the transition to heat pumps. In order to meet the UK's net zero target, the amount of renewable generation that needs to be connected will still increase significantly. So too, will levels of electricity demand, as we move to cleaner forms of transport and heating.

Our Renewable production and Energy Networks divisions continue to make progress in supporting the UK's net zero goals. In March 2023, Renewable production formalised its biggest ever contract award of £1.3 billion for 95 Siemens Gamesa turbines for our 1.4 GW East Anglia Three ("EA3") offshore wind farm. The project will supply enough green energy for 1.3 million UK homes. Off the Norfolk coast, EA3 will support over 2,300 jobs during its construction.

Significant innovations and investments continue to be made in our Energy Networks business. Our business plan, 'Enabling the path to net zero', which was developed as part of the RIIO-ED2 (Revenue = Incentives + Innovation + Outputs) second regulatory distribution price control process and implemented in April 2023, will run until March 2028. In addition to setting out how Energy Networks will develop a network that is ready for net zero, the plan sets out how we will act as a trusted partner for communities, customers and stakeholders, and ready our business for a digital and sustainable future. The salience of the need for grid infrastructure investment to deliver the required renewables capacity to homes and businesses across the country has increased significantly during 2023. In January 2024, Energy Networks unveiled £5.4 billion worth of contract opportunities in its next phase of electricity network investment, providing a boost for the supply chain and helping to unlock growth in the wider economy.

In a challenging economic environment, there continues to be a focus on measures to address the cost of living challenges being experienced by many in society. In the year ending 31 December 2022, Customer business gross margins were materially adversely impacted as the price cap methodology did not allow suppliers to fully recover high energy costs. In the first half of 2023, Customer business domestic revenues benefitted from specific price cap allowances which facilitated recovery of these prior year losses. While retail energy prices have now fallen back from their peak, they remain higher than they were pre-2022. A number of electricity and gas customers will continue to face challenging energy prices, particularly as additional government support measures introduced in 2022 come to an end. We recognise that everything we do in our Customer business is about our customers, from the energy we supply to the smart meters we install. Our Customer business is moving away from being just an energy supplier, with the growth of our Smart Solutions business, as well as our Green Hydrogen business, increasing the products we are offering our customers. Instead of purely supplying customers with gas and electricity, we provide advice on how they can optimise their energy usage and bills, ensuring those who have solar panels, batteries, EVs or heat pumps get the maximum benefit from them.

To help mitigate the impact of external cost pressures on the UK from wholesale energy markets, our commitment to investing in green energy security remains strong. In addition to our plans for significant investments in renewables and network infrastructure, this year we launched the Climate Action Hub alongside other leading Scottish businesses, and published our first Sustainable Development Strategy, 'Action 2030: Powering a Sustainable Future'. The key themes in this strategy are: clean energy, climate action, biodiversity and ecosystems, circular economy, our communities and work and skills.

In our interactions with the UK Government and the devolved administrations, we have highlighted the need to streamline the planning and consenting process for major new energy infrastructure projects, including updating the National Policy Statements governing planning applications in England and Wales. In August 2023, we also welcomed the UK Government's first Electricity Networks Commissioner's report which recommended to accelerate the integration of renewables generation by speeding up the delivery of strategic transmission lines, including its recommendations on reforming the planning regime in Scotland to better align it with the more streamlined regime in England and Wales. In November 2023, the Department of Energy Security and Net Zero ("DESNZ") published the UK Government's Transmission Acceleration Action Plan, which accepted the Electricity Networks Commissioner's recommendations and set out the ambition, among other things, of halving the end-to-end build time of electricity transmission network infrastructure from 14 to 7 years. At the same time, DESNZ and the UK's energy regulator (The Office of Gas and Electricity Markets ("Ofgem")) published a Connections Action Plan which set out expectations for the scale and pace of electricity grid connection reform.

We engaged with the UK Government on the need to ensure that the Contracts for Difference ("CfD") auctioning programme for renewable generation responds appropriately to accommodate the increase in commodity and supply chain costs which have been experienced as a result of the global economic strains caused by the pandemic and the Ukraine crisis. In November 2023, the Chancellor of the Exchequer announced in his Autumn Statement that full expensing of capital allowances would be made permanent. The Finance Bill 2023-24, which was introduced on 27 November 2023, included provision to remove the 2026 end date for full expensing in order to provide greater certainty to businesses and incentivise investment in IT equipment, plant and machinery. The Finance Bill 2023-24 is going through the parliamentary process with most of the proposed changes expected to come into force in April 2024. The Autumn Statement also introduced exemptions from the Electricity Generator Levy for new renewable generation projects where the substantive decision to proceed is taken on or after 22 November 2023.

OUR PURPOSE, VALUES, STRATEGY AND ROLE *continued*

Policy steps such as these can, over time, support progress towards meeting the UK Government's ambition for 50 GW of offshore wind by 2030, with an immediate focus on the publication of the budget and final parameters of the next CfD auctioning round, Allocation Round 6, which will be open for applications in late March 2024. In November 2023, we welcomed the publication of the Core Parameters for Allocation Round 6, which set out significant increases to the maximum prices for the draft Administrative Strike Prices available for renewable technologies.

We continue to work with Ofgem to ensure that the consumers who are struggling to pay their bills receive appropriate support, particularly the most vulnerable. For example, the prepayment meter premium was removed on 1 July 2023, meaning prepayment customers no longer pay more for their energy than those paying by direct debit ("DD"). We have also worked with Ofgem to improve the design of the price cap so that suppliers can efficiently recover incurred costs. This has enabled the delayed recovery of costs incurred in 2022, with the result that suppliers are now better placed to achieve the levels of financial resilience that will be required to survive future price shocks.

We continue to contribute to the wider external debate about the government and regulatory measures required to tackle the critical backlog in network connections for new renewables projects. We welcomed Ofgem's decision to introduce the Accelerated Strategic Network Investment ("ASTI") framework, which took effect from October 2023 and we have been actively involved in the development of policy on a Centralised Strategic Network Plan with regulatory and government stakeholders.

Delivering a better future, quicker for everyone

Everything we do as a Group is now determined through the prism of net zero and decarbonisation, in the name of green, affordable energy security. The UK needs to go faster and harder than we have ever gone before if we are to meet the ambitious targets for power sector decarbonisation by 2035, and decarbonisation of the rest of the economy by 2050 (2045 in Scotland). We need to be deploying low-carbon technologies at a quicker rate than has ever been achieved historically, and at ScottishPower, we continue to lead the charge.

There remains a need for speed in delivering more green, more secure and more affordable energy, not only to meet targets, but to mitigate the potential risk to the planet of an increase in global temperatures of more than two degrees. Global events and the consequent volatility in wholesale energy costs, demonstrate the importance of increasing domestic energy security. Ongoing cost of living challenges underline the importance of delivering affordable decarbonisation. Given our unique position in the UK as the only integrated energy company investing in renewables, electricity grids and helping homes to decarbonise, our resilient business model is an engine for delivering decarbonisation and growth across the communities we serve.

We have decades of experience delivering the green and secure energy system the UK needs. From supporting vulnerable people to making the energy transition to building the renewable generation that our economy needs; from modernising our electricity networks to connect more renewable energy and enabling the EV revolution to pioneering the development of floating wind deep offshore generation.

In February 2023 we launched our new-look Green Hydrogen department. As part of the growth and development of this department, we created new roles which were advertised as part of our 1,000 green jobs campaign. Following the launch of this campaign in July 2022, we have continued to target and recruit these and more green jobs in ScottishPower and have since welcomed 1,500 new hires.

We are dedicated to the purpose of building together, each day, a healthier, more accessible energy model, based on electricity. We believe in an energy model that prioritises the wellbeing of people and the preservation of the planet. Recognising the importance of taking care of the environment and people's health, we want to offer society our experience in addressing these urgent social needs through our work on the decarbonisation and electrification of the economy as a whole, using renewable energy sources, efficient energy storage, smart grids and digitisation. We share Iberdrola's purpose and values, and this is the bridge that connects the communities we serve with our growing Group.

OUR VALUES

Our values rest on continuing to develop as a leading global and sustainable group in the 21st century. To meet our purpose, we are founded on the following three corporate values that define the Group's identity and form the basis of our strategy.

Sustainable Energy ("Sustainable")

We are pioneers of renewable energy. We seek to inspire others by creating economic, social and environmental value wherever we are now, and looking to the future. We put this value into action by continually putting safety first, respecting the environment, and acting ethically, rationally and responsibly to meet our commitments.

Integrating Force ("Collaborative")

We are an energetic and responsible force for change. Through working together, we build and grow talent to achieve our common goals and purpose. We put this value into action by sharing knowledge and information; working together with our employees, suppliers and customers; and by breaking the mould and encouraging diversity.

Driving Force ("Dynamic")

We bring about efficient change, big and small, through constantly challenging ourselves and our processes. We innovate to deliver continuous improvement. We put this value into action by asking how we can do things more simply or efficiently, coming up with ideas and leading innovation, and anticipating our customers' needs.

OUR STRATEGY

Our strategy is to create value from investment in networks, renewable energy generation and retail to help our customers realise a better future, quicker, under the pillars of our strategic values.

Our key strategic goals include:

- investing in networks to make them smarter and more resilient, and creating a platform for the UK's sustainable electric future;
- investing in renewable energy generation, principally onshore and offshore wind, solar and battery storage, to address the climate emergency and reduce the cost of electricity generation;

OUR PURPOSE, VALUES, STRATEGY AND ROLE *continued*

- creating a fair, transparent, competitive and financially stable retail market where customers are protected from irresponsible practices and are in control of their energy usage through digitisation and smart metering;
- supporting and guiding domestic and business customers through their journey to help them decarbonise and be more efficient in their energy consumption;
- designing and delivering an energy system to facilitate and encourage the growth of EVs and clean heating solutions to improve air quality and tackle climate change; and
- facilitating the decarbonisation of sectors of the economy that are challenging to electrify, such as heavy industry and transport, through the development and application of green hydrogen solutions.

At the UK Global Investment Summit in November 2023, we announced that we expect to invest £12 billion in the UK between 2024 and 2028, with a focus on electricity networks and renewables. £8 billion will be invested in transmission and distribution electricity networks, and £4 billion in building the 1,400 megawatt ("MW") EA3 offshore wind farm, as well as in onshore wind, solar, energy retail and hydrogen.

OUR ROLE

In the wider legislative, regulatory and commercial context in which we operate, our commitment to playing a leading role in the UK's contribution to combat climate change has been reflected in a number of significant developments in 2023.

As the only energy company in the UK with a role across the entire energy value chain of generation and storage, transmission and distribution, and supply to customers, we are uniquely placed to make an active and distinctive contribution to these policy debates. As part of our partnership, announced in September 2021, with the World Wildlife Fund ("WWF"), we commissioned Frontier Economics, one of the largest economic consultancies in Europe, to produce a report assessing the scale of deployment of energy efficiency measures (including low-carbon technologies such as heat pumps) needed to meet the UK Government's 15% energy consumption reduction target in the residential housing sector for 2030, as well as a 20% 'stretch' target for 2030. The indicative analysis from Frontier Economics estimates that if all committed and planned policies are implemented and perform as expected, there would still be a significant deployment gap from reaching the 15% target, with estimates of a further two million homes needing to receive insulation retro-fits, and another 500,000 homes needing a heat pump. We believe that we can contribute to addressing this gap by deepening our relationships with our customers in order to help them understand what products we have available, and how to access them, as they seek to decarbonise their homes.

We also continue to act on the principles set out in our Just Transition strategy which we have continued to improve through workshops and collaboration across the business during 2023. For there to be a just transition to a greener future, we need to work in partnership with local communities, consumers, employees, supply chains and policy-makers to realise our shared net zero ambitions. We are committed as an organisation to ensuring that the energy transition is fair, and that the people we serve have a stake in shaping it. ScottishPower is at the heart of communities across the country, whether it is through the 1,000+ new green jobs we have recruited, the renewable power we generate or the secure, stable electricity we supply or keeping the lights on from generation to plug.

In November 2023, we held a workshop, to which we invited representatives of the Just Transition Commission and from the Northeast of Scotland, the centre of the oil and gas industry in Scotland, to provide provocations for discussion, to continue to drive forward progress being made in this area across all of our businesses.

A just energy transition aims to leave no one behind, and all of our divisions have a role to play in achieving this goal. Our Energy Networks division also published its own Just Transition Strategy in 2023, setting out the steps it will take to embed the principles of a fair and equitable transition into everything it does. Energy Networks also launched the £5 million Transmission Net Zero Fund in 2023 to support community projects that are contributing to decarbonisation efforts within Energy Networks' transmission area, across Central and Southern Scotland.

Another example of the active role we take in promoting positive engagement with wider communities, was the announcement in June 2023 of our landmark partnership deal with Scottish Women's Football and the Scottish Women's Premier League, dedicated to energising women's football at every age and stage across Scotland. As a major employer in the UK, with a key focus on encouraging more women to consider science, technology, engineering and mathematics ("STEM") careers, this partnership is a demonstration of our commitment in this area, in addition to providing opportunities in all communities in Scotland, which is one of the four key principles of our Just Transition strategy.

ENGAGING WITH STAKEHOLDERS

THE IMPORTANCE OF ENGAGING WITH OUR STAKEHOLDERS

As part of the Iberdrola Group, we are 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 we operate. We strongly believe that effective and meaningful engagement with stakeholders, especially employees, is key to promoting the success and values of the Group.

Meaningful engagement with our 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 (for further insight, refer to the Section 172 statement on page 55). Details of how the Group and our individual divisions engage with our stakeholders, and how these activities influence the Group's operations, are set out below.

Our key stakeholders

We have five key stakeholder categories: people, energy 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 the Group and, in turn, are affected by our activities. In addition, these stakeholders interact with each other, creating a universe of relationships that the Group needs to manage in order to achieve a better understanding of our operating environment and to deliver a more sustainable performance across our activities.

ENGAGING WITH STAKEHOLDERS *continued*

Our shareholders are also important to us. All shareholder management activities are carried out on our behalf by our ultimate parent company, Iberdrola, whose shares are listed on all four stock markets in Spain. 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 www.iberdrola.com under 'Corporate Governance'/ 'Governance and Sustainability System'/ 'Corporate Governance' / 'Shareholder Engagement Policy'.

"People, our most important asset"

PEOPLE

The Group employs approximately 6,270 employees, working across a range of roles within our Energy Networks, Renewable production, and Customer business divisions as well as our Corporate function. Our employees make a real difference in determining how successfully we operate. The creativity, innovation and individuality of our employees enables us to build on our future capability to operate effectively in a competitive market and continue to have aspirations which are challenging and rewarding. We respect and recognise the importance of individuality as part of our ongoing commitment to promoting a culture where individuality is celebrated. We also understand 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. The Group also became an accredited Living Wage employer in 2023. In July 2022 we announced our largest ever green jobs recruitment campaign. Since then, we have welcomed 1,500 new hires into ScottishPower.

In November 2023, Workday became our primary People IT system for managing key people processes across the entire employee journey. Workday supports a host of new processes which will change how we attract, manage and develop our people and thus enhance the employee experience.

Employment regulation

We have well-defined policies in place throughout our divisions to ensure compliance with applicable laws and related codes of practice. These policies cover a wide range of employment issues such as disciplinary, grievance, bullying and harassment, discrimination, absence, performance management, anti-bribery, anti-corruption and whistleblowing, which all operate in conjunction with the Code of Ethics of Iberdrola and its group of companies ("the Code of Ethics") and the ScottishPower Code of Conduct, which both outline expectations for employees' conduct. We continuously review our application of our policies and procedures in line with changes to employment legislation, related codes of practice and case law.

Training

We have a continuing commitment to training and personal development for our employees and provided 5,951 training events in 2023 (5,378 in 2022).

Throughout 2023, the focus has been on delivering mandatory health and safety training and enhancing capabilities and competence of new and existing staff in our core business divisions, supporting the business trainee programmes and other new-starts, while preparing training on the new company safe system of work (the Fifth Edition Safety Rules) for all existing authorised persons. This programme of briefing and training encompasses circa 10,000 internal and external staff, with some in-person events accommodating up to 200 attendees.

We have also continued to ensure our employees have role-specific training and we have run upskill programmes in relation to Environmental and Sustainability Programmes, Mental Health First Aid, Data, IT and Cyber Security Skills and launched a ScottishPower Knowledge Academy relating to Agile Project Management.

During 2023, we have recruited over 230 apprentices, graduates and trainees who are undertaking structured training programmes leading towards the achievement of nationally recognised trade apprenticeships, other accredited qualifications or specific training programmes. This population have also received specific training on transferable skill sets and are supported by a development programme and mentors for our graduates. This has included a group of 44 graduates who have started on our Global Graduate Programme with participants across the Iberdrola Group.

Over 590 employees across all ScottishPower business areas received training in six core leadership topics as part of our Leadership Academy. We have continued to offer team development support through our Team Effectiveness Toolkit and Team Performance sessions. For our senior leaders, we held two events further exploring our core value of collaboration and growth mindset.

Linkedin Learning licences have been provided to all our trainee and graduate populations, our first-line people leaders, and those with specific needs where they have utilised bespoke learning pathways and curated content across a variety of topics and skill sets.

In addition, three new talent programmes were launched in 2023. HerEnergy is an Iberdrola global programme for our female talent population; the Transformation Leadership Programme focusses on our top talent population, and our Advanced Leadership Programme (EVOLVE) which enables our leaders to have a global vision and the knowledge to advance their careers.

Employee feedback and consultation

Our employee engagement survey is called 'the LOOP'. The LOOP provides an opportunity for our employees across the organisation to share their views on their employee experience and is completed by all employees bi-annually. Our latest survey was launched on 2 November 2023 with a response rate of 80%, a positive increase from 76% on the previous survey completed in May 2021. With an engagement score of 65% and enablement score of 72%, the results demonstrated some positive insights in areas such as the continued focus on the importance of health and safety, line managers role modelling our values and behaviours, clarity on strategic direction of the company by employees, and employees feel that they can be themselves at work. Areas of opportunity to improve employee engagement included organisation of work, idea-sharing and innovation and employee communications.

As well as employee feedback through the LOOP, we engage regularly with employees and their representatives via a variety of channels, including business conferences, health and safety committees, Trade Union and employee forums, and employee-led networks.

Inclusion and diversity

We are committed to driving diversity in the energy industry, increasing our diverse and inclusive workforce whilst taking action to address the deepening skills shortage in the sector.

We want to attract and inspire the best talent regardless of gender, age, sexual orientation, disability, ethnicity or any other factor. We value every individual's differences and the insights they bring to how we think, what we believe and who we are.

ENGAGING WITH STAKEHOLDERS *continued*

We recognise the importance of work-life balance, and many of our roles offer hybrid working, allowing employees to split their time between the office and home. Additionally, as part of our recruitment process, we encourage discussions on flexible working.

We published our latest Gender Pay Report on 8 March 2024 in which we reiterated our commitment to pay for performance equally and fairly. This continued our focus on breaking down barriers across the employee lifecycle, as over time this will improve our gender pay gap position whilst widening the inclusion of other under-represented groups. For more information, the latest Gender Pay Report is published at www.scottishpower.com ("the Corporate website") under 'Careers'/ 'Inclusion at ScottishPower'/ 'Gender Pay Report'. As part of our commitment to closing our gender pay gap, and as a Group which has a common framework in all the countries in which it operates on diversity and inclusion, Iberdrola set two targets in 2022 to break down the barriers for women:

- increase in the proportion of women in senior management positions to exceed 35% by 2030; and
- increase in the proportion of women in responsible roles to exceed 36% by 2030.

At the end of 2023 the proportion of women in senior management position was 33.7% (2022 32.9%) and the proportion of women in responsible roles was 32.3% (2022 31.9%). This is a positive result set against employee growth across Energy Networks and Renewable production divisions which have a traditionally male-dominated external talent pipeline.

We have a number of programmes in place to assist further with these goals and progress is monitored on a continuing basis:

- All recruiting managers must complete e-learning and training on unconscious bias before their vacancies are authorised.
- Inclusive recruitment principles such as balanced shortlisting and gender-balanced interviewing are now incorporated into all our external recruitment campaigns. Recruitment consultants encourage all hiring managers to adopt these inclusive recruitment principles.
- All of our job advertisements are reviewed using gender de-coding (i.e. highlighting masculine and feminine language).
- We continue to share best practice through the Energy Leaders Coalition which comprises 16 of the leading chief executive officers ("CEOs") from the UK's energy sector who have made a public declaration to improve gender diversity in their groups and in the sector as a whole.
- We are a corporate partner of the Women's Engineering Society to help with the important work that they do in supporting women engineers and encouraging girls to see engineering as a career option.
- We continue to provide Maternity/Parent Coaching to females within our talent population who are on the maternity journey, whether that be preparing for, or on, leave, or returning to work. The coaching blends practical support and advice to both the participants and the line mangers as well as focused career coaching to maximise the participant's potential for future progression.
- Our 'New Additions to Your Family' guidelines provide sector-leading leave benefits for all ScottishPower employees regardless of service. These include 26 weeks' full pay for maternity and adoption leave and two weeks' full pay for paternity leave. Returners from maternity and adoption leave are also entitled to a phased return where they will receive 100% contractual pay for working 80% of their duties for three months. These guidelines were designed in collaboration with the Group's employee network who support parents and carers ("SPACE").
- Additional guidance on menopause and menstrual health and domestic abuse have been developed and communicated in collaboration with the ScottishPower's Connected Women's employee network.

In 2023 we launched our first ScottishPower Executive Diversity and Inclusion ("D&I") Committee, a group of senior executives created to lead and champion diversity across the business. This committee is driving progress on the organisation's work to reduce the gender pay gap and challenge unconscious bias. The ScottishPower Executive D&I Committee works in collaboration with the Iberdrola D&I Committee and our D&I working group made up of our employee-led network chairs and business stakeholders.

In addition, we are promoting gender equality through the STEM engagement initiative. Throughout 2023, we have delivered our STEM message to primary, secondary, college and university pupils and students via face-to-face events and workshops. We work with a range of partners and events to communicate our early careers programmes to school children and their families.

The STEM Returners programme aims to help employees returning to work after a lengthy career break to grow and develop their career, offering the time and support needed to refresh and redevelop their skills to help them in returning to employment on a more permanent basis. The 2023 cohort saw 14 new returners commence the programme. Four have secured a permanent role within the company.

We continue to work with a number of recognised organisations as part of our commitment to diversity and inclusion. These include: the Business Disability Forum, the Armed Forces Covenant, Carers UK, ENABLE Scotland and POWERful Women. We are recognised at the highest level of accreditation of the Armed Forces Covenant (Gold Status) for initiatives we have in place as a 'forces-friendly' employer.

We expect all our employees to be treated with respect and we have supporting policy guidance to help ensure equality of employment opportunity for people with disabilities. We have maintained our Disability Confident Standard and our accredited level at 'established' with Carers Scotland.

In 2023, the sixth cohort of the inspirational Breaking Barriers programme commenced. The programme aims to support aspirations for young people with learning disabilities and provide equal opportunities to access university courses. During 2023, six learners aged between 18 and 24 studied for a Certificate in Applied Business Skills at the University of Strathclyde Business School. As part of this experience, the learners gained valuable skills and work experience as part of a placement with the group.

The Group continues to support the growth of our existing employee-led networks:

- Future Connections – to bring people together from across the Group with an appetite to communicate and learn about activities in other business areas;
- Connected Women – a confident and vibrant network for ScottishPower women;
- SPACE – to give employees access to support and guidance on all aspects of being a parent or carer;
- In-Fuse – to represent LGBT+ colleagues and allies alike;
- VIBE – focussed on ethnicity;

ENGAGING WITH STAKEHOLDERS *continued*

- SPARC – representing disabled colleagues and their allies; and
- iCan – a platform to encourage, create and promote authentic leadership for climate action in both the professional and personal lives of all ScottishPower employees.

All of our employee-led networks continue to engage with their members through awareness sessions and celebrating key dates on the inclusion calendar as well as sharing knowledge to promote personal development. The networks also play a key role in the attraction and retention of new employees from under-represented groups to maximise engagement and performance. We continue to promote our commitment to inclusive employment through our external careers website, 'Inclusion at ScottishPower'. This is a dedicated space on our website which promotes important initiatives that go on internally, such as our employee networks, involvement with community programmes, partnerships with external organisations and our Gender Pay Report.

Rewards and benefits

As our business continues to change and evolve, it is important that the benefits that we provide to our employees also develop to meet these challenges. We recognise that the benefit needs of employees are unique to the individual and we want them to be able to tailor benefits to their own circumstances. We provide a benefits programme, 'Your ScottishPower Benefits', which offers employees the flexibility to choose from a range of benefits, such as participation in the ScottishPower Share Incentive Plan, purchasing a bike through the Cycle to Work scheme, purchasing additional holidays or participation in the ScottishPower EV Salary Sacrifice Scheme where employees can initially lease, and then purchase, an EV in a cost-effective manner. Employees can also participate in one of the Group's pension schemes. The Group has a defined contribution plan and two defined benefit schemes which allow employees to save for their retirement. All employees who have joined the organisation on or after 1 April 2006 have been offered membership of the defined contribution plan, the Iberdrola Group (UK) Stakeholder Pension Plan.

Health and safety

Employee health and wellbeing, the prevention of harm to employees, contractors and members of the public, and the protection of business assets and operational capability, are our top priorities. During 2023, we have continued to strive for improved performance. Both internal and external health and safety assessments have returned positive findings.

We have an established Health and Safety Management System ("HSMS") to ensure that the Group and its employees meet all applicable internal, external, legal and regulatory requirements and standards, and which aligns with the Iberdrola global health and safety approach.

This HSMS provides an overview of how health and safety risks are managed across the organisation. The HSMS includes items such as:

- The Health and Safety Policy, which details what we want to achieve with respect to health and safety, who will implement the requirements (detailing the roles and responsibilities) and how the policy will be achieved.
- How the health and safety programmes (e.g., the annual Preventive Activity Plan, Operational Plans and Communications Plans) have all been implemented. All of these are aimed at maintaining and improving health and safety performance.
- How compliance is delivered through a governance structure, audits and inspections and external and internal certification.
- An annual training plan is established to ensure employees are competent based on appropriate education, training or experience.
- A risk assessment procedure details how we will manage and control hazards and risks.
- An established annual Health and Safety communication plan.
- At a Group level, a Health and Safety Management Review is completed every six months and a specific report format used to record and communicate the findings.

To work in conjunction with the Group HSMS, each of our divisions has its own specific HSMS. Each division's HSMS expands upon the Group HSMS; they are not intended to duplicate or contradict, but to focus on division-specific scope of works and requirements.

Health and safety performance

We successfully maintained our ISO 45001 certification following a recertification audit in 2023. Total Recordable Injury Rate ("TRIR") is one of the primary measurements for health and safety performance and includes lost time, medical treatment and restricted work incidents. The annual ScottishPower employee accident and incident statistics remained low with five TRIR incidents in 2023, which equates to a TRIR of 0.10. For contactors, there were 19 TRIR incidents which equates to a TRIR of 0.35. Two of the TRIR employee incidents were reported to the Health and Safety Executive under The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations. There were also five Occupational Health cases reported to the Health and Safety Executive under the same Regulations.

The table below provides the occurrence of TRIR incidents in each business division (including the Corporate functions):

	Employees		Contractors		Total	
TRIR incidents*	**2023**	2022	**2023**	2022	**2023**	2022
Energy Networks	**5**	7	**11**	14	**16**	21
Renewable production	**–**	1	**4**	7	**4**	8
Customer business	**–**	–	**4**	5	**4**	5
Corporate	**–**	–	**–**	–	**–**	–
	5	8	**19**	26	**24**	34

* TRIR incidents include lost time, medical treatment and restricted work incidents.

Based on these figures along with the results from audits and inspections, health and safety standards and performance within the Group remain high.

ENGAGING WITH STAKEHOLDERS *continued*

Public safety

In addition to the physical measures we take to protect the public from electricity, for example secure compounds, safety distances and signage, we also strive to raise electrical safety awareness with the public and the emergency services via several campaigns and initiatives. During 2023 our main focus included attending several agricultural shows, liaising with the farming community, forming partnerships with plant hire businesses to develop safety leaflets and stickers for extendable tools, and with the Federation of Window Cleaners to raise awareness around our overhead line network.

The safety section of our external website has been refreshed and now offers downloadable versions of our Safety Matters leaflets. In 2023 we have produced new video content around overhead line and underground cable safety which is available to view on our website, and we have been working on the development of more eye-catching and informative social media content.

We continue to support three public access safety centres where our key health and safety messages are presented to children through substation and overhead powerline interactive props, presentations and verbal safety advice. In 2023 we saw over 32,000 attendees taking part in our interactive learning at 'Crucial Crew' events and safety centres. Our PowerWise interactive website has continually been promoted to schools and parents as a curriculum-linked teaching resource to inform young people about the dangers of electricity, which provides free, interactive resources. We have continued to work with the emergency services, providing them with electrical safety awareness presentations as well as offering support to them when any incidents have occurred.

Employee health and wellbeing

We promote and support the physical and mental health and wellbeing of our employees through a programme of health promotion and information run by our Occupational Health department. 2023 has seen the establishment and launch of our five priority areas relating to health and wellbeing: healthy mind, healthy body, healthy weight, healthy eating and healthy behaviours. These support the Health and Safety Essential of promoting health and wellbeing in and outside of work.

We are continuing our journey towards a mentally healthy working environment that promotes good mental health and wellbeing for all our people, which includes access to support when this is required. We are progressing with our target of training all our people managers by 2025 in collaboration with Scottish Action for Mental Health – over 200 were trained in 2023. Our Mental Health First Aid Programme has also been reinforced with the introduction of more than 45 new Mental Health First Aiders this year, creating more coverage and capacity. This complements the continued development of our established Mental Health First Aiders who have undergone refresher training and attended Mental Health First Aid Forums to ensure the support offered is effective and proactive.

Our Occupational Health department has delivered a calendar of campaigns which has a focus on mental health and wellbeing, supporting nationwide and global campaigns such as Time to Talk, Mental Health Awareness Week and World Mental Health Day. May 2023 saw the launch of our Mental Health and Wellbeing at ScottishPower video and our Mental Health and Wellbeing portal to coincide with Mental Health Awareness Week. The Mental Health and Wellbeing portal gives employees access to features including our Employee Assistance Programme, information on a variety of topics relating to mental health and wellbeing, mindfulness sessions, and recordings of our monthly 'Looking After You' webinars, with topics in 2023 including Neurodiversity, Menopause and Mental Health, and Self-esteem and Confidence.

Our Occupational Health team has also been actively engaging with different business areas and working populations with inputs at inductions, events and conferences, and the delivery of wellbeing days at our training centres, several of which were supported by our partners at Cancer Research UK.

We recognise the importance of the employee's voice in informing the delivery of our services and support offered to staff. 2023 has seen the rollout of the latest Loop survey and an Occupational Health and Wellbeing customer survey which will provide valuable and actionable insight into the experience of our people and how we can continue to improve in 2024 and beyond.

A key initiative of the Occupational Hygiene team, which is part of the Occupational Health department, was the introduction of an interactive e-book that enables our people to have an enhanced awareness of workplace health risks in a modern format, which can be accessed via the employee portal. In addition to the assessment of risk for traditional workplace hazards such as Hand Arm Vibration Syndrome across the different businesses, throughout 2023 greater influence on human factors including fatigue and musculoskeletal disorders has developed alongside the wellbeing and physical activity programme. This collaboration aims to highlight how closely wellbeing and workplace health are interlinked.

"Putting people first to achieve a better future, quicker"

ENERGY CUSTOMERS

We provide energy and related services to millions of domestic and business customers. Our success depends on our ability to understand and meet the needs of our customers, and engagement is key to our success in this rapidly changing environment. We seek feedback in several ways including forums, market research and product testing, as well as via complaints channels and surveys.

Energy Networks

Our customers have every right to expect a good experience when they interact with us – whatever the reason. We are committed to delivering this, and to improving year-on-year against the standard industry-wide metrics.

Understanding and responding to our customers' needs is not only deep-rooted in our culture, but is also essential to meeting the goals we have developed with stakeholders to guide our future plans. Our commitment to our customers is reflected in our customer service scores which continue to trend above Ofgem's targets. In the regulatory year 2022/23, SP Distribution plc ("SPD") and SP Manweb plc ("SPM"), achieved a customer satisfaction score of 9.1 and 9.2 respectively against a benchmark of 8.2. For our transmission business, as part of our RIIO-T2 transmission regulatory price control, we are committed to improving the quality of service as measured through the Quality of Connections Survey, more commonly known as the 'Moments that Matter'. For the second year of RIIO-T2 (regulatory year 2022/23) our customers rated us at 8.2, against a benchmark of 7.7.

ENGAGING WITH STAKEHOLDERS *continued*

Delivering for our customers

Power cut support service

Our customers, and especially those affected by situations of vulnerability, tell us that power cuts cause stress, anxiety and can pose a real threat to their safety and wellbeing. We can help customers manage these challenges by providing quick, clear, and accurate information before and during power cuts. When an emergency occurs and detriment to customers cannot be wholly prevented, we seek to understand our customers' needs and offer a range of welfare support services that include generators, the provision of hot food and a set of tailored support services. Looking to the future, our state-of-the-art Customer Relationship Management system, introduced in 2023, will further enhance our ability to offer customers timely and accurate information, cutting our response times, freeing up our colleagues' time so they can offer proactive and targeted support to those registered on the Priority Services Register during emergencies.

Engaging with our stakeholders

To ensure our strategy continues to be fit for purpose, we enlist AccountAbility, an independent company, who own the global standard for stakeholder engagement (AA100000SE), to conduct a full health check audit of our engagement strategy and processes. We do this to support our programme of continuous improvement and the development of high-quality stakeholder engagement practices.

We achieved 89% in the 2023 AccountAbility audit; obtaining the highest categorisation possible ('Advanced'). This represents an overall improvement of 23% since our first audit in 2018. Energy Networks continues to work closely to identify the needs of vulnerable customers and stakeholders as measured by the Ofgem Stakeholder Engagement and Consumer Vulnerability Incentive. The scores for this incentive scheme for the regulatory year 2022/23 was 4.5 out of 10 for both SPD and SPM. This compares to 5.29 in 2021/22 reflecting a challenging year for the business due to the cost of living concerns. The business will continue to refine and develop strategy and initiatives in respect of both stakeholder engagement and consumer vulnerability. Examples include creating Strategic Optimiser teams to act as a conduit between local authorities and the technical optioneering for low-carbon technology, offering significant time and cost efficiencies, through local authorities having access to expert electricity network knowledge and the launch of our new Customer Relationship Management system in 2023.

In late 2022, an independent group of energy industry experts was created by Energy Networks to bring the voice of customers and stakeholders into the heart of its business. The Independent Net Zero Advisory Council brings together 15 external experts to provide challenge and specialist knowledge to both the distribution and the transmission sides of the business across Central and Southern Scotland, North Wales, Merseyside, Cheshire and North Shropshire – a first for the industry. The Independent Net Zero Advisory Council is chaired by renowned industry expert, Angela Love, who has over 30 years' experience of the UK and European gas and electricity markets.

Maintaining a reliable supply of electricity

Society rightly expects to consistently receive a reliable supply of electricity at the flick of a switch, which is why we strived to exceed our regulatory price control commitments under RIIO-ED1 and continue to do so for RIIO-ED2. We serve our distribution customers with 99.99% reliability levels for 36p per day, protecting the most vulnerable and ensuring supply to critical sites such as hospitals, nursing homes, water treatment works and food supply businesses.

Ensuring a just transition

Energy Networks published its own Just Transition Strategy in 2023, setting out the steps it will take to embed the principles of a fair and equitable transition into everything it does. In 2023, Energy Networks also launched the £5 million Transmission Net Zero Fund to support community projects that are contributing to decarbonisation efforts within the Energy Networks' transmission area, across Central and Southern Scotland.

Customer business

Customer service

Delivering excellent customer service to our customers when they need to contact us continues to be our key priority. Across our Customer business, we work hard to ensure the customer is at the centre of everything we do and is everyone's focus. We continually assess our processes and customer journeys and identify and implement improvements to ensure we meet our expectations and those of our customers. We are relentless in our pursuit to improve our customer experience. In 2023 we have seen improvements in our key customer services metrics, including average wait times and first-time resolution of customer queries.

We continue to focus on delivering customer service through a number of digital channels as well as retaining our traditional telephone channels. Digital tools are the channel of choice amongst most of our customer base with mobile apps now being our most frequently utilised self-service tool, alongside digital online web chats. Building from our success in 2022 when we were recognised for our digital commitment and awarded eCommerce 'App of the Year', we were shortlisted finalists again in 2023 and are delighted to announce that we took the Silver Award for UK eCommerce 'App of the Year'. This recognises the continued improvements and functionality we are offering customers via this channel. Customers contacting us via webchat continues to be a popular channel and volumes continued to grow in 2023 with increased use of automation.

2023 has seen the adoption of our digital channels continue to grow and customer experience scores across all channels also improving. A key focus has been the expansion and stability of our in-app prepayment experience, in line with our smart meter rollout programme to these customers. Supporting our ambition to expand our digital footprint, we aim to enable a 'digital for all' strategy through improving our web accessibility standards. In addition to the growth of and enhancements to key self-service account tools, there has been a continued focus on leveraging the capabilities of smart meters to deliver automated services and insights to help customers gain a better understanding of their energy usage. This has been achieved by improvements such as additional enhancements to our smart meter consumption insights and the launch of our solar and battery insights functionalities.

Customer service contact volumes and service levels were impacted by the cost of living crisis, associated government schemes, and energy price increases during the period January to March 2023. We responded to this increased contact volume by expanding resourcing and extending our webchat services operating hours. Contact volumes started to decrease from April 2023. Service levels improved with the overall contact volumes and average wait times both decreasing and stabilising throughout the remainder of 2023.

ENGAGING WITH STAKEHOLDERS *continued*

Support we are offering

We continue to ensure we support our vulnerable customers through a wide range of support mechanisms – for both financially and non-financially vulnerable customers. These services include:

- Offering a range of options for customers to get in touch including phone, webchat, and email options. We assess the needs of our customers and adjust our offering to ensure it meets our customer needs. This includes extending opening hours including for specific potentially more vulnerable customer groups and over winter periods to make it easier for customers to get in touch.
- Intelligent routing of contacts to specialist support teams to manage customers who are identified as being vulnerable or potentially in need of additional support. This includes Prepayment Off Supply teams, Affordability teams and our 'Extra Care' teams (linked to customers with additional support needs).
- To reduce the risk of prepayment customers going off supply, we offer periods of 'friendly credit', where the customer will stay on supply, without the need to top up their meter. Where this is not technically possible, we offer increased emergency credit.
- We offer a dedicated phone line for Citizens Advice to get in touch on behalf of customers. In 2023, we expanded support for other third parties, ranging from national organisations like National Energy Action to smaller, local charities such as South Seeds, by launching a Third Party Assistance Team. This enhanced support has been positively received and is benefiting customers seeking help from third party organisations, in particular by securing a faster resolution for them.
- Recognising the wider impacts of financial hardship, we have included mental health training across all customer service agents, to allow them to respond sensitively to customers who are experiencing such difficulties.
- We offer extra help and additional support options under our Priority Services Register for those non-financially vulnerable customers who may find it more challenging to manage their energy account.
- We have a range of alternative payment options and tariffs for different customer circumstances and offer flexible repayment schemes for those who have built up debt.
- For customers who may be struggling to manage their energy costs, we offer advice on how to reduce energy consumption through simple actions by the customer or via the Energy Company Obligation ("ECO") scheme.
- We also provide signposting to third parties who can offer additional guidance and support including in relation to debt advice and energy efficiency advice, and we also, signpost to our own Hardship Fund and our Prepayment Voucher Scheme which provides additional non-repayable funding to eligible customers.
- For our most vulnerable customers, we offer a dedicated team of National Community Liaison Officers whose sole purpose is to provide in-home support.

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

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

We further support vulnerable customers with their energy bills through the Warm Home Discount scheme. Now in its 13th year, the Warm Home Discount scheme is the UK Government's main policy for tackling fuel poverty. The scheme continues to be delivered by energy suppliers, principally to qualifying customers, by providing rebates on electricity accounts to help when bills may be higher over the winter period. During scheme year twelve, which operated from 1 April 2022 to 31 March 2023, we spent £29.9 million providing assistance to 199,532 customers by applying a rebate of £150 to their electricity account. In addition, £2.2 million of funding was awarded to three third party organisations to deliver industry initiative projects to provide a range of assistance to domestic customers. Our partners delivered energy efficiency advice, energy efficient white goods, and measures to improve the energy efficiency of the property where they lived. Other projects focused on further financial support providing fuel debt assistance and benefit entitlement checks.

Energy efficiency

The delivery of energy efficiency measures continues to be an important responsibility of our business, and 2023 was the tenth year of delivery of the UK Government's ECO scheme. The ECO scheme is fundamental to improving the fabric of British homes in our pursuit of achieving net zero and focuses on reducing heating costs for the most vulnerable customers and improving the energy efficiency of properties. In July 2022, the ECO4 legislation came into effect with the obligation running until March 2026. The focus of ECO4 is on the most vulnerable households in the least efficient homes (Energy Performance Certificates ("EPC") Bands E, F and G) and targets a whole house improvement project based on a fabric-first approach. This will see a drop in the number of properties treated, however, the majority of those treated will be improved by a minimum of two EPC bands with multiple measures delivered to each home. Building on our surplus delivery from ECO3, which ensured our supply chain remained active and delivering energy efficiency measures to customer as soon as practicable, our supply chain commenced formal delivery of ECO4 measures in August 2022, but delivery was initially cautious while the supply chain and obligated suppliers adjust to the new requirements of the obligation. However, the second half of 2023 has seen a significant increase in delivery with our supply chain partners delivering almost double the volume of ECO4 savings compared to H1 2023.

In July 2023, the UK Government launched the Great British Insulation Scheme (this was previously known as ECO+). This three-year programme will look to complement ECO4 by delivering single insulation measures such a loft and cavity wall insulation to hundreds of thousands of the least energy efficient homes in the lower Council Tax bands, as well as targeting the most vulnerable homes across the country. We expect delivery of this obligation to gather momentum into 2024 as the supply chains adjusts to the new obligation.

ENGAGING WITH STAKEHOLDERS *continued*

"Being collaborative"

GOVERNMENT AND REGULATORS

Governments and regulators play a central role in shaping the energy sector. We engage with them directly and through trade associations, responding to issues of concern and providing expertise to support policy development. Through this engagement, we aim 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.

We have contributed to the wider external debate about the government and regulatory measures required to tackle the critical backlog in network connections for new renewables projects. We welcomed Ofgem's decision to proceed with its ASTI scheme and are working to take forward vital new transmission infrastructure on the East Coast of the UK under this scheme. We also commenced in April 2023 the RIIO-ED2 five-year price control for our distribution networks which will involve £3 billion of new investment. In our interactions with the UK Government and the devolved administrations we have highlighted the need to streamline the planning and consenting process for major new energy infrastructure projects, including updating the National Policy Statements governing planning applications in England and Wales. We also welcomed the Government's 'Transmission Acceleration Action Plan', published in November 2023 in response to the Winser report from the UK Government's first Electricity Networks Commissioner. This plan sets out reforms which aim to halve the time taken to build new transmission infrastructure from around 14 years to seven years and makes new proposals for community benefits, including the potential for eligible households to receive bill discounts of up to £10,000 over ten years. Alongside this, the UK Government published jointly with Ofgem a 'Connections Action Plan' setting out reforms which the Government estimates will reduce overall connection delays from five years to six months and could free up over 100 GW of capacity.

We are also engaging with the UK Government on the need to ensure that the CfD auctioning programme for renewable generation responds appropriately going forward to accommodate the sharp increase in supply chain costs, resulting from the global economic strains caused by the pandemic and then by the onset of the Ukraine crisis. As a helpful first step, the UK Government introduced a new full expensing regime in terms of capital allowances at the Spring Budget 2023 running for three years which allows companies to claim a deduction from taxable profits equal to 100% of their qualifying expenditure in the year that expenditure is incurred. The Chancellor's Autumn Statement in November 2023 put the full expensing regime on a permanent basis, and introduced an investment exemption for new projects under the Electricity Generator Levy covering projects where the substantive decision to proceed is made on or after 22 November 2023. These kind of policy steps will be important to stay on track with progressing towards meeting the UK Government's ambition for 50 GW of offshore wind by 2030, with an immediate focus on the next CfD auctioning round due in 2024.

Retail energy prices have now fallen back from their peak in Winter 2022/23, taking the Ofgem price cap below the UK Government's protected Energy Price Guarantee level of £2,500 per annum for a typical household paying by DD. Nonetheless, energy prices remain around twice the level they were three years ago, and many consumers are still facing severe cost of living pressures. We continue to work with Ofgem to ensure that the consumers who are struggling to pay their bills receive appropriate support, particularly the most vulnerable. We have also worked with Ofgem to improve the design of the price cap so that suppliers can better recover efficiently incurred costs. This has enabled delayed recovery of costs incurred in 2022, with the result that suppliers are now better placed to achieve the levels of financial resilience that will be required to survive future price shocks.

Further information in relation to engagement with government and regulators is set out in the ScottishPower divisional sections of the Strategic Report.

"Being responsible"

SUPPLIERS AND CONTRACTORS

As part of our mission for a better future, quicker, we are always looking for new suppliers and contractors, and for ways to improve our working relationships with our existing suppliers and contractors. We have a broad and diverse supply chain with around 3,000 suppliers, and during 2023, we awarded contracts with a cumulative value of around £6 billion. Our suppliers have a key role to play in the delivery of our projects and services that we are undertaking to provide a low-carbon future for the UK. We aim to develop and maintain strong relationships across our supply base with a focus on health and safety, quality, cost and sustainability. We expect our suppliers to operate to a high standard including working in an ethical and sustainable manner, and we have a range of policies that all suppliers must adhere to, including the ScottishPower Code of Ethics. We have built in cyber security checks and monitoring as part of our tendering and supply chain relationships.

In 2023, we continued to increase our focus on the Environmental, Social and Governance ("ESG") credentials of our main suppliers using our supplier risk management system, Go Supply. This system has provided significant additional insight into ESG factors of our supply chain. We have used this information to monitor and report to the board of directors of SPL ("SPL Board") on the ESG credentials of our supply base, and to work closely with those suppliers that we have identified as having weaker ESG traits to support their development through improvement plans and guidance. During 2023, we were pleased to report that 93% of our main suppliers are considered sustainable with 94% of the contracts awarded being to these sustainable suppliers.

More broadly, engaging proactively with our supply chain is key in ensuring positive outcomes for both us and our suppliers, and we seek to engage specifically with suppliers through a variety of methods. For example, we contacted a small sample population of suppliers who showed low ESG scores. The initiative was designed to see if we could support those suppliers in improving those scores. We were pleased with the overall positive response. We continue to participate in business update sessions focussed on supply chain and virtual trade events. Our Supplier Awards for 2024 are held later in the year and recognises excellence in the supply chain along with giving a wide range of suppliers the opportunity to interact with both the Procurement Team and other ScottishPower employees. Iberdrola held a Global Supply Awards event in 2023 which recognised those suppliers who are assisting the group to meet its goals.

Engagement with our supply chain is always a critical activity for us but has become even more important as we adapt to the geopolitical and macroeconomic challenges (refer to the 'Group principal risks and uncertainties' section for further details), in addition to the post-pandemic recovery and Brexit transition,

ENGAGING WITH STAKEHOLDERS *continued*

which have also impacted our supply chain. We are experiencing cost pressures due to high global commodity prices along with increased freight and labour costs. We are facing longer lead times for some equipment and several of our suppliers have also been impacted by labour shortages. We have looked to support our supply chain during these challenging times by working collaboratively on forecasting our requirements and we have also established customs brokerage services.

COMMUNITY AND ENVIRONMENT

Refer to 'Sustainability' section of the Strategic Report for further details.

INNOVATION

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

Our model of open innovation, engaging and collaborating with partners and other organisations, generating ideas and inspiration, continues to drive our innovation strategy.

We continue to work with the University of Strathclyde and SSE plc through the Technology and Innovation Centre's Scottish Low Carbon Power and Energy Partnership. The programme celebrated its tenth year of operation in 2023, a decade of focused engagement directly with academic experts and industry counterparts, to conduct valuable research and development in areas including the operation and maintenance of wind turbines, digital electricity networks and enhanced data analytics for optimised energy trading. New areas of research in 2023 have incorporated a strategic approach to project identification, driving work on areas such as green hydrogen and floating offshore wind. We have concluded work on projects relating to a broad range of topics, from just transition planning to locational marginal pricing.

In addition, we have expanded our range of academic partnerships, piloting our membership of Imperial College London's flagship industry engagement programme, Imperial Business Partners. Not only does this membership facilitate our engagement with another of the best academic research institutions in the country, it will also provide valuable links for our graduate recruitment teams.

Energy Networks

At Energy Networks, we consistently strive to push boundaries and set new standards, solidifying our position as industry leaders. Energy Networks has continued to demonstrate our unwavering commitment and ability to exceed expectations in innovation. We carry out innovation with a purpose-oriented mindset and are proud of our positive impacts on our communities. Throughout 2023, we have made remarkable strides in integrating innovation into our fundamental operations.

We have become the sole networks company to trial and execute regional network management. This project, which required over £4 million of investment, tested the frequency response at our distribution network in the Southwest of Scotland. Additionally, we have achieved a significant milestone with the completion of Distributed Restart, an international project aimed at ensuring the reliability of electricity supply through the utilisation of new and distributed resources.

Along with our existing leadership in areas such as Power Electronic applications and Network Resilience, we have identified data and digitalisation as one of our new strategic priorities. Professor James Yu, Energy Networks' Head of Innovation, led the successful funding bid to develop the first multi-vector distribution network Digital Twin, along with four leading academic institutions: the Universities of St. Andrews, Glasgow, Strathclyde and Herriot Watt. This £10 million project enhanced the leadership of Energy Networks in the emerging area of Digital Twin and aimed to contribute to the ongoing dialogue of quantifying its great potentials for our customers.

Furthermore, our leadership in the digitalisation of electricity transmission substations has been recognised with a £1 million successful delivery reward.

Renewable production

Renewable production business prioritises activities with a high impact on cost reduction, while keeping to our sustainability targets and promoting health and safety practices overall. This activity can be categorised into three main areas: research and development collaborative programmes; technology development; and supply chain engagement and support.

Battery storage

We aim to install 0.9 GW of energy storage technology by 2030. As we install more renewable generation on the network, we need to ensure that we can keep the electricity grid stable and secure during periods where the energy produced by renewable sources does not match the demand BESS allow renewable electricity to be stored and delivered to the network in response to system needs. This will build on our previous grid stability innovation work with our world first black start demonstration at Dersalloch Windfarm where we are using cutting edge grid forming technology to restore power in the event of a total or partial shutdown of the electricity transmission system.

The Whitelee BESS became operational in 2022 and is co-located on our Whitelee Windfarm. This ensures that more electricity generated by the wind farm is used and provides stability and security to the local electricity network without installing a lot of new infrastructure. We currently have over 100 MW of BESS in operation, an additional 50 MW in construction and over 600 MW in development.

PING Monitor system trialed in East Anglia

Wind turbine blades are components of critical importance to the availably and performance of wind farms. When it comes to their maintenance, there are two types: preventive and corrective. To avoid corrective actions and repairs, periodic inspections are carried out to determine the condition of the blades and identify any potential damage. These checks are made using different techniques from high-precision cameras to climbing the blades with ropes, cranes, and sometimes remotely using drones.

Alternative monitoring systems are being investigated to prevent operators from having to climb up to the turbines. Structural health monitoring solutions do bring a number of benefits like reducing costs, repair, and failures, and increasing efficiency, availability, and lifespan. At the offshore business, we are trailing a novel technology that can potentially detect early damage in wind turbines, PING Monitor. This is a monitoring device that consists of an intelligent listening

INNOVATION *continued*

sensor that collects signals that can later be attributed to potential damage, its likelihood, and its severity. Only key information is transmitted to the remote location for further analysis. A number of monitoring system units have been installed on offshore wind turbines as a trial to assess viability for a wider-scale roll-out.

Customer business

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

Our Smart Solutions Team are supporting communities and organisations on their path to net zero, ensuring that nobody is left behind. Through positive engagement we are providing advice and supporting communities to deliver energy efficiency initiatives including the installation of low-carbon technologies such as heat pumps and solar panels. Smart Solutions use their knowledge and expertise, supported by local organisations and people, to identify and implement local smart energy solutions that reflect the specific needs of each community.

Customer business has been developing an industry-leading home energy management system to give customers better control of low-carbon technologies and insight on overall energy consumption. The solution will enable customers to automate control and optimisation of their low-carbon technologies and monitor home consumption with smart meters offering near real-time visibility of energy usage. This will also provide the opportunity for deeper engagement with customers into the savings that can be achieved through control of their assets based primarily on the greenest and cheapest times of the day for energy prices. The outcome will provide customers with a product offering that helps them reduce their energy consumption, carbon footprint and save them money on energy costs by maximising usage during these cheaper energy window.

Customer business is looking to enter into the flexibility market through participation in domestic customer demand response initiatives, such as National Grid ESO's Demand Flexibility Service and Project Equinox, an innovative heat pump flexibility trial led by National Grid and funded by Ofgem's Network Innovation Competition. Eligible smart meter customers will have access to an app which will notify them of certain peak times and when to reduce their consumption to help balance supply and demand. As well as reducing their energy usage and having a positive impact on their carbon footprint, customers will be rewarded for every kilowatt hour ("kWh") they turn down, when compared to their baseline usage. The Customer business is looking to expand our flexibility offering to customers in the future via participation in a series of further trials, programmes and demand response events.

ANTI-BRIBERY AND ANTI-CORRUPTION

Bribery is a widespread issue with significant negative impact. We aspire to a strong best practice anti-bribery and anti-corruption framework that allows us to do business with confidence and minimises the risk of bribery or corruption in our operations.

Our anti-bribery and anti-corruption framework is based on a solid governance structure that creates a senior-level focus on managing compliance risks. The SPL Board has ultimate responsibility in this area and has designated the ScottishPower Audit and Compliance Committee ("SP ACC"), which is independent of executives, as having primary responsibility for overseeing compliance activity and reporting to the SPL Board on its effectiveness. A fully independent Compliance Unit is in place, reporting to the SP ACC, along with an autonomous Internal Audit Division. The Compliance Unit's remit is established through a set of internal regulations, which place duties on it to act independently and to report material issues to the SP ACC. The Compliance Unit also has a duty to co-ordinate with the Iberdrola Group Compliance Unit.

Ethics is at the heart of our business model and is embedded in our corporate governance structure and in our policies and procedures for managing our suppliers. The SPL Board has fully adopted the Iberdrola Code of Ethics, which establishes the expected behaviours for ScottishPower employees, suppliers and representatives, and sets a zero-tolerance approach to non-compliance. The SPL Board has also approved a ScottishPower-specific Code of Conduct to support and supplement the Iberdrola Code of Ethics. This Code of Conduct summarises the expectations on our employees in terms of behaviours, how they must conduct themselves, and encourages and supports ethical decision-making.

We maintain a strong Anti-Bribery and Corruption Policy. Together with our more detailed Compliance and Ethics Manual, this ensures that employees understand their obligations, have the appropriate means to comply with the policy and create a clear route for action in case of a breach.

The Compliance Unit manages an annual risk assessment process which includes an assessment of fraud, bribery and corruption risks across the Group and identifies any required actions or mitigation to address those risks. Compliance measures are in place to support employees in their roles, based on risk, including training and awareness activities, based on employees' obligations. All employees are asked to undertake our overarching Code of Ethics training on a regular basis, which includes education on anti-bribery and anti-corruption, and targeted coaching is provided for those functions and roles which are identified as needing greater focus or guidance.

Anti-bribery and anti-corruption controls are built in at all stages across the supplier management journey, from engagement and selection to contract award, and ongoing monitoring and improvement. Our suppliers are subject to ongoing compliance risk screening. We utilise a Dow Jones risk screening tool to assess compliance risks at key points across the supplier life-cycle, starting from the point of initial registration in the system, and daily for the existing supplier population. New and identified risks are assessed and appropriate action taken to mitigate the risk for that supplier. Information on supplier compliance risk is held directly in the purchasing and payment systems, allowing appropriate decision-making at each critical process step in the supplier relationship. This includes an active role for the Compliance Division in reviewing and approving payments to third parties for compliance risks.

We maintain a 'speaking out' service, with several routes for employees, suppliers, stakeholders, or the public to raise concerns confidentially or anonymously. We have a clear policy of non-retaliation for any person who makes a report through the speaking out service in good faith. Our compliance programme retained Compliance Leadership Verification status in 2023, as assessed by independent firm Ethisphere. We have also obtained ISO 37001 re-accreditation for our anti-bribery and anti-corruption programme in 2023.

The UK Government's commitment to fighting economic crime was further strengthened in 2023 with the passing of the Economic Crime and Corporate Transparency Act 2023. Among other reforms aimed at tackling economic crime and prevent fraudulent businesses, this act creates a new corporate offence of 'Failing to Prevent Fraud'. The specific effect of this new offence is expected to come into effect in late 2024, once the Government publishes its associated guidance. We are confident in our commitment to prevent fraud across our organisation and will review our procedures against the scope of the guidance, once available.

HUMAN RIGHTS

Respect for human rights is an intrinsic element of our Governance and Sustainability System, forming part of our core values. We maintain a clear hierarchy of policies that are designed to ensure that ethical, sustainable values and fair labour practices are at the heart of our business operations, which includes the Iberdrola Code of Ethics, the Iberdrola Policy on Respect for Human Rights, and our Purchasing Policy.

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

In 2023, we retained our membership of the Slave Free Alliance, a not-for-profit organisation working in collaboration with businesses to enhance and support their wider framework around ethical trade, sustainability, compliance, corporate social responsibility, and human rights. This membership provides a valuable opportunity to educate and inform ourselves on how to address potential issues of modern slavery in our supply chain. Through this membership, we have also been able to be involved in the Utilities Working Group, which is a collaborative forum between utilities and the Slave Free Alliance, to find a common solution to tackling modern slavery within utility businesses.

For all individuals recruited by us, we check their eligibility to work in the UK (including passport verification) and conduct pre-employment background checks, which can help to identify concerns or potential forced labour issues.

All third party suppliers are subject to screening for any potential human rights or modern slavery issues, both at the point of registration with us and during their contract. Specialist third party due diligence will be used in some higher risk contracts when needed. Our suppliers are required to agree to terms requiring them to operate ethically in relation to the recruitment, management and compensation of employees, in compliance with the Iberdrola Code of Ethics, as well as relevant modern slavery legislation. Suppliers are required to ensure that any sub-contractors are also obliged to meet these obligations.

Our confidential 'speaking out' service includes an initial control, which requires every report to be assessed for potential human rights impacts before it can be recorded. Certain categories of claims are automatically considered to have a potential human rights issue and are being recorded as such. We also monitor suppliers for potential human rights issues as part of our third party screening. In 2023, we admitted twelve claims for processing which were recorded as having a potential human rights issue based on the root cause. However, we did not identify any claims or cases relating to material or significant human rights impacts that triggered precautionary measures.

HOW SCOTTISH POWER UK PLC PERFORMED

Financial highlights

- Revenue £9,454.1 million
- Operating profit £1,911.3 million
- Capital investment £1,844.4 million

2023 Group operating performance

The table below provides key financial information relating to our performance during the year. Further detail is provided in the individual divisional sections of the Strategic Report.

	Revenue (Note (a))		Operating Profit (Note (a))		Capital Investment (Note (b))	
Financial key performance indicators ("KPIs")	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Scottish Power UK plc	**9,454.1**	8,434.9	**1,911.3**	834.5	**1,844.4**	930.1

(a) The Group's revenue and operating profit as presented on the Consolidated income statement on page 74.

(b) Additions to Intangible assets (refer to Note 7 on page 92) Property, plant and equipment and reassessment of decommissioning asset within Property, plant and equipment (refer to Note 8 on page 94).

Revenue has increased by £1,019 million to £9,454 million in 2023. Excluding the £682 million revenue from the sale of EA1 transmission asset (classified as inventory) in 2022, the underlying revenue increase is from the Customer business. In the year ending 31 December 2022, Customer business gross margins were materially adversely impacted as the price cap methodology did not allow suppliers to fully recover high energy costs. In the first half of 2023, the domestic revenues of the Customer business division benefitted from specific price cap allowances which facilitated recovery of these prior year losses. In addition, limited energy cost market liquidity has resulted in an inability to perfectly match the commodity cost element of the quarterly price cap tariff with resulting gross margin timing impacts across 2022 (adverse) and 2023 (favourable). Energy Networks revenues also increased by £211 million reflecting higher investment.

Operating profit for 2023 was £1,911 million, an improvement of £1,077 million. This is mainly from the recovery impact of previous year losses in the Customer business (an estimated £686 million improvement) as well as increased allowable Energy Networks revenues and increased Renewable production wind output prices.

Capital investment

ScottishPower's capital investment increased by £914 million to £1,844 million in 2023, primarily reflecting increased Renewable production investment in offshore development sites as well as a step-up in Energy Networks spend (particularly the transmission business) as we progress through RIIO-T2 and also into RIIO-ED2.

HOW SCOTTISH POWER UK PLC PERFORMED *continued*

Statement of financial position

Net assets of the Group increased by £317 million in the year to £7,384 million. This reflects the impact of the statutory profit of £1,127 million and favourable movements in the hedge reserve of £516 million due to the unwind of adverse positions offset by total dividends paid of £1,220 million to the parent and non-controlling interests.

Impact of energy market volatility

During 2023, balances created during 2022 due to the energy market volatility and associated government support that was implemented have unwound.

During the year, the net derivative liability position decreased by £783 million resulting in a net liability of £279 million at 31 December 2023. This decrease reflects both the delivery of commodity derivative liabilities during 2023 and movements in the value of derivatives for future delivery.

Current trade and other receivables decreased by £346 million in the year. This includes a decrease in the value of collateral posted as a result of commodity price movements, a decrease in receivables in respect of UK Government assistance schemes as well as a reduction in loans receivable from other group companies, offset by an increase in receivables from Iberdrola Group companies and joint ventures. Current trade and other payables have decreased by £126 million in the year, mainly as a result of a reduction in the Energy Bills Support Scheme balances with all payments now made to customers. Current other financial liabilities have increased in the year by £202 million, primarily due to a supplier financing arrangement. Refer to Note 19 for further details.

Inventories

Inventories increased by £252 million in the year, principally due to the continued construction of transmission assets.

Retirement benefits

The Group's net pension surplus decreased by £117 million. The defined benefit obligations increased by £50 million, principally due to decreases in UK corporate bond yields as well as rates of observed inflation and salary increases being higher than the respective long-term assumptions, offset to a degree by revisions to the mortality assumptions. The fair value of scheme assets decreased by £67 million, principally due to a reduction in the fair value of the longevity swaps, offset to a degree by deficit reduction contributions and asset returns over the period. Refer to Note 10 for further details.

Liquidity and cash management

We operate and manage a centralised cash management model within the UK, with liquidity being managed at the Company level. Our liquidity position and short-term financing activities are integrated and aligned with Iberdrola's.

The Iberdrola Group's objective is to retain sufficient liquid resources and facilities to cover anticipated cash flow requirements for a period in excess of twelve months; currently liquidity in the Iberdrola Group is in excess of €20 billion, which can be utilised, if required, to fund our activities.

Net cash flows from operating activities increased by £652 million to £1,915 million for the year, as detailed on page 76. This has been driven by the increase in profit in the year. Net cash flows from investing activities have decreased in part due to a reduction in loans receivable from Iberdrola Group companies. Net cash flows from financing activities have decreased primarily due to a reduction in loans payable to Iberdrola Group companies and £255 million of external debt maturing during the year.

As detailed in the table below, cash decreased by £710 million to £159 million, including £54 million of restricted cash (2022 £38 million). Overall net debt increased by £955 million to £6,315 million principally due to utilisation of cash surplus.

Analysis of net debt	Notes	**2023 £m**	2022 £m
Cash	(a)	**159.1**	869.1
Loans receivable from Iberdrola Group companies	(b)	**915.0**	1,224.8
Loans payable to Iberdrola Group companies	(c)	**(5,068.3)**	(5,011.3)
Loans payable to external counterparties	(c)	**(1,644.9)**	(1,866.8)
Collateral held	(d)	**(15.3)**	(23.8)
Lease liabilities	(e)	**(592.1)**	(523.8)
Accrued interest	(c)	**(186.4)**	(75.5)
Interest receivable from Iberdrola Group companies	(b)	**100.1**	19.5
Cross-currency swap	(f)	**17.5**	27.6
Net debt	(g)	**(6,315.3)**	(5,360.2)

(a) As detailed on the Consolidated statement of financial position on pages 72 and 73.
(b) As detailed in Note 13 on page 115.
(c) As detailed in Note 20(a) on page 120.
(d) As detailed in Note 19 on page 119.
(e) As detailed in Note 9(c) on page 97.
(f) As detailed in Note 12(c) on page 106.
(g) Net debt is included as a relevant measure as it is the principal measure used to assess credit rating metrics and excludes confirming arrangements.

Capital and debt structure

The Company is funded by a combination of debt and equity; all equity is held by Scottish Power Limited. Our financing structure is determined by our position in the wider Iberdrola Group. As stated below, we can obtain funding via the liquidity resources maintained at the Iberdrola Group. The Company holds investment grade ratings with Moody's Investor Services (Baa1), S&P Global Ratings (BBB+) and Fitch Ratings (BBB+). There are no financial covenant obligations in relation to our external debt. Details of our financial risk management policy are set out in Note 12.

Dividend policy

The directors have had regard to the key principles of the Iberdrola, S.A. Shareholder Remuneration Policy, as noted by the Company, which include that shareholder remuneration must: (i) be sustainable; (ii) be compatible with the maintenance of financial strength; and (iii) take account of the financial profile of comparable companies. During 2023, interim dividends of £780 million were declared and paid to the parent (2022 £715 million).

HOW SCOTTISH POWER UK PLC PERFORMED *continued*

Investment and funding

The overall funding objective is to maintain a forecast debt position for the various Group entities at least in line with their current credit ratings. As indicated above in the Capital and debt structure section, the ongoing support of the ultimate parent company for future funding and liquidity provides a central underpinning for the directors in their assessments of ongoing funding for the Company and Group.

Taxes and other government obligations

To help give an understanding of our contribution to UK taxes and other UK Government obligations, the table below highlights the key taxes and other obligations in the financial year, on an accruals and cash basis respectively.

Analysis of taxes and other government obligations	Notes	Consolidated income statement expense 2023 £m	Consolidated income statement expense 2022 £m	Cash tax paid in the year 2023 £m	Cash tax paid in the year 2022 £m
Social security costs	(a)	**39.4**	35.8	**38.4**	35.5
Taxes other than income taxes	(b), (c)	**368.3**	198.1	**377.9**	192.6
UK Corporation Tax	(d)	**230.2**	82.2	**51.8**	22.6
		637.9	316.1	**468.1**	250.7

(a) Consolidated income statement expense detailed in Note 24(a) on page 123.

(b) Consolidated income statement expense detailed in Note 25 on page 124 and includes Electricity Generator Levy of £56.5 million (2022 £nil).

(c) Cash tax paid in the year includes £57.3 million of Electricity Generator Levy (2022 £nil).

(d) As detailed in Note 29 on page 125.

SCOTTISHPOWER DIVISIONS

ENERGY NETWORKS

Introduction to Energy Networks division

Our Energy Networks division is responsible for three regulated electricity network businesses in the UK. These businesses are 'asset-owner companies', holding the regulated assets and the electricity transmission and distribution licences of the Group, and are regulated monopolies. They own and operate the network of cables, power lines and substations transporting electricity to around 3.5 million connected customers in the Central Belt and South of Scotland, Cheshire, Merseyside, North Shropshire and North Wales.

One of the regulated businesses, SP Transmission plc ("SPT"), is a transmission network owner. The electricity transmission network consists of the high voltage electricity wires that transport electricity from power stations to distribution system entry points or, in certain cases, direct to end users' premises via a national network of high voltage assets.

The other two regulated businesses, SPD and SPM, are Distribution Network Operators. 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.

All three regulated businesses are natural monopolies and are governed by Ofgem via regulatory price controls. The primary objective of the regulation of the electricity networks is the protection of consumers' interests while ensuring that demand can be met and network 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 each company's efficient costs and allow them to earn a reasonable return, provided they act in an efficient manner, deliver value for customers, and meet Ofgem targets. Price controls are delivered on a regulatory year basis covering the period from April to March. Therefore, the majority of Energy Networks' performance and key deliverables are measured and reported on this basis.

Operating review

Transmission business

In April 2023, we moved into the third year of the five-year RIIO-T2 price control period and we are still on track to deliver our agreed outputs during the remainder of the price control period. The publication of the National Grid ESO's Holistic Network Design ("HND") identified a need for strategic investments of more than £5 billion in Energy Networks' transmission projects in South and Central Scotland by 2030. We continue to develop plans to deliver these significant investments which are key enablers to net zero targets. In July 2022, Ofgem approved the Final Needs Case for the multi-billion-pound Eastern High Voltage Direct Current ("HVDC") link project. A multi-disciplinary project delivery team has been established to drive the project forward from design through to construction and operation. In August 2023, SPT acquired 50% of the issued share capital in Eastern Green Link 1 Limited, a recently incorporated company, to establish an incorporated joint arrangement with National Grid Electricity Transmission plc to deliver the project and submitted a Project Assessment document to Ofgem. Ofgem formed a positive 'minded to' position in terms of project allowances in November 2023 with the signing of significant contracts for the HVDC converter stations and cable taking place around the same time.

Distribution business

In March 2023, the eight-year RIIO-ED1 price control period ended. In terms of RIIO-ED1 performance, the business delivered our agreed outputs and performed on, or ahead of, targets in our approach to safety, reliability and availability, and customer service. This includes investment in incremental green recovery projects in the drive towards net zero.

The five-year £3 billion RIIO-ED2 price control period commenced on 1 April 2023. Implementation of the delivery plan has commenced for the increased volume of activity in RIIO-ED2 including increased recruitment in key areas coupled with external contract placement.

In continuation of the process agreed in 2022 with Ofgem, recovery of supplier of last resort payments to suppliers were included in distribution use of systems tariffs charged from April 2023, resulting in a broadly neutral cash and earnings profile for 2023.

SCOTTISHPOWER DIVISIONS *continued*

Our values in action

As a network operator serving communities across England, Wales and Scotland, we have a critical role to play in supporting regional and national decarbonisation ambitions. We are focused on providing a business in direct alignment with the priorities of our customers and stakeholders to tackle climate change, and deliver the infrastructure and services required to achieve net zero. Our journey to a net zero future is already well underway.

Since the start of RIIO-ED1 price control period, we have achieved a 42% reduction in our combined (SPD and SPM) carbon footprint, excluding losses. In comparison to regulatory year 2021/22, our carbon footprint (excluding losses) has increased by 41% in SPM and by 30% in SPD. The main reason for this increase was a one-off caused by a lack of availability of Renewable Energy Guarantees of Origin ("REGO") tariffs for our unmetered substations between April and October 2022. This resulted in an increase of around 7k tCO2e (kilotonnes of carbon dioxide equivalent) compared to the period from April to October 2022 for buildings energy use.

By contrast in regulatory year 2022/23, our transmission business recorded their lowest business carbon footprint to date achieving a total carbon reduction of 54% since 2013/14. We have achieved our short-term target set in 2013/14 and are on course to achieve the medium-term reduction target of 80% by 2029/30. Both of these measures exclude losses which are measured as the difference between network units distributed and network units caused by distribution losses in the transportation of electricity.

Furthermore, we are supporting societal decarbonisation by enabling low-carbon technologies, such as EVs and heat pumps, to be connected to our network. Energy Networks is a major enabler on the UK journey to net zero and this is embedded in Ofgem's price control mechanisms including reductions in our carbon footprint through investment in low-loss transformers.

2023 performance

Financial KPIs	Revenue 2023 £m	Revenue 2022 £m	Operating profit 2023 £m	Operating profit 2022 £m	Capital investment 2023 £m	Capital investment 2022 £m
Energy Networks	**1,591.0**	1,380.4	**718.0**	599.3	**929.3**	623.7

Energy Networks' revenue is £211 million higher than the prior year. Allowable transmission revenues have increased under RIIO-T2 by £129 million reflecting an increase in allowed revenues as a result of investment in the network. Distribution revenues are £34 million lower in relation to Supplier of Last Resort levies. There is an equal and opposite variance within procurements. Underlying distribution revenues are £116 million higher than the prior year reflecting an increase in allowed revenues from a combination of investment in the network and changes in RIIO-ED2 revenue calculation.

Operating profit is £119 million higher than 2022 largely due to increased allowable revenue pricing partly offset by: increased regulatory operating cost activity, a £36 million regulatory provision (refer to Note 18), and the non-repetition of the 2022 £8 million gain from the sale of Manweb Services Limited.

Energy Networks' capital investment increased by £306 million to £929 million in 2023, primarily due to higher spend by the transmission business. Higher levels of investment are expected to continue to facilitate UK net zero targets as we progress through RIIO-T2 and also into RIIO-ED2.

The three regulated businesses within Energy Networks are required to prepare regulatory financial performance reporting for years ending 31 March. Reporting of KPIs is aligned to the regulatory year end. Consequently, the latest available data for the last regulatory year for Energy Networks has been disclosed in the table below, with the exception of distributed energy which is reported for the years ending 31 December.

Non-financial KPIs	Notes	**Actual 2023**	**Target 2023**	Actual 2022	Target 2022
Distributed energy (GWh)	(a)				
- SPD		**15,351**	**N/A**	15,626	N/A
- SPM		**12,758**	**N/A**	13,109	N/A
Annual reliability of supply	(b)				
- SPT		**99.99%**	**N/A**	99.99%	N/A
Customer interruptions	(c)				
- SPD		**36.3**	**49.8**	37.2	50.0
- SPM		**30.3**	**35.7**	30.3	35.9
Customer minutes lost	(d)				
- SPD		**25.4**	**39.8**	27.1	40.5
- SPM		**31.9**	**35.0**	30.9	35.9

(a) Gigawatt hours ("GWh").
(b) Annual reliability of supply is provided by the system operator, National Grid ESO.
(c) Recorded per 100 customers.
(d) Average number of minutes our customers had their supply interrupted.

SCOTTISHPOWER DIVISIONS *continued*

Policy and regulation

Strategic transmission projects (including ASTI)

A ministerial-led working group has been created with senior Transmission Operator representatives to agree and implement the recommendations from the UK's Electricity Networks Commissioner published in August 2023. This focusses on items such as the need for a national campaign on the need for transmission infrastructure, supply chain and order book reform, common standards and harmonisation spatial planning developments, planning and consenting reform coupled with a community benefits framework and workforce growth. The UK Government published its response to the Networks Commissioner Report, coinciding with the Chancellor's Autumn Statement, which set out support for the recommendations. Planning reform in Scotland was the significant omission from the UK Government's publication, on which we are continuing to engage with Ofgem and UK Government. SPT holds a senior seat upon the working group and is liaising with the Ofgem CEO office on all aspects of the national campaign.

Strategic connections development

Transmission

The extraordinary growth in connections applications means the 'first come first served' model is no longer fit for purpose. More than 500 GW is in the 'contracted' and 'connected' queue. This is significantly more than the current Future Energy Scenarios or winter peak demand requirements. Following National Grid ESO's five-point plan to speed up the current connections queue, DESNZ and Ofgem have published the Connections Action Plan, setting out the new framework for transmission connections. Key actions of the Transmission Action Plan include raising entry requirements for connecting parties, removing stalled projects from the connection queue, and better utilising and allocating existing network capacity. Ofgem has also confirmed the inclusion of a new queue management process within the Connection and Use of System Code. This will introduce a right for National Grid ESO to terminate contracted projects which are not progressing against agreed milestones. The last five years has seen a 300% increase in connection offers issued. In addition, connection customer complaints are at risk of increasing as timescales to their projects increase. There is also an increased volume of connections applications. This is a highly political subject and network companies are at risk of becoming known as blockers. An external connections delivery board oversees the process.

Distribution

Energy Networks is party to the Energy Network Association's ("ENA") Strategic Connections Group ("SCG") which focusses on distribution queue management, boundary interface management, and the battery storage workstream which is being led by Energy Networks is making the most significant progress. Energy Networks is leading this workstream. Ofgem and DESNZ have committed to reviewing and improving the enforcement of existing connection milestones at distribution level and have acknowledged the work of the ENA's working group. Again, this is a highly political subject – network companies are at risk of becoming known as blockers. SCG oversees the process.

Outlook for 2024 and beyond

We will continue to progress development of the Eastern HVDC link project including the monitoring of engineering, procurement and construction turnkey contracts for converter stations and cables. In addition, pre-construction planning and procurement activity for other direct current links as part of the HND suite of projects will also be progressed.

A key focus for 2024 will be the targeted delivery of increased activity associated with regulatory outputs for the second year of RIIO-ED2 and the next year of RIIO-T2. RIIO-ED2 will be particularly significant for the decarbonisation of transport and domestic heating, and the connection of low-carbon electricity (additional 5 GW) as the business drives towards net zero goals building in innovation whilst maintaining high levels of asset stewardship.

RENEWABLE PRODUCTION

Introduction to Renewable production

Renewable production is responsible for the origination, development, construction, operation and decommissioning of renewable generation plants, principally onshore and offshore wind, with a growing presence in technologies such as battery storage and solar.

Renewable production currently has more than 40 onshore operational sites and our EA1 and WoDS offshore wind farms, totaling 3 GW of operational capacity across our portfolio. We have taken positive investment decisions in 2023 resulting in us currently having five projects in construction phase across on and offshore wind, battery storage and solar.

We also have a strong programme of future projects following expansion in 2023 of the UK pipeline out to 2035, including: more than 6 GW of potential onshore wind, solar and battery storage projects; 2.9 GW of offshore wind within the East Anglia zone; and seabed rights for three offshore wind projects in Scotland with a total capacity of 7 GW, being one fixed-bottom site and, in partnership with Shell, two floating sites. We continue to consider further opportunities to invest more widely in renewable generation and storage, and to also explore opportunities to repower our existing fleet.

Operating review

Our assets continued to perform well throughout 2023 with good availability. Production was down from the previous year as a result of lower than expected wind speeds. Our Operations and Maintenance teams continue to develop their Operational Model and Asset Management Strategies, including internal capabilities, in order to increase operational efficiencies and performance in line with increasing capacity and the integration of new technologies.

Offshore wind

Renewable production continues to operate the EA1 (a 60/40 jointly-owned arrangement between Renewable production and Bilbao Offshore Holding Limited respectively) and WoDS wind farms (a joint arrangement with Orsted) whilst developing the 2.9 GW East Anglia Hub ("EA Hub") which consists of three offshore wind farm projects: EA3, East Anglia One North ("EA1N") and East Anglia Two ("EA2"). Updates in relation to these projects are outlined overleaf.

SCOTTISHPOWER DIVISIONS *continued*

In 2022, Renewable production secured CfDs (in three phases) for the EA3 project. The final investment decision ("FID") to progress was taken during February 2023 and all key contract scopes including foundations, export cable, wind turbine supply and installation were secured during Q2 of 2023. Construction activities are ongoing: foundation fabrication has commenced, the onshore civils works for the grid connection are on track with the foundations being built for the main electrical equipment, and the offshore converter station is nearing completion for the main structure with the electrical outfitting due to commence in Q2 2024.

The EA1N and EA2 development consent orders are subject to judicial reviews.

At COP28 in Dubai in 2023, Iberdrola and Masdar announced a €15 billion strategic partnership agreement to evaluate the joint development of offshore wind and green hydrogen projects in key markets including Germany, the UK and the USA.

Following success in the ScotWind seabed leasing round in 2022, three offshore projects with a total capacity of 7 GW are at the early stages of development; two large-scale floating projects in partnership with Shell (3 GW MarramWind and 2 GW CampionWind) and one 100% owned fixed-bottom project (2 GW MachairWind).

Early development works are progressing on all three of these projects. Surveys have been carried out on all sites in 2023, in order to inform Environmental Impact Assessments for the consenting process. Bird and marine mammal surveys have been completed on both MachairWind and MarramWind and commenced on our CampionWind site, with the latest project also contributing to regional-scale surveys with other developers. Seabed site investigation surveys were carried out on MarramWind and MachairWind in 2023, in order to assess physical and environmental seabed conditions for consenting purposes and also to increase our technical understanding of the seabed for foundations and cables. All three projects will continue development activities, progressing towards the submission of planning applications.

Onshore Renewable production

Renewable production took its FID on the Hagshaw Hill Repowering and Cumberhead West projects in June 2023 allowing preparatory construction works to commence with the award of the turbine contracts for both projects. Decommissioning of the original Hagshaw Hill Windfarm has progressed well and by repowering this site (which was Scotland's first commercial wind farm) we will be replacing the original turbines with models that provide five times the original generating capacity.

On 7 March 2023, we completed the purchase of 28% of the share capital in Cumberhead West Wind Farm Ltd, bringing the company 100% into ScottishPower ownership.

Harestanes BESS is under construction with the main building civil works complete. The BESS and electrical installation works will continue throughout 2024. Other battery storage opportunities continue to be explored for both co-located and standalone sites.

The main construction works for Coldham solar, which is co-located with our Coldham wind farm, are complete, with final commissioning underway ahead of expected commercial operation date at the end of Q1 2024.

All of this means that as at the end of 2023, we have four onshore projects, including a large-scale solar site, under construction.

On 21 June 2023, Renewable production completed the purchase of 100% of Pipplepen Solar Limited (previously known as EEB37 Limited), a 32 MW solar development project in Dorset, Southwest England, being the last of the solar acquisitions from Elgin Energy as part of a deal signed in January 2022.

In the last quarter of 2023, Renewable production impaired four projects in its development pipeline due to limiting factors relating to consent or land, which prevent these projects from proceeding (refer to Note 8(a)). One of these projects was Douglas West Extension, which resides in its own project company Douglas West Extension Limited ("DWE Ltd"). Renewable production's 72% shareholding in DWE Ltd has subsequently been sold in early 2024 to the minority interest shareholder.

2023 performance

Financial KPIs	Revenue 2023* £m	Revenue 2022 £m	Operating profit 2023 £m	Operating profit 2022 £m	Capital investment 2023 £m	Capital investment 2022 £m
Renewable production	**1,310.0**	1,714.0	**632.7**	469.6	**755.3**	163.8

* Revenue for 2022 includes £682 million from the sale of the EA1 transmission asset which was classified as inventory.

Renewable production revenue decreased by £404 million to £1,310 million in 2023. Included in this decrease is £682 million related to the 2022 sale of EA1 transmission asset which was held as inventory. Underlying revenues increased by £278 million. Wind output decreased by 5% (£24 million), reflecting weather conditions. Offsetting this decrease, revenue increased due to higher energy and REGO prices as well as annual indexation increases for Renewables Obligation Certificates ("ROCs") and CfDs. These price increases were reflected in sales, primarily to the Customer business.

Operating profit increased by £163 million to £633 million in 2023. Higher underlying revenues were partially offset by £40 million Transmission Use of System charges ("TNUoS") for EA1 following the sale of the transmission asset in 2022 and the non-repetition of its £20 million gain on sale, and the introduction by the UK Government of the Electricity Generator Levy (£57 million).

Capital investment increased by £592 million to £755 million in 2023 primarily reflecting increased investment in offshore sites.

SCOTTISHPOWER DIVISIONS *continued*

Non-financial key performance indicators ("KPIs")

	Notes	2023	2022
Wind			
Output (GWh)	(a)	**7,454**	7,824
Installed capacity (MW)	(b)	**2,879**	2,895
Availability	(c)	**95%**	96%
Solar			
Output (GWh)	(a), (d)	**5**	7
Installed capacity (MW)	(b), (d)	**10**	10
Battery storage			
Installed capacity (MW)	(b), (e)	**101**	104

(a) Output is a measure of the electrical output generated in the year, which in turn drives the revenues of the business.
(b) Installed capacity represents the total number of MW installed within the sites. This includes all sites constructed irrespective of whether they are generating or not.
(c) Availability is a measure of how effective the business is at ensuring wind generating plant is available and ready to generate.
(d) Solar capacity and output in respect of Carland Cross, which commenced operations in January 2022.
(e) Installed capacity relates to Gormans BESS, Whitelee BESS and Barnesmore BESS.

Policy and regulation

We continue to engage with the UK Government and devolved administrations on a number of priority issues which have implications for the investment of renewable energy projects.

In November 2023, the UK Government published core parameters to support preparation for the CfD Allocation Round 6 auction (which is due to open for applications in late March 2024) which reflect recognition of increases in supply chain costs faced by the industry and the impact of global economic strains caused by the pandemic and geopolitical issues. We continue to engage closely with the UK Government on the need to ensure that the final parameters (including the auction budget) for the CfD annual auctions for new renewable capacity are set to maximise the deployment of offshore wind, onshore wind and solar PV projects.

The ten-year review of the Capacity Market will be due to be published by summer 2024 and we are engaged with the UK Government's evidence gathering process that will inform this, as well as considerations in relation to shorter-term improvements to improve security of supply and align with net zero.

In 2023, we were a part of the taskforce that resulted in the independent report of the Offshore Wind Champion and the recommendations from the UK's Electricity Networks Commissioner which we welcomed, and look forward to the implementation of both sets of recommendations aimed at accelerating the deployment of offshore wind and related energy infrastructure. We also sit on the Scottish Offshore Wind Energy Council Developer Group bringing wind developers together to work with the Scottish Government on shared challenges. Similarly, we are also part of the Offshore Wind Industry Council, a senior government and industry forum established to drive the development of the offshore wind sector in the UK.

We signed the Offshore Renewable Energy Declaration at the North Sea Summit in April 2023, signifying our commitment to working with other industry players and governments to create a greener energy future in Europe.

We anticipate the next steps in the wide-ranging Review of Electricity Market Arrangements will gather pace through the course of 2024, once the second consultation by the UK Government (expected in the first half of the year) is published. This will consider long-term reforms to market arrangements including the CfD scheme and the Capacity Market. The purpose of the reforms is to ensure energy security and to provide for the efficient operability of, a decarbonised power system by 2035.

In November 2023, the UK Government, following two years of consultation, laid the final version of Revised Energy National Policy Statements EN 1-5 ("NPSs") in parliament for final scrutiny and approval. In comparison with previous drafts the final NPSs provide for 'Critical National Priority' status in the planning system for all forms of low-carbon energy generation and transmission networks. The updated NPSs are expected to play a crucial role, underlined within the UK Government's consenting Action Plan (2023), in facilitating the more efficient delivery of offshore wind projects through the development consent order process, from 2024 onwards.

Following publication of the Scottish Government's revised Onshore Wind Policy Statement in December 2022, we have led an Onshore Wind Sector Working Group's engagement with Scottish Ministers to agree an 'Onshore Wind Sector Deal' which was published in September 2023. We are now committed to working with the Scottish Government and other stakeholders to deliver on a range of commitments outlined in the Sector Deal aimed at maximising the investment, supply chain growth, and employment opportunities from achieving Scotland's ambition to deploy 20 GW of onshore wind by 2030. The Scottish Government, alongside the industry, have now produced a delivery plan which will see the sector, government agencies and relevant third parties deliver on agreed individual or collaborative milestones over the course of 2024 and 2025. Alongside the Strategic Leadership Group, a number of specialist working groups have now been formed where we are represented by relevant business leads. These working groups include planning, consenting and environmental assessment, peat and peatland habitats, aviation mitigation and lighting.

In Northern Ireland, following their 2023 Consultation on design considerations, we are also looking forward to the Department for Economy developing a new renewable energy support scheme as it seeks to meet its decarbonisation goals.

In the Autumn Statement published in November 2023, the UK Government affirmed its commitment to the net zero transition as being vital to the UK's energy security and long-term prosperity. To support continued investment in the UK's renewable generation capacity, the Autumn Statement set out that the UK Government will legislate for new projects for which the substantive decision to proceed is made on or after 22 November 2023 will be exempt from the EGL. The Government also confirmed that capital allowances for full expensing, including the 50% first-year allowance for special rate assets have been made permanent.

SCOTTISHPOWER DIVISIONS *continued*

Outlook for 2024 and beyond

With all major contracts now signed, EA3 construction is well underway with completion expected in 2026. Development of EA1N and EA2 continues with the focus on the route to market and analysing agreements with the supply chain for the key contracts before taking FID.

In addition, we will consider new origination opportunities, and in particular large-scale seabed leasing opportunities with the launch of The Crown Estate's Celtic Sea Auction Round 5 at the end of 2023. Renewable production continue to explore this opportunity before the end of the application window for the auction round.

Renewable production continues to look for opportunities in future CfD auctions, with Allocation Round 6 scheduled to open in March 2024 as well as engaging with other partners to create possible power purchase agreements which deliver a route to market for our onshore and offshore projects.

During 2024, we look to continue to grow Renewable production with construction scheduled throughout the year on new onshore wind farms which secured CfDs under Allocation Round 4. We are also progressing development of viable solar projects which secured CfD contracts, with some expected to begin construction throughout 2024 and 2025.

In addition, we will explore opportunities to deploy technologies, including solar and BESS projects at existing wind farms where appropriate to do so, in addition to new project locations. Work will continue on our Harestanes BESS in 2024, which will be co-located at Harestanes Windfarm, and we also expect to reach Commercial Operation Date in late Q1 2024 on our Coldham solar project (adjacent to Coldham wind farm). We'll continue to develop more BESS projects as we look to expand our energy storage portfolio in response to system requirements for flexibility and ancillary services.

Throughout all of our operations, we will continue our commitment to health, safety and the environment; ensuring everything we do is with the safety of our people, contractors and communities in mind whilst recognising the importance of biological diversity and cultural heritage, respecting natural resources and striving to enhance the environment around our developments.

CUSTOMER BUSINESS

Introduction to our Customer business

Our Customer business is responsible for the supply of electricity and gas to domestic and business customers, including customer registration, billing and handling enquiries in respect of these services. It is also responsible for the associated metering activity including the smart meter installation programme and managing our smart solutions offerings. During 2023, an average of 4.6 million gas and electricity customers were supplied by the Customer business. At 31 December 2023, the Customer business supplied 4.5 million gas and electricity customers. In the Customer business, we aim to deliver a top-class experience for our customers, one which is hassle-free, making it easy for customers to contact us through a range of routes, and provides flexibility to meet all of our customer needs.

The energy sector is evolving, and as a responsible energy supplier we continue to innovate to ensure our service offering meets the needs of customers as those needs and market conditions change. We aim to do this through:

- supporting the decarbonisation of the energy market through innovative offerings;
- providing additional support to our most vulnerable customers;
- taking a holistic approach to customer needs through good quality smart solutions; and
- linking our smart solutions with our competitive energy tariff offerings.

The Energy Management function continues to focus on managing the Group's exposure to the UK wholesale electricity and gas markets on behalf of the Customer business and Renewable production divisions. Energy Management is primarily responsible for managing wholesale margins through the purchase of external supplies of electricity and gas for onward sale to customers and the sale of electricity from internal and external renewable power purchase agreements to wholesale market participants in the UK. It also sources green certificates which ensure compliance by the Customer business with its regulatory and commercial obligations. Energy Management has contributed to the Group's navigation of the volatile energy markets through its trading strategies, in addition to ensuring the continued security of gas supply through safe and optimal utilisation of its Hatfield Moor gas storage facility.

Operating review

Supply and market conditions

The energy supply market and regulatory environment continues to be challenging for all suppliers in the industry. The sustained absence of a product market has resulted in most households in our portfolio now being on the standard variable tariff ("SVT") which is subject to the Ofgem price cap. Changes to the price cap methodology enabled suppliers to recover some of the 2022 costs incurred for price-capped customers during 2023. Although energy prices fell during 2023, they remain almost double the level of previous years. This presents vulnerable customers with financial challenges. The Customer business continues to be concerned about customer affordability, particularly considering the likely increase of energy usage and associated costs during the winter months.

With customer bills high, our operational focus remains on prompt cash collection, the retention of customers on secure payment plans, and supporting our customer base to manage their debt position. In early 2023, Ofgem began a market-wide review of suppliers' approach to switching customers to prepayment meters without consent as a means to recovering debt, covering both prepayment meter installation under warrant and remote change of smart meter mode. This review followed the temporary pause of this activity by all suppliers from 3 February 2023 to allow agreement of a new voluntary approach for the use of prepayment meters to reclaim debt without customer consent with the Code of Practice published on 18 April 2023. After consultation, Ofgem introduced mandatory new rules and guidance which came into effect on 8 November 2023 replacing the Code of Practice. Suppliers must demonstrate readiness to comply with the new rules ahead of restarting the use of prepayment meters, and on 8 January 2024, Ofgem announced that three suppliers, including ScottishPower, had met these conditions and could restart this activity. The business continues to engage with Ofgem on all aspects, including the recovery of additional debt created as a result of the moratorium and the new rules which extend the group of customers who are deemed not suitable for prepayment.

SCOTTISHPOWER DIVISIONS *continued*

The suspension of involuntary prepayment installations has limited the options available to us to recover debt and has also had a significant impact on our ability to secure difficult to recover debt on a reasonable repayment plan as we cannot use prepayment meters without customer consent which, in the absence of the suspension, is the last resort of the debt journey. The adverse impact of the temporary suspension and the introduction of the licence conditions for 'involuntary' (i.e. without consent) prepayment installations has yet to be fully determined. The business is lobbying Ofgem to ensure that any adverse costs resulting from these actions are recovered in a fair and reasonable manner.

Following our decision to exit the Industrial and Commercial ("I&C") supply market in 2022, the business continues to service its remaining customer base but does not offer new fixed-term contract terms at the point of renewal. I&C customers have the option of either leaving ScottishPower at point of contract renewal or continuing to receive a supply at default SVT prices. As a result of this policy, the I&C portfolio has continued to decrease in size during 2023.

Recognising the UK Government's green hydrogen target of 10 GW by 2030, the business is developing a significant portfolio of green hydrogen production opportunities. Developments include the 10 MW Whitelee project and the 15 MW Cromarty joint development project, with partner Storegga, which were both successful in the UK Government's Hydrogen Allocation Round 1 ("HAR1"). Also, the 100 MW Felixstowe Port project (located within the UK's busiest container port), has been successfully awarded a Net Zero Hydrogen Fund grant.

Government support

The Energy Bills Support Scheme ("EBSS") which provided support by giving a credit to domestic electricity customers ended in March 2023. The UK Government's Energy Price Guarantee ("EPG") scheme provided a discount to domestic customers during the first half of 2023, ensuring that a typical DD household in the UK paid an average of £2,500 a year for their dual fuel energy bill. From July 2023, the discount only applies if prices rise above £3,000 per annum for a typical household, however, the price cap is currently below this level and therefore in general the scheme is not currently providing support to customers other than being used by the UK Government to provide a discount to prepayment customers which levelises the price with those for the DD payment method from 1 July 2023. The EPG scheme is scheduled to end on 31 March 2024. Meanwhile, the Energy Bill Relief Scheme ("EBRS"), which ran from October 2022 to March 2023 for non-domestic customers has now ended and was superseded by the Energy Bill Discount Scheme ("EBDS") which will provide a lower level of support to these customers until 31 March 2024.

The Customer business' position remains that enduring government assistance is required to ease the burden on domestic households most at risk. To this end, we continue to engage with the UK Government and Ofgem, to champion a targeted approach to support the most financially vulnerable customers, such as the introduction of a social tariff.

UK Energy Management

Energy Management continues to purchase forward power and gas requirements on behalf of our Customer business and sell forward power generated by Renewable production, to provide price certainty in an environment where commodity markets have continued to experience substantial price volatility. Considering the commodity market conditions over recent years, these hedging activities have played a key role in the earnings of both businesses. The Energy Management business has continued to optimise its credit and collateral positions with market counterparties to protect shareholder value.

The Energy Management business is also responsible for the Hatfield gas storage facility where its focus is on the safe operation of the asset, optimisation of injections and withdrawals to contribute to GB security of gas supply and the creation of financial value. Following unprecedented market price volatility through 2022 which resulted in significant year-on-year movements in the Consolidated statement of financial position, earnings from gas storage are back to more normal levels in 2023.

Our values in action

During 2023, governments and Ofgem continued to focus strongly on the need for suppliers to deliver a positive consumer experience for all customer groups, recognising that suppliers are required to identify the needs of their customers, especially those in vulnerable circumstances. Ofgem's focus has been on introducing additional protections for customers via new policy and regulatory developments (Refer to the 'Policy and regulation' section below for further details), and also via compliance activity with Ofgem continuing to issue market-wide reviews of supplier compliance, largely dominated by the review of the use of prepayment meters in the debt journey. The impact of rising energy prices combined with the broader cost of living crisis has seen a real challenge for our customers, with the Customer business taking a number of actions to ensure our customer service offering can deliver for our customers in this challenging environment. This includes the actions we have taken to support customers directly, as well as supporting customers in accessing support from relevant third parties and influencing the UK Government to implement support interventions. Refer to the 'Energy customers' section of the Strategic Report for further details.

2023 performance

	Revenue		Operating profit/(loss)		Capital investment	
Financial KPIs	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Customer business	**7,757.2**	6,586.2	**561.4**	(234.5)	**135.2**	123.1

Customer business revenue increased by £1,171 million to £7,757 million in 2023, primarily driven by domestic revenues.

The Customer business' 2022 operating loss improved by £796 million to an operating profit of £561 million in 2023. In the year ending 31 December 2022, the Customer business' retail gross margins were materially adversely impacted as the price cap methodology did not allow suppliers to fully recover high energy costs. In the first half of 2023, gross margins benefitted from specific price cap allowances which facilitated recovery of these prior year losses. In addition, limited energy cost market liquidity has resulted in an inability to perfectly match the commodity cost element of the quarterly price cap tariff with resulting timing impacts across 2022 (adverse) and 2023 (favourable). These two factors have contributed an estimated £686 million of the £796 million year-on-year improvement.

Countering the improved gross margin position, costs increases were seen in ECO scheme costs and in bad debt. Higher ECO costs reflect an increase in delivery requirements for the ECO4 scheme as well as new obligations under the Great British Insulation Scheme (formerly known as ECO+ and which commenced in July 2023). Higher bad debt costs reflect recent higher tariffs but are primarily as a result of the suspension of involuntary installations of prepayment meters for the majority of 2023, as well as adherence to the rules for the protection of vulnerable customers.

Capital investment in the Customer business increased by £12 million mainly due to IT billing system spend.

SCOTTISHPOWER DIVISIONS *continued*

Non-financial KPIs	Notes	2023	2022
Volume supplied (GWh)	(a)	**33,072**	38,199
Customer service performance	(b)	**2nd**	3rd
Smart meters in portfolio	(c)	**57.0%**	51.2%
Customers (thousands)	(d)		
– Electricity		**2,753**	2,862
– Gas		**1,866**	1,934
		4,619	4,796

(a) Reduced demand driven by customer behaviour and milder weather, in addition to lower customer numbers and the continued withdrawal from the I&C market.

(b) Based on the Citizens Advice Domestic Energy Suppliers' Customer Service Report. Rankings reflect ScottishPower's position relative to the other 'Big Seven' energy companies. We have continued to invest in our customer service teams with a key focus on improving our timely management and resolution of complaints, coupled with an overall focus on service quality across all of our advisors.

(c) Percentage of relevant Customer business customer base with a smart meter.

(d) Customer numbers are based on the average number of Meter Point Administration Numbers for electricity customers and Meter Point Reference Numbers for gas customers during the year to 31 December.

Policy and regulation

Ofgem's key focus during 2023 for the retail sector focused on three key strategic priorities; ensuring prices are fair, creating resilience in across the energy sector, and monitoring and enforcing performance standards for consumer standards and protections. In delivering these priorities, during the year its work included:

- introducing new financial resilience requirements for suppliers, to ensure suppliers are financially robust and limit disorderly exits from the market as experienced in 2021;
- making further amendments to the default price cap methodology to reflect changes to the market since the cap was introduced and recovery of historic costs incurred by suppliers as a result of temporary changes to the market;
- consulting on proposals on improving consumer standards within customer service and debt processes; and
- introducing new rules and guidance for the use of prepayment meters in the debt journey.

We have continued engagement with Ofgem on all policy areas via bilateral engagement and via broader industry routes to aim to influence the proposals in the best interests of ScottishPower and its customers.

Ofgem published its decision in April 2023 requiring suppliers to protect Renewable Obligation payments from November 2023, and also introduced additional reporting and monitoring on suppliers and new powers for Ofgem that could result in a requirement for suppliers to protect customer credit balances in certain situations. Ofgem also published its decision in July 2023 to require minimum capital requirements for suppliers which must be in place by March 2025.

Ofgem published a decision to amend the approach to the allowance for earnings before interest and tax ("EBIT") margin in the price cap effective from October 2023, and to introduce an additional temporary allowance for increased credits provided to prepayment customers as a result of the continued costs of living crisis. It continues to consult on further changes to the price cap methodology including a review of debt-related costs (including as a result of the moratorium during 2023 on the use of prepayment meters in the debt journey), operating costs, and wholesale costs. They have also consulted on proposals to levelise payment methods related to price differentials which if implemented would come into effect from April 2024.

Ofgem published its decision in October 2023 to introduce new rules from December 2023 to improve consumer standards with a focus on three areas; having a customer service operation that meets consumer needs and protects and prioritises vulnerable customers, ensuring early engagement with customers who are struggling to make payments for their energy, and providing better visibility to consumers of their suppliers' consumer satisfaction performance.

During 2023 we have continued to engage with the UK Government on a number of areas including the remaining government support schemes, the need for future support for domestic financially vulnerable customers, the future of the UK Government's energy efficiency schemes and the smart meter installation programme.

The Customer business continues to make significant efforts and investments in a challenging environment to support smart meter rollout and meet its regulatory target. As at December 2023, smart meters accounted for 57.02% of relevant meters in our portfolio.

Outlook for 2024 and beyond

During 2023, we saw a strong recovery of prior year losses within the default tariff cap segment as well as a change in EBIT allowance methodology implemented by Ofgem in October 2023. During 2024, we are expecting to see developments surrounding existing consultations on operating cost allowances and bad debt recovery associated with the losses from the new licence obligation in relation to restricting prepayment warrant activity.

The business will continue to engage with the UK Government and Ofgem to ensure the regulatory framework is fair and fit for purpose. All policies must enable the business to deliver the service and solutions needed to support its customers and deliver net zero. This will include continuing to focus on adjustments to the price cap and the use of alternative mechanisms to allow suppliers to recover efficient costs.

Whilst the Customer business is experiencing less volatility in wholesale market prices than it has over the past couple of years, there is still uncertainty surrounding where the product market will reach and how much certainty customers are looking for, which will result in customers switching from SVT to fixed products. It is recognised that whilst most suppliers are now selling fixed products there is less aggressive pricing than we have seen historically. Consequently, there is a number of fixed-term products available on the market, albeit not to anywhere near the same degree as in previous years.

The business has concentrated making the adoption of smart solutions even easier by offering financing solutions for solar panels, as well as improving the design, quote and ordering experience. Focus remains on developing our public charging network for EVs and smart solutions. The key to future engagement will be to take advantage of using energy flexibly in line with the energy system, consequently smart solutions are developing new services to enable customers to remotely manage their smart devices.

SCOTTISHPOWER DIVISIONS *continued*

The UK Energy Management function continues to trade in line with forward hedging strategies as approved by the Customer business and Renewable production divisions. These strategies seek to create comparative value relative to competitors while adhering to strict limits on market, credit and collateral risk, and anticipating the potential impacts of variable demand and generation volumes.

ScottishPower is committed to continuing its work to develop a green hydrogen economy. In 2024 we expect to take the FID on both the Whitelee and Cromarty green hydrogen facilities, which have both been awarded government funding from HAR1, subject to various factors including a positive outcome in both planning applications. When constructed these projects will be among the UK's first and largest green hydrogen production facilities, supporting the decarbonisation of industry and heavy transport with clean green fuel.

GROUP PRINCIPAL RISKS AND UNCERTAINTIES

The delivery of our strategy requires the Group to conduct business in a manner benefitting customers through balancing cost and risk, while delivering shareholder value and protecting our performance and reputation by prudently managing the risks inherent in the business. Risk management within the Iberdrola Group, and so the Group, is based on foresight, independence, commitment to the Group's business objectives, and the engagement of senior management and the SPL Board. To maintain this strategic direction, the Group develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation.

During 2023, the governance structure was supported by risk policies approved by the board of directors of Iberdrola ("the Iberdrola Board") and adopted by the SPL Board. Our business risk assessment team and independent group risk management function supported the SPL Board in the execution of due diligence and risk management. In addition, the Group is represented at the Iberdrola Risk Management Committee to ensure that the business risks are adequately assessed, monitored, mitigated and managed. Further details of the Group's governance structure and risk management are provided on page 35 and in the Directors' Report.

The principal risks and uncertainties of the Group, that may impact current and future operational and financial performance and the management of these risks are described below:

REGULATORY AND POLITICAL RISKS – IMPACTS THE GROUP	RESPONSE
Compliance with regulatory obligations especially in the context of sudden changes of policy, or interventions outside established regulatory frameworks. **Specific areas:**	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained, and public backing is secured for the necessary investment in the UK energy system. Providing stakeholders with evidence of the risks of ad hoc intervention in markets.
Price controls – impacts Energy Networks Failure to deliver the Energy Networks' transmission and distribution outputs agreed with Ofgem in their respective price controls under the RIIO framework.	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 coordination of activities across the business is integral to success, complemented by a comprehensive monitoring regime that provides early warning of potential issues.
CfD indexation – impacts Renewable production CfD strike price is indexed by consumer price index ("CPI") annually. Limited protection from supply chain cost increases.	Engaging with UK Government on their proposal to update the strike price indexation methodology to reflect the produce price index during the construction phase to protect developers against macroeconomic shocks, whilst in parallel employing a procurement strategy that secures significant portions of a project's capital expenditure at or before the time of FID.
Structural market uncertainty – impacts Customer business Structural uncertainty resulting from regulatory market interventions including review of price cap allowance and changes in the licence conditions for use of prepayment in the debt journey.	Engagement with key industry stakeholders including both Ofgem and various government departments regarding the requirement for suppliers to recover all costs, and the need to make fundamental changes to the market to ensure efficient suppliers can recover costs in the future particularly focused on increased bad debt costs. Engagement includes responding to consultations, and proactively lobbying key stakeholders providing evidence on our costs and preferred regulatory amendments.
Smart meter programme – impacts Customer business The potential for non-compliance with the UK Government's mandate to complete the rollout of smart metering to customers in accordance with prescribed timescales.	Dedicated project team focused on ensuring adequate business processes and systems are developed. The team is responsible for ensuring the rollout capability is secured to enable deployment of meters.
UK general election – impacts the Group A UK general election is likely to take place during 2024, with energy policy expected to be an important area of debate. A new government would seek to deliver manifesto commitments which may result in regulatory and policy changes.	Constructive and transparent engagement with all appropriate stakeholders to understand the nature and scope of any proposed changes, and to ensure that risks and opportunities arising from these are managed appropriately.

GROUP PRINCIPAL RISKS AND UNCERTAINTIES *continued*

GLOBAL FINANCIAL MARKET VOLATILITY RISKS – IMPACTS THE GROUP	RESPONSE
Impacts arising from market and regulatory reactions to events including the Ukraine war. As well as positive or negative changes in the UK economy these could include: • increased volatility on the value of Sterling and foreign currencies; • movement in the market price of electricity and gas and associated impact on collateral requirements on trading positions; and • increased volatility and estimation uncertainty risks on factors affecting the pension schemes including asset values and key assumptions.	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained, and public backing is secured for the necessary investment in the UK energy system. Providing stakeholders with evidence of the risks of ad hoc intervention in markets. In addition to monitoring ongoing developments, the Group has specific procedures in place to manage these key market risks. Further details are as follows: • a treasury risk management policy (comprising foreign currency, liquidity and interest rate risk) is in place to hedge financial risks which are discussed further in Note 12; • the mitigation of energy market risk are discussed further in Note 12(e) and consideration has been given to appropriate levels of collateral due to current market conditions (refer to Note 12(e)); and • the pension scheme valuation risk is discussed further in Note 10.
CLIMATE CHANGE RISKS – IMPACTS THE GROUP	**RESPONSE**
The risk that Iberdrola's and the Group's strategy, investments or operations have a significant impact on the environment and on national and international targets to tackle climate change, or that climate change has a significant impact on our assets. Refer to 'Non-financial and sustainability information statement' section of the Strategic Report for further details.	ScottishPower's and Iberdrola's commitment to tackle climate change is reflected in our strategy. Refer to the 'Non-financial and sustainability information statement' section of the Strategic Report and Iberdrola's latest Integrated Report and Sustainability Report for further details.
HEALTH AND SAFETY RISK – IMPACTS THE GROUP	**RESPONSE**
A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.	The Group 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 in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes, is established throughout the Group, which aims to ensure not only continuing legal compliance but also to drive towards best practice in all levels of health and safety operations. Further details are provided in the 'Employees' section of the Strategic Report.
RECRUITMENT AND RETENTION OF STAFF RISKS – IMPACTS THE GROUP	**RESPONSE**
Increased and appropriate resources with the correct capabilities are required to grow our businesses. In Energy Networks, the increased retiral rate and challenging RIIO-ED2 and RIIO-T2 programmes require substantial recruitment in the coming years. In Renewable production, attracting resources is a challenge with the complexity of a competitive market with scarce skilled resource.	Extensive focus on retention and strategic workforce planning in order to build key capabilities and future skills with targeted learning and development opportunities. Design and implementation of appropriate retention enhancement strategies. Increased size and skill set of our recruitment team and onboarded offshore agencies for niche hard-to-fill roles within Renewable production.

GROUP PRINCIPAL RISKS AND UNCERTAINTIES *continued*

CYBER SECURITY RISKS – IMPACTS THE GROUP	RESPONSE
We operate within an environment where there is the presence of sophisticated and opportunistic cyber security threat actors motivated to identify and take advantage of flaws and weaknesses in our cyber security defences. ScottishPower, in alignment with UK Regulation, takes the protection of our Data and the provision of our essential services very seriously. We continue to invest significantly in our people, processes, and technologies to enhance our capabilities to prevent, detect and respond to security threats. The main risks are: • Operational technology used to manage the Renewable production, management and distribution of energy, or physical safety systems (fire protection, CCTV, alarm reception centres). • IT that enables us to operate critical services. • The confidentiality, integrity, and availability of our key information assets. • Other cyber security risks impacting reputation.	We continue to focus on our enterprise security risks through enhanced internal governance, complemented by the adoption of a 'three lines of defence' model with clear roles and responsibilities established across the Group. This has involved the appointment of a ScottishPower Chief Information Security Officer as well as the appointment of a Business Information Security Officer in each of our businesses. These risks are managed in accordance with the basic principles defined in internal cyber security rules promoting the safe handling of data, use of IT and communications systems, use of operational technology systems and assets, and other cyber assets, reinforcing detection, prevention, defence, and response capabilities against possible attacks. The Iberdrola Group currently has specific insurance against cyber risks, under the terms allowed by the insurance market, which is revised and updated periodically in view of the rapid evolution and wide variety of cyber risks.
SUPPLY CHAIN RISKS – IMPACTS THE GROUP	**RESPONSE**
Interruption due to post-lockdown inabilities to restart efficient supply chains, made worse by the Ukraine war, higher costs due to commodity prices, increased risk of supplier failure due to the deterioration of industrialised economies and excess demand over supply.	Identifying potential shortages, delays and gaps in the supply of products, equipment and labour. The supply chain is advised by the Procurement department in conjunction with advice from the Compliance, Legal and Risk departments. The upward pressure on costs due to the macroeconomic environment is managed, and strategies, such as hedging and expanding our supplier base, are developed and implemented. The risk is spread through supply chain engagement, especially with new suppliers in new business areas and technologies. We are monitoring and consulting with suppliers on any extended delivery times due to the disruption to the freight route through the Red Sea. We have not been notified of any price increases or programme delivery impacts.
PROJECT DELIVERY RISK – IMPACTS ENERGY NETWORKS AND RENEWABLE PRODUCTION	**RESPONSE**
Failure to deliver large and complex projects on time and within budget.	ScottishPower and Iberdrola have a strong track record in delivering large-scale engineering projects with significant experience from developing numerous onshore and offshore wind farms and Energy Networks projects. Project delivery is supported by the use of established and experienced suppliers and advisors, along with robust financial management including appropriate foreign exchange hedging and funding strategy. Continue constructive engagement with Ofgem on plan deliverability and regulatory regime around HND projects.
REDUCED SECURITY OF SUPPLY RISKS – IMPACTS THE GROUP	**RESPONSE**
Reduced security of supply due to potential asset failures alongside decreased generation capacity. Reduced security of supply has the potential to disrupt many of our customers, in both our own licence areas and beyond.	Risk-based asset investment programme in place, business continuity and emergency planning well established including Electricity System Restoration Strategic spares policy in place. Continuing engagement with Ofgem on GB resilience. Focus on deepening relationship with customers through increased product holding and other value-add features and benefits, designed to improve customer engagement and retention, and growth in capacity of our sales channels.

GROUP PRINCIPAL RISKS AND UNCERTAINTIES *continued*

RISKS OF INTERRUPTIONS TO NET ZERO TIMESCALES – IMPACTS ENERGY NETWORKS	RESPONSE
Low-carbon technology uptake Network operators are key facilitators to governments' net zero ambitions and the failure of Energy Networks 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 Distribution System Operator ("DSO") vision.
COST OF LIVING CRISIS RISKS – IMPACTS CUSTOMER BUSINESS	**RESPONSE**
Increased focus on affordability due to the cost of living crisis creates a greater number of consumers at risk and a greater burden on suppliers to service and support customers. The future level of support offered by the UK Government which deliver benefits to customers struggling with their energy bills may be lower. Increase in the level of overdue debt specifically in our Customer business, driven by the impact of rising bills, high cost of living and deterioration in the economy, impacting on the level of debt write-off required.	We continue to deliver on improvement actions in relation to vulnerability and affordability. Engagement continues with the UK Government, third parties and Ofgem, on the challenges facing suppliers in supporting customers during the ongoing cost of living crisis, and the need for more targeted consumer protection for our most vulnerable customers. There are measures in place across the Customer business to manage the key drivers of overdue debt, assess and implement remedial and preventative action, and to establish key metrics to monitor progress in reducing debt levels. Refer to Note 12(e) for further details.
MARKET POSITION RISK – IMPACTS CUSTOMER BUSINESS	**RESPONSE**
Impact of competition on the Customer business' market share and profitability.	Constantly managing our operating cost base to ensure that our profitability is protected and focusing on growth through organic and other acquisition opportunities. Focus on deepening relationship with customers through increased product holding and other value-add features and benefits, designed to improve customer engagement and retention, and growth in capacity of our sales channels.

NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT

The table below demonstrates, by cross-reference, how the non-financial reporting regulations within UK company law have been met. A description of our business model can also be found on page 1.

NON-FINANCIAL TOPIC	OUR POLICIES, PRINCIPAL RISKS AND KPIs RELATING TO EACH TOPIC	PAGE REFERENCE
Environmental matters	• Environmental strategy and policies • Environmental risks • Environmental KPIs	Refer to pages 34 to 36 and 38 Refer to pages 39 to 41 and 44 to 45 Refer to pages 47 to 50
The Group's employees	• People strategy and policies • People-related risks • People KPIs	Refer to pages 5 to 8 Refer to page 26 Refer to pages 5 to 8
Social matters	• Community-focussed strategy and policies	Refer to pages 51 to 54
Human rights, anti-corruption and anti-bribery	• Human rights and anti-slavery policies • Compliance and whistleblowing policies	Refer to pages 13 to 14

SUSTAINABILITY

An energy model in harmony with nature and people

As the first integrated energy company to generate only 100% green electricity, sustainability sits at the heart of all we do and is embedded across our businesses. Whether serving millions of customers across the UK, employing thousands of people, or investing billions of pounds in the UK economy, our commitment to sustainable development is one we take seriously.

Our sustainable energy business model places a strong emphasis on environmental stewardship, combating climate change, and aligning with the United Nations' Sustainable Development Goals ("UN SDGs"). Of these goals, two stand at the core of our mission, where we can exert the most significant influence: SDG 7 (affordable clean energy) and SDG 13 (climate action). These goals closely mirror our business aspirations to generate renewable energy, connect to our customers, and provide them with the solutions that allow them to cut the environmental footprint of their homes and businesses.

However, our contribution to the UN SDGs extends beyond what we do and shapes how we work. We embed sustainable development into our internal operations, supply chain requirements, and relationships with customers and stakeholders.

Launched during our inaugural Sustainability Festival in April 2023, as part of a series of events and initiatives, Action 2030, ScottishPower's first-ever Sustainable Development Strategy, encapsulates this and sets out our vision and ambitions for the change that we can deliver together by the end of the decade.

Across six key themes and 28 targets that link to the UN SDGs, Action 2030 sets out a clear pathway reflecting the potential contribution of everyone at ScottishPower to make a positive impact that will ensure we continue to deliver for a sustainable future.

Aligned with Iberdrola's comprehensive set of global ESG targets introduced in November 2022, we are already making a substantial impact over our six key sustainability themes – clean energy, climate action, biodiversity and ecosystems, circular economy, our communities, and work and skills – but with collective will and effort, we aim to go further and faster than ever before.

CLEAN ENERGY

CLIMATE ACTION

BIODIVERSITY AND ECOSYSTEMS

CIRCULAR ECONOMY

OUR COMMUNITIES

WORK AND SKILLS

Since the launch of Action 2030, we have been working towards our long-term targets. Our progress as at 31 December 2023 is outlined in the following tables.

SUSTAINABILITY *continued*

7 AFFORDABLE AND CLEAN ENERGY

Clean energy

Vision 2030: ScottishPower is leading the UK's transition to cleaner and more affordable energy.

Treble onshore Renewable production capacity by 2030

Throughout 2023 we have continued to look to develop the portfolio and make progress receiving consent to repower and modernise turbines increasing capacity whilst reducing footprint.

Treble offshore Renewable production capacity by 2030

Through our EA1 and WoDS wind farms we currently have capacity of 1.1 GW. EA2 and EA1N are in development, whilst EA3 is due to start construction during 2024.

Deliver 500 MW of green hydrogen capacity by 2030

We were successful in being offered government contracts for two initial projects to support decarbonisation of industry and transport. Further projects in development for participation in recently announced future rounds.

Provide 4.8 million smart solutions by 2030

In 2023 we launched new additional solutions including a solar buy back tariff and home emergency insurance bundle. An enduring marketing campaign commenced in November 2023 to increase awareness of ScottishPower Smart Solutions.

Investing £4.5 billion in Energy Networks by 2028

Our Energy Networks transmission and distribution investment is on target with our plans, and will accelerate in 2024 as we look to modernise the network for future demands.

13 CLIMATE ACTION

Climate action

Vision 2030: ScottishPower has reduced its direct and indirect value chain greenhouse gas footprint in line with climate science, while strengthening our business adaptation and resilience to climate change.

Reduce Scope 1, 2, and 3 emissions from fuel and energy related activities and use of sold products 64% by 2030

We launched our GHG Emissions Reduction Plan ("ERP"), laying out our actions to deliver science-based greenhouse gas reductions.

Reduce absolute Scope 1 and 2 GHG emissions 47% by 2030 from a 2019 base year

Our Scope 1 and 2 combined emissions increased by 12% during 2023, due to increased UK grid mix intensity. However, we have achieved a 23% reduction since 2019 and we are on track to achieve our 2030 target.

Reduce Scope 3 (cat 3) emissions from all sold electricity 100% per megawatt hour ("MWh") by 2030 from a 2019 base year

We achieved a 5% reduction in all Scope 3 sold electricity emissions this year, and these emissions have decreased by 6% since 2019, despite challenging energy market conditions.

Reduce absolute Scope 3 GHG emissions from use of sold products by 28% by 2030

We achieved a 13% reduction in Scope 3 use of gas sold emissions this year and we have achieved a 29% reduction since 2019, surpassing our 2030 target.

100% sustainable light vehicle fleet by 2030

In parallel with our strategy on vehicle transition and the needs of the business, we are currently determining our requirements for EV charger deployment.

SUSTAINABILITY *continued*

Biodiversity and ecosystems

Vision 2030: ScottishPower has delivered a net positive impact on biodiversity and ecosystems.

Deliver net positive impact on biodiversity by 2030	Conserve, restore and plant 5 million trees by 2030 against a 2020 baseline
Following COP15 in December 2022 we piloted a biodiversity metric, started development of detailed biodiversity action plans, and set up our Nature Working Group.	We have conserved, restored, and planted over 890,000 trees since our 2020 baseline.

Circular economy

Vision 2030: ScottishPower has minimised resource use and waste and established circular processes that keep materials in use at high value for the long-term.

Develop a detailed circular economy action plan by 2025	Zero waste to landfill by 2030
We completed a circular economy baselining and opportunities project and set up our Circular Economy Working Group to drive the development of our action plan.	We achieved 95% diversion from landfill exceeding our 2023 target of 91%.
100% wind turbine blade recycling by 2030*	**Achieve 50% sustainable steel use by 2030 and 100% net zero steel by 2050**
We further developed our understanding of existing and emerging opportunities for blade recycling via research, consultation, and participation in two collaborative industry bodies.	Work has commenced to assess our current steel position, and review supply chain capability and readiness to support the implementation of a sustainable steel policy.

* Subject to finding a commercially viable solution.

SUSTAINABILITY *continued*

Our communities

Vision 2030: ScottishPower is actively developing resilient, empowered communities with our partners.

33% increase in employee volunteering by 2030

Strong progress has been made in 2023 towards our target via increased reporting, more large group volunteering events and inclusion of our people's family and friends in volunteering events.

Raising £40 million for Cancer Research UK

We have achieved our goal of raising £40 million for Cancer Research UK in Q4 of 2023 as part of our long-standing partnership which began back in 2012.

Installation of 12,650 Public EV charging points by 2030

We are in the process of establishing a new framework of hardware providers and installation partners to build on the available chargers already deployed, and to scale up delivery of these assets from 2024.

£25 million benefits to vulnerable and disadvantaged customers in fuel poverty and to support the transition to net zero in our distribution network by 2028

We are progressing against plan and currently working on formalising the commercial contracts that will allow acceleration of delivery in 2024.

Deliver over £100 million in community benefit funding to communities over the lifetime of our onshore wind farms

In line with our planned projections, for the 2023 year end, we have just hit the £60 million milestone of community benefit contributions.

Work and skills

Vision 2030: ScottishPower has a high performing representative workforce and a resilient supply chain capable of meeting our current and future needs.

Access to mental health awareness training for all line managers by 2025

Training has commenced and is progressing on track, with over 31% of line managers having undertaken awareness training.

More than 90% of purchases from sustainable suppliers by 2030

Having implemented a purchasing model to monitor, and support the development of, the sustainability credentials of suppliers we are already exceeding the 90% target.

More than 36% female representation at middle management roles by 2030

At the end of 2023 the proportion of women in middle management roles was 33.0% (2022 31.9%).

More than 35% female representation in senior management roles by 2030

At the end of 2023 the proportion of women in senior management position was 33.7% (2022 32.9%).

Employee training exceeding 55 hours per year

55 hours of training per employee is a material increase in our commitment and investment in our people. At the end of 2023 we are at 60.5% against our target of 55 hours per employee.

Recruited over 1,000 people by the end of 2023

In 2022, we launched a recruitment drive for 1,000 green jobs by end of 2023 and at the end of the year had recruited 1,500 roles.

SUSTAINABILITY *continued*

Our commitment to collaboration extends to our active engagement with external partners, peers, and stakeholders. We are members of influential organisations such as the Corporate Leaders Group UK, the Aldersgate Group, and the UN Global Compact. In Scotland, we proudly support the Climate Emergency Response Group and remain an active member of the Scottish Business Climate Collaboration. We are also involved with the Sustainable Glasgow Green Economy Hub, and the Edinburgh Climate Compact.

The following sections provide an overview of the progress we achieved in environmental and social impact during 2023, encompassing:

- Environment
  - Climate, including Taskforce on Climate-related Financial Disclosures and Streamlined Energy and Carbon Reporting;
  - Nature; and
  - Circularity
- Social Impact.

ENVIRONMENT

We are committed to reducing our environmental footprint and responding to the risks and opportunities of climate change by:

- reducing emissions to air, land and water and preventing environmental harm;
- identifying and managing climate risks and opportunities, and implementing adaptation measures where required;
- minimising energy consumption and use of natural and human-made resources;
- sourcing material resources responsibly, cutting waste and encouraging reuse and recycling; and
- protecting natural habitats and restoring biodiversity.

Climate

The Task Force on Climate-Related Financial Disclosures ("TCFD") was established by the Financial Stability Board in 2015 to develop a set of consistent, climate-related financial risk disclosures to be used by companies and certain other public-interest entities to provide meaningful information to their investors and other stakeholders on the climate-related risks and opportunities facing their organisation. These recommendations have been adopted by the UK Government as the basis for implementing climate-related financial disclosures across the economy, via amendment of sections 414C, 414CA and 414CB of the Companies Act 2006 – The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. These regulations are effective for SPL for year ended 31 December 2023, and are now a mandatory disclosure requirement. We have included this information for the Group on a voluntary basis.

The four pillars of TCFD are: Governance; Risk management; Strategy; and Metrics and targets. This disclosure builds on the TCFD-related material we voluntarily disclosed in last year's Annual Report and Accounts. Going forward we will continue to look for ways to enhance future disclosures as our understanding develops, including likely interactions between climate and nature disclosures.

ENVIRONMENT *continued*

This table outlines where our consideration of each climate-related financial disclosure requirement can be found within the Strategic Report:

	REQUIREMENT	PAGE REFERENCE
Governance	Description of our governance arrangements in relation to assessing and managing climate-related risks and opportunities.	Refer to pages 34 to 36
Risk management	Description of how we identify, assess, and manage climate-related risks and opportunities.	Refer to pages 37 to 38
	Description of how the processes for identifying, assessing, and managing climate-related risks are integrated into our overall risk management process.	Refer to pages 37 to 38
Strategy	Description of the principal climate-related risks and opportunities arising in connection with our operations and the time periods by reference to which those risks and opportunities are assessed.	Refer to pages 39 to 41
	Description of the actual and potential impacts of the principal climate-related risks and opportunities on our business model and strategy.	Refer to pages 39 to 41
	Analysis of the resilience of our business model and strategy, considering different climate-related scenarios.	Refer to pages 42 to 46
Metrics and targets	Description of the targets used by us to manage climate-related risks and to realise climate-related opportunities and of our performance against those targets.	Refer to pages 47 to 48
	Description of the KPIs used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those KPIs are based.	Refer to pages 47 to 50

Governance

Climate change is integrated into many aspects of our corporate governance and is visible throughout ScottishPower. The corporate governance system applied by the Company is known as the ScottishPower Governance and Sustainability System ("SP GSS"), which is approved by the SPL Board. The SP GSS was reformulated in 2020 and is now expressly structured around ESG standards to navigate the constantly evolving regulatory landscape and international standards, as well as directly referencing the UN SDGs. The SP GSS comprises five chapters: By-laws, Purpose, Environment and climate action, Social commitment, and Corporate governance (the latter three chapters corresponding to ESG considerations respectively). Refer to the 'Corporate governance system' section of the Directors' Report for further details on the SP GSS.

Each of the boards of the Heads of Business Sub-holding companies SPENH, SPREL and SPRH (as defined on page 1) approve their own Governance and Sustainability System ("Business GSS") for their division, Energy Networks, Renewable production, and the Customer business respectively. Each Business GSS is directly modelled on the SP GSS, and principally adopts the core policies and documents of the latter as they relate to each division, subject to specific business requirements and respecting each divisions' corporate autonomy. For further information regarding these bodies, refer to the 'Administrative, management and supervisory bodies' subsection under the 'Corporate governance' section of the Directors' Report.

ENVIRONMENT *continued*

Policies for managing climate-related risks and opportunities

There are policies within the Purpose and Environment and climate action chapters adopted within the SP GSS that are used to assess and manage climate-related risks and opportunities. The General Sustainable Development Policy ("GSDP"), along with the Stakeholder Engagement Policy, constitute the general framework, guidelines, instructions and criteria against which all the other specialised (environmental, social, risk or corporate governance) policies are held. The GSDP underpins Iberdrola's strategy regarding sustainable development around the ESG criteria and objectives, and how its business activities will be carried out to attain sustainable business value especially in relation to UN SDGs 7 and 13 regarding the supply of accessible and clean energy and the fight against climate change, respectively.

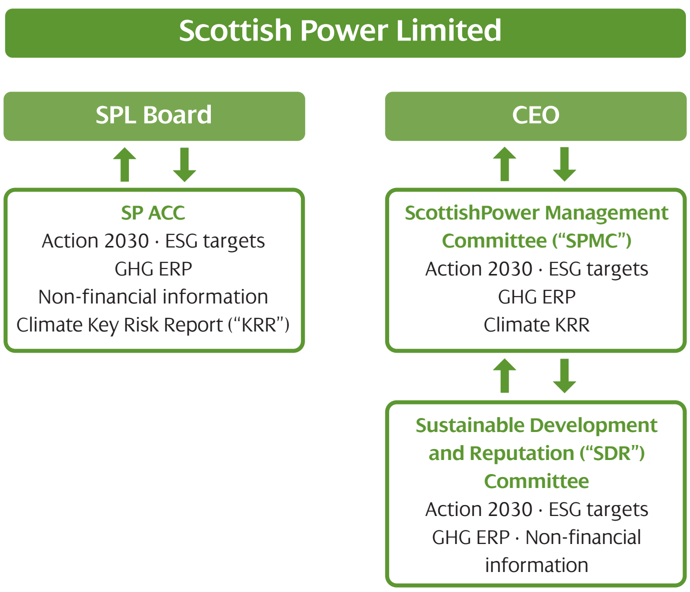
Our environment and climate action policies (Sustainable management, Environment, Climate action, and Biodiversity), are aligned with the goals and the path established by the Paris Agreement and the UN 2030 Agenda for Sustainable Development. These policies constitute ScottishPower's approach to environmental challenges such as climate change and biodiversity loss, while helping to identify and take advantage of the climate-related opportunities arising from the energy and ecological transition. For example, our Climate Action Policy establishes a framework for articulating our strategy and business model in a manner consistent with our commitment to the fight against climate change. To implement our commitment to climate action, the following are some of the principles applied in our business activities:

- Set and review short, medium and long-term emission mitigation targets in line with the Paris Agreement and subsequent updates deriving from climate change science.
- Integrate climate change into internal strategic planning and decision-making processes, as well as into the analysis, management and reporting of long-term risks, taking into account the recommendations of the TCFD and other leading organisations regarding climate governance and the reporting of climate risks and opportunities.
- Promote suppliers' awareness of climate change and encourage them to adopt practices consistent with those of ScottishPower in this area, and particularly with regard to reducing their carbon footprint.
- Have an environmental management system, which allows for evaluating, analysing, managing and reducing environmental risks, as well as improving the management of resources and optimising investments and costs, and which incorporates all relevant climate variables.
- Encourage research and the development of methodologies in the evaluation and design of adaptation measures, and take appropriate measures to mitigate the impacts of climate change on the production of energy from renewable sources, integrating climate science into the setting of objectives and internal procedures.

ScottishPower Group Structure, the SPUK Board, and the SPL Board and its Committees

Overview of climate governance framework

The board of directors of the Company ("SPUK Board") makes decisions and dispenses with matters in accordance with its own terms of reference and the Company's Articles of Association (both which are deemed to form part of the SP GSS as adopted by the Company), including the approval of the Company's non-financial information, which has been prepared in accordance with the following description of the applicable group governance provisions. Refer to the 'Corporate governance' section of the Directors' Report for further details. As SPL is the holding company of ScottishPower, the SPL Board is accountable for the governance arrangements we have in place in relation to assessing and managing climate-related risks and opportunities. For example, it receives relevant updates from the ScottishPower CEO and the divisional CEOs, which include key climate issues of strategic significance (e.g. Action 2030, our science-based targets and TCFD). The SPL Board is also responsible for approving updates to the SP GSS (including the adoption of the latest iteration of the climate action and environmental policies), approving environmental risk insurance on an annual basis, approving the SPL Annual Report and Accounts in which certain climate information is disclosed, and reviewing and approving ScottishPower's non-financial information (such as progress towards reducing Scope 1, 2 and 3 GHG emissions) which is reported in the Iberdrola Group Sustainability Report (Statement of Non-Financial Information). Non-financial information is also noted at each of our respective sub-holding Boards. The SPL Board receives relevant climate updates at least bi-annually, and at each meeting it is presented with a procurement summary which includes suppliers' ESG compliance scores for the previous period's high-value contracts. Scoring is based on, among other things, compliance with environmental legislation including GHG management and climate risk management processes, providing the SPL Board insight into how effectively parts of our supply chain manage climate risk.



ENVIRONMENT *continued*

In recent years, the SPL Board adopted the following updates to the SP GSS:

- The latest version of the Iberdrola Sustainable Development Policy.
- The latest suite of ScottishPower risk policies, including the General Risk Control and Management policy which cites climate change as an operational, technological, environmental, social and legal risk factor.
- A new ScottishPower internal protocol for the incorporation of ESG considerations into decision-making by the SPL Board and those charged with governance.

These updates, insofar as they directly relate to the Company, form part of the SP GSS as adopted and applied by the Company. Achievement of net zero is integrated within the decision-making process at all levels under Iberdrola's target to be net zero in Scopes 1, 2 and 3 before 2040. Directors of Iberdrola, have assumed ultimate responsibility for the fight against climate change, approving, supervising and reporting on the climate action plan. ESG reporting including climate targets, green hydrogen production, and EV charging points is prepared and input by ScottishPower and submitted for Iberdrola Board approval on an annual basis.

In 2023, the Iberdrola Non-Financial Information Internal Assurance Committee was established, mirroring the process for financial reporting, and demonstrating the importance we place on non-financial reporting. Iberdrola's consolidated statement of non-financial information is prepared according to the information provided by ScottishPower, which is approved by our Board of Directors.

SP ACC

The SP ACC is an independent internal committee of the SPL Board with no executive powers. Refer to the 'SP ACC' section of the Directors' Report for further details. In respect of providing oversight to the SPL Board of climate-related risks and opportunities, some of its functions include:

- The supervision of the sustainable development activities of the Group and, particularly, whether its environmental and social practices conform to the global strategy and policies of Iberdrola, and of the Group, and report on the same to the SPL Board.
- Ensuring that the main environmental risks in accordance with the general monitoring and risk management policy, are identified, managed and adequately reported.
- Promoting a strategy in which risk is a key factor to be taken into account in all decisions and at all levels within ScottishPower.

ScottishPower Sustainable Development and Reputation Committee

The SDR Committee, chaired by the Head of Climate Change and Sustainability, is a non-executive, cross-business working group set up to promote compliance with sustainability policies and guidelines, in accordance with its own terms of reference. It is also responsible for overseeing the development and implementation of Action 2030 which contains the Group's GHG emissions reduction strategy. SDR Committee membership consists of representatives from across ScottishPower, including the Chief Compliance Officer, the Director of Internal Audit, the Director of the CEO's Office, as well as representatives from Energy Networks, Renewable production and the Customer business.

Strategic integration of ESG function

In 2023, in response to ever increasing ESG reporting requirements, we created a new ESG Reporting and Performance team within the ScottishPower CEO Office with responsibility for navigating future ESG regulations and disclosure requirements that impact the Group, either directly or indirectly through our parent company Iberdrola. This includes the coordination of ScottishPower's contribution to Iberdrola's European Sustainability Reporting Standards ("ESRS") implementation project required to meet the new EU Corporate Sustainability Reporting Directive ("CSRD"). We will provide non-financial information to Iberdrola for their first applicable accounting period of the ESRSs which commenced on 1 January 2024. Our newly-appointed Head of ESG Reporting and Performance will also jointly chair the SDR Committee from 2024 onwards and provide regular updates on the development and implementation of activities in response to continually expanding ESG reporting requirements.

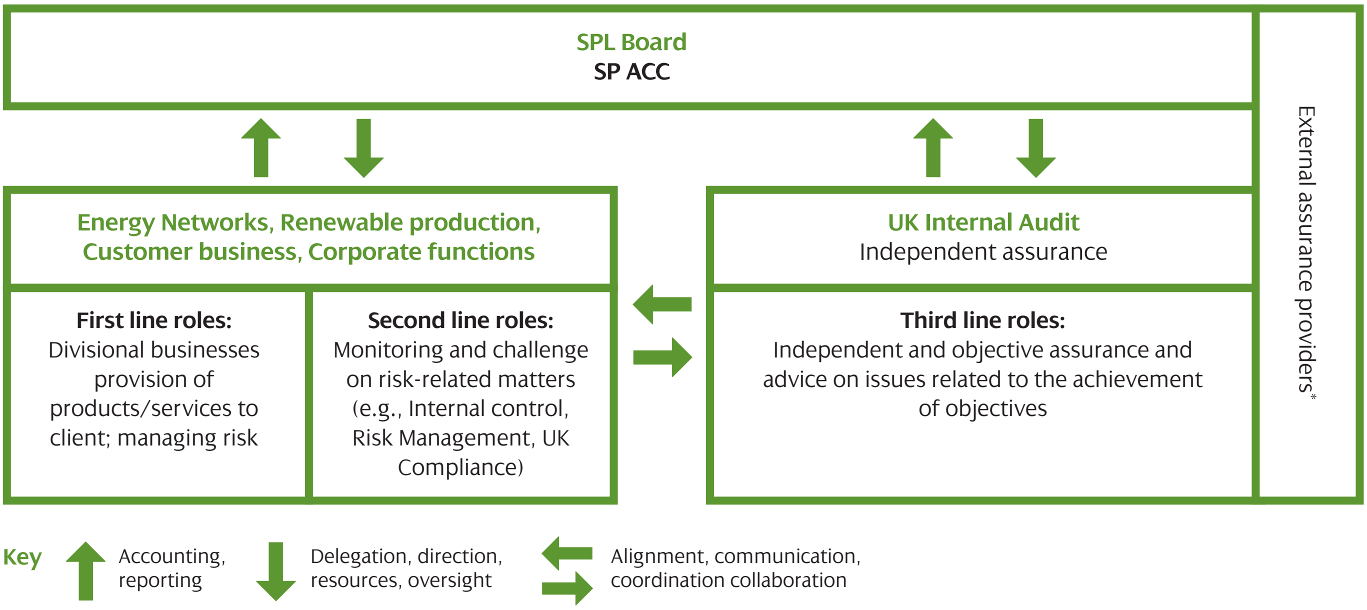
Within the CEO Office, working alongside the ESG Reporting and Performance team, the Climate Change and Sustainability team continue to drive sustainable development initiatives that will help us play a leading role in tackling the climate crisis and contributing to the UN SDGs. The Head of Climate Change and Sustainability meets with the CEO regularly throughout the year, giving sight of our GHG scorecard and regular opportunities to review progress and highlight barriers. The Heads of ESG Reporting and Performance and Climate Change and Sustainability both attend the SPL ACC and SPMC at various points throughout the year to provide updates on climate-related risks and opportunities, Action 2030, ESG targets, non-financial information, and the GHG ERP. Monitoring of the aforementioned is undertaken by both teams, and related data is reported quarterly via our sustainability data management workflow tool Sygris.

We are constantly striving to improve, which is why in consultation with the SPMC, the Climate Change and Sustainability team identified that a deeper level of understanding and awareness of climate changes risks and opportunities was necessary. This resulted in a tailored training programme of climate education-themed 'Leadership Conversations' provided by the University of Edinburgh, which was attended by our CEO and executive management team, focusing on corporate leadership in climate change, the disclosure landscape, and climate adaptation and impacts.

ENVIRONMENT *continued*

Risk management

The SPL Board and senior management is strongly committed to, and engaged in, the management of ScottishPower's risks including those related to climate. ScottishPower adopted Iberdrola's 'Three Lines Model' as our internal control system (illustrated below), to ensure all significant risks are adequately identified, measured, managed, controlled, and regularly reported to all relevant internal and external stakeholders. Our Three Lines Model is based on an assurance system combined around three lines, providing a comprehensive view of how the different parts of the organisation interact in an effective and coordinated manner, increasing the efficiency of the processes for management and internal control of the entity's significant risks.



* Sustainability disclosures within the Annual Report and Accounts do not obtain external assurance, with the exception of the GHG inventory assurance review.

We review and approve acceptable levels of risk tolerance on an annual basis through risk policies and limits that establish the qualitative and quantitative risk appetite at the Group level and at each of the divisions. Compliance with the approved risk policies, limits and indicators is monitored periodically throughout the year along with various exposures, significant risks and threats.

Integration of climate risks into our Enterprise Risk Management ("ERM") framework

As a Group principal risk, the identification, analysis and management of the risks and opportunities arising from climate change is integrated into our established and mature ERM framework. Risks are identified and addressed through a multi-departmental and multi-level process coordinated by our Risk Management department, involving significant collaboration between divisions and corporate functions.

The KRR is a repository for our risks representing our ERM framework to assist in achievement of both our short and long-term goals. Effective application of the KRR facilitates the ongoing informed decision-making required to meet our business objectives. Risk reporting is well embedded within the business, and climate change risks are identified and assessed as part of the KRR process and are considered in line and with the same templates and standards as any other risk.

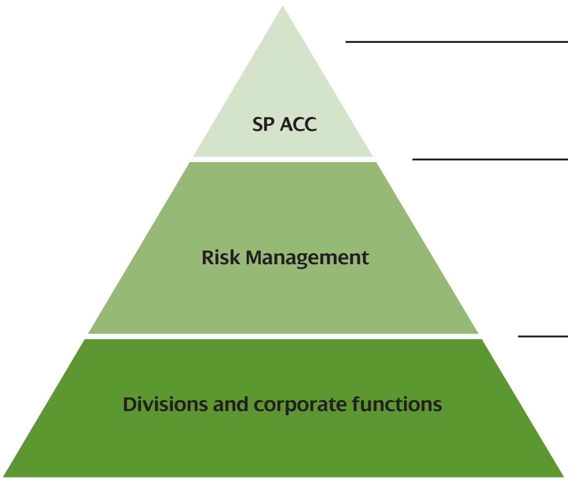
Each of the divisions and corporate functions compile their transition and physical climate change risks at least on a quarterly basis and submit to Risk Management who review the initial assessment of each risk and the mitigation strategy. To assess each climate-related risk, information related to the following is provided in each KRR template:

- Description – the specific climate change issue and how that causes the Group down-side risk along with the implications.
- Mitigation – the plan(s) to reduce the impact of this risk or remove it altogether.
- Owner – the owner accountable for managing the climate-related risk.
- Probability – the likelihood the risk crystalises.
- Short-term impact – an estimate of the financial impact in the next twelve months, if any.
- Long-term impact – an estimate of the financial impact beyond the next twelve months, if any.
- Reputation – consider if there is a direct reputational impact for the business.
- Evolution – whether the risk has increased, decreased or remains the same since the last quarter.
- Risk Factor – consider if the risk manifests itself as market, operational, business, credit or regulatory.
- Priority – climate-related risks are ranked high, medium or low in the context the specific division or corporate function.

The KRRs are then consolidated by Risk Management, who provide consistency checks, and report based on materiality twice a year at the SP ACC, and quarterly at Iberdrola Group Risk and Supervision Committee and SPMC.

ENVIRONMENT *continued*

Our KRR process is illustrated below:



SP ACC
- Given assurance main environmental risks are identified, managed and reported
- Reports to the SPL Board on the internal control and risk management systems

Risk Management
- Overall coordination
- Review assessment and mitigation strategy of risks
- Check consistency of submitted climate KRRs
- Consolidate and report based on materiality bi-annually to SP ACC and quarterly to the SPMC and Iberdrola Risk and Supervision Committee

Divisions and corporate functions
- Identify climate risks and opportunities
- Assign risk owner
- Assess and prioritise each climate risk
- Agree mitigation strategy considering any existing controls

Strategy

This section outlines our overall strategy and approach to the management of climate-related risks and opportunities together with an indication of the principal transition and physical risks and opportunities. It then goes on to examine transition risks and opportunities and how different climate scenarios would impact us. There follows an examination of physical risks and opportunities and how physical risks could evolve over time. The section ends with a description of the mitigation, adaptation and resilience activities underway to manage transition and physical risks and opportunities.

Our strategy for effectively managing climate-related risks and opportunities is founded on a long history of proactive action. For the last several decades, we have been a disruptor and innovator in the UK energy market. Our actions included spearheading the widespread adoption of onshore and offshore wind generation, returning Scotland to a coal-free energy system with the closure of the Longannet and Cockenzie power stations and becoming the first major UK energy firm to completely drop fossil fuel generation in favour of renewables, have enabled us to reduce climate risk and realise opportunities to create sustainable value. We are now also driving the accelerated adoption of low-carbon storage, green hydrogen, EV charging technologies, and smart solutions, supported by an increasingly flexible and smart electricity network.

Being an early mover in these areas has created an element of business and physical risk but has also enabled us to realise significant business opportunities that otherwise would not have been open to us. As the impacts of climate change become ever more tangible, it is important that our strategy for risk and opportunity management continues to evolve in order to maintain a strong and competitive business in the short, medium, and long-term.

Our approach to the management of climate-related risks and opportunities considers all of the relevant time horizons for our divisions. The policies within the SP GSS guide our actions within the time horizons related to the UN SDGs (i.e. 2030), compliance with ESG requirements (which are diverse and continually evolving) and goals established by the Paris Agreement (i.e. 2050). The strategies that we develop to operationalise the SP GSS therefore, align to these time horizons as well as other technology or location-specific horizons (such as the Scottish 2045 net zero target or UK regulatory timelines). Given the key role that the energy industry must play in the low-carbon transition, and the resulting Science-Based Targets Initiative 2040 net zero requirement for companies such as ours, our group-wide strategic vision lays out our long-term propositions to 2040, with milestones at 2025 (short-term) and 2030 (medium-term). To meet these strategic milestones we also take into account asset lives (as many assets installed today will still be operational in 2040) and regulatory and planning timelines.

Our assessment and management of climate risk and opportunities considers risks over the short, medium, and long-term time horizons. Transition, physical and other climate risks are managed using this process and mitigating actions carried out as required. Transition and physical risks and opportunities are considered in the medium and long-term through a process of scenario analysis, with potential impacts indicated over the medium-term (i.e. out to 2030) horizon for transition risks and opportunities, and over the medium to long-term (i.e. out to between 2030 and 2059) for physical risks.

Our analysis in the short, medium, and long-term indicate that our business is in a strong position to respond to the potential effects of, and realise the opportunities related to, climate change.

ENVIRONMENT *continued*

Principal risks and opportunities

Climate change represents business, systemic and global risks, and opportunities over a range of time horizons. These can be categorised into three broad groups:

TRANSITION	PHYSICAL	OTHER
Associated with the global decarbonisation process, such as the evolution of: • strategy; • legislation; • policy; • regulation; • markets and supply chains; • technology; • competition; • financial; • reputational developments; • demand; and • reporting requirements.	Stemming from possible material impacts on facilities and the supply chain as a result of the evolution of climate variables, such as: • heatwaves; • drought and increased dust; • rising sea levels and temperatures; • rising flooding levels and increased flooding re-occurrence; • changes in weather patterns; and • invasive species.	These may arise as a result of physical and transition risks, including: • those relating to deterioration in the credit of counterparties (suppliers, banks, others); • social phenomena (humanitarian crises, impacts on crops and fishing, refugee crises, epidemics); • greater competition for financial resources; and • greater drive for efficiency and transparency.

Transition risks and opportunities

Our anticipation and management of transition risks and opportunities over the past decades has been central to cementing our position as a leader in renewable energy and the fight against climate change. The following table outlines the high priority transition risks and opportunities identified as the most relevant to our products and markets, and the most likely to materialise, together with a description of our current approach to mitigating these risks and related strategic impacts. Relevant timeframes have been identified (short-term, medium-term and long-term), however, all of these high priority risks and opportunities have the potential to crystallise over all timeframes.

MARKET		
Risks and opportunities	**Approach and management**	**Strategic impact**
RISK Change in the cost and availability of raw materials, parts and emission rights, customer demand and supply chain uncertainty may impact our ability to deliver net zero through network development and renewable generation. **Relevant in short, medium, and long-term.**	• Expert unit in charge of making forecasts and preparing long-term paths with consideration of decarbonisation plans. • Supply chain monitoring and engagement, particularly with new suppliers and technologies. • Maintaining component stock levels and limit single sourcing. • Proactive management of upward pressures on costs due to the macroeconomic environment. • Engagement with key industry stakeholders such as Ofgem and governments. • Development and implementation of strategies for hedging and supplier base expansion. • Refer to 'Group principal risks and uncertainties' section of the Strategic Report for further details.	• Broad and diverse supply chain with around 3,000 suppliers, awarding contracts with a cumulative value of around £6 billion in 2023. • Strong relationships across our supply base with a focus on health and safety, quality, cost and sustainability.
OPPORTUNITY Economic decarbonisation requires an increase in the electrification of heat and transport primarily through heat pumps and EVs. **Relevant in short, medium, and long-term.**	• Strategic partnership with WWF to help accelerate the UK's transition to net zero, pursuing a programme of policy advocacy to champion low-carbon energy solutions and to call for ambitious climate action. • Establishment of smart solutions and hydrogen functions to facilitate the uptake of low-carbon technologies and fuels.	• Designing and delivering an energy system to facilitate and encourage the growth of EVs and clean heating solutions. • Delivering a comprehensive set of smart energy solutions. • Facilitating the decarbonisation of hard-to-electrify sectors such as heavy industry and transport, through the development and application of green hydrogen solutions.

ENVIRONMENT *continued*

REGULATORY		
Risks and opportunities	**Approach and management**	**Strategic impact**
RISKS Changes to consenting or emissions legislation. Long timelines for constenting. Uncertainty as to the financing framework and aid for the development of renewable energies. **Relevant in short, medium, and long-term.**	• Risk associated with climate change is considered in typical analysis of regulatory risks and our investment approach. • 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. • Engagement with all appropriate stakeholders to minimise consenting timelines and barriers. • Providing stakeholders with evidence of the risks of ad hoc intervention in markets. • Refer to 'Group principal risks and uncertainties' section of the Strategic Report for further details.	• Strong corporate stakeholder relations strategy.
OPPORTUNITY Economy-wide shift from fossil fuels to renewables. **Relevant in short, medium, and long-term.**	• Increase capital spending in the UK. Building on more than £1.8 billion invested as part of the previously announced £6.7 billion programme between 2023 and 2025, the Group plans over £7 billion more investment between 2026 and 2028. This amounts to a £12 billion investment programme between 2024 and 2028.	• Investing in renewable energy generation, principally onshore and offshore wind, solar and battery storage, to address the climate emergency and reduce the cost of electricity generation.

FINANCIAL		
Risks and opportunities	**Approach and management**	**Strategic impact**
RISK Increase in the cost of capital for investments in technologies or business models that are deemed to be unrelated in the fight against climate change. **Relevant in short, medium, and long-term.**	• ScottishPower's business model contributes to the decarbonisation of the economy. • We continually monitor the views of investors and work to ensure our business model remains aligned with best practice in sustainability.	• Strategy and business model aligned with the fight against climate change.
OPPORTUNITY Advantages in terms of attracting financing for companies with sustainable and resilient business models. **Relevant in short, medium, and long-term.**	• Consideration of early engagement with ESRS to provide best practice, including climate, nature and circular economy, and Taskforce on Nature-related Financial Disclosures requirements.	• Sustainable development embedded in business strategies. • Strong focus on business adaptation and resilience.

ENVIRONMENT *continued*

TECHNOLOGICAL		
Risks and opportunities	**Approach and management**	**Strategic impact**
RISK Uncertainty about technological development. Innovation and anticipation regarding the development and implementation of new technology. **Relevant in short, medium, and long-term.**	• Established renewables technology is mature and less exposed to cycles. • Technical and performance analysis. • Technological and prospective analysis. • Influencing developments at industry forums.	• Championing innovative technologies, bringing down the costs of decarbonisation and ensuring that no communities are left behind on the road to net zero.
OPPORTUNITY Increasing importance of networks (in terms of greater digitalisation, smart grids, system flexibility) under electrification scenarios – transition to DSO. **Relevant in short, medium, and long-term.**	• 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.	• Investing in networks to make them smarter and more resilient, and creating a platform for the UK's sustainable electric future.

REPUTATIONAL		
Risks and opportunities	**Approach and management**	**Strategic impact**
RISKS Change in the behaviour and preferences of stakeholders, with pressure on unsustainable companies (risk of lawsuits). Non-compliance with reporting requirements. **Relevant in short, medium, and long-term.**	• Engagement with all appropriate stakeholders. • Development and delivery of credible business decarbonisation. • Expert teams responsible for compliance with reporting requirements, underpinned by Three Lines Model.	• Building a sustainable development strategy. • Science-based decarbonisation pathways. • Strong corporate stakeholder relations strategy.
OPPORTUNITIES Improved energy efficiency and associated benefits for consumers, and an improved relationship with them. Strengthened stakeholder relationships for companies acting on climate change. **Relevant in short, medium, and long-term.**	• Sharing information with our customers on the actions they can take to reduce their usage. • Delivering our ECO4 and Great British Insulation Scheme programmes. • Continue to engage with the UK Government on the effective and timely delivery of energy efficiency measures to achieve UK consumption reduction ambitions. • Engagement with all appropriate stakeholders.	• Supporting and guiding domestic and business customers through their journey to help them decarbonise and be more efficient in their energy consumption.

ENVIRONMENT *continued*

Transition scenario analysis

The resilience of our global group business model and strategy to transition risks, and our ability to realise opportunities, is assessed on an annual basis. We have carried out a UK-specific analysis that uses a range of scenarios selected to be the most relevant for our business whilst being sufficiently varied to cover a range of relevant outcomes. Our choice of scenarios includes a business-as-usual scenario aligned to the UK's 2050 net zero target, a scenario that goes faster, and a scenario which does not achieve net zero by 2050.

We have chosen to undertake this transition scenario analysis using the medium-term time horizon of 2030 and the analysis identifies both qualitative and quantitative potential impacts under each scenario at this timepoint.

The analysis has been carried out in four steps, which align with the relevant TCFD Technical Supplement:

- analysis and selection of reference climate scenarios;
- selection of the key scenario parameters to be used in the analysis of each transition scenario;
- identification of the most relevant operational indicators for each division operated by the Group; and
- analysis of the impact of the two alternative scenarios with respect to our business-as-usual scenario.

When selecting relevant scenarios, we reviewed the International Energy Agency scenarios and the UK-specific National Grid Future Energy Scenarios ("FES"). We decided to use the FES as they provide a UK-specific view and because we use these in the development of our investment plans. We used the following scenarios, which take account of both Intergovernmental Panel on Climate Change assessments and the Paris Agreement climate targets:

- **Consumer transformation** – This scenario is characterised by electrified heating, consumer behaviour change, high energy efficiency and demand side flexibility and is aligned with the UK's 2050 net zero target.
- **Leading the way** – This scenario goes beyond consumer transformation and assumes the fastest credible decarbonisation, significant lifestyle change, and a mixture of hydrogen and electrification for heating. This scenario is also aligned with the UK's 2050 net zero target.
- **Falling short** – This scenario falls behind the other two scenarios and does not achieve the UK's 2050 net zero goal. It is characterised by the slowest credible decarbonisation, minimal behaviour changes, and decarbonisation in power and transport but not heat.

When assessing impacts related to its distribution business, Energy Networks used geographically granular Distribution Future Energy Scenarios, based on FES, which also took account of UK Climate Change Committee Sixth Carbon Budget Scenarios and drew on extensive engagement with stakeholders including devolved governments in Scotland and Wales. The baseline planning scenario for the network distribution licences was therefore broadly consistent with the FES consumer transformation scenario but with regional adjustments due to geography and network characteristics.

We considered key parameters related to these scenarios:

- final electricity demand;
- installed renewable capacity across different technologies;
- renewable share of generation mix;
- total domestic electricity generation;
- annual natural gas demand for home heating;
- investment in networks; and
- installed gas capacity.

We then identified the operational indicators most sensitive to potential changes in the climate scenarios:

- **Energy Networks** – EV and heat pump uptake (millions), installed generation capacity (GW)
- **Renewable production** – Installed renewable capacity (GW)
- **Customer business** – Electricity and gas demand (terawatt hour ("TWh"))

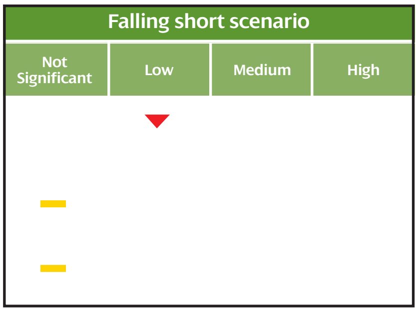
The tables overleaf lay out the potential impacts under the two alternative scenarios for each division in 2030. There is no impact analysis for consumer transformation as this is our base case and therefore would have no impact upon our metrics. Impacts are indicated in 2030 as a single point in time rather than cumulative or average over the period from 2023 to 2030 in order to facilitate comparability. Operational indicators have been assessed as high, medium, low or not significant based on variance to the indicator in our base case, while we have assessed the financial impact of scenarios using a change in Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") from base case.

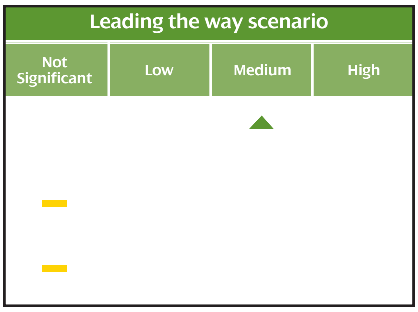
The operational and financial impacts of climate identified by our scenario analysis are nominal, with the exception of Energy Networks, as explained further overleaf. Under the falling short scenario, Energy Networks would experience low operational and financial downsides. Under the leading the way scenario, Energy Networks would see a medium operational upside and low financial upside. Further descriptions of the impacts are provided overleaf.

ENVIRONMENT *continued*

2030 impact

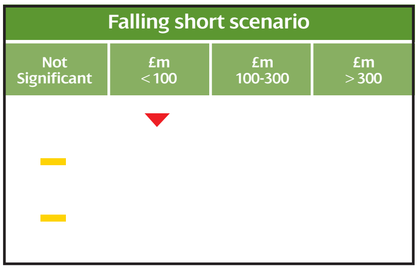
Business	Impact type
Energy Networks	EV uptake per million /heat pump uptake per million/GW
Renewable production	GW
Customer business	TWh

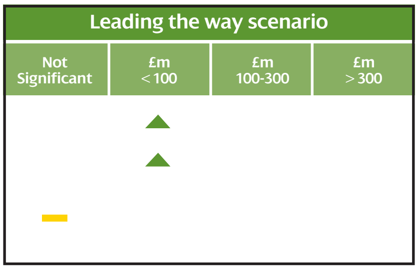




EBITDA 2030 impact

Business	Impact type
Energy Networks	EBITDA 2030
Renewable production	EBITDA 2030
Customer business	EBITDA 2030





Key

- Positive impact
- No significant impact
- Negative impact

- **Energy Networks** – Under the falling short scenario, a slower transition would mean a delay to a number of high-cost major transmission projects coupled with reduced investment in low-carbon technologies, leading to a lower in-year EBITDA in 2030. Under the leading the way scenario, there is limited additional need for high-cost transmission interventions beyond those already planned in the baseline scenario as the generation export requirements to the wider GB transmission system are broadly similar in both scenarios. The related transmission investment, which represents a significant proportion of Energy Networks' EBITDA, therefore remains similar to the baseline plan. The majority of increased expenditure is associated with the distribution networks to accommodate EVs and heat pumps.
- **Renewable production** – While UK-wide the falling short and leading the way scenarios both indicate material changes in overall renewable generation capacity, the impact of these changes upon Renewable production would be minimal in 2030, due to the scale and maturity of our projects and the timelines related to them. However, there would potentially be impacts beyond 2030 in terms of increases or decreases to our long-term renewables pipeline. Offshore projects can take up to a decade to plan and construct and so, barring any significant changes to planning policy, our pipeline to 2030 would remain stable under either scenario. Whilst onshore projects typically have shorter planning and construction timelines and, would therefore be able to respond more quickly to increased UK targets or policy changes, they represent a small proportion of our renewable capacity and expenditure, and therefore the impact of the scenarios would be minimal in terms of our overall portfolio and financial impact.
- **Customer business** – Both the falling short and leading the way scenarios indicate minimal impact for our Customer business, assuming no significant change in customer numbers. Under the falling short scenario, more customers will continue to use gas as their source of primary heating, increasing the forecasted gas volumes and decreasing electricity volumes. Under the leading the way scenario, a faster transition will see more customers move to heat pumps, solar panels and other technologies, decreasing the use of natural gas but increasing electricity use for heat, and representing an opportunity in terms of a growing market for our smart solutions.

ENVIRONMENT *continued*

Physical risks and opportunities

ScottishPower monitors and manages physical risks using climate science and applies the learning to procedures, with a focus on planning, execution, control, and continual improvement. Physical risks are specific to each division or site, gradual, associated with each technology, and occur over relatively long periods. The following table outlines the acute and chronic physical risks and opportunities identified as the most relevant to our products and markets, together with a description of our current approach to managing them.

ACUTE	
Risks	**Approach and management**
Heatwaves / fires • Greater technical losses from electrical assets; stronger and more frequent peak loads resulting in outages. • Infrastructure damage due to the greater risk of fires; reduced efficiency. **Relevant in short, medium, and long-term.**	• Climatic studies carried out during project planning to identify potential future production uncertainties. • Enhanced design criteria. • Application of new materials that can withstand higher temperatures. • Design of overhead power lines for operation under conditions stricter than those mandated by regulations. • Installation of high efficiency solar modules. • Installation or upgrade of high efficiency cooling, detection and warning, and firefighting systems.
Cold snaps • Higher demand. • Additional volatility in trading market. • Damage and outages / ice and snow accretion. • Reduced production / performance losses. **Relevant in short, medium, and long-term.**	• Effective trading strategies. • Dynamic forecasting and monitoring of actual consumption. • Burial of power lines. • Enhanced prediction, detection and warning systems. • Improved emergency plans.
Extreme precipitation (flooding and/or landslides) • Possible physical damage to infrastructure, e.g. electrical cabling. • Sediment deposition. **Relevant in short, medium, and long-term.**	• Analysis of flood risk and vulnerability to extreme events mentioned in the Environmental Impact Assessments. • Flood mitigation asset upgrades. • Burial of power lines. • Enhanced prediction, detection and warning systems. • Auto-protection plans; flood management emergency plans.
Storms and high winds • Damage to infrastructure such as overhead lines caused by falling trees. • Unable to access certain sites during storms. **Relevant in short, medium, and long-term.**	• Vegetation management. • Power line automation. • Enhanced prediction, detection and warning systems. • Specific location and siting studies. • Installation of more robust technologies as they become available.

ENVIRONMENT *continued*

CHRONIC	
Risks	**Approach and management**
Average temperature variations • Greater technical losses and less flexibility. • Reduced solar panel efficiency / variability of solar resource. • Variability of wind resources. **Relevant in long-term.**	• Application of new materials that can withstand high temperatures. • Design of overhead power lines for operation under conditions stricter than mandated by regulations. • Installation of high-efficiency solar modules. • Geographic diversification. • Consideration of climate variability in investment planning.
Sea level rise • Potential effects on substations due to risk of flooding. • Damage to equipment and infrastructure. **Relevant in long-term.**	• Specific analysis of the flood risk of substations. • Flood protection structures. • Monitoring and control.
OPPORTUNITIES	
• Greater digitalisation and automation. • Minimisation of response times. • Reliable and resilient electrical power supply. • Contributions to local communities. • Innovation, research and development for new technology and tools. • More resilient designs and equipment. • Minimisation of environmental impact. • Support for start-ups. • Increased development of renewables and networks. • Investment in storage technology. • Seasonal climate trends that increase overall demand for electricity.	

Physical scenario analysis

Physical risks are analysed regularly using relevant climate projections. The 2022 assessment was carried out in line with the requirements of the EU Taxonomy for sustainable activities and is still relevant for 2023, as there have been no significant changes from the previous year. This analysis used the most recent and relevant projections and takes ScottishPower's existing and planned physical assets into account. We undertook this analysis using average projections from 2030 to 2059 in line with the following three-stage process:

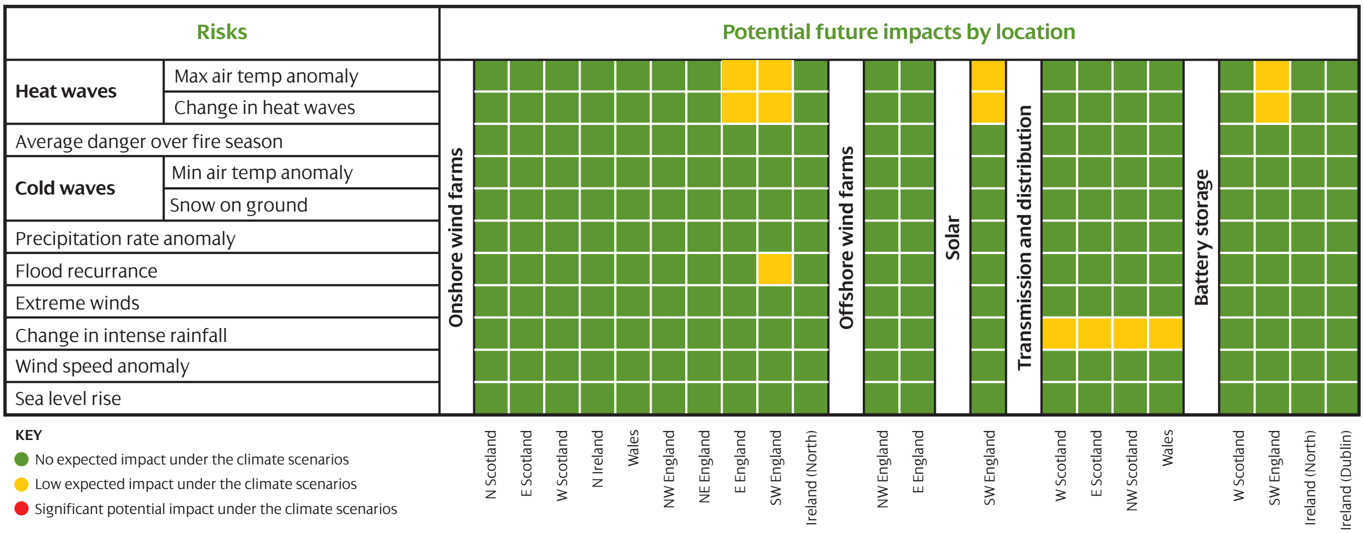
- **Sensitivity screening** – screening assets by technology group to identify which physical climatic risks may affect their performance throughout expected asset lives.
- **Impact analysis** – where an asset is identified as being sensitive to a climatic risk, assessing its exposure to these risks and potential impacts under relevant climate projections and locations.
- **Adaptation measures** – an assessment of adaptation measures already in place, future adaptive capacity and the remaining level of threat requiring additional measures.

The following sources were used for historical averages, today's baseline and future projections:

- **UK climate projections** – Wind speed, maximum and minimum air temperature, precipitation rate and amount of new snow on the ground.
- **Third UK Climate Change Risk Assessment** – Relative sea level rise and change in intense rainfall.
- **Copernicus** – Average danger over fire season, change in the duration of heatwaves and flood recurrence.

This impact analysis identified that sensitivities largely do not crystallise into potential future impacts under current projections, however, the evolution of acute risks such as heatwaves, flooding and changes in intense rainfall could lead to some impacts without the implementation of relevant adaptation measures. The following diagram indicates potential future impacts by risk, technology and location. Technologies and locations marked green indicate no expected impact under the climate scenarios. Those marked amber indicate areas where there is low expected impact under the climate scenarios. Our adaptation actions seek to mitigate these potential impacts. There are no areas that would have more significant potential impacts requiring more significant adaptation actions.

ENVIRONMENT *continued*



Risk mitigation, adaptation and resilience

Transition

ScottishPower's current positioning as a result of our investment focus on grids and renewable energy puts us in a favourable position for facing transition risks. We believe that the opportunities stemming from the decarbonisation of the global economy (growth in renewables, investments in integrated smart grids, electrification of transport, green energy, etc.) outweigh the risks.

Our overarching risk management mechanisms and mitigating actions relating to the transition include:

- A strong business model with financial capacity to deal with change.
- Integration of climate change in management and corporate governance activities.
- Early action to transform the business model to adapt to climate change, allowing it to minimise transition risks and take advantage of the related opportunities.
- Management of risks deriving from climate change embedded in business processes, such as emergency and business continuity plans.
- Consideration of climate change in investment decision-making.
- Regulatory and insurance coverage.
- Diversity, including geography, technology and age of assets.
- Proactive engagement, partnership and dialogue on adaptation and climate science to deliver cost-efficient resilience solutions.
- Strong innovation focus.

Physical

Based on the impacts noted above (which take account of the current uncertainty associated with climate projections) and the existing mitigating factors, it is expected that the physical risks of climate change may not have a material, permanent impact on the consolidated figures of the Group, which is expected to be resilient.

The generally low risk of impacts is due, in a large part, to the robustness of existing concept, location, design, planning and operation specifications, which aim to anticipate and prepare for changing climate conditions. Progressive renewal and evolution of assets enables adaptation to medium-to-long-term impacts. Specifications for new equipment take account of future weather scenarios and technical improvements to extract greater lifetime value from new projects.

Where potential future impacts are identified, adaptation plans are developed and delivered, including:

- Temperature-related events.
  - Multi-year on-site and historical studies of climate parameters are made during project planning and considered in the selection and evolution of the project.
  - Location-specific studies to assess the uncertainty of production under potential climate variations with working hypotheses updated continuously.
  - Design criteria being optimised to improve efficiency and durability under evolving climatic conditions and temperature ranges.
  - Operations and maintenance and risk prevention policies consider maximum operating temperatures.
  - Early warning systems forecast meteorological phenomena including increasing temperatures, enabling advance notice for resilience measures to be deployed.
- Flood recurrence and change in intense rainfall.
  - Design criteria being optimised for resilience.
  - Sites being selected carefully with climate impacts in mind.
  - Secondary protective measures being deployed.
  - Liaison with external planning and response agencies.
  - Flood mitigation programmes being delivered, taking account of network climate adaptation reporting and climate resilience strategy as well as site-specific risk assessments.
  - Alternative access routes are reviewed.

ENVIRONMENT *continued*

Metrics and targets

The realisation of climate-related opportunities and the management of climate-related risks is central to our business strategy and model and is therefore embedded in our business targets. These targets show the direction of the future operations of the Group and are measured by a suite of relevant metrics. Details of these targets and metrics and our progress against them is featured throughout this report. The following table summarises the key targets and related metrics including timeframes where possible. It links these to the risks and impacts identified in 'Strategy' section above and provides references to where target performance is discussed throughout this report.

Target	Metric	Related risks and opportunities (T = transition, P = physical, R = risk, O = opportunity)	Further information
Treble onshore renewables capacity by 2030 (includes wind and solar, 2022 baseline) Treble offshore renewables capacity by 2030 (2022 baseline)	GW onshore renewables GW offshore renewables	TR – Changes to consenting or emissions legislation TR – Long timelines for consenting TR – Uncertainty as to financing and aid for renewable development TO – Transfer of energy from fossil fuels to renewables TO – More attractive financing for companies with sustainable and resilient business models TO – Strengthened stakeholder relationships for companies acting on climate change PR – Infrastructure damage due to increased fire risk PR – Reduced production or performance PR – Unable to access certain sites during storms	'Renewable production – operating review' and 'Outlook for 2024 and beyond' section of the Strategic Report on pages 18 and 21 respectively.
Deliver RIIO-T2 and RIIO-ED2 commitments on network reliability, availability and network resilience by 2026 (transmission) and 2028 (distribution) respectively	% Reliability Customer interruptions Customer minutes lost	TR – Increase to cost of capital for businesses not delivering on climate change TR – Long timelines for consenting TO – More attractive financing for companies with sustainable and resilient business models TO – Increased electrification of heat and transport TO – Transfer of energy from fossil fuels to renewables TO – Increasing importance of networks in terms of digitalisation, smart grids and system flexibility – DSO transition TO – Strengthened stakeholder relationships for companies acting on climate change PR – Greater technical losses, stronger and more frequent peak loads resulting in outages PR – Infrastructure damage due to increased acute events PR – Higher demand due to cold snaps PR – Reduced performance or efficiency PR – Unable to access certain sites during storms	'Energy Networks 2023 performance' section of the Strategic Report on page 17.
Deliver our Great British Insulation Scheme obligations by 2026	Properties treated	TO – Improved energy efficiency and associated benefits for consumers, and an improved relationship with them TO – Strengthened stakeholder relationships for companies acting on climate change	'Energy customers – Customer business' section of the Strategic Report on page 9.
By value, at least 90% of purchases awarded to sustainable suppliers by 2030	% of total purchase value	TR – Higher cost of raw materials TR – Supply chain uncertainty	'Suppliers and contractors' section of the Strategic Report on page 11.

ENVIRONMENT *continued*

Target	Metric	Related risks and opportunities (T = transition, P = physical, R = risk, O = opportunity)	Further information
Reduce absolute Scope 1, 2 and 3 GHG emissions by 64% by 2030 from a 2019 base year	GHG inventory, tCO_2e	TO – More attractive financing for companies with sustainable and resilient business models TO – Strengthened stakeholder relationships for companies acting on climate change	'Greenhouse gases' section of the Strategic Report on page 48.
Reduce GHG emissions from use of sold products by 28% by 2030 from a 2019 base year	GHG inventory, tCO_2e	TO – Increased electrification of heat and transport TO – Improved energy efficiency and associated benefits for consumers, and an improved relationship with them TR – Uncertainty about development and implementation of new technologies	'Operating review – Customer business' section of the Strategic Report on page 21.
Reduce GHG emissions from use of sold electricity by 100% by 2030 from a 2019 base year	GHG inventory, tCO_2e	TO – Improved energy efficiency and associated benefits for consumers, and an improved relationship with them TO – Strengthened stakeholder relationships for companies acting on climate change TO – Increased electrification of heat and transport TO – Improved energy efficiency and associated benefits for consumers, and an improved relationship with them	'Greenhouse gases' section of the Strategic Report on page 48.
Provide 4.8 million smart solutions by 2030	Number of smart solutions	TO – Increased electrification of heat and transport TO – Improved energy efficiency and associated benefits for consumers, and an improved relationship with them TR – Uncertainty about development and implementation of new technologies	'Operating review – Customer business' and 'Innovation' sections of the Strategic Report on pages 21 and 12 respectively.
100% sustainable light vehicle fleet by 2030	% deployment	TO – Increased electrification of heat and transport TR – Uncertainty about development and implementation of new technologies	'Greenhouse gases' section of the Strategic Report on page 48.
Deliver 500 MW green hydrogen capacity by 2030	MW of green hydrogen capacity	TO – Increased electrification of heat and transport TR – Long timelines for consenting TR – Uncertainty about development and implementation of new technologies	'Customer business – operating review' section of the Strategic Report on page 21.

Greenhouse gases

Iberdrola has made a strong commitment to decarbonisation, setting a strategic goal to become net zero in Scopes 1, 2 and 3 before 2040. This commitment to a net zero path is central to Iberdrola's sustainable business strategy and aligns with the UN SDGs.

In 2022, ScottishPower set a science-based target, complementing the targets set by Iberdrola. The target commits ScottishPower to reduce absolute Scope 1, 2, and 3 GHG emissions from fuel and energy-related activities and use of sold products by 64% by 2030 from a 2019 base year. This includes a Scope 1 and 2 absolute reduction target of 47% by 2030 from a 2019 base year (which is consistent with reductions required to keep global-warming to 1.5°C) a Scope 3 absolute reduction in category 3 emissions from all sold electricity of 100% from a 2019 base year and a Scope 3 absolute reduction in GHG emissions from use of sold products of 28% over the same timeframe.

Much work is already underway on our GHG reduction journey, supported by our GHG ERP and reporting and delivery structures across ScottishPower.

Inventory

Overall, we have seen a 8% reduction in GHG emissions in 2023 compared to 2022 and a 20% reduction since our 2019 baseline year. The table and the accompanying footnotes overleaf presents the value chain GHG emissions of the ScottishPower Limited Group for 2023.

ENVIRONMENT *continued*

			2023		2022*		2019
		Notes	**kWh**	**tCO_2e (Note (a))**	kWh	tCO_2e (Note (a))	tCO_2e (Notes (a),(b))
Scope 1	Combustion of natural gas**	(c),(d)	9,800,667	1,793	39,309,916	7,176	5,406
	Combustion of fuel for transport**	(c),(d)	31,171,188	7,472	30,608,423	7,862	8,011
	Combustion of fuel for generators**	(c),(d)	14,421,291	2,593	10,744,011	2,483	220
	Fugitive emissions (SF_6, CH_4*** and refrigerants)	(c),(d)	–	21,209	–	14,236	21,264
	Total Scope 1		**55,393,146**	**33,067**	80,662,350	31,757	34,901
Scope 2	Purchased electricity for own use – location-based**	(c),(d),(e),(i)	84,442,869	17,486	78,396,682	15,160	19,624
	Purchased electricity for own use – market-based	(c),(d),(e),(i)	84,442,869	10,913	78,396,682	9,707	20,534
	Network losses – gross	(c),(d),(f),(h)	3,042,475,181	630,018	2,907,000,000	562,156	824,300
	Network losses – net	(c),(d),(f),(g),(h)	2,331,818,393	482,860	2,193,265,823	424,134	N/A
	Total scope 2 location-based		**3,126,918,050**	**647,504**	2,985,396,682	577,316	843,924
	Total scope 2 market-based		**3,126,918,050**	**640,931**	2,985,396,682	571,863	844,834
Scope 3	Business travel – vehicles (employee-owned and leased)**	(d),(j)	8,200,626	2,004	7,698,123	1,914	5,847
	Business travel – other (rail, flights and hotel)	(d),(j)	–	1,575	–	862	
	Emissions associated with the supply chain	(d),(h),(j),(k),(l)	–	468,828	–	589,000	983,352
	Crew transfer vessels	(d),(k),(p)	24,202,073	5,787	30,056,419	7,248	
	Fuel and energy-related activities (including product related upstream emissions)	(d),(h),(j),(m)	–	698,515	–	798,166	815,308
	Waste generated in operations	(d),(h),(j)	–	1,937	–	1,511	6,599
	Employee commuting	(d),(h),(j),(n)	10,949,301	3,068	26,891,477	6,745	2,743
	Investments	(h),(k),(o)	–	29,313	–	28,576	
	Sale of electricity to end users	(d),(j)	14,726,682,000	4,890,590	17,083,801,000	5,167,148	5,181,525
	Sale of gas to end users	(d),(j)	18,345,262,000	3,355,879	21,114,939,000	3,854,321	4,749,765
	Total Scope 3		**33,115,296,000**	**9,457,496**	38,263,386,019	10,455,491	11,745,139
	Total location-based		**36,297,607,196**	**10,138,067**	41,329,445,051	11,064,564	12,623,964
	Total market-based		**36,297,607,196**	**10,131,494**	41,329,445,051	11,059,111	12,624,874

* 2022 figures have been restated in response to settlements and improvement in data collection. The most significant change relates to sale of electricity to end users, where green electricity sold was previously calculated on a April to March basis, but is now calculated on a calendar year basis.

** Mandatory disclosures required by The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. The remaining information is disclosed on a voluntary basis

*** SF_6 – sulphur hexafluoride. CH_4 – Methane.

(a) tCO_2e is a metric used to compare the emissions from various GHGs on the basis of their global-warming potential in comparison to the global-warming potential of carbon dioxide ("CO_2"). The main GHG are CO_2, CH_4, nitrous oxide and fluorinated gases.

(b) Baseline value chain footprint related to our science-based target.

(c) We use the GHG Protocol Corporate Reporting Standard and account for Scope 1 and 2 emissions from operations over which we have control, or the relevant proportion for jointly controlled arrangements.

(d) Data was calculated using relevant Department for Environment, Food & Rural Affairs ("Defra") Government conversion factors for company reporting of greenhouse gas emissions.

(e) Electricity consumption related to ScottishPower owned EVs charging at ScottishPower owned sites is accounted for in 'Purchased electricity'.

(f) All data reported is based on January to December except for losses data, which is based on figures provided on a regulatory year basis (1 April to 31 March).

(g) Scope 2 losses emissions net of our own green generation are presented for information.

(h) Estimated.

(i) Scope 2 emissions are presented as both location-based (based on the GB-wide Defra conversion factors) and market-based (taking account of the impact of moving our own electricity use to a green tariff).

(j) We use the GHG Protocol Corporate Value Chain (Scope 3) Standard for calculating Scope 3 emissions.

(k) Emissions categories reported for the first time this year. Investments are reported a year in arrears.

(l) 2019 calculation of supply chain emissions used spend multiplied by relevant environmentally extended input-output factors. 2022 and 2023 supply chain emissions were calculated from an average of the actual emissions of our suppliers.

(m) This category includes upstream emissions (product, fleet, own gas and other fuels), well-to-tank emissions and transmission and distribution related emissions.

(n) Our process for estimating commuting emissions was updated in 2022 to include staff survey data.

(o) Crew transfer vessel fuel emissions were previously estimated within supplier emissions.

ENVIRONMENT *continued*

Scope 1 covers direct emissions from owned or controlled sources. In 2023, Scope 1 emissions represented less than 1% of total emissions reported. Overall, Scope 1 emissions increased by 4% between 2022 and 2023, largely driven by an increase in fugitive emissions. Scope 1 emissions in 2023 were 5% lower than in our 2019 baseline year.

Scope 2 covers indirect emissions from generation of purchased electricity. In 2023, Scope 2 emissions represented 6% of total emissions reported. Scope 2 emissions have increased by 12% between 2022 and 2023, primarily driven by an increase in energy transported and distributed and an increase in the UK electricity grid mix emissions intensity. However, since 2019, Scope 2 emissions have reduced by 24%, meaning that we are currently on track to achieve our combined Scope 1 and 2 science-based target.

Scope 3 represents all other indirect emissions that occur in our supply chain. In 2023, Scope 3 emissions represented 93% of total emissions reported. Overall, Scope 3 emissions have decreased by 9% between 2022 and 2023 and 20% since 2019, largely driven by a decrease in the gas supplied to customers. Emissions from gas supplied have seen a 29% reduction since our 2019 baseline year, surpassing our target of 28% reduction by 2030.

The following factors provide carbon intensity metrics for both the electricity that we generate and the energy that we supply. These are both calculated using the guidance in the mandatory Streamlined Energy and Carbon Reporting ("SECR") emissions as required by entities in scope, as well as by using the full value chain emissions figures to provide a more comprehensive view.

		2023	2022 (Note (b))
	Note	**tCO_2e/kWh**	tCO_2e/kWh
Carbon Intensity of electricity generated (based on SECR-only data)	(a)	**0.000004**	0.000004
Carbon Intensity of energy supplied (based on total Scopes 1 to 3: location-based)	(a)	**0.00031**	0.00029

(a) Presented in tonnes in line with SECR guidance.
(b) 2022 figures have been restated to show actual emissions. There has been no significant change.

SECR
We are committed to producing meaningful climate disclosures in line with those required by The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the 2018 Regulations"). The tables above relating to the Scottish Power Limited Group, include the mandatory disclosures required by SECR, in addition to value chain GHG emissions which are disclosed on a voluntary basis. The information required by the 2018 Regulations has been independently verified by Mabbett & Associates Ltd on a limited-level assurance basis.

Throughout 2023, we have carried out a range of energy efficiency initiative measures, including:

- Implementation of additional environmental requirements in tender and contract specifications to encourage energy efficiency through our supply chain.
- Energy monitoring at 15 transmission substation sites as part of our programme to deliver energy efficiency refurbishments on 48 major substations by 2026.
- EV chargers installed across a further three offices and depots.
- Analysing 'grey fleet' mileage (business miles travelled in employee-owned cars) to identify opportunities to improve data and reduce emissions.
- Carrying out a programme to identify and eliminate leakages at our Hatfield Moor gas storage site.
- Continuing delivery of a transmission losses reduction programme, including replacement of ageing equipment such as transformers, shunt and series reactors and overhead lines with new lower-loss equipment.

Nature

ScottishPower outlined its vision to deliver a net positive impact on biodiversity and ecosystems in its sustainable development strategy, Action 2030. The targets to deliver this are:

- deliver a net positive impact on biodiversity by 2030; and
- conserve, restore and plant 5 million trees by 2030 against a 2020 baseline.

In 2023, ScottishPower participated in the Iberdrola-led pilot of species and ecosystem accounting metrics. We established a ScottishPower-wide Nature Working Group to provide an internal forum for developing and driving the implementation of activities to meet our nature related targets. We also began work to develop a detailed Nature Plan by 2025.

In the reporting year, we had four facilities covering over 297 hectares ("ha") and over 4758 km of networks in Protected Areas and Areas of High Biodiversity Value with 204 key species identified within our areas of operation.

During 2023, 52 programmes to monitor, protect and enhance biodiversity were started or ongoing and 51 were completed, including:

- monitoring of birdlife and chiroptera;
- monitoring of terrestrial and aquatic flora;
- research and ecological studies;
- protection of flora and vegetation management; and
- partnerships, collaborative projects and awareness initiatives.

As of 2023, we had conserved, restored and planted over 890,000 trees since our 2020 baseline.

Energy Networks worked in partnership with BugLife, an invertebrate conservation trust, to restore 260 hectares of ancient and damaged lowland raised bogs as part of the Slammanan Peat Bog Enhancement. In collaboration with their partner, Supply Chain Sustainability School, Energy Networks developed and delivered biodiversity awareness training to 36 of its people. Energy Networks also worked with NatureScot through the Scottish Linear Infrastructure Group, as part of a collaboration to develop a standardised Scottish biodiversity tool.

ENVIRONMENT *continued*

Renewable production onshore completed a programme of 150 ha of peatland restoration across Scotland in 2023. This included the commencement of a large-scale peatland restoration project at Halsary Windfarm in Caithness, where 360 ha will be restored in total. 2023 saw the implementation of tree planting management activities across six wind farms, with a total annual spend of around £300,000. Renewable production onshore participated in the Sanger Institute's cutting-edge BIOSCAN project which involves the monthly capture of insects for DNA analysis with the aim of identifying the species present, and over time monitoring how species diversity and abundance is changing at Whitelee Windfarm.

Renewable production offshore carried out an array of survey work for the Scotwind Development Project, including benthic surveys and digital aerial surveys for birds and marine mammals. Compensation work carried out as part of EA1N and EA2 included the construction of artificial nests for kittiwake at Lowestoft. The EA3 project saw the deployment of twelve passive acoustic buoys for the monitoring of marine mammals.

Circularity

In 2023, ScottishPower laid out a range of targets and actions for circularity within its Action 2030 strategy. These include:

- develop a detailed circular economy action plan by 2025;
- 100% wind turbine blade recycling by 2030, subject to the existence of a commercially feasible solution;
- zero waste to landfill by 2030; and
- achieve 50% sustainable steel use by 2030 and 100% net zero steel by 2050.

In 2023, the amount of waste generated increased by 67%, due to both increased programmes of work and more complete reporting. We achieved 95% diversion from landfill.

Working with Zero Waste Scotland and Eunomia Research & Consulting, we completed a significant project to calculate a baseline of our resource use across Energy Networks and Renewable production. Along with interviews with key industry stakeholders and targeted workshops, this was used to identify a long list of possible opportunities to enhance existing circularity, and interventions to remove barriers to increased circularity. The outputs of this project will form the basis of our Circular Economy Action Plan, which will be developed during 2024 and 2025, led by our newly-formed Circular Economy Working Group. The Action Plan will drive the further evolution of our strategy, governance, targets and metrics and data and reporting and it will lay out our time-bound action plan for delivery.

Energy Networks has continued to work to achieve their circular economy commitments during 2023. One notable example of waste avoidance and reuse of assets was the Mossmorran 132 kilovolts ("kV") switchgear replacement project. Following an inspection, the concrete foundations were found to be in a condition that they could be refurbished and reused. The foundations were cleaned, repaired, and treated with an epoxy layer providing shielding from the elements, adding around 40 years to the lifespan of the concrete. This avoided the need to demolish and transfer the waste off site, reducing the potential carbon emissions from the works. By refurbishing the existing assets, 247m^3 of concrete was reused and 106 tCO_2e was saved, equivalent to the running of 39 households for one year.

Renewable production further developed its understanding of existing and emerging opportunities for blade recycling via research, consultation and participation in two collaborative industry bodies (Coalition for Wind Industry Circularity and SusWIND (Accelerating sustainable composite materials and technologies for Wind Turbine Blades)). Renewable production also chaired the G12/S5 Onshore Wind Sector Working Group which is a key part of the development of the Scottish Onshore Wind Sector Deal. The deal includes a commitment for collaborative sector action to deliver a blade treatment facility in Scotland by 2030.

Operational since 1995, Renewable production's Hagshaw Hill wind farm in South Lanarkshire was at the forefront of wind energy production in Scotland, generating more than 895 MWh over its 28-year lifespan. In 2023, work commenced to repower the 16 MW site, becoming home to 14 new wind turbines with a combined capacity of over 79 MW. Once complete, the wind farm will be capable of producing around five times the amount of clean, green energy than it did before, from just over half the number of turbines. The Hagshaw Hill repowering project is part of Renewable production's wider ambition to maximise the efficiency of its existing sites by replacing older turbines with new, more powerful and efficient models. Decommissioning of the turbines has involved careful planning to identify reuse and recycling routes for components. Commercially available market solutions for blade reuse or recycling are currently in their infancy in the UK, due to the composite structure of blades and the limited availability of decommissioned blades as feedstock to date. Renewable production and its decommissioning contractors are exploring a number of reuse, recycling and research routes to ensure that materials from decommissioned blades maintain as high value as possible in their next life and to stimulate the blade circularity market.

SOCIAL IMPACT

We place great importance on our relationship with local communities, recognising them as key stakeholders in our operations. Engaging with these communities is not just a priority but a fundamental aspect of our commitment to collaboration, and central to our core values.

Our aim is to be a trusted, respected, and fully-integrated part of these communities. We look to achieve this by operating with the utmost integrity and transparency, actively participating in the community, and fostering strong relationships. We are dedicated to ensuring that our activities are conducted responsibly and making a positive and lasting impact on society.

Investing in the community

Our history reflects a longstanding commitment to supporting the communities we serve through sharing our resources and the skills of our people. We regularly contribute to community-based organisations and engage in activities that address a range of broader issues within the communities where we operate. This voluntary engagement with charitable organisations or activities that extends beyond our core business is commonly referred to as 'community investment.'

As part of the Iberdrola Group, ScottishPower utilises the Business for Societal Impact framework (the global standard in measuring and managing social impact) and formerly known as London Benchmarking Group, to assess our community investment initiatives. This framework, adopted by leading businesses worldwide, offers a comprehensive and consistent approach to measuring the genuine value and impact of corporate community investment on both business and society.

SOCIAL IMPACT *continued*

Through this framework, in 2023, we voluntarily contributed £12.3 million (2022 £12.7 million) to support community activities. This contribution includes cash, time, in-kind support, and the management costs associated with running community programmes.

Further to this an additional £9.7 million has been provided through sponsorships, as well as initiatives to support our most vulnerable customers.

As part of our onshore wind farm operations, we actively support 36 community benefit funds, empowering communities across the UK to decide how to best utilise these funds to serve their local needs. In 2023, our Renewable production division contributed over £7.6 million (2022 £6.9 million) to communities neighbouring our wind farms, bringing the total provided to date to over £60 million.

Community engagement and consultation

Community engagement is part of our culture at ScottishPower and we actively encourage volunteering, with everyone having the opportunity to take one day's paid leave each year to volunteer. In 2023, 1,706 of our people (2022 1,215) participated in volunteering activities organised by ScottishPower, collectively contributing over 13,300 working hours.

ScottishPower maintains a substantial presence in many communities across the UK and engages in consultations with these communities in various instances. These consultations occur when we plan developments, decommission assets, or conduct routine maintenance work. Key areas of community interaction include the siting of new facilities like wind farms, the presence of transmission and distribution lines, the decommissioning of older plant, and routine maintenance work. We proactively provide landowners, stakeholders, and customers with accurate information from the pre-planning stage through to project completion.

We place great emphasis on ensuring that those affected by our work are well-informed in advance of our activities. We have developed enduring relationships with community groups, elected representatives, interest groups, and individuals, creating various communication channels for community input. Our community consultation processes encompass representation at community meetings, in-person and virtual public information days, information published on our website, and engagement through social media. Our facilities also host visits from community groups, maintain visitor centres, and run local liaison committees that facilitate discussions between our organisation and community representatives.

Given that many of our assets are located on land we do not own, we have implemented policies to maintain the safety and integrity of our facilities while respecting the needs of landowners, the local community, and the general public. An example of this is within our Energy Networks business where they, and those acting on our behalf, adhere to a publicly available Land Code of Conduct, which outlines our commitment to grantors and has been developed in consultation with key stakeholders.

We work closely with the UK Government and devolved administrations to shape policy on community engagement and benefit, ensuring adherence to all voluntary codes of good practice.

ScottishPower Foundation

The ScottishPower Foundation ("the Foundation") was established in 2013 to reinforce our commitment to charitable work throughout the UK. It is a registered Scottish charity (SC043862) and a company limited by guarantee (SC445116). The Foundation provides funding to registered charities for the following purposes:

- the advancement of education;
- the advancement of environmental protection;
- the advancement of the arts, heritage, culture or science;
- the prevention or relief of poverty and the relief of those in need by reason of disability or other disadvantage; and
- the advancement of citizenship and community development.

Decisions to award funding are made by an experienced Board of Trustees who have a special interest in the above areas. The Foundation confirmed its continued support for the Restoration Forth project for a third year, beginning in December 2023. This project received the first grant to be awarded from the Foundation's Marine Biodiversity Fund when it launched in 2021 and will receive up to £600,000 over a three-year period. The project is managed by WWF in partnership with scientists, charities and local community groups. Together they will design a blueprint to restore and sustainably manage seagrass and oyster habitats for a thriving Firth of Forth on the East Coast of Scotland.

In 2023, the Foundation awarded funding of almost £1.2 million to 19 registered charities to support their work in the UK. Glasgow Science Centre is helping young people from disadvantaged backgrounds learn about climate change and become climate advocates. Techniquest, in Cardiff, is providing free access to children from some of the most deprived areas in Southeast Wales to learn about how to protect marine life from pollution. The Renewal Programme is tackling food waste and food insecurity in the London borough of Newham, partnering with local restaurants, shops and market vendors to secure surplus food that would otherwise be wasted and redistributing it to local foodbanks using low emission cargo bikes. Givin' It Laldie is providing fun, accessible and free group singing sessions in sheltered housing and dementia units, reducing loneliness and improving physical and mental health for the older generations living in the Gorbals in Glasgow.

The annual ScottishPower Foundation awards were announced at an awards ceremony on 30 October 2023 and provided £60,000 of additional funding to projects through four award categories including the Charity Champion Award, which gives special recognition to individuals working in the charitable sector for personal dedication. Following a competitive application process for funding of projects, 20 applicants were shortlisted by the Board of Trustees in October 2023 and are intended to be awarded funding for projects to be delivered in 2024 subject to budget and contract.

Energy Networks

Energy Networks has shaped its business around geographical districts, enabling them to be closer to the communities they serve and allowing communities to have influence upon the delivery of projects in their area.

Supporting local communities to achieve net zero

Close collaboration with stakeholders has been instrumental in shaping projects that facilitate the energy system transition, from design to delivery, and enabling us to invest in the right initiatives, at the right time and in the right place to maximise customer impact and remove the barriers to achieving

SOCIAL IMPACT *continued*

net zero. For example, stakeholders across a range of sectors including local authorities, emergency services, businesses, and housing developers have told us the decarbonisation of transport and heat are priorities for them. We are supporting the shift to EVs by creating new EV charging infrastructure along some of the UK's busiest motorways; building a new primary substation at First Bus' Caledonia Depot in Glasgow, supporting the charging infrastructure needed for a new fleet of 300 electric buses; and we also introduced the ConnectMore tool to provide customers with more insight into optimal locations for EV charging connections.

For heat, we have upgraded the heat network in Tanygrisau, Wales, to be greener; reinforced the local infrastructure in Moodiesburn in Scotland to allow new housing to employ heat pumps; and gained key insights into customer behaviour through the Re-HEAT initiative, empowering our planners to remove barriers to the rapid take-up of heat pump technology. We have also developed a framework for the use of large-scale thermal energy storage across the UK that could reduce heating costs and provide valuable balancing for the energy system.

Community engagement – keeping our communities safe

Our public safety engagement continues around the four key themes (Customers, Agriculture, Construction and Specialist Trades) focusing on the information driven by current data/trend analysis and planning for our 2023 engagement. We are looking to maximise the use of social media, influencers, and online channels to ensure the right people are seeing the safety advice and continue our support and partnership working with the ENA.

During 2023, we attended several events such as the Royal Cheshire show, the Royal Highland show, and the Oswestry Hot Air Balloon festival. These events provide us with an excellent opportunity to speak to farm workers and contractors, lorry drivers and hydraulic crane operators and with new technology on the rise we now also engage with pilots and drone operators.

Supporting the vulnerable in our communities

Ongoing engagement with stakeholders and people in vulnerable situations, complemented by a sophisticated data strategy, have led us to build a comprehensive and accurate picture of our customers' needs. These needs are complex, diverse and multi-dimensional; addressing them all requires the involvement and support of many bodies and organisations across the private and public sectors. At the same time, as a regulated network, everything we do is funded by our customers so it is essential that our efforts in tackling vulnerability focus on the areas where our customer base and our expert stakeholders believe we can have the most impact. Over the years, we have worked closely with them to define our role in supporting customers in vulnerable situations; for example, we have learned that our customers want us to support people in times of hardship but do not believe it is our role to provide direct financial support.

Collaboration with customers and stakeholders led us to focus on the following three needs:

- protect the mental and physical welfare of customers when a power cut occurs;
- tackle the root causes and consequences of fuel poverty and access immediate help to deal with wider social issues; and
- access the benefits and opportunities of low-carbon technologies and navigate a changing energy system.

While our consumer vulnerability programme is focused on addressing these core needs, we have taken new steps to ensure that our vulnerable customers can access 360-degree support that truly makes a lasting impact on their wellbeing and their quality of life. Our Coalition of Partners model gives us the means to directly connect those in need of extra help with tailored support from organisations with the expertise and resources necessary to make a difference. This model complements our portfolio of support, allowing us to focus our efforts where we can be more effective while leaving no stone unturned to support our vulnerable customers.

Renewable production

As a responsible developer, Renewable production maintains a clear focus on engaging with the communities around our operational sites as well as in new areas of growth. We are committed to being a good neighbour throughout the development, construction and operational phases of our projects and to ensuring that the benefits of our projects are realised in local areas through helping to create local employment and enabling improvements to local infrastructure and services.

Local community engagement

Throughout 2023 we delivered a variety of engagement activities with local communities. From sponsoring a number of Odgen Energy internship students, to sponsoring stage 5 of the Tour of Britain cycling event through Suffolk – enabling us to build relationships with those who will be local to our EA Hub development. We also hosted a STEM event for children in Bowmore, on the Isle of Islay, to help them learn more about offshore renewable energy with our MachairWind team and provided funds to enable Suffolk County Council to offer a Bikeability training course for pupils from Phoenix St. Peter Academy in Lowestoft.

We have also supported a number of initiatives our people have taken the lead on, including charitable monetary and gift collections at Christmas and volunteer beach clean-up activities.

In addition, Renewable production continues to provide community benefit funds to those living near to our operational onshore wind farms and in 2023, reached a major milestone of £60 million of funding having been shared with these communities. We believe that local people are best placed to make decisions about the initiatives that will be of greatest value to them and empower them to make decisions about how to allocate their funds.

Funds can be used for the purposes of community facilities, skills and employment, community or local events, sport and recreation, environmental improvements, youth and education, and heritage. Moving forward, we are also encouraging communities to use their funding to focus on initiatives that will help them to reduce their overall carbon footprint and become net zero as a community. For example, this could be through the installation of solar panels on communal buildings, purchase of EVs to provide support services or for shared community use, the installation of EV charging points for the benefit of local residents and to support tourism in rural areas.

Environment

Renewable production also spends over £1 million every year to adaptively manage and monitor around 10,000 ha of land. This includes approximately 9,000 ha of peatland restoration and 1,000 ha of native woodland creation and management. This activity provides many benefits for a range of associated species such as breeding waders, black grouse, hen harriers, merlin and golden eagles.

SOCIAL IMPACT *continued*

We also maintain a robust Environmental Management System (ISO 14001 accredited) to support the business in managing environmental risks throughout the project life-cycle in a robust and externally recognised manner.

Whitelee Visitor Centre

Whitelee is the UK's largest onshore wind farm hosting 215 turbines with a total capacity of 539 MW; enough to power 350,000 homes. Whitelee Windfarm also has a visitor centre that has welcomed nearly 950,000 people to date, providing an opportunity to see first-hand how local communities, the natural environment and renewable energy can be successfully co-located.

The visitor centre at Whitelee is managed by Glasgow Science Centre on behalf of Renewable production and offers a free hands-on interactive exhibition, a café, cycle facilities, car parking and EV charging points. The visitor centre team offer guided tours on an electric bus to explore the wind farm, learn more about the history and ecology of the site and get close to the wind turbines. The centre also hosts an extensive education programme, with free curriculum-based sessions from nursery to further education and various free craft sessions for families during the school holidays. Part of the community benefit fund at Whitelee pays for Whitelee Countryside Rangers (employed by East Renfrewshire Council) who promote responsible access within the wind farm and host free events including guided woodland walks, pond searches, wildflower apothecary and summer holiday clubs. Whitelee Windfarm was presented with an international Green Flag Award for a third consecutive year in 2023. It is the only wind farm to receive the accolade, which recognises spaces that meet the needs of the communities they serve, and was awarded specifically for the work with the Whitelee Countryside Rangers to provide a positive environmental legacy by enhancing ecological habitats for native bird species and restoring natural peatland.

The wind farm is the host location for an annual 'Run the Blades' running festival incorporating a 10 km, half marathon and 50 km ultramarathon, as well as numerous smaller charity events such as sponsored dog walks and Duke of Edinburgh's Award activities. It is also host to a number of community events such as Renewable production's annual Community Day which welcomes over 5,000 people to learn more about the wind farm and its benefits, as well as being able to enjoy other interactive activities with a variety of organisations who join Renewable production and exhibit on the day.

Utilising Whitelee Windfarm and the visitor centre as a means of supporting the net zero movement and educating on the role of renewables technology within this is a priority and we have seen the visitor centre continue to host a number of visits from UK and international delegates including UK and Scottish Government bodies.

Customer business

Our Smart Cities team within Smart Solutions department are focused on helping decarbonise at a community level working mainly with local authorities but also with other community groups, such as housing associations. Smart Cities can reach consumers where a private financial investment may be unachievable; through local authorities and community groups they can access low-carbon technologies. In addition, by deploying at scale, we can reduce the price per solution.

In addition to supporting our customers, we also support the charity sector, particularly our longstanding relationship with Cancer Research UK. During this difficult period for charities, customers on our 'Help Beat Cancer' tariffs continue to make a vital contribution to the incredible work that Cancer Research UK does. We have raised over £40 million to date through a combination of sponsorship of events like Stand Up to Cancer, sales of our 'Help Beat Cancer' tariffs, and fundraising activities.

We engage regularly with the key industry stakeholders such as Ofgem, Citizens Advice and Ombudsman Services, to keep them fully updated of our community actions.

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

Our Hydrogen department is working with businesses across the UK to help support their strategic aims to decarbonise their operations. Since 2021, we have supported the Scottish Schools Hydrogen Challenge with the purpose of educating young people about the importance of green hydrogen in tackling the climate emergency.

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 Scottish Power UK 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 Group, of which the Company acts as the holding company, requires the Group to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting the 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 is key to promoting the success of the Company. The SPUK Board regularly reviews the operational performance and risk issues for the Group, and also to approve certain reserved matters as defined under the terms of reference of the SPUK Board.

The Company identifies and interacts with its stakeholders directly, and indirectly via its principal subsidiaries of the three divisions operated by the Group during the year, being Energy Networks, Renewable production, and Customer business, which are owned by their respective Head of Business Sub-holding companies: SPENH, SPREL, and SPRH, as summarised in the 'Who we are' sub-section of the Strategic Report, on page 1. In addition, please refer to the 'Engaging with stakeholders' section of the Strategic Report which sets out the SPUK Board's oversight of the consideration given to the Company's, and its divisional businesses', engagement with key stakeholders.

Details and examples of engagement with the Company's key stakeholders (both direct and indirect) who are considered by the SPUK Board in its decision- making with respect to matters reserved to it are as follows:

- **Customers:** details of how the Group engages with its customers are explained in the 'Energy customers' sub-section of the Strategic Report, on page 8. Whilst the Company does not have direct customers of its own, during the year, the SPUK Board received and considered the service KPIs reported in the 'Energy customers' sub-section of the prior year's Strategic Report approved by the delivered by the SPUK Board.
- **People:** details of how the Group engages with its people are set out in the 'People' sub-section of the Strategic Report, on page 5. During the year, the SPUK Board considered and approved the adoption by the Company of the 2022 ScottishPower Modern Slavery Statement.
- **Communities and the environment:** details of how the Group engages with communities and considers the environment are set out in the 'Environment' and 'Social Impact' sub-sections of the 'Sustainability' section of the Strategic Report, on pages 33 and 51 respectively. During the year, the SPUK Board approved the provision of voluntary disclosures in accordance with the TCFD requirements and recommendations as reported in the 'Sustainability' section of the prior year's Strategic Report approved and delivered by the SPUK Board.
- **Suppliers and contractors:** details of how the Group engages with its suppliers are set out in the 'Suppliers and contractors' sub-section of the Strategic Report, on page 11. During the year, the SPUK Board considered and approved key contract awards made by the Company.
- **Government and regulators:** details of how the Group engages with governments and regulators are set out in the 'Government and regulators' sub-section of the Strategic Report, on page 11. During the year, the SPUK Board considered ScottishPower, and the Company's, engagement with the UK Government and Ofgem in connection with the economic and regulatory implications of the retail and wholesale markets as reported in the 'Government and regulators' sub-section of the prior year's Strategic Report approved and delivered by the SPUK Board.

In addition, details of how the Company interacts with its shareholders is described in the introduction to the 'Engaging with stakeholders' section of the Strategic Report on page 4.

The directors, both individually and together as a board, consider that the decisions taken during the year ended 31 December 2023 in discharging the function of the SPUK Board were in conformance with their duty under section 172 of the Companies Act 2006.

The SPUK 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.

BY ORDER OF THE SPUK BOARD

Marion S Venman
Secretary
19 March 2024

Directors' Report

The directors present their report and audited Accounts for the year ended 31 December 2023.

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 55:

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

In addition, energy and carbon reporting disclosures, as required by entities in scope of the 2018 Regulations are included in within the Strategic Report on pages 47 to 50.

Results and dividend

The net profit for the year attributable to the equity holders of the parent amounted to £1,126.8 million (2022 £487.0 million). A dividend of £780.0 million was paid during the year (2022 £715.0 million). Refer to Note 30 for further details.

Taxation

The Iberdrola Board has explicitly acknowledged its responsibility for tax policy and strategy in all of the companies that it controls. The Iberdrola Board has approved a Corporate Tax Policy which forms part of the Governance and Sustainability System and sets out that board's commitment to responsible tax practices throughout the Iberdrola Group. The Corporate Tax Policy was first approved by the Iberdrola Board in 2010 and is regularly updated.

The Group applies the Corporate Tax Policy as adopted by the SPL Board and the ScottishPower Tax Strategy as approved by the SPL Board's Audit and Compliance Committee ("SP ACC"), which accords with the Corporate Tax Policy and, as required by UK law, is published on the Corporate website under 'About Us'/'Company Reporting'.

We are a responsible tax payer and seek to be open, honest and transparent in dealings with the tax authorities and to comply with both the letter and the spirit of tax laws set by the UK Government and devolved administrations in Scotland and Wales. We remit taxes due on a timely basis, and have a relationship with HMRC based on mutual trust and cooperation. Payment of taxes is our principal contribution to sustaining public expenditure and one of our contributions to society.

Further details on taxes and other government obligations can be found in the Strategic Report on page 16.

CORPORATE GOVERNANCE

Statement regarding the corporate governance arrangements of the Group

As required by the Companies (Miscellaneous) Reporting Regulations 2018, the directors of the Company have set out a statement of the corporate governance arrangements of the Company.

The ultimate parent of the Company is Iberdrola, S.A., whose shares are listed on all four stock markets in Spain and traded through the electronic continuous market of the Spanish Stock Exchange. The Company, which is wholly owned by SPL, does not apply a corporate governance code on the basis that the SPL 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"), has approved its own rules and principles which are based on widely recognised good governance recommendations, and which consequently apply to the Company. Those rules and principles that applied to the Company and its group during 2023 are set out in this statement.

The SPL Board's terms of reference and the Group Governance Framework are published on the Corporate website under 'Corporate Governance'/ 'Governance and Sustainability System'/ 'Corporate Governance' and further define the responsibilities and powers of the SPL Board, such as they may affect the definition of the corporate governance arrangements described in this statement which apply to the Company.

Corporate governance system

The Company is governed by the SPUK Board, which consists of directors who bring a broad range of skills and experience to the Company. The SPUK Board is regulated in accordance with the Company's Articles of Association (adopted on 7 July 2016) which are registered at Companies House.

In discharging its responsibilities and in the exercise of its decision-making powers, and in accordance with the Group Governance Framework, the Company's Articles of Association and the SPUK Board's terms of reference, the SPUK Board has adopted the ScottishPower corporate governance system, also known as the SP GSS, which is approved by the SPL Board, and which consequently applies to the Company.

The SP GSS includes the Iberdrola Group's internal corporate rules (for example, the purpose and values of the Iberdrola Group, the Code of Ethics, corporate policies and other internal codes and procedures) that consistently apply within the corporate governance systems of the Iberdrola Group. The SPL Board, having reviewed the same, has expressly adopted these internal corporate rules as part of the SP GSS, as well as the specific rules and regulations required to implement or supplement it.

In addition, the SPL Board routinely considers and takes into account those parts of the corporate governance system of the Iberdrola Group (of which the Company is part) which may have direct or indirect application to ScottishPower. Furthermore, the SPL Board actively considers and adopts specific policies and rules which apply to ScottishPower. Such policies and rules are in turn applied by the SPUK Board as part of the SP GSS as adopted by it.

The SP GSS is published online on the Corporate website under 'Corporate Governance'/ 'Governance and Sustainability System'.

Board composition

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

Nicola Connelly	Director
Marion S. Venman	Director
Donald Wright	Director
Charles Langan	Director (appointed 23 October 2023)

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

There is no separate appointments committee within ScottishPower. Instead, appointment matters relevant to ScottishPower and the Company are dealt with in accordance with an internal group procedure for approving proposed appointments or removals of directors at companies in which the Iberdrola Group holds an interest, and reviewed 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 of companies.

Purpose and values

The structure of the Company, and the Group, is set out in the 'Who we are' section of the Strategic Report. During 2023, the SPUK Board has taken into account the Purpose and Values of the Iberdrola Group and the Code of Ethics which are published on the Corporate website under 'Corporate Governance'/'Governance and Sustainability System'/'Purpose'. These documents define and promote the purpose, values and culture of the Company and the Group.

Director responsibilities

The directors are fully aware of their duties under the Companies Act 2006, including those as set out in section 172 of the same. One of the primary responsibilities of the SPUK Board is to supervise the provision of common corporate services to the three Head of Business Sub-holding companies of the Group, which the Company directly and wholly owns, in accordance at all times with the provisions of all applicable legislation and regulations.

The Head of Business Sub-holding companies have their own boards of directors which have the necessary autonomy to carry out the day-to-day management and effective administration of their respective divisions, as well as responsibility for their ordinary control.

Further information on the administrative, management and supervisory bodies of the boards of the three Head of Business Sub-holding companies are described in the section below.

Opportunity and risk

The delivery of ScottishPower's strategy, as described in the 'Our purpose, values, strategy and role' section of the Strategic Report, requires the Group to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting our performance and reputation by prudently managing the risk inherent in the business.

ScottishPower operate systems of internal controls and a risk management framework, which is subject to continuous review and development. The SP ACC reviews the Company's internal control systems and risk management system. Further information regarding the SP ACC's role is detailed on the following page within the 'Administrative, management and supervisory bodies' section.

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. Details of the applicable risk policies are published on the Corporate website under 'Corporate Governance'/'Governance and Sustainability System'/'Corporate Governance'.

During 2023, the governance structure was supported by the internal control and risk management systems of ScottishPower. The risk management function reports to the SP ACC, and thus supports ScottishPower, including the Company in the execution of due diligence and risk management across ScottishPower, as described in the 'Group principal risks and uncertainties' section of the Strategic Report. In pursuing these objectives, these systems only provide reasonable, and not absolute, assurance against material misstatement or loss.

Remuneration

The internal 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 ScottishPower and the Iberdrola Group.

There is no separate Remuneration Committee within ScottishPower. Instead, remuneration matters relevant to ScottishPower and the Company are dealt in accordance with the aforementioned performance management framework 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 SPUK Board fully recognises that effective and meaningful engagement with stakeholders is key to promoting the success of the Company. The details of our key stakeholders, why they are important to the Company, and how we engage with our stakeholders are an integral part of our strategic goals which are described in the 'Our strategy' section in the Strategic Report.

The Group identifies and interacts with its stakeholders via its three business divisions. Please refer to the Energy Networks, Renewable production, and Customer business sections of the Strategic Report for further information on these business divisions' respective engagement with their specific stakeholders. In particular, refer to the 'Engaging with stakeholders' section of the Strategic Report which sets out the SPUK Board's oversight of the consideration given to the Company's, and its group's, engagement with key stakeholders.

Administrative, management and supervisory bodies

SPL Board

The SPL Board comprised the Chairman, Jose Ignacio Sánchez Galán, and eight other directors at 31 December 2023. Jose Ignacio Sánchez Galán is also the Executive Chairman of Iberdrola.

The SPL Board met five times during the year under review. The members of the SPL Board and their attendance record is shown below.

José Ignacio Sánchez Galán	Chairman, internal, non-executive director	Attended five meetings
Professor Sir James McDonald	Vice-chairman, external, non-executive director	Attended five meetings
Keith Anderson	CEO	Attended five meetings
Wendy Jacqueline Barnes	External, non-executive director	Attended four meetings
Iñigo Fernández de Mesa Vargas	External, non-executive director	Attended five meetings
Professor Dame Anne Glover	External, non-executive director	Attended four meetings
Rt Hon. Claire O'Neill (resigned 17 January 2023)	External, non-executive director	Attended no meetings
Daniel Alcain López	Internal, non-executive director	Attended five meetings
Gerardo Codes Calatrava	Internal, non-executive director	Attended five meetings
José Sainz Armada	Internal, non-executive director	Attended five meetings

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 the SP ACC's scope of action, which is governed by the Articles of Association of the Company and by the terms of reference of the SP ACC.

The SP ACC's responsibilities include:

- monitoring the financial and non-financial information preparation processes for ScottishPower;
- overseeing the independence and efficiency of the Internal Audit department;
- overseeing and reviewing the activities of the compliance and risk management departments;
- monitoring the statutory audit of the Annual Report and Accounts of the Company; and
- monitoring the independence of the external auditor and recommending to the SPL Board the appointment or reappointment of the auditor and the associated terms of engagement.

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

Membership and attendance

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

Iñigo Fernández de Mesa Vargas	Chairman, external, non-executive director	Attended six meetings
Wendy Jacqueline Barnes	External, non-executive director	Attended six meetings
Rt Hon. Claire O'Neill (resigned 17 January 2023)	External, non-executive director	Attended no meetings
Daniel Alcain López	Internal, non-executive director	Attended six meetings

In addition to the attendance set out above, the ScottishPower Control and Administration Director, Director of Internal Audit, the Compliance Director, and the Risk 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 2023

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

Significant financial statement reporting issues

In preparing the financial statements, there are a number of areas requiring management to apply a high degree of estimation. After discussion with management and the external auditor, the significant areas of estimation uncertainty reviewed and considered by the SP ACC in relation to the 2023 financial statements, and how these were addressed, are set out in the table below.

SIGNIFICANT FINANCIAL ESTIMATION UNCERTAINTY FOR THE YEAR ENDED 31 DECEMBER 2023	HOW THE SP ACC ADDRESSED THESE SIGNIFICANT FINANCIAL ESTIMATIONS
Accounting for Group and parent company retirement benefit obligations The assumptions in relation to the cost to the Group of providing future post-retirement benefits are set after consultation with qualified actuaries and can have a material impact on the financial position of the Group. The costs, assets and liabilities of the Group's defined benefit schemes are regularly reviewed. Advice is taken from independent actuaries and other specialists within the Iberdrola Group on the IAS 19 'Employee Benefits' ("IAS 19") valuation of the schemes including the complex assets. Further details are provided in Notes 3, 4F and 10 on pages 79, 83 and 98 respectively.	The SP ACC were updated on the combined schemes' valuation particularly in relation to the schemes' key assumptions and complexity of level 3 asset valuations. Following this review, the SP ACC supported this judgement.
Recognition of accrued ('unbilled') revenue Revenue from energy sales to customers includes estimates of the value of electricity and gas supplied between the most recent meter reading and the period end. This is based on estimates and assumptions in relation to the consumption and its valuation. Further details are provided in Note 3 and Note 4M(d) on pages 80 and 87 respectively.	The SP ACC reviewed the estimation processes and assumptions applied in determining the recognition of unbilled revenue and were updated on the impact on the financial statements. Following this review, the SP ACC supported this judgement.
Expected credit loss ("ECL") on energy customers' trade receivables The recoverability of the Group's billed energy receivables in the Customer business division is a key area of estimation uncertainty given the risk of customer default. The level of the Group's aged debt is monitored with the allowance for ECL being based on assumptions derived from estimated future cash flows, the ageing profile of the debt, prior experience and an assessment of the current economic environment. Further details are provided Notes 3, 4 H1.2(d) and 13 A1 on pages 80, 84 and 115 respectively.	The SP ACC considered the assumptions impacting the allowance for ECL, including the recent regulatory changes imposed by Ofgem on the ability of suppliers to fit prepayment meters and the ongoing cost of living crisis, and related charges and the processes for debt collection and calculating the ECL. Following this review, the SP ACC supported this judgement.
Accounting for decommissioning Decommissioning costs are subject to a degree of uncertainty as they are estimated at the reporting date and there is uncertainty in relation to the timing of when the decommissioning costs will be incurred. The sources of estimation relate to the value of costs at the reporting date and the discount rate applied. Further details are provided in Notes 3 and 4K on pages 80 and 87 respectively.	The SP ACC were updated on the valuation process and assumptions in relation to decommissioning costs. Following this review, the SP ACC supported these conclusions.

SPMC

The SPMC is a permanent internal body, which was established by the SPL Board to provide an informative and coordinating role regarding the activities of the SPL Group to which the Company belongs. In accordance with the corporate governance arrangements of the Group 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 the Group, including those of the Company, 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 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.

Boards of the Head of Business Sub-holding companies

The boards of directors of SPENH ("SPENH Board"), SPREL ("SPREL Board") and SPRH ("SPRH Board") are responsible for the effective management of the Energy Networks, Renewable production and Customer business divisions respectively, in accordance with the strategy of ScottishPower. These boards meet regularly and review strategy, operational performance and risk issues on behalf of the respective businesses.

SPENH Board

The SPENH Board comprised the Chair Elena León Muñoz and five other directors as at 31 December 2023. The directors, and their attendance at SPENH Board meetings held during the period under review (five meetings), are shown below:

Elena León Muñoz	Chair, internal, non-executive director	Attended five meetings
Vicky Kelsall	CEO	Attended five meetings
Suzanne Fox (resigned 31 January 2023)	External, non-executive director	Attended no meetings
Rt Hon. Charles Hendry (appointed 31 January 2023)	External, non-executive director	Attended four meetings
Alison McGregor	External, non-executive director	Attended five meetings
Mónica Grau Domene	Internal, non-executive director	Attended five meetings
José Ignacio Sánchez-Galán García-Tabernero	Internal, non-executive director	Attended five meetings

Elena León Muñoz resigned as a director and the Chair on 17 January 2024, and Ana T. Lafuente González was appointed as Director and Chair on 25 January 2024.

The terms of reference of the SPENH Board together with rest of the Energy Networks Governance and Sustainability System approved by the SPENH Board, are published on www.spenergynetworks.co.uk under 'Corporate Governance' and further define the responsibilities and powers of the SPENH Board as regards the Energy Networks business and its stakeholders.

SPENH Audit and Compliance Committee ("SPENH ACC")

The SPENH ACC undertakes the role and function of the SP ACC as they relate to the regulated Energy Networks 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 at www.spenergynetworks.co.uk under 'Corporate Governance' and further define the responsibilities of the SPENH ACC.

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, non-executive director	Attended five meetings
Suzanne Fox (resigned 31 January 2023)	External, non-executive director	Attended no meetings
Rt Hon. Charles Hendry (appointed 31 January 2023)	External, non-executive director	Attended four meetings
Mónica Grau Domene	Internal, non-executive director	Attended five meetings

SPREL Board

The SPREL Board comprised the Chairman, Xabier Viteri Solaun, and six other directors at 31 December 2023. The directors and their attendance at SPREL board meetings held during the period under review (six meetings) are shown below:

Xabier Viteri Solaun	Chairman, internal, non-executive director	Attended six meetings
Charles Jordan	CEO	Attended six meetings
Dr. Bridget McConnell	External, non-executive director	Attended six meetings
Nicola Connelly	Internal, non-executive director	Attended six meetings
Charles Langan	Internal, non-executive director	Attended six meetings
Álvaro Martínez Palacio	Internal, non-executive director	Attended six meetings
Marion Shepherd Venman	Internal, non-executive director	Attended six meetings

The terms of reference of the SPREL Board together with the rest of Renewable production's Governance and Sustainability System approved by the SPREL Board, are published on www.scottishpowerrenewables.com under 'Corporate Governance' and further define the responsibilities and powers of the SPREL Board as regards the Renewable production business and its stakeholders.

Membership and attendance *continued*

SPRH Board

The SPRH Board comprised the Chairman, Aitor Moso Raigoso, and four other directors at 31 December 2023. The directors and their attendance at SPRH Board meetings held during the period under review (five meetings) are shown below:

Aitor Moso Raigoso	Chairman, internal, non-executive, director	Attended five meetings
Andrew Ward	CEO	Attended five meetings
Nicola Connelly	Internal, non-executive director	Attended four meetings
David Gracia Fabre	Internal, non-executive director	Attended five meetings
Marion Shepherd Venman	Internal, non-executive director	Attended five meetings

The terms of reference of the SPRH Board, together with the rest of the Customer business Governance and Sustainability System approved by the SPRH Board, are published on www.spretailholdings.com under 'Corporate Governance' and further define the responsibilities and powers of the SPRH Board as regards the Customer business and its stakeholders.

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. In addition, the Directors have been granted a qualifying third party indemnity provision, which continues in force.

Statement of directors' responsibilities in respect of the Annual Report and Accounts

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law, including Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101").

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

- select suitable accounting policies and then apply them consistently;
- for both the Group and parent company financial statements make judgements and estimates that are reasonable and prudent, and in addition for the Group accounts, relevant and reliable;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards and applicable law;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent 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 Group or the parent 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent 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 Group and the parent company and to prevent and detect fraud and other irregularities.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with Disclosure Guidance and Transparency Rule ("DTR") 4.1.16R, the financial statements will form part of the Annual Report and Accounts prepared under DTR 4.1.17R and 4.1.18R. The auditor's report on these financial statements provides no assurance over whether the Annual Report and Accounts has been prepared in accordance with those requirements.

Responsibility statement of the directors in respect of the annual financial report

Each of the directors, whose names and functions are listed refer to 'Board composition' section of Directors' Report on page 57, confirms that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Disclosure of information to auditor

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

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

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

Auditor

KPMG LLP was re-appointed as the auditor of the Company for the year ending 31 December 2024.

BY ORDER OF THE SPUK BOARD

Marion S Venman
Secretary
19 March 2024

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SCOTTISH POWER UK PLC

1. Our opinion is unmodified

We have audited the financial statements of Scottish Power UK plc ("the Company") for the year ended 31 December 2023 which comprise the consolidated and company statements of financial position, consolidated income statement, consolidated and company statements of comprehensive income, consolidated and company statements of changes in equity, consolidated statement of cash flows and the related notes, including the accounting policies in notes 4 and 35.

In our opinion:

— the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2023 and of the Group's profit for the year then ended;

— the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;

— the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*;

— the financial statements 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 Scottish Power Audit and Compliance Committee ("SP ACC").

We were first appointed as auditor by the directors on 11 January 2018. The period of total uninterrupted engagement is for the seven financial years ended 31 December 2023. We have fulfilled our ethical responsibilities under, and we remain independent of the Group 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.

Overview		
Materiality: Group financial statements as a whole	£65.0m (2022: £34.5m) 4.0% (2022: 5.0%) of Group profit before tax (2022: Group normalised profit before tax)	
Coverage	97.4% (2022: 99%) of Group profit before tax	
Key audit matters		**vs 2022**
Recurring risks	**Recurring risks** Valuation of Customer business accrued ("unbilled") revenue	▲
	Recoverability of Customer business domestic & SME customer receivables	▲
	Valuation of IAS 19 provision for retirement benefit obligations	▼
	Valuation of longevity swaps in the Group's defined benefit pension schemes	◀▶

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, in decreasing order of audit significance, 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.

	The risk	Our response
Relevant to Group only **Valuation of Customer business accrued ('unbilled') revenue** (Gross carrying amount of £770.6 million; 2022 £965.6 million) (Provision: £75.8 million provision relating to energy volumes which have still to reach final settlement; 2022: £20.8 million) Refer to page 59 (SP ACC statement), pages 87 and 115 (accounting policy) and Note 13 (Trade and other receivables disclosures).	**Subjective estimate** The recognition of accrued ('unbilled') revenue is subject to a degree of estimation uncertainty as a result of the industry in which the Customer business operates. This remains at high level due to likely changes in customer consumption levels in response to continued high energy prices. If actual meter readings are not available at the year-end, energy supplied to end customers is estimated based on standard external industry settlement data or internal information where settlement data is not yet available. The degree of estimation uncertainty diminishes over time as more accurate data becomes available and customers are billed. However, estimation is inherent in the valuation of accrued ('unbilled') revenue as at the year-end. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of Customer business accrued ('unbilled') revenue has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (Note 3) disclose the sensitivity estimated by the Group.	Our procedures included: — **Control design, observation and operation:** Testing the design, implementation and operating effectiveness of the Group's internal controls. Due to the level of IT reliance, we involve our IT Audit specialists in testing the algorithmic logic of the internal billing systems used to derive estimates of customer consumption, changes to pricing data, the validation of meter readings, the identification of billing exceptions and interfaces with the General Ledger; — **Our sector experience:** Evaluating the Group's key assumptions, in particular those relating to units of energy supplied, price per unit and the provision in relation to energy volumes which are yet to reach final settlement by comparing them to external data, actual billing data and our own independent expectations of recovery based on our knowledge of the entity and experience of the industry in which it operates; — **Data comparisons:** The audit team performed a comparison of volume data for the financial year to standard settlement data obtained directly from the external industry bodies; — **Tests of detail:** Comparing the Group's estimate as at the year-end to standard external industry settlement data and billing information available post year-end; Agreeing a sample of invoices issued to Industrial and Commercial customers throughout the year to cash receipts addressing accuracy of the Revenue throughout the year, including the accrued revenue; — **Independent reperformance:** Independently recalculating the expected total Customer business revenue (including unbilled revenue) in the year using external settlement data and actual billing rates and comparing it to the actual amount recognised in the income statement; — **Historical comparisons:** Evaluating the effectiveness of the Group's prior period estimation process by comparing the historical estimate to the actual outcome; and — **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the degree of estimation uncertainty associated with the valuation of accrued ('unbilled') revenue. **Our results** — We found the carrying value of Customer business accrued ('unbilled') revenue to be acceptable (2022: acceptable).

KPMG

2. Key audit matters: our assessment of risks of material misstatement *continued*

	The risk	Our response
Relevant to Group only **Recoverability of Customer business domestic & SME customer receivables** (Gross carrying amount: £897.4 million; 2022: £777.5 million) (Loss allowance: £286.9 million; 2022: £252.5 million) Refer to page 59 (SP ACC statement), pages 84 and 115 (accounting policy) and Note 13 (Trade and other receivables disclosures).	**Subjective estimate** The Customer business carries significant exposure over the recoverability of customer receivables. This risk is heightened in the current year due to continued high energy prices, the increasing cost of living pressures and regulatory restrictions on fitting prepayment meters. An allowance for expected credit losses is provided, using the simplified approach, based on an estimate of future cash flows. In arriving at this estimate, the Group considers the current ageing profile of debt, historical collections experience by payment plan and an assessment of current economic conditions, which is in line with the approach required by IFRS 9. As part of our risk assessment, we determined that the valuation of the expected credit loss provision has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. This year we have focussed our risk on domestic and SME customers as we do not consider the risk over Industrial and Commercial customers to be significant, based on the amounts involved and historical collection experience. The financial statements 3 disclose the sensitivity estimated by the Group.	Our procedures included: — **Control design, observation and operation:** Tested the design, implementation and operating effectiveness of the Group's internal controls, including using our IT specialists to test IT controls, over the relevant data elements used in the estimation of the loss allowance and the process for reconciling cash receipts and the general ledger; — **Our sector experience:** Benchmarked methodology, including how the current ageing profile of debt, historical collections experience by payment plan and the assessment of current economic conditions are incorporated, to industry practice and our expectations based on our knowledge of the entity and experience of the industry in which it operates; — **Independent reperformance:** Re-performed the loss allowance calculation in accordance with our knowledge and understanding of the Group's expected credit loss methodology; — **Historical comparisons:** Evaluated the effectiveness of the Group's estimation process by comparing original estimates to the actual outcome over several periods; — **Sensitivity analysis:** Challenged management about their forward-looking assumptions, including overlay adjustments, and performed sensitivity analysis to demonstrate the impact of using alternatives for key assumptions; — **Personnel interviews:** Performing specific inquiries with financial and non-financial personnel to assess whether the Group's judgements and estimates reflect operational risk; and — **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the allowance for expected credit loss. **Our results** — We found the carrying amount for Customer business domestic and SME billed trade receivables to be acceptable (2022: acceptable).

KPMG

2. Key audit matters: our assessment of risks of material misstatement *continued*

	The risk	Our response
Relevant to Group and Parent company **Valuation of IAS 19 provision for retirement benefit obligations** (Liability of £3,237.6 million; 2022: Liability of £3,188.1 million) Refer to page 59 (SP ACC statement), pages 83 and 103 (accounting policy) and Note 10(F) (Retirement benefits).	**Subjective valuation** Relatively small changes in certain key actuarial assumptions underlying the valuation of the Group's gross defined benefit obligation, including the discount rate, inflation rate and mortality/ life expectancy of members, could materially impact the valuation of the obligation at the year-end due to the judgement involved in developing the assumptions. The discount rate methodology is updated in the current year having a material impact on the valuation of the gross defined benefit obligation The valuation of the gross defined benefit obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements (Note 10(E2)) disclose the sensitivity estimated by the Group.	Our procedures included: — We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. — **Methodology implementation and benchmarking of assumptions** Assessing, with the support of our internal actuarial specialists, the methodology implemented by the Group for setting up the individual actuarial assumptions. Using inquiry of the Group's actuarial specialists, gathering information in relation to significant and any unusual matters and transactions relevant to either pension schemes which may impact our audit approach; — **Assessment of the assumptions:** Challenging, with the support of our internal actuarial specialists, the key assumptions applied, being the discount rate, RPI inflation against our independently derived assumptions for each pension scheme. Assessing the change in methodology of discount rate in line with financial reporting framework. We tested the mortality assumptions by matching the life expectancies with the Scheme Actuary's best estimate assumption and comparing it against the latest available industry data; — **Assessment of the source data:** The membership and cash flow used to calculate the valuation of the gross defined benefit obligation was tested for completeness and accuracy by tracing back to legal documents and bank statements; — **Assessing valuers' credentials:** Evaluating the competence, capability and objectivity of the Group's external actuary; and — **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions. **Our results** — We found the valuation of the IAS 19 provision for retirement benefit obligations to be acceptable (2022: acceptable).

KPMG

2. Key audit matters: our assessment of risks of material misstatement *continued*

	The risk	Our response
Relevant to Group and Parent company **Valuation of longevity swaps in the Group's defined benefit pension schemes** At 31 December 2023, the Longevity swap is in deficit of £339.7 million (2022: Deficit of £259.9 million). Refer to page 59 (SP ACC statement), pages 83 and 102 (accounting policy) and Note 10(E3.2(c)) (Retirement benefits).	**Subjective estimate** Relatively small changes in the mortality assumptions underlying the valuation of the longevity swap could materially impact the valuation of the longevity swap at the year-end due to the judgement involved in developing the assumptions. IAS 19 requires pension plan assets to be stated at their fair value. As there is no external market, fair value cannot be readily determined and requires the use of complex actuarial analysis and models. The valuation of the longevity swap has a high degree of estimation uncertainty with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. This year we have focused the significant risk over pension scheme assets to the longevity swap. We consider that the estimation uncertainty over the other assets is not sufficient enough to result in a significant risk.	Our procedures included: We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described; — **Assessing valuers' credentials:** Evaluating the competence, capability and objectivity of the experts responsible for the independent valuation of the longevity swap; — **Our valuation expertise:** Engaged our own valuation specialists to critically assess the valuation of the longevity swaps by comparing against our independently derived valuation range; — **Assessing valuation methodology:** Challenging, with the support of our internal actuarial specialists, the valuation methodology used by the Group's external experts engaged (by the Trustees) to independently value the complex longevity swap, including assessing if the methodology is compliant with the relevant accounting standards; — **Tests of detail:** Performed substantive tests of detail on the schemes' longevity swaps to determine whether they had been appropriately valued based on information from suitably qualified and objective third parties; and — **Assessing transparency:** Considered the adequacy of the Group's disclosures in respect of the estimation uncertainty relating to the complex valuation of longevity swaps. **Our results** — We found the of fair value longevity swaps in the Group's defined benefit pension schemes to be acceptable and in accordance with IAS 19 and IFRS 13 (2022: acceptable).

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

Materiality for the Group financial statements as a whole was set at £65.0 million (2022: £34.5 million), determined with reference to a benchmark of Group profit before tax of £1,639.2 million (2022: profit before tax normalized by averaging over last five years: £694.1 million) of which it represents 4.0% (2022: 5.0%).

We determined materiality for the parent company financial statements as a whole by reference to a benchmark of net assets (2022: net assets, restricted to be lower than materiality for the group financial statements as a whole). It represents 0.9% (2022: 0.54%) of net assets.

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% (2022: 75%) of materiality for the financial statements as a whole, which equates to £48.8 million (2022: £25.8 million) for the group and £47.2 million (2022: £24.7 million) for the parent company. 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 SP ACC any corrected or uncorrected identified misstatements exceeding £3.3 million (2022: £1.7 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

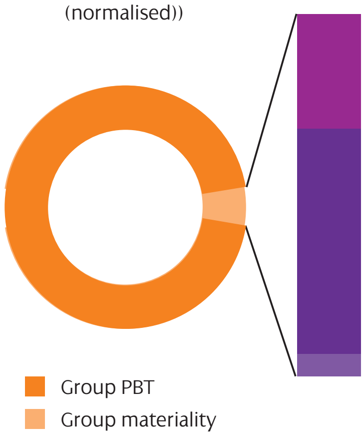
9 (2022: 8) of the Group's 52 (2022: 50) components were subject to full scope audit procedures and no (2022: 3) components were subject to audit of account balance (2022: PP&E only) performed in the UK by the Group audit team. These components, together with balances audited as part of the consolidation (such as goodwill and intangible assets) represented 99.6% (2022: 100%) of Group revenue, 97.4% (2022: 99.0%) of profit before tax and 91.4% (2022: 94.0%) of total assets.

For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

We were able to rely upon the Group's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.

Group profit before tax
£1,639.2 million
(2022: £694.1 million (normalised))

Group Materiality
£65.0m (2022: £34.5m)



£65.0 million
Whole financial statements materiality
(2022: £34.5 million)

Performance materiality – £48.7 million
(2022: £25.8 million)

9 components (£15.7 million to £40 million) (2022: £2.6 million to £27 million, 11 components)

£3.3m
Misstatements reported to the SP ACC ((2022: £1.7 million)

KPMG

4. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and 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 their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were reductions in the renewables price curve and in Renewable production's energy production, decreases in energy customer demand, and reductions in the collectability of the energy customers' trade receivables.

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 Group'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' base and downside scenarios relevant to liquidity, in particular the ability and intention of Iberdrola Group to continue to provide funding for the Group, the increased capital expenditure in the Renewables division and reductions in the forward price projections for Renewables' generation output.

We considered whether the going concern disclosure in notes 2A3 and 35B 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 Group's or Company's ability to continue as a going concern for the going concern period; and

— we found the going concern disclosure in notes 2A3 and 35B 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 Group or 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:

— Enquiring of directors, the internal audit function, the group's legal function and the compliance function and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.

— Reading Board and Audit and Compliance Committee and minutes.

— Using analytical procedures to identify any unusual or unexpected relationships.

— Consultation with our own forensic professional regarding the identified potential fraud risks. This involved discussion between the forensic professional and the senior members of the engagement team.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to component audit teams of relevant fraud risks identified at the Group level and a request to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets, and our overall knowledge of the control environment, we performed procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the recognition of defined benefit pension assumptions, defined benefit pension longevity swap valuations, valuation of Customer business accrued revenue and valuation of Customer business billed debt. On this audit we do not believe there is a fraud risk related to revenue recognition because, with the exception of the accrued revenue, the Group's revenues consist 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.

— Assessing significant accounting estimates for bias.

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

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 Group'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 Group 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 Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including form and content) including related companies legislation, distributable profits legislation, pensions legislation in respect of defined benefit pension schemes, tax legislation and regulatory requirements governing certain revenue streams 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 Group 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 Group's licences to operate. We identified the following areas as those most likely to have such an effect: GDPR compliance, health and safety legislation, fraud, corruption and bribery legislation, employment and social security legislation including minimum wage and pension auto-enrolment, environmental protection legislation, Ofgem regulations and distance selling regulations, recognising the regulated nature of the Group's activities. This includes the Ofgem related matters disclosed in Notes 18 and 31, for which we assessed disclosures against our understanding from inspection of relevant correspondence between the group, and Ofgem. 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.

We discussed with the Audit and Compliance Committee other matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

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 this 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.

6. We have nothing to report on the strategic report and the directors' report

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

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

Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

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

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 parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company 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 page 61, 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 Group and parent 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 Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

The Company is required to include these financial statements in an annual financial report prepared under Disclosure Guidance and Transparency Rule 4.1.17R and 4.1.18R. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with those requirements.

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.

W. Meredith

William Meredith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

319 St. Vincent Street
Glasgow
G2 5AS
19 March 2024

SCOTTISH POWER UK PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2023

	Notes	2023 £m	Restated* 2022 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		**543.2**	527.9
Goodwill	7	364.6	364.6
Other intangible assets	7	178.6	163.3
Property, plant and equipment		**16,337.0**	15,227.6
Property, plant and equipment in use	8	14,036.0	13,910.3
Property, plant and equipment in the course of construction	8	2,301.0	1,317.3
Right-of-use assets	9	**531.7**	459.6
Retirement benefits asset	10	**246.6**	341.9
Non-current financial assets		**99.7**	237.6
Investments in joint ventures	11	9.8	8.7
Other investments	12	0.2	0.2
Derivative financial instruments	12	89.7	228.7
Non-current trade and other receivables	13	**511.1**	605.1
TOTAL NON-CURRENT ASSETS		**18,269.3**	17,399.7
CURRENT ASSETS			
Inventories	14	**894.6**	642.2
Current trade and other receivables	13	**2,352.4**	2,698.0
Current tax asset		**–**	78.8
Current financial assets		**213.0**	428.5
Derivative financial instruments	12	213.0	428.5
Cash	12	**159.1**	869.1
TOTAL CURRENT ASSETS		**3,619.1**	4,716.6
TOTAL ASSETS		**21,888.4**	22,116.3

SCOTTISH POWER UK PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION *continued*
at 31 December 2023

	Notes	2023 £m	Restated* 2022 £m
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**6,697.3**	6,031.9
Share capital		3,551.7	3,551.7
Share premium		398.2	398.2
Hedge reserve	15	(233.6)	(749.8)
Other reserves		420.5	420.5
Retained earnings		2,560.5	2,411.3
Of non-controlling interests	16	**686.3**	1,035.2
TOTAL EQUITY		**7,383.6**	7,067.1
NON-CURRENT LIABILITIES			
Non-current deferred income	17	**1,500.4**	1,425.5
Non-current provisions		**388.3**	357.6
Provisions for retirement benefit obligations	10	123.4	101.9
Other provisions	18	264.9	255.7
Non-current bank borrowings and other financial liabilities		**4,063.6**	4,489.5
Other financial liabilities	19	21.4	–
Loans and other borrowings	20	3,789.4	4,147.8
Derivative financial instruments	12	252.8	341.7
Non-current lease liabilities	9	**551.5**	487.8
Non-current trade and other payables	21	**7.0**	10.4
Non-current income tax liabilities		**6.2**	6.2
Deferred tax liabilities	22	**1,656.3**	1,354.8
TOTAL NON-CURRENT LIABILITIES		**8,173.3**	8,131.8
CURRENT LIABILITIES			
Current deferred income	17	**52.6**	57.2
Current provisions		**337.0**	336.4
Other provisions	18	337.0	336.4
Current bank borrowings and other financial liabilities		**3,664.9**	4,206.6
Other financial liabilities	19	225.9	23.8
Loans and other borrowings	20	3,110.2	2,805.8
Derivative financial instruments	12	328.8	1,377.0
Current lease liabilities	9	**40.6**	36.0
Current trade and other payables	21	**2,155.4**	2,281.2
Current income tax liabilities		**81.0**	–
TOTAL CURRENT LIABILITIES		**6,331.5**	6,917.4
TOTAL LIABILITIES		**14,504.8**	15,049.2
TOTAL EQUITY AND LIABILITIES		**21,888.4**	22,116.3

* Comparative amounts have been restated (refer to Note 2A2).

Authorised for issue by the SPUK Board and signed on its behalf on 19 March 2024.

Nicola Connelly
Director

The accompanying Notes 1 to 34 and Appendix 1 are an integral part of the Consolidated statement of financial position at 31 December 2023.

SCOTTISH POWER UK PLC
CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2023

	Notes	**2023 £m**	2022 £m
Revenue	23	9,454.1	8,434.9
Procurements		(5,293.5)	(5,809.2)
GROSS MARGIN		**4,160.6**	2,625.7
Staff costs	24	(278.0)	(259.6)
External services		(674.8)	(564.9)
Other operating results		92.2	105.8
Net operating costs		**(860.6)**	(718.7)
Taxes other than income tax	25	**(368.3)**	(198.1)
GROSS OPERATING PROFIT		**2,931.7**	1,708.9
Net expected credit losses on trade and other receivables		(206.0)	(86.5)
Depreciation and amortisation charge, allowances and provisions	26	(814.4)	(787.9)
OPERATING PROFIT		**1,911.3**	834.5
Result of companies accounted for using the equity method	11	1.1	1.3
Dividends received		0.8	–
Finance income	27	145.0	108.8
Finance costs	28	(419.0)	(243.4)
PROFIT BEFORE TAX		**1,639.2**	701.2
Income tax	29	(420.7)	(141.4)
NET PROFIT FOR THE YEAR		**1,218.5**	559.8
Non-controlling interests	16	(91.7)	(72.8)
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT		**1,126.8**	487.0

All results relate to continuing operations.

The accompanying Notes 1 to 34 and Appendix 1 are an integral part of the Consolidated income statement for the year ended 31 December 2023.

SCOTTISH POWER UK PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2023

	Note	2023 £m	2022 £m
NET PROFIT FOR THE YEAR		**1,218.5**	559.8
OTHER COMPREHENSIVE INCOME			
Items that may be subsequently reclassified to the Income statement:			
Cash flow hedges:			
Changes in the value of cash flow hedges	15	**712.4**	(1,959.1)
Tax relating to cash flow hedges	15	**(164.0)**	406.9
		548.4	(1,552.2)
Items that will not be reclassified to the Income statement:			
Retirement benefits:			
Movements in retirement benefits		**(241.2)**	(49.5)
Tax relating to movements in retirement benefits		**59.2**	9.2
Cash flow hedges:			
Changes in the value of cash flow hedges	15	**(43.0)**	11.8
Tax relating to cash flow hedges	15	**10.6**	(2.8)
		(214.4)	(31.3)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**334.0**	(1,583.5)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,552.5**	(1,023.7)
Total comprehensive income for the year attributable to equity holder of the parent		**1,461.0**	(1,096.4)
Total comprehensive income for the year attributable to non-controlling interests		**91.5**	72.7
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,552.5**	(1,023.7)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2023

	Attributable to equity holder of the parent							
	Share capital (Note (a)) £m	Share premium (Note (b)) £m	Hedge reserve (Note (c)) £m	Other reserves (Note (d)) £m	Retained earnings (Note (e)) £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2022	3,551.7	398.2	793.3	420.5	2,679.6	7,843.3	1,081.7	8,925.0
Profit for the year attributable to the equity holder of the Company	–	–	–	–	487.0	487.0	72.8	559.8
Changes in the value of cash flow hedges	–	–	(1,947.2)	–	–	(1,947.2)	(0.1)	(1,947.3)
Movements in retirement benefits	–	–	–	–	(49.5)	(49.5)	–	(49.5)
Tax relating to cash flow hedges	–	–	404.1	–	–	404.1	–	404.1
Tax relating to movements in retirement benefits	–	–	–	–	9.2	9.2	–	9.2
Dividends	–	–	–	–	(715.0)	(715.0)	(119.2)	(834.2)
At 1 January 2023	3,551.7	398.2	(749.8)	420.5	2,411.3	6,031.9	1,035.2	7,067.1
Profit for the year attributable to the equity holder of the Company	–	–	–	–	1,126.8	1,126.8	91.7	1,218.5
Changes in the value of cash flow hedges	–	–	669.6	–	–	669.6	(0.2)	669.4
Movements in retirement benefits	–	–	–	–	(241.2)	(241.2)	–	(241.2)
Tax relating to cash flow hedges	–	–	(153.4)	–	–	(153.4)	–	(153.4)
Tax relating to movements in retirement benefits	–	–	–	–	59.2	59.2	–	59.2
Acquisition of remaining interest in a subsidiary	–	–	–	–	(15.6)	(15.6)	(0.6)	(16.2)
Dividends	–	–	–	–	(780.0)	(780.0)	(439.8)	(1,219.8)
At 31 December 2023	**3,551.7**	**398.2**	**(233.6)**	**420.5**	**2,560.5**	**6,697.3**	**686.3**	**7,383.6**

(a) At 31 December 2023 the Company had 7,103,427,542 allotted, called up and fully paid ordinary shares of 50p each (2022 7,103,427,542). 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.

(b) The share premium account represents consideration received for shares issued in excess of their nominal amount.

(c) The hedge reserve represents the balance of gains and losses on cash flow hedges (net of taxation) not yet transferred to income or the carrying amount of a non-financial asset (refer to Note 15).

(d) Other reserves at 31 December 2023 comprises a merger reserve of £412.2 million (2022 £412.2 million) and a capital redemption reserve of £8.3 million (2022 £8.3 million). The merger reserve comprises the difference arising on the accounting for the Company's acquisition of subsidiary entities following a previous Group restructure. The capital redemption reserve represents the cumulative nominal value of shares repurchased and cancelled by the Company.

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

The accompanying Notes 1 to 34 and Appendix 1 are an integral part of the Consolidated statement of comprehensive income and the Consolidated statement of changes in equity for the year ended 31 December 2023.

SCOTTISH POWER UK PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2023

	2023 £m	2022 £m
Cash flows from operating activities		
Profit before tax	**1,639.2**	701.2
Adjustments for:		
Depreciation, amortisation and impairment	**802.4**	774.7
Research and development expenditure credit	**(1.8)**	(0.4)
Change in provisions	**438.1**	373.6
Result of companies accounted for using the equity method	**(1.1)**	(1.3)
Transfer of assets from customers	**(48.7)**	(45.3)
Net finance income and costs	**274.0**	134.6
Dividend income	**(0.8)**	–
Net losses on disposal/write-off of non-current assets	**13.6**	11.2
Gain on disposal of subsidiary	**–**	(8.5)
Movement in retirement benefits	**(109.2)**	(92.2)
Net fair value gains on operating derivatives	**(8.4)**	(21.2)
Movement in deferred income	**(7.6)**	(0.4)
Changes in working capital:		
Change in trade and other receivables	**216.8**	(853.2)
Change in inventories	**(734.4)**	(111.3)
Change in trade and other payables	**(616.5)**	313.7
Provisions paid	**(5.3)**	(14.8)
Assets received from customers (deferred income)	**116.0**	114.0
Other deferred income received	**–**	10.7
Income taxes paid	**(51.8)**	(22.6)
Net cash flows from operating activities (i)	**1,914.5**	1,262.5
Cash flows from investing activities		
Interest received	**34.5**	15.2
Dividends received	**0.8**	–
Investments in intangible assets	**(86.1)**	(55.5)
Investments in property, plant and equipment	**(1,142.3)**	(966.1)
Movements in investments in joint ventures	**–**	0.3
Proceeds from disposal of property, plant and equipment	**–**	3.2
Proceeds from disposal of subsidiary	**–**	9.0
Acquisition of a remaining interest in a subsidiary	**(16.2)**	–
Movements in amounts due from Iberdrola Group companies – on demand loans receivable	**309.8**	(47.3)
Net cash flows from investing activities (ii)	**(899.5)**	(1,041.2)
Cash flows from financing activities		
Movements in amounts due to Iberdrola Group companies – on demand loans payable	**247.0**	1,518.8
Movements in amounts due to Iberdrola Group companies – current loans payable	**(190.0)**	–
Dividends paid to the Company's equity holder	**(780.0)**	(715.0)
Dividends paid to non-controlling interest	**(439.8)**	(119.2)
Interest paid	**(235.9)**	(164.4)
Interest paid on lease liabilities	**(19.8)**	(18.4)
Repayments of external loans and borrowings	**(254.5)**	–
Repayments of other financial liabilities	**(8.5)**	(11.0)
Payments of lease liabilities	**(43.5)**	(25.9)
Net cash flows from financing activities (iii)	**(1,725.0)**	464.9
Net movement in cash and cash equivalents (i)+(ii)+(iii)	**(710.0)**	686.2
Cash and cash equivalents at beginning of year	**869.1**	182.9
Cash and cash equivalents at end of year	**159.1**	869.1
Cash and cash equivalents at end of year comprises:		
Consolidated statement of financial position cash (including restricted cash – refer to Note 12(a))	**159.1**	869.1
Consolidated statement of cash flows cash and cash equivalents	**159.1**	869.1

The accompanying Notes 1 to 34 and Appendix 1 are an integral part of the Consolidated statement of cash flows for the year ended 31 December 2023.

1 GROUP ACTIVITIES

A COMPANY AND GROUP INFORMATION

Scottish Power UK plc (registered company number SC117120), a private company limited by shares, is incorporated in Scotland and its registered address is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD. The Company's immediate parent company, SPL, is the holding company of the ScottishPower group.

The Consolidated financial statements for the year ended 31 December 2023 comprise those of the Company, its subsidiaries and joint arrangements (together referred to as "the Group"). The Company financial statements present information about the Company as a separate entity and not about the Group (refer to pages 128 to 138).

B GROUP PRINCIPAL ACTIVITIES

The Group provides electricity transmission and distribution services in the UK and conducts renewable energy activities across the UK and Republic of Ireland. It also supplies gas and electricity to homes and businesses principally across the UK, operates gas storage facilities and undertakes associated energy management activities in the UK.

As described in Note 6, in line with IFRS 8 'Operating Segments' ("IFRS 8"), the Group defines its operating segments based on a combination of factors, principally differences in products and services and the regulatory environment in which the business operates. The Group reported three principal business divisions during the year: Energy Networks, Renewable production, and Customer business.

Energy Networks

The transmission and distribution businesses within ScottishPower's authorised area in the Central Belt and South of Scotland, and the distribution business of SPM operating in Cheshire, Merseyside, North Shropshire and North Wales.

Renewable production

The origination, development, construction and operation of renewable energy generation assets, principally onshore and offshore wind, with a growing presence in battery storage and solar and the generation and sale of primarily electricity and ROCs from those assets.

Customer business

The supply of electricity and gas to domestic and business customers, together with customer registration, billing and handling enquiries in respect of these services, the associated metering activity, the smart meter installation programme, and managing the Group's smart solutions activities. The division also manages the Group's exposure to the UK wholesale electricity and gas markets, the optimisation of gas storage, and the development of green hydrogen opportunities.

2 BASIS OF PREPARATION

A BASIS OF PREPARATION OF THE CONSOLIDATED ACCOUNTS

The Company is required by law to prepare consolidated accounts for the Group and deliver them to the Registrar of Companies. The Consolidated accounts have been prepared in accordance with UK-adopted international accounting standards. The Consolidated accounts are prepared in accordance with the accounting policies set out in Note 4. Monetary amounts are presented in pounds Sterling and rounded to the nearest hundred thousand unless otherwise indicated. The Consolidated accounts are prepared on the historical cost basis apart from certain financial assets and liabilities measured at fair value.

A1 BASIS OF CONSOLIDATION

The Consolidated accounts incorporate the Accounts of the Company and its subsidiaries and joint arrangements to 31 December each year. Subsidiaries are those entities which the Group has the right to control, generally where a shareholding confers more than half of the voting rights.

On acquisition of subsidiaries deemed to be business combinations, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The cost of an acquisition is measured at the fair value of any assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Any excess of that cost over the fair value of the identifiable net assets acquired is recognised as goodwill. If the fair value of the net assets acquired is in excess of that cost, the Group reassesses whether it has correctly identified all the assets acquired and all the liabilities assumed, and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If this still results in an excess of the fair value of the net assets acquired over the cost of acquisition, then the gain is recognised in the Consolidated income statement. For subsidiaries acquired which are deemed to be asset acquisitions, the cost is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

The interest of non-controlling shareholders is initially stated at their proportion of the fair value of the assets and liabilities recognised. Changes in the Group's ownership interest in a subsidiary, not resulting in the Group losing control, are treated as equity transactions.

In accordance with the exemption permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards' ("IFRS 1"), business combinations accounted for prior to the Group's date of transition to international accounting standards ("IAS") on 1 April 2004 have not been restated to comply with IFRS 3 'Business Combinations' ("IFRS 3").

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated income statement from the effective date of acquisition or disposal respectively.

Joint venture investments are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity-accounted investees, from the date that joint control commences until the date that ceases. When the Group's share of losses exceeds its interest in an equity-accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee. Where the Group is a party to a joint operation, the Consolidated financial statements include the Group's share of the joint operations' assets, liabilities, profit or loss and other comprehensive income, on a line-by-line basis. Refer to Notes 4G, 5(b) and 11 for further details.

2 BASIS OF PREPARATION *continued*

A2 PRIOR YEAR ADJUSTMENT – CLASSIFICATION OF LOANS RECEIVABLE

IAS 1 'Presentation of Financial Statements' requires that loans receivable should be classified as current or non-current in line with whether the Group expects them to be settled or received within twelve months of the reporting date. Following a review of its loans, the directors identified that certain loans receivable, primarily those due from Iberdrola Group companies which are repayable on demand, were previously classified as current in the prior year and should have been classified as non-current. The impact is a decrease of £588.7 million in the Current other receivables at 31 December 2022 from £3,286.7 million as previously reported to £2,698.0 million and a corresponding increase in Non-current other receivables from £16.4 million as previously reported to £605.1 million. The comparatives have been restated for this reclassification. The impact on the Statement of financial position at 1 January 2022, is a decrease of £560.8 million in the Current other receivables from £2,558.4 million as previously reported to £1,997.6 million and a corresponding increase in Non-current other receivables from £29.7 million as previously reported to £590.5 million. There is no impact on the Group's results for the year ended 31 December 2022.

A3 GOING CONCERN

The Group'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 24. Details of the risks and uncertainties faced by the Group, and how these are addressed, are set out in the Strategic Report on pages 25 to 28.

The Group continues to monitor the geopolitical situations across the world and continues to assess the risk this presents for energy prices. The Customer business division continues to hedge the commodity price exposure to minimise the impact from increased wholesale prices. Due to the other core activities of the Group in the Energy Networks and Renewable production divisions, the direct effect of the total cash flows and liquidity is expected to be limited.

The Consolidated statement of financial position presents net current liabilities of £2,712.4 million as at 31 December 2023, including £2,535.3 million of on demand loans with Iberdrola Group companies. The Consolidated financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Scottish Power UK plc Group is a significant component of Iberdrola S.A., one of the world's largest utilities. The Group's liquidity and financial management is undertaken through the centralised UK treasury function operated by SPL ("SPL Treasury"). SPL Treasury coordinates with Iberdrola to manage the Group's funding requirements. Funding requirements are continually monitored, and any funding required satisfied using a mixture of funding provided via Iberdrola through the global treasury function and by using appropriate external financing arrangements. The company meets its day to day working capital requirements through operational cash flows augmented by intercompany loans, both short term and long term, (see note 20) and trading balances with the Iberdrola Group. SPL, and ultimately the Iberdrola Group, has also provided the company with a £2.7 billion of committed revolving credit facility maturing in 2029, as at the date of approval of these financial statements, the facility remains available and undrawn (refer to Note 20(xii)).

As a consequence, the Group depends, in part, on the ability and intention of the Iberdrola Group to continue as a going concern. The directors have considered the Group's funding relationship with Iberdrola to date and have considered available relevant information, including the liquidity disclosures in the Iberdrola Group's 2023 financial statements, relating to Iberdrola's ability to continue as a going concern. In addition, the directors have no reason to believe that the Iberdrola Group does not have the ability to, and will not continue to, fund the Group to enable it to continue in operational existence.

For the purposes of the directors' assessment of the Group's going concern position, the directors have prepared a Consolidated cash flow forecast for a period of at least twelve months from March 2024 on the basis of the ongoing liquidity of the UK wholesale energy and gas markets, including the cash flow of longer-term strategies and projects. The cash flow forecast takes account of severe but plausible downsides, including reductions in the renewables price curve and in Renewable production's energy production, decreases in energy customer demand, and reductions in the collectability of the energy customers' trade receivables.

The base and downside cash flow forecasts indicate that alongside the Group's existing resources and committed facilities, including £2.7 billion of undrawn committed revolving credit facilities maturing in 2029, the Group's significant capital investment programme means that additional financing is required during the going concern period. As noted above, the directors are confident in the ability and intention of the SPL Group, and the Iberdrola Group, to maintain the required funding level during the going concern assessment period under both the base and downside scenarios, based on the borrowing history to date, the liquidity position of the Iberdrola Group, and the importance of the investment programme to the Iberdrola Group.

The directors acknowledge that there can be no certainty that this funding will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. In the unlikely event of not being able to access all the additional funding as may be required, the Group has a wide range of options including deferring elements of uncommitted capex, and delaying or deferring dividends.

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

2 BASIS OF PREPARATION *continued*

B IMPACT OF NEW IAS

As noted above, these Accounts have been prepared in accordance with UK-adopted IAS. In preparing these Accounts, the Group has applied all relevant standards and interpretations that have been adopted by the UK as of the date of approval of these Accounts and that are mandatory for the financial year ended 31 December 2023.

For the year ended 31 December 2023, the Group has applied the following standard and amendments for the first time:

Standard	Notes
• IFRS 17 'Insurance Contracts' including 'Amendments to IFRS 17' and 'Initial Application of IFRS 17 and IFRS 9 – Comparitive Information'	(a)
• Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 'Making Materiality Judgements': 'Disclosure of Accounting Policies'	(b)
• Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates'	(b)
• Amendments to IAS 12 'Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction'	(b)
• Amendments to IAS12 'Income Taxes: International Tax Reform – Pillar Two Model Rules'	(c)

(a) IFRS 17 was effective for the Group from 1 January 2023. During the year, the Group reviewed contracts and concluded that no contracts held by the Group fall within the scope of IFRS 17. The Group does not have any contracts that were previously in scope of IFRS 4 'Insurance Contracts'. The Group has irrevocably elected to account for financial guarantees issued since 1 January 2023 under IFRS 9 'Financial Instruments'. No material impact from the application of IFRS 17 has been recognised in the financial statements.

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

(c) This amendment was effective for the Group from 1 January 2023. Refer to Note 29 for details of the impact of this amendment on the Group.

The following new standards and amendments 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 Group:

Standard	Notes	IASB effective date (for periods commencing on or after)	Planned date of application by the Group
• Amendments to IFRS 16 'Leases: Lease Liability in a Sale and Leaseback'	(a)	1 January 2024	1 January 2024
• Amendments to IAS 1 'Presentation of Financial Statements: Classification of Liabilities as Current or Non-current' and 'Deferral of Effective Date' and 'Non-current Liabilities with Covenants'	(a)	1 January 2024	1 January 2024
• Amendments to IAS 7 'Statement of Cash Flows' and IFRS 7 'Financial Instruments: Disclosures': 'Supplier Finance Arrangements'	(a)	1 January 2024	1 January 2024
• Amendments to IAS 21 'The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability'	(a), (b)	1 January 2025	1 January 2025
• IFRS 14 'Regulatory Deferral Accounts'	(a), (b), (c)	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'	(a), (b), (d)	Deferred indefinitely	To be decided

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

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

(c) The endorsement process of this interim standard has not been launched. The Group is not within the scope of this standard so would not be eligible to apply it regardless. On 29 January 2021, the IASB issued an exposure draft for a proposed replacement standard and the progress of this project is being monitored by the Group.

(d) 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.

(e) The International Sustainability Standards Board has issued IFRS S1 'General Requirements for Disclosure of Sustainability-related Financial Information' and IFRS S2 'Climate-related Disclosures' which are both effective for periods commencing on or after 1 January 2024. Both standards have yet to be endorsed by the UK. The planned timing of application of these standards to the Group and their potential impact will be considered in line with any relevant endorsement guidance issued.

Management has made a number of judgements and assumptions regarding the future and about other sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the reported amounts of assets and liabilities within the next financial year. The significant and other judgements and estimation uncertainties made by management are set out below.

3 JUDGEMENTS AND ESTIMATION UNCERTAINTIES

SIGNIFICANT ESTIMATION UNCERTAINTIES

Retirement benefit obligations (including valuation of level 3 pension plan assets)

The key assumptions underlying the valuation of retirement benefit obligations include the discount rate, inflation rates and mortality. The assumptions adopted are based on scheme experience, market conditions and are set after consultation with qualified actuaries and other specialists within the Iberdrola Group. While these assumptions are believed to be appropriate, a change in these assumptions could materially impact the value of the defined benefit obligation recorded within the next twelve months. Note 10 provides information on the key assumptions used and sensitivity analysis relating to the Group's retirement benefit obligations.

Similarly, the valuation of the plan assets is subject to estimates and assumptions. In particular for asset classes that are unquoted and are based on estimates. Certain level 3 plan assets are, therefore, subject to significant estimation uncertainty which could materially impact the value of the plan assets recorded within the next twelve months. Further detail is provided in Note 10 E3.2.

3 JUDGEMENTS AND ESTIMATION UNCERTAINTIES *continued*

ECL on energy customers' trade receivables

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

There is a level of estimation uncertainty in determining the provision for domestic and SME customers, recognising the recent level of energy market disruption, including the ongoing cost of living crisis, the forecast uncertainty in macro-economic indicators and the recent regulatory changes imposed by Ofgem on the ability of suppliers to fit prepayment meters, limiting the options available to recover debt. In line with IFRS 9, a forward-looking loss allowance has been included to ensure that external factors are appropriately mitigated.

Included within the gross carrying amount of trade receivables is £897.4 million (2022 £777.5 million) of billed receivables. The loss allowance in relation to billed receivables is £286.9 million (2022 £252.5 million). While the methodology and assumptions applied in estimating the ECL for the year ended 31 December 2023 and the provision held at that date in respect of the energy customers' trade receivables are deemed to be appropriate, a change in these assumptions could materially impact the value of ECLs recorded within the next twelve months.

The actual level of billed receivables collected may differ from the estimated levels of recovery, which could impact operating profit positively or negatively. At 31 December 2023, the loss allowance for billed receivables of £286.9 million was supported by a projection based on a 36-month cash collection performance. Based on the weighted average expected loss rates in the table in Note 13A1, a 5% increase in the overall expected loss rate would increase the loss allowance by £44.9 million. A 5% decrease would decrease the loss allowance by £44.9 million. Given the three-year average movement in the loss allowance percentage and recognising the ongoing risk in customers' ability to pay due to the cost of living crisis, a 5% loss allowance sensitivity is considered appropriate.

Accrued 'unbilled' revenue

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

The estimated value of energy delivered to customers is included within billed revenue (where an estimated reading is included within an issued invoice) and unbilled revenue (where no invoice has been issued). The estimated value of energy delivered to customers is included within billed revenue (where an estimated reading is included within an issued invoice) and unbilled revenue (where no invoice has been issued). The net unbilled position at 31 December 2023 of £(384.1) million (2022 £(240.7) million), relates primarily to energy delivered in the final months of the year. This includes Gross unbilled revenue included within the Statement of financial position at 31 December 2023 of £770.6 million (2022 £965.6 million). This is before applying customer credit balances of £1,051.0 million (2022 £1,157.5 million), a £27.9 million (2022 £28.0 million) provision in respect of ECLs and a £75.8 million (2022 £20.8 million) provision in relation to energy volumes which have still to reach final settlement. For further details on ECLs, refer to Note 13A1.

Had actual consumption been 4% higher or lower than the estimate of units supplied (the average variance based on recent historical analysis), this would have resulted in revenue recognised for unbilled amounts being £43.6 million higher and lower respectively. The value assigned to this volume sensitivity is based on a weighted average price per unit derived from the billing systems. Approximately 95% of unbilled revenue relates to the most recent quarter where there is a higher level of estimation uncertainty.

Provision for decommissioning costs

Decommissioning costs are subject to a degree of uncertainty as they are estimated at the reporting date and actual decommissioning will take place in the future. There is also uncertainty over when the actual decommissioning costs will be incurred. The sources of estimation uncertainty relate to the estimated value of the costs at the reporting date and the discount rate applied. This estimation uncertainty creates a risk of a material adjustment to the provision in the next financial year. Refer to Note 4K for further details.

The value of decommissioning provisions in the Statement of financial position is £270.0 million (2022 £256.8 million). The increase in the year is primarily due to the unwinding of the discount and new provisions.

The discount rates applied are based on UK treasury bonds with maturities which are similar to the expected decommissioning date. The discount rates utilised in the current year ranged from 3.64% to 4.58%. The inflation rates applied are obtained from the Bank of England's forecasted inflation rates for the UK. The decommissioning costs are expected to be incurred between 2024 and 2067.

Sensitivity analysis reflecting reasonably probable fluctuations to the main assumptions in the calculation of the decommissioning provision has been performed. Had the estimated value of the costs at the reporting date been 10% higher or lower, this would have resulted in the decommissioning provision being approximately £27.5 million higher and lower respectively. Had the inflation rate applied been 2% higher or lower, this would have resulted in the decommissioning provision being approximately £114.3 million higher and lower respectively. Had the discount rates applied been 2% higher or lower this would have resulted in the decommissioning provision being approximately £73.2 million lower and higher respectively.

3 JUDGEMENTS AND ESTIMATION UNCERTAINTIES *continued*

NON-SIGNIFICANT JUDGEMENTS

Consideration of climate change

The impact of climate change, including risks identified in the Strategic Report on page 26, on the financial statements has been considered. No material impact on the judgements and estimates made in the preparation of the financial statements has been identified. This consideration focussed on the following areas:

- the Group's going concern position, including the cash flow prepared for the directors' assessment referred to in Note 2A3;
- whether the transition plans disclosed on pages 38 to 46 are an impairment indicator and consistent with the useful lives of the assets included in Notes 7 and 8;
- the risk that increasing variability in weather patterns could result in lower output from renewable generation assets and that there could be a reduction in wholesale electricity prices (as a result of climate change or other factors) are considered in the impairment sensitivities presented in Note 7(b); and
- the risk set out on page 40 of increased cost of capital for investments in technologies or business models that are deemed to be unrelated in the fight against climate change has been considered in terms of the potential impact on the impairment test. As the impairment test relates to Renewable production, this risk is not considered relevant.

Additionally, consideration has been given to any estimates over the longer-term which should be disclosed to allow for an understanding of the financial statements. The Group has no estimates of this nature to disclose.

4 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in preparing the Consolidated financial statements are set out below. In the process of determining and applying these accounting policies, judgement, apart from those involving estimations (refer to Note 3), is often required that can significantly affect the amounts recognised in the financial statements. Management has made no such judgements.

A GOODWILL
B OTHER INTANGIBLE ASSETS
C PROPERTY, PLANT AND EQUIPMENT
D LEASED ASSETS
E IMPAIRMENT OF INTANGIBLE ASSETS (EXCLUDING GOODWILL), PROPERTY, PLANT AND EQUIPMENT AND LEASED ASSETS
F RETIREMENT BENEFITS
G JOINT ARRANGEMENTS
H FINANCIAL INSTRUMENTS
I INVENTORIES (EXCLUDING ROCs)
J ROCs
K DECOMMISSIONING COSTS
L ONEROUS RETAIL CONTRACTS
M REVENUE
N PROCUREMENTS
O OTHER OPERATING RESULTS
P FOREIGN CURRENCIES
Q TAXATION
R GOVERNMENT SUPPORT SCHEMES
S CASH AND CASH EQUIVALENTS

A GOODWILL

Goodwill represents the excess of the fair value of the purchase consideration over ScottishPower's share of the fair value of the identifiable assets and liabilities of an acquired business at the date of acquisition. Goodwill is stated at cost less any accumulated impairment losses.

Goodwill is recognised as an asset and reviewed for impairment at least annually and whenever there is an indication of impairment. Any impairment is recognised in the Income statement in the period in which it is identified. Any permanent impairment losses are not reversed.

On disposal (or partial disposal) of a subsidiary, associate, jointly controlled entity or business, the proportionate amount of allocated goodwill is included in the determination of the gain or loss arising.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the expected future cash flows of the relevant Cash Generating Unit ("CGU"), or disposal value if higher. The discount rate applied is based on ScottishPower's weighted average cost of capital with appropriate adjustments for the risks associated with the CGU. The discount rate used reflects lease liabilities under IFRS 16 'Leases' ("IFRS 16"). Estimates of cash flows involve a significant degree of judgement and are consistent with management's plans and forecasts. Refer to Note 7(b) for further details on the impairment testing performed on goodwill.

B OTHER INTANGIBLE ASSETS

(a) Computer software

The costs of acquired computer software, such as licences, that are expected to generate economic benefits over a period in excess of one year, are capitalised on the basis of the costs incurred to acquire, and bring to use, the specific software. The costs of software as a service ("SaaS") cloud agreements are capitalised when the Group controls the software. Costs relating to infrastructure or platform as a service cloud agreements are not capitalised. The related liabilities for capitalised SaaS contracts are measured based on the discounted sum of the future payments for each contract and presented within Other financial liabilities. Amortisation of acquired computer software is on a straight-line basis over their operational lives, which is generally up to five years.

4 PRINCIPAL ACCOUNTING POLICIES *continued*

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

In all cases, maintenance costs are expensed as incurred.

(b) Customer contract costs

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

C PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and depreciated on a straight-line basis over the estimated operational lives of the assets once commissioned. Property, plant and equipment includes capitalised employee costs, 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. Property, plant and equipment also includes transfers of assets from inventories being generic maintenance parts which are capitalised once used in the construction of significant assets. 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 Group are as set out below:

	Years
Wind power plants	22-40
Transmission facilities	40
Distribution facilities	22-40
Meters and measuring devices	2-23
Other facilities and other items of property, plant and equipment	2-50

D LEASED ASSETS

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

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

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

The Group 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.

As a lessee, the Group 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 Group 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.

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 Group'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 Group is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless the Group 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 Group 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 the Consolidated income statement if the carrying amount of the right-of-use asset is zero.

4 PRINCIPAL ACCOUNTING POLICIES *continued*

The Group 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.

The Group 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 Group 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 Group 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.

E IMPAIRMENT OF INTANGIBLE ASSETS (EXCLUDING GOODWILL), PROPERTY, PLANT AND EQUIPMENT AND LEASED ASSETS

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

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

F RETIREMENT BENEFITS

The Group provides pensions through two defined benefit schemes and one defined contribution retirement benefit scheme in the UK.

The cost of providing benefits under the defined benefit schemes is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date. Remeasurements of the net defined benefit asset/liability are recognised, directly in Retained earnings, in the period in which they occur, and are shown in the Statement of comprehensive income. The current service cost element of the pension charge is recognised within Staff costs in the Income statement. Net interest on the net defined benefit liability or asset is included within Finance costs and Finance income, respectively, in the Income statement. The retirement benefits asset and liability recognised in the Statement of financial position represent the surpluses and deficits, respectively, in ScottishPower's defined benefit pension schemes.

Payments to the defined contribution scheme are charged as an expense as they fall due.

Key sources of estimation uncertainty in respect of retirement benefit obligations are disclosed in Note 3.

G JOINT ARRANGEMENTS

Joint arrangements are arrangements that are jointly controlled by the Group and at least one other party. Joint control is the contractually agreed sharing of control of an arrangement i.e. when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement where the Group and the other parties to the joint arrangement have rights to the net assets of the arrangement, is a joint venture. Where the parties have rights to the assets of the arrangement and obligations for its liabilities, the arrangement is a joint operation.

Joint arrangements which are structured through a separately identifiable vehicle with legal personality are joint ventures unless there are contractual terms of the arrangements between the parties, or other relevant facts and circumstances, with the effect of giving the parties rights to the assets and obligations for the liabilities of the joint arrangements, in which case the arrangements are joint operations.

The Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method. The Group recognises, in relation to its interest in a joint operation, its share of the assets, liabilities, income, and expenses relating to its interests in the joint operation on a line-by-line basis.

H FINANCIAL INSTRUMENTS

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

H1 FINANCIAL ASSETS

H1.1 CLASSIFICATION

Financial assets are classified as being measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The classification of financial assets depends on the Group'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 Group 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.

4 PRINCIPAL ACCOUNTING POLICIES *continued*

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

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI test) on the principal amount outstanding.

All remaining financial assets (including equity instruments and other investments) that are not included within the above categories, are classified as FVTPL.

Financial assets are only subsequently reclassified when the Group 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.

On demand loans receivable are classified as non-current in the Statement of financial position unless the Group expects to realise the assets within twelve months after the reporting date, in which case the loans are classified as current.

H1.2 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 Group becomes party to the contractual provisions of the instrument.

Subject to two exceptions, financial assets are initially measured at fair value. The two exceptions are 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"), and financial assets not classified as FVTPL which are measured at fair value plus transaction costs that are directly attributable to its acquisition or issue.

(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 ECLs. Interest income, foreign exchange gains and losses, and net credit losses are recognised in the Income statement. Any gain or loss on derecognition is also recognised in the Income statement.

Financial assets classified as FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the Income statement unless the financial asset is a derivative which is part of a hedging relationship (refer to Note 4H3). It may not be possible to obtain a market valuation for some unquoted investments, therefore they are valued at cost and assessed for impairment.

Financial assets classified as FVOCI are subsequently measured at fair value. Net gains and losses are recognised within Other comprehensive income.

(c) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when either the rights to receive cash flows from the asset have expired; there is no reasonable expectation of recovering all, or a portion of, the contractual cash flows; or in certain circumstances where the Group has transferred its rights to receive cash flows from the asset, or has entered a 'pass-through' arrangement obligating the Group to pay the received cash flows in full without material delay to a third party. Under the last scenario, the Group evaluates if, and to what extent, it has retained the risks and rewards of ownership and derecognises the financial asset where these have been transferred. If substantially all the risks and rewards of ownership have neither been transferred nor retained, the Group assesses whether it controls the asset. Where the Group does not retain control, the asset is derecognised and separate assets and liabilities are recognised to reflect the effect of the transfer.

(d) Impairment of financial assets

(i) Measurement of ECLs

Disclosures relating to impairment of financial assets are provided in Note 12. The Group recognises an allowance for ECLs for all debt instruments not classified as FVTPL. ECLs are a probability-weighted estimate of credit losses. The Group has adopted the simplified ECL model for its trade receivables and the general ECL model for all other financial assets measured at amortised cost.

In applying the simplified model, loss allowances for trade receivables are measured at an amount equal to lifetime ECL. The Group has segmented its trade receivables between those relating to energy customer debt and those within the rest of the Group. For each grouping, the Group has established a provision matrix that is based on its historical credit loss experience, adjusted for, where possible, forward-looking factors specific to the debtors and the economic environment in which they operate (refer to Notes 12(e)A3 and A4 for further details).

For energy customer debt, ECLs are calculated based upon a provision matrix approach that reflects the risk inherent in different payment plans, the differences in collection rates between debt attributable to current or lost (final) customers and the greater challenge in collecting older debt balances. For I&C customers, the ECL is based on external credit scoring. The Energy Customer Credit Risk and Corporate Risk teams remain vigilant in tracking any liquidity issues on existing customers to identify any pre-emptive actions required, including putting collateral or letters of credit in place. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and those the Group 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).

4 PRINCIPAL ACCOUNTING POLICIES *continued*

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

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

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

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

(ii) Credit-impaired financial assets

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

H2 FINANCIAL LIABILITIES

H2.1 CLASSIFICATION

Financial liabilities are classified as measured at FVTPL or amortised cost. A financial liability is classified as FVTPL if it is classified as held-for-trading, a derivative, or otherwise designated as such on initial recognition.

H2.2 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 classified as FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in the Income statement.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in the Income statement. Any gain or loss on derecognition is also recognised in the Income statement. This is the category most relevant to the Group 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. This subsequent measurement technique does not apply where the loan or borrowing is a hedged item in an effective fair value hedging relationship (refer to Note 4H3.3).

(c) Derecognition

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

H2.3 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

H3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

H3.1 DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments, such as forward foreign currency contracts, inflation rate swaps and forward commodity contracts, to hedge its foreign currency, interest rate, inflation and commodity price risks. Derivatives are carried as financial assets and financial liabilities when their fair values are positive and negative respectively.

The gain or loss on remeasurement to fair value is recognised immediately in the Income statement unless the derivative is subject to hedge accounting. Where the derivative is subject to hedge accounting, the recognition of any gain or loss depends on the nature of hedge accounting applied (refer to Notes 4H3.2 and 4H3.3).

At the inception of a hedge relationship, the Group formally designates and documents the relationship to which it wishes to apply hedge accounting, the risk management objective, and the strategy for undertaking the hedge.

4 PRINCIPAL ACCOUNTING POLICIES *continued*

The hedge documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including details of sources of hedge ineffectiveness and how the hedge ratio is determined). A relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the relationship is the same as that resulting from the quantity of the hedged item and the quantity of the hedging instrument that the Group uses to hedge that quantity of the hedged item.

In circumstances where the Group seeks to hedge a risk which is a component part of an underlying transaction, the risk component of that transaction is considered to be the hedged item where it is separately identifiable and can be reliably measured.

The accounting for cash flow and fair value hedges is set out at Notes 4H3.2 and 4H3.3 respectively.

In the Statement of cash flows, the Group includes cash flows arising from hedging instruments as arising from the same category of activity as cash flows arising from the hedged item.

H3.2 CASH FLOW HEDGES

The Group designates only the spot element of treasury-related forward foreign currency contracts (hedging the value of currency denominated intercompany loans) as a hedging instrument. The forward element is recognised in Other comprehensive income and accumulated as a separate component of the hedge reserve under the Cost of hedging reserve. For almost all other forward foreign currency contracts, the Group designates all of the forward contract (both the spot and forward elements) as the hedging instrument.

The portion of gain or loss of the hedging instrument determined to be an effective hedge is recognised in Other comprehensive income and forms part of the hedge reserve. The ineffective portion of the change in fair value of the hedging instruments is recognised in the Income statement within Procurements for hedges of underlying operations. For hedges of financing activities, any ineffectiveness is recognised within Finance income or Finance costs, as appropriate, in the Income statement. If the cash flow hedge relates to an underlying transaction which results in the recognition of a non-financial asset, the associated gains or losses on the derivative (previously recognised in equity) are recognised in the initial measurement of the asset arising from the hedged transaction. For hedges that relate to an underlying transaction which results in recognition of a financial asset or a liability, amounts deferred in equity are recognised in the Income statement in the same period in which the hedged item affects it.

In the case of cash flow hedging, any gain or loss that has been recognised in equity remains there until the forecast transaction occurs. If the transaction is no longer expected to occur, the gain or loss previously deferred in equity is recognised in the Income statement. The Group discontinues hedge accounting when the hedge instrument expires or is sold, terminated or exercised, or when the hedge relationship no longer qualifies for hedge accounting.

H3.3 FAIR VALUE HEDGES

The gain or loss from remeasuring the hedging instrument at fair value is recognised directly in the Income statement in the same location as the gain or loss from remeasuring the hedged item. The gain or loss on the hedged item adjusts its carrying amount (when the item would otherwise have been measured at amortised cost) and is recognised in the Income statement. The Group commences amortisation of any such adjustments to the carrying amount of the hedged item when the hedging relationship ends.

On the discontinuance of hedge accounting, any adjustment made to the carrying amount of the hedged item as a consequence of the fair value hedge relationship, is recognised in the Income statement over its remaining life. The line item Current other financial liabilities includes collateral held by the Group which mitigates the credit risk from specific derivative assets which have been entered into by the Group to hedge specific loans and borrowings. As a financial liability, it is accounted for in accordance with the policies described in Note 4H2 on the previous page and Note 4H5 below.

H4 FAIR VALUATION OF FINANCIAL INSTRUMENTS

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

In the absence of quoted prices for identical or similar assets or liabilities, it is sometimes necessary to apply valuation techniques where contracts are marked using approved models. Models are used for developing both the forward curves and the valuation metrics of the instruments themselves where they are complex combinations of standard and non-standard products. All models are subject to rigorous testing prior to being approved for valuation, and subsequent continuous testing and approval procedures are designed to ensure the validity and accuracy of the model assumptions and inputs.

Where derivatives are not collateralised, their valuation reflects the Group's credit risk in the case of liabilities, and the counterparty's credit risk in the case of assets. All assets and liabilities, for which fair value is measured or disclosed in the financial statements, are categorised within the fair value hierarchy, the details of which are disclosed in Note 12(b).

H5 COLLATERAL

Collateral agreements are utilised to facilitate derivative trading and generally to mitigate credit risk and manage credit exposure. The terms and conditions of these agreements vary according to the counterparty and the associated transactions. Collateral posted and collateral held are recognised as financial assets and financial liabilities respectively and are accounted for in accordance with the policies described in Note 4H1 and Note 4H2.

Collateral posted is included within Trade and other receivables.

Collateral held is included within Trade and other payables with the exception of collateral held for the purpose of mitigating the credit risk from specific derivative assets entered into for the purpose of hedging specific loans and borrowings which is included within Current other financial liabilities.

4 PRINCIPAL ACCOUNTING POLICIES *continued*

I INVENTORIES (EXCLUDING ROCs)

Inventories held comprise primarily offshore transmission assets and fuel stock. As a legislative requirement, the Group is not permitted to own and operate the offshore transmission assets which it constructs alongside its offshore wind farms. For the more advanced offshore transmission asset projects, the asset delivery model selected requires the Group to sell the assets to a third party operator following their completion and an initial allowed operational period. Therefore, such transmission assets are being built with a view to sale and not operating them as capital assets over future periods. The costs incurred are recorded as inventory and released through Procurements when sold. The sale of offshore transmission assets are infrequent but a periodic recurring activity, with a construction cycle spanning multiple financial periods.

Inventories 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. When sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised.

J ROCs

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

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

K DECOMMISSIONING COSTS

Provision is made, on a discounted basis, for the estimated decommissioning costs of certain non-current assets. Capitalised decommissioning costs are depreciated over the useful lives of the related assets. The unwinding of the discount is included within Finance costs in the Income statement. The discount rate used for each provision is based on UK treasury bonds with maturities which are similar to the expected decommissioning date. The future estimated costs are based on the value of the costs at the reporting date, uplifted for inflation to the end of the useful economic life of the underlying asset, then discounted.

L ONEROUS RETAIL CONTRACTS

An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises of both the incremental costs of and also an allocation of other costs that directly relate to fulfilling that contract.

M REVENUE

The Group 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 Group 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 Group's performance as it makes the distribution network available. The Group has a right to consideration in an amount that corresponds directly with the value to the customer of the Group's performance to date. Therefore, revenue is recognised in the amount to which the Group 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) Electricity transmission

The Group provides the service of making its transmission network available to the GB system operator. This performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits of the Group's performance as it makes the transmission network available. Revenue is recognised in an amount to which the Group has a right to invoice based on the amount of allowed revenue for the year, and recognised over time based on the billable volumes and the rate agreed in the regulatory price control. Invoices are typically raised and settled on a monthly basis and, therefore, there are no related IFRS 15 receivables, contract assets or contract liabilities at the end of the year.

(c) Transfers of assets from customers

Pursuant to the applicable industry regulations, the Group 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.

(d) Supply of electricity and gas

The Group's performance obligations are the supply of electricity and/or gas to customers. Both these performance obligations are satisfied over time as the customer simultaneously receives and consumes the benefits of the Group's performance as it supplies electricity and gas. The Group has a right to consideration in an amount that corresponds directly with the value to the customer of the Group's performance to date. Therefore, in line with IFRS 15, revenue is recognised in the amount to which the Group has a right to invoice based on the volume of units supplied during the year and the tariff agreed with the customer.

The Group have been participating in various government support schemes designed to support energy customers in GB through the current cost of living crisis. The EPG scheme (which commenced on 1 October 2022 and runs until 31 March 2024) requires suppliers to charge a reduced tariff to domestic customers where their contractual tariff exceeds a government-set rate. The EBRS scheme also commenced on 1 October 2022 but ended on

4 PRINCIPAL ACCOUNTING POLICIES *continued*

31 March 2023 and was replaced by the similar EBDS scheme which commenced on 1 April 2023 and will run until 31 March 2024. These later schemes require suppliers to apply a capped discount to the bills of non-domestic customers where their contractual rate exceeds the government-set rate. Therefore, the revenue recognised for the duration of these schemes has been in line with IFRS 15 and based on the volume of units supplied to customers and the reduced or discounted tariff as determined by the scheme rules.

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

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

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

(e) Contracts for Difference

CfDs are contracts with the Low Carbon Contracts Company which provide security in respect of revenues generated from electricity produced and sold by the Group through compensation based on the difference between the strike price and the market price, for an agreed period. If the market reference price is lower than the agreed strike price, the generator will receive an additional payment. If the reference price is higher than the strike price, the generator will be liable for the difference.

CfDs are assessed at their inception. For contracts where the market price is expected to be lower than strike price over the term of the agreement, the Group is considered to be in receipt of government assistance. Therefore, such CfDs are accounted for as revenue grants and are recognised as income on a systematic basis over the period in which they become receivable, which is at the point of generation. The Group is considered to be a net receiver for all of its existing CfDs.

(f) Sale of offshore transmission asset

Revenue from the disposal of an offshore transmission asset (held as inventory) is the consideration received for the assets sold, recognised when control of assets has been transferred to the purchaser. Any consideration received in advance of this is deferred on the Consolidated statement of financial position and released once the goods and services are delivered.

(g) Other revenues

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

N PROCUREMENTS

Procurement costs in Energy Networks principally comprise use of system charges from the system operator. In Renewable production, such costs are primarily electricity purchased in relation to energy generation, and related direct costs and services, in addition to the carrying amount of inventories sold in the period in which the related revenue is recognised. Procurements within the Customer business are principally the cost of electricity and gas purchased in relation to energy supply, and related direct costs and services for the of use of the energy network. Costs are recorded on an accruals basis.

O OTHER OPERATING RESULTS

Other operating results is principally comprised of recharges, primarily in relation to Energy Networks' unregulated income, recharges of external costs in the Customer business and Renewable production activity recharged to other Iberdrola Group companies. The line item also includes compensation and rebates received, lease income, and gains/losses on disposal of non-current assets including results from the loss of control of consolidated interests. There are no individually material items included within Other operating results in either the current or prior year.

P FOREIGN CURRENCIES

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

4 PRINCIPAL ACCOUNTING POLICIES *continued*

Q TAXATION

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

Deferred tax is the tax expected to be payable, or recoverable, on the difference between the carrying amounts of assets and liabilities in the Statement of financial position and the corresponding tax bases used in the computation of taxable profits (temporary differences), and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, unused tax losses or credits can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the period in which the liability is expected to be settled, or the asset realised, based on tax rates and laws enacted, or substantively enacted, at the reporting date. Deferred tax is charged to the Income statement, except where it relates to items charged or credited to equity (via the Statement of comprehensive income), in which case the deferred tax is also recognised in equity and is shown in the Statement of comprehensive income. The Group offsets deferred tax assets and liabilities, and reports the net amount, only when the Group has a legally enforceable right to set off the amounts, and the offset deferred tax assets and liabilities relate to taxes levied by the same taxation authority on the same taxable company.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or shown in the Statement of comprehensive income. For income tax arising on dividends, the related tax is recognised in the Income statement, Statement of other comprehensive income, or in equity consistently with the transactions that generated the distributable profits.

R GOVERNMENT SUPPORT SCHEMES – ENERGY BILLS SUPPORT SCHEME AND ALTERNATIVE FUEL PAYMENT SCHEMES

The Group participated in the EBSS and Alternative Fuel Payment ("AFP") schemes which were designed to support energy customers in GB through the cost of living crisis, running alongside the EPG and EBRS schemes discussed at Note 4M(d) above. The EBSS was effective from 25 September 2022 and required suppliers to provide £400 to domestic electricity customers between October 2022 and March 2023. The Domestic AFP scheme, which was effective from 25 January 2023 and ran for one year, required suppliers to provide £200 to domestic users of alternative fuels who they had a contractual relationship with. The equivalent AFP scheme for non-domestic users of alternative fuels was effective from 8 February 2023 and ran for one year and required suppliers to provide a payment of £150. The Group generally received funding from the UK Government in advance of the payments being made to customers. The funds were recorded as Other payables – Payables in respect of government support schemes until the customer payments were made. Income was recognised as Revenue – Revenue received from government support schemes in the Income statement upon making the customer payment. In line with IFRS 15, the consideration payable to the customer was recorded as a reduction to Revenue. Where customer payments were made in advance of the government funding being received, the costs were recorded as prepaid scheme obligation costs. The Group was restricted in how it could use the cash received from the UK Government and held a ring-fenced bank account in relation to the EBSS. The restrictions did not change the nature of the assets, only the purpose for which they could be used, thus the funds were considered as a component of Cash equivalents.

S CASH AND CASH EQUIVALENTS

Cash and short-term deposits in the Statement of financial position comprise cash on hand, and term deposits which are readily convertible into a known amount of cash without significant risk of changes in value and have a maturity of less than 90 days at the date of acquisition. In the Statement of cash flows, Cash and cash equivalents include bank overdrafts repayable on demand the next business day. The restrictions on the cash held in ring-fenced bank accounts in relation to regulatory projects (and previously EBSS) do not change the nature of the assets, only the purpose for which they can be used, thus are considered as a component of Cash and cash equivalents.

5 SCOPE OF CONSOLIDATION

(a) Significant judgements and assumptions used to determine the scope of the consolidation

The Consolidated financial statements combine the financial statements of Scottish Power UK plc and its subsidiaries and joint arrangements. A subsidiary is an entity over which the Company has control. This is the case when the Company has power over the relevant activities of the investee, for example through voting rights; exposure, or rights to, variable returns from its involvement with the investee; and the ability to affect those returns through its power over the investee. No significant judgements have been made in applying these principles to subsidiaries during the year.

(b) Significant judgements and assumptions made in determining the classification of a joint arrangement

CampionWind Limited and MarramWind Limited are material joint operations to the Group which are structured through separate entities (refer to Note 4G). The Group has joint control over these companies through respective shareholder agreements which have the effect of giving the controlling parties rights to the assets of the arrangements and obligations for their liabilities. Therefore, the arrangements are considered to be joint operations. Refer to Appendix 1 for details of the equity interest and registered office. The aggregate amount of the capital and reserves are noted below.

Aggregate capital and reserves	2023 £m	2022 £m
CampionWind Limited	**91.0**	86.0
MarramWind Limited	**117.9**	68.4
	208.9	154.4

5 SCOPE OF CONSOLIDATION *continued*

(c) Significant restrictions

As is typical for a group of its size and scope, there are restrictions on the ability of ScottishPower to obtain distributions of capital, access the assets or repay the liabilities of members of its group due to the statutory, regulatory and contractual requirements of its subsidiaries, and due to the protective rights of non-controlling interests. After consideration of these factors, the resulting significant restrictions have been identified.

SPD, SPM and SPT

SPD and SPM are regulated Distribution Network Operators and SPT is a regulated electricity transmission entity. The activities of these entities are governed by licences granted by Ofgem. For such licenced entities, the main drivers facilitating distributions, including dividends, are holding an investment-grade credit rating and compliance with several other licence conditions. The total value of distributable reserves is restricted by the requirement to comply with several licence conditions including holding an investment-grade credit rating. In addition, standard condition 26 of the distribution licence conditions for SPD and SPM and standard condition B3 of the transmission licence conditions for SPT, restrict the disposal of property, plant and equipment. The Group has policies and procedures in place to adhere to the licence conditions and restrictions arising from them.

Value restricted	2023 £m	2022 £m
Distributable reserves		
– SPD	**436.1**	392.7
– SPM	**380.5**	385.0
– SPT	**599.7**	518.0
Property, plant and equipment		
– SPD	**3,332.7**	3,186.4
– SPM	**3,490.0**	3,347.5
– SPT	**3,606.0**	3,281.3

6 BUSINESS SEGMENT REPORTING

(a) Operating segments

The Group defines its operating segments based on a combination of factors, principally differences in products and services, and the regulatory environment in which each business operates. The Group is organised into three reportable segments; Energy Networks, Renewable production and Customer business. The Group identifies SPT, SPD and SPM as individual operating segments, but as management deem these operating segments to exhibit similar economic characteristics, they have been aggregated (together with other Energy Networks entities) into a single reported segment, Energy Networks. In line with IFRS 8, the Group reports its segments on this basis and the measure of profit used for the purpose of reporting to the Chief Operating Decision Maker ("CODM") is operating profit as per the Consolidated income statement. The CODM for the Group are the CEO and chair of the Head of Business Sub-holding companies, being the SPENH, SPREL and SPRH boards. All revenue for the reported segments arise from operations within the UK and Republic of Ireland. Revenue arising from operations within the Republic of Ireland is not deemed material enough to disclose as a separate operating segment.

During the year ended 31 December 2023, the Group's reported segments were as follows:

Reported segment*	Reported segment description
Energy Networks	The transmission and distribution business within the Group.
Renewable production	The origination, development, construction and operation of renewable energy generation plants, principally onshore and offshore wind, with a growing presence in battery storage and solar.
Customer business	The supply of electricity and gas to domestic and business customers, together with customer registration, billing and handling enquiries in respect of these services, the associated metering activity, the smart meter installation programme, and managing the Group's smart solutions activities. The division also manages the Group's exposure to the UK wholesale electricity and gas markets, the optimisation of gas storage, and the development of green hydrogen opportunities.

* The Group's reportable segments have been renamed in the period (refer to page 1) however, the activities within each segment remain comparable with those at 31 December 2022.

6 BUSINESS SEGMENT REPORTING *continued*

(b) Revenue by reported segment

The revenue by reported segment is detailed below. Refer to Note 23(a) for a disaggregation of external revenue.

	2023			2022		
Reported segment	**External revenue £m**	**Inter-segment revenue* £m**	**Revenue reported to the CODM £m**	External revenue £m	Inter-segment revenue* £m	Revenue reported to the CODM £m
Energy Networks	**1,437.6**	**153.4**	**1,591.0**	1,220.7	159.7	1,380.4
Renewable production	**284.0**	**1,026.0**	**1,310.0**	645.2	1,068.8	1,714.0
Customer business	**7,732.5**	**24.7**	**7,757.2**	6,569.0	17.2	6,586.2
Elimination of inter-segment revenue			(1,204.1)			(1,245.7)
			9,454.1			8,434.9

* Inter-segment revenue relating to Energy Networks is predominantly subject to regulation and is based on published tariffs set by Ofgem. Renewable production inter-segment revenue primarily consists of the sale of electricity and ROCs from wind farms. Customer business inter-segment revenue largely consists of the supply of electricity and gas.

(c) Operating profit/(loss) by reported segment

The operating profit/(loss) by reported segment is detailed below.

Reported segment	**Operating profit/(loss) reported to the CODM 2023 £m**	Operating profit/(loss) reported to the CODM 2022 £m
Energy Networks	**718.0**	599.3
Renewable production	**632.7**	469.6
Customer business	**561.4**	(234.5)
Unallocated	**(0.8)**	0.1
Total	**1,911.3**	834.5

(d) Other financial data by reported segment

Other items by reported segment for the year ended 31 December 2023	**Acquisition of property, plant and equipment and intangible assets reported to the CODM £m**	**Acquisition of right-of-use assets reported to the CODM £m**	**Depreciation, amortisation and impairment reported to the CODM £m**	**Net expected credit loss on trade and other receivables reported to the CODM £m**
Energy Networks	**929.3**	**4.4**	**367.8**	**(1.0)**
Renewable production	**755.3**	**61.7**	**285.2**	**–**
Customer business	**135.2**	**–**	**128.9**	**207.0**
Unallocated	24.6	–	29.1	–
Total	**1,844.4**	**66.1**	**811.0**	**206.0**

Other items by reported segment for the year ended 31 December 2022	Acquisition of property, plant and equipment and intangible assets reported to the CODM £m	Acquisition of right-of-use assets reported to the CODM £m	Depreciation, amortisation and impairment reported to the CODM £m	Net expected credit loss on trade and other receivables reported to the CODM £m
Energy Networks	623.7	8.1	345.8	1.5
Renewable production	163.8	5.7	258.4	0.3
Customer business	123.1	–	149.6	85.0
Unallocated	19.5	–	26.7	(0.3)
Total	930.1	13.8	780.5	86.5

7 INTANGIBLE ASSETS

(a) Movements in intangible assets

Year ended 31 December 2022	Note	Goodwill (Note (b)) £m	Other intangible assets: Computer software £m	Licences £m	Customer contract costs £m	Other £m	Total £m	Total £m
Cost:								
At 1 January 2022		364.6	513.1	9.5	248.2	5.4	776.2	1,140.8
Additions	(i)	–	33.7	–	21.8	–	55.5	55.5
Disposals		–	(5.0)	–	(56.0)	(5.4)	(66.4)	(66.4)
At 31 December 2022		364.6	541.8	9.5	214.0	–	765.3	1,129.9
Amortisation:								
At 1 January 2022		–	427.8	5.0	113.8	5.4	552.0	552.0
Amortisation for the year		–	49.2	0.3	66.9	–	116.4	116.4
Disposals		–	(5.0)	–	(56.0)	(5.4)	(66.4)	(66.4)
At 31 December 2022		–	472.0	5.3	124.7	–	602.0	602.0
Net book value:								
At 31 December 2022		364.6	69.8	4.2	89.3	–	163.3	527.9
At 1 January 2022		364.6	85.3	4.5	134.4	–	224.2	588.8

Year ended 31 December 2023	Note	Goodwill (Note (b)) £m	Other intangible assets: Computer software £m	Licences £m	Customer contract costs £m	Other £m	Total £m	Total £m
Cost:								
At 1 January 2023		364.6	541.8	9.5	214.0	–	765.3	1,129.9
Additions	(i)	–	91.4	–	21.0	–	112.4	112.4
Disposals		–	(4.5)	–	(86.5)	–	(91.0)	(91.0)
At 31 December 2023		**364.6**	**628.7**	**9.5**	**148.5**	**–**	**786.7**	**1,151.3**
Amortisation:								
At 1 January 2023		–	472.0	5.3	124.7	–	602.0	602.0
Amortisation for the year		–	42.5	0.4	54.2	–	97.1	97.1
Disposals		–	(4.5)	–	(86.5)	–	(91.0)	(91.0)
At 31 December 2023		**–**	**510.0**	**5.7**	**92.4**	**–**	**608.1**	**608.1**
Net book value:								
At 31 December 2023		**364.6**	**118.7**	**3.8**	**56.1**	**–**	**178.6**	**543.2**
At 1 January 2023		364.6	69.8	4.2	89.3	–	163.3	527.9

(i) Included within computer software additions is £1.6 million (2022 £2.4 million) from internal development.
(ii) The cost of fully amortised computer software still in use at 31 December 2023 was £435.3 million (2022 £411.6 million).
(iii) Computer software includes SaaS cloud arrangements with a carrying value of £26.9 million (2022 £0.9 million).

(b) Impairment test for goodwill

The carrying amount of goodwill for Renewable production at 31 December 2023 was £364.6 million (2022 £364.6 million). On 1 January 2012, as part of an Iberdrola Group restructuring exercise, the Group acquired certain renewable energy companies from another Iberdrola Group company. The transaction was deemed to be a business combination under common control and was accounted for under the pooling of interest method. The goodwill was created on the original acquisition by Iberdrola.

The recoverable amount for Renewable production has been determined based on a value-in-use calculation. The calculation uses cash flow projections which reflect past experience, and which are based upon a management approved business plan that runs to 2035. Cash flows beyond that period reflect asset estimated useful lives as well as management's forward view of prices and the business strategic objectives. It is considered appropriate to assess the cash flows over a period longer than five years as this better reflects the long-term nature of energy market operations and governance, and of wind farm development lead times. The Renewable production business is integral to the ScottishPower strategy to support the UK transition to net zero.

The value-in-use calculation is based on anticipated generation output over the expected lives of individual sites.

Cash inflows for all projects are based on anticipated generation output using historical trend information as well as internal technical assessment. The output is valued at forward power prices based on: observable market information where available; assumed continuing government support through ROCs, CfDs and other mechanisms; and is derived from an internal long-term price forecast which is benchmarked against external forecasts. Cash outflows are based on planned operating and capital expenditure and include the Electricity Generator Levy.

7 INTANGIBLE ASSETS *continued*

The main assumptions and basis for determining values assigned to the key assumptions are detailed below:

Main assumptions used for value-in-use calculations	Basis for determining values assigned to key assumptions
Discount rate (pre-tax): onshore 6.48% (2022 5.52%); and offshore operational 6.92% and offshore development 7.35% (2022 one rate of 6.14%)	Discount rate is determined on the basis of market data and the divisional cost of capital and has increased in the year due to a rise in the risk free rate.
Forward price of power	Market quotes/internal and external forecasts
Energy output	Theoretical maximum output less adjustments based on historical data (wind variability, outages and availability)
Inflation rate	Inflation is applied to key assumptions including operating costs, ROC buyout and CfD prices. Rates are based on macro-economic forecasts which predicts inflation falling to 2.5% in 2025 and then to 2.0% in 2027.

The value-in-use calculation of Renewable production exceeds the carrying amount.

The Group has also performed several sensitivity analyses of the impairment test result in relation to the key assumptions to which the value-in-use calculation is most sensitive. These tests included:

- a 100 basis point increase in the pre-tax discount rate. This is the equivalent of a 1% change in the risk-free interest rate which is considered a reasonably possible variation;
- a 10% movement in the power price per MWh, only applicable to production for which no long-term sales agreements have been entered into. This is considered a reasonably possible variation; and
- a 5% decline in energy output (considered reasonable to assess risk from unpredicted plant availability or weather issues).

After applying each sensitivity, there was significant headroom between the value-in-use calculations and the underlying book value of the assets.

As noted above, impairment cash flows utilise market-based views of commodity price forecasts, therefore incorporating current market expectations of how net zero targets will be achieved based on existing government legislation. However, estimates are not yet fully reflective of net zero scenarios as they do not factor in any prospective, yet to be announced, legislative or market changes that would be required to meet temperature targets. Hence impairment cash flows are not based on net zero scenario forward prices.

Refer to Note 3 for further details of the Group's consideration of the impact of climate change on the cash flows used in the impairment tests.

8 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 December 2022	Notes	Total operating plant (Note (b)) £m	Other items of property, plant and equipment in use (Note (i)) £m	Plant in the course of construction £m	Other items of property, plant and equipment in the course of construction £m	Total £m
Cost:						
At 1 January 2022		19,129.5	282.5	1,125.8	24.5	20,562.3
Additions	(ii), (iii)	72.7	20.7	936.0	24.3	1,053.7
Reassessment of decommissioning asset		(179.1)	–	–	–	(179.1)
Transfers (to)/from inventories	(iv)	–	–	(51.4)	23.2	(28.2)
Transfers from plant in the course of construction to plant in use		763.8	–	(720.7)	(43.1)	–
Disposals		(149.2)	(1.9)	–	(1.3)	(152.4)
At 31 December 2022		19,637.7	301.3	1,289.7	27.6	21,256.3
Depreciation:						
At 1 January 2022		5,421.6	113.6	–	–	5,535.2
Charge for the year		612.9	17.3	–	–	630.2
Disposals		(134.8)	(1.9)	–	–	(136.7)
At 31 December 2022		5,899.7	129.0	–	–	6,028.7
Net book value:						
At 31 December 2022		13,738.0	172.3	1,289.7	27.6	15,227.6
At 1 January 2022		13,707.9	168.9	1,125.8	24.5	15,027.1

Year ended 31 December 2023	Notes	Total operating plant (Note (b)) £m	Other items of property, plant and equipment in use (Note (i)) £m	Plant in the course of construction £m	Other items of property, plant and equipment in the course of construction £m	Total £m
Cost:						
At 1 January 2023		19,637.7	301.3	1,289.7	27.6	21,256.3
Additions	(ii), (iii)	78.0	15.6	1,615.3	23.1	1,732.0
Transfers from inventories	(iv)	–	–	33.5	32.1	65.6
Transfers from plant in the course of construction to plant in use		704.7	–	(654.3)	(50.4)	–
Disposals		(160.6)	(18.0)	(0.3)	(1.2)	(180.1)
Impairment	(v)	–	–	(14.0)	(0.1)	(14.1)
At 31 December 2023		**20,259.8**	**298.9**	**2,269.9**	**31.1**	**22,859.7**
Depreciation:						
At 1 January 2023		5,899.7	129.0	–	–	6,028.7
Charge for the year		642.5	17.9	–	–	660.4
Disposals		(149.1)	(17.3)	–	–	(166.4)
At 31 December 2023		**6,393.1**	**129.6**	**–**	**–**	**6,522.7**
Net book value:						
At 31 December 2023		**13,866.7**	**169.3**	**2,269.9**	**31.1**	**16,337.0**
At 1 January 2023		13,738.0	172.3	1,289.7	27.6	15,227.6

The net book value of property, plant and equipment at 31 December is analysed as follows:

	2023 £m	2022 £m
Property, plant and equipment in use	**14,036.0**	13,910.3
Property, plant and equipment in the course of construction	**2,301.0**	1,317.3
	16,337.0	15,227.6

(i) Other items of property, plant and equipment in use comprises land and buildings, IT equipment and other assets. Included within this category is £6.5 million (2022 £6.5 million) relating to spend on non-operational sites which are not classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

(ii) Interest on the funding attributable to major capital projects was capitalised during the year at a rate of 5.6% (2022 2.3%).

(iii) During both years, the Group acquired the entire share capital of a number of solar development entities, treated as asset acquisitions (refer to Appendix 1).

(iv) Transfers (to)/from inventories represents £65.6 million (2022 £51.9 million) of capitalised spare parts in Energy Networks and £nil (2022 (£80.1) million) of offshore transmission asset expenditure.

(v) The £14.1 million impairment charge for the year ended 31 December 2023 relates primarily to the write down of development projects in the Renewable production division.

(vi) The cost of fully depreciated property, plant and equipment still in use at 31 December 2023 was £474.9 million (2022 £440.3 million).

(vii) Included within Other operating results in the Income statement for the year ended 31 December 2023 is £2.1 million (2022 £0.7 million) relating to compensation receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.

(viii) Included within the cost of property, plant and equipment at 31 December 2023 are assets in use not subject to depreciation, being land, of £46.8 million (2022 £53.9 million).

(ix) Included in Total operating plant (Transmission facilities) and Other items of property, plant and equipment in use are assets with a carrying amount of £1.2 million (2022 £1.2 million) and £0.2 million (2022 £0.3 million) respectively which the Group leases to third parties via operating leases.

8 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) The movements in total operating plant are analysed as follows:

Year ended 31 December 2022	Wind power plants £m	Transmission facilities £m	Distribution facilities £m	Smart meters and measuring devices £m	Other facilities (Note (i)) £m	Total operating plant £m
Cost:						
At 1 January 2022	6,070.4	3,602.1	8,584.1	542.7	330.2	19,129.5
Additions	1.3	–	6.9	57.0	7.5	72.7
Reassessment of decommissioning asset	(161.0)	(17.5)	–	–	(0.6)	(179.1)
Transfers from plant in the course of construction to plant in use	24.0	194.7	461.5	22.1	61.5	763.8
Disposals	(2.3)	(23.4)	(59.6)	(36.8)	(27.1)	(149.2)
At 31 December 2022	5,932.4	3,755.9	8,992.9	585.0	371.5	19,637.7
Depreciation:						
At 1 January 2022	1,589.8	811.7	2,595.5	268.6	156.0	5,421.6
Charge for the year	228.1	90.9	228.4	44.5	21.0	612.9
Disposals	(1.4)	(22.7)	(55.6)	(28.0)	(27.1)	(134.8)
At 31 December 2022	1,816.5	879.9	2,768.3	285.1	149.9	5,899.7
Net book value:						
At 31 December 2022	4,115.9	2,876.0	6,224.6	299.9	221.6	13,738.0
At 1 January 2022	4,480.6	2,790.4	5,988.6	274.1	174.2	13,707.9

Year ended 31 December 2023	Wind power plants £m	Transmission facilities £m	Distribution facilities £m	Smart meters and measuring devices £m	Other facilities (Note (i)) £m	Total operating plant £m
Cost:						
At 1 January 2023	5,932.4	3,755.9	8,992.9	585.0	371.5	19,637.7
Additions	1.1	–	10.6	61.6	4.7	78.0
Reassessment of decommissioning asset	2.1	(1.8)	–	–	(0.3)	–
Transfers from plant in the course of construction to plant in use	21.4	149.0	511.9	21.1	1.3	704.7
Disposals	(26.7)	(16.3)	(41.2)	(75.8)	(0.6)	(160.6)
At 31 December 2023	**5,930.3**	**3,886.8**	**9,474.2**	**591.9**	**376.6**	**20,259.8**
Depreciation:						
At 1 January 2023	1,816.5	879.9	2,768.3	285.1	149.9	5,899.7
Charge for the year	234.6	94.7	240.7	48.9	23.6	642.5
Disposals	(26.1)	(16.2)	(38.6)	(68.2)	–	(149.1)
At 31 December 2023	**2,025.0**	**958.4**	**2,970.4**	**265.8**	**173.5**	**6,393.1**
Net book value:						
At 31 December 2023	**3,905.3**	**2,928.4**	**6,503.8**	**326.1**	**203.1**	**13,866.7**
At 1 January 2023	4,115.9	2,876.0	6,224.6	299.9	221.6	13,738.0

(i) The Other facilities category of operating plant largely comprises smart meter infrastructure assets, battery storage assets, gas storage assets and Energy Networks communications facilities.

(c) Capital commitments

	2023						
	2024 £m	**2025 £m**	**2026 £m**	**2027 £m**	**2028 £m**	**2029 and thereafter £m**	**Total £m**
Contracted but not provided	**1,408.4**	**1,319.3**	**1,117.6**	**137.1**	**36.2**	**47.0**	**4,065.6**

	2022						
	2023 £m	2024 £m	2025 £m	2026 £m	2027 £m	2028 and thereafter £m	Total £m
Contracted but not provided	661.9	255.8	134.3	58.0	17.9	1.6	1,129.5

(d) Research and development expenditure

The amount of research and development expenditure recognised as an expense during the year was £6.2 million (2022 £5.7 million).

9 LEASING

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

(a) Nature of leases

Land

The Group holds agreements to lease land (including seabed) and for the assignment of rights to use land, primarily for operational assets, (mainly wind farms), with typical lease terms running from four to 40 years. Certain leases contain the right to extend the existing lease term by up to 50 years; others can be terminated with appropriate notice, generally up to 24 months. The impact on the lease liability of the extension options for individual contracts, if taken, is not considered material.

Buildings

The Group leases buildings primarily for its office space, operational depots and retail space (which is sub-let). The leases typically have lease terms running from ten to 25 years. Certain leases have options to extend the term by up to 25 years at the end of the term; others have options to terminate subject to a notice period of up to five years or at agreed break points.

The lease for the head office building has a 25 year term ending in 2041 at which point the Group has the right to extend the lease to 2046 (and to 2051 at 2046). It is currently not deemed reasonably certain that these extension options will be taken. However, should they be taken, the estimated movement in the lease liability would be a decrease of £0.1 million and a further increase of £11.3 million respectively.

Vehicles

The Group leases vehicles with lease terms of generally between five and nine years, primarily being pool vehicles to mobilise its operational staff and other specialist vehicles. Certain leases can be extended by up to one year. Certain vehicle leases are considered short-term and the Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Other equipment

The Group leases operating plant and office equipment, with lease terms of up to 42 years. Certain leases have rights to extend the term by up to five years or terminate the lease giving appropriate notice. Certain plant and equipment leases are considered short-term and the Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Variable lease payments

Some land leases, particularly those for land on which wind farms have been built, contain variable lease payments that are based primarily on the output from the wind farm. Also certain building leases contain variable lease payments that are based on the building services supplied. These payment terms are common for both of these types of leases. The fixed annual payments for the year were £63.3 million compared to variable payments of £22.5 million. Despite the future planned growth of the Renewable production division, the relative proportions of fixed and variable lease payments are not expected to be materially different in future years.

Extension options

Some leases, in particular of land and buildings, contain extension options exercisable by the Group at the end of the non-cancellable contract period or an agreed point before that date. Where practicable, the Group seeks to include extension options in leases to provide operational flexibility. Those options held are exercisable only by the Group and not by the lessors. At lease commencement, the Group 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 Group has not committed to any leases that have not yet commenced. The Group has no contracts containing residual value guarantee, no leases subject to significant restrictions or covenants, and no sale and leaseback transactions.

(b) Right-of-use assets

Year ended 31 December 2022	Note	Land £m	Buildings £m	Vehicles £m	Other equipment £m	Total £m
Cost:						
At 1 January 2022		385.0	113.6	41.4	4.3	544.3
Additions		5.2	4.1	4.5	–	13.8
Adjustments for changes in liabilities	(i)	13.8	10.3	0.4	(0.1)	24.4
At 31 December 2022		404.0	128.0	46.3	4.2	582.5
Depreciation:						
At 1 January 2022		43.9	21.0	22.1	2.0	89.0
Charge for the year		18.2	7.3	7.7	0.7	33.9
At 31 December 2022		62.1	28.3	29.8	2.7	122.9
Net book value:						
At 31 December 2022		341.9	99.7	16.5	1.5	459.6
At 1 January 2022		341.1	92.6	19.3	2.3	455.3

9 LEASING *continued*

Year ended 31 December 2023	Note	Land £m	Buildings £m	Vehicles £m	Other equipment £m	Total £m
Cost:						
At 1 January 2023		404.0	128.0	46.3	4.2	582.5
Additions		64.8	–	1.3	–	66.1
Adjustments for changes in liabilities	(i)	17.0	12.0	16.4	0.5	45.9
Disposals		(0.4)	–	(0.4)	–	(0.8)
At 31 December 2023		**485.4**	**140.0**	**63.6**	**4.7**	**693.7**
Depreciation:						
At 1 January 2023		62.1	28.3	29.8	2.7	122.9
Charge for the year		19.6	7.4	11.7	0.7	39.4
Disposals		–	–	(0.3)	–	(0.3)
At 31 December 2023		**81.7**	**35.7**	**41.2**	**3.4**	**162.0**
Net book value:						
At 31 December 2023		**403.7**	**104.3**	**22.4**	**1.3**	**531.7**
At 1 January 2023		341.9	99.7	16.5	1.5	459.6

(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.

	2023 £m	2022 £m
Less than one year	55.1	50.2
One to five years	185.4	161.3
More than five years	648.9	531.1
Total undiscounted lease liabilities at 31 December	**889.4**	742.6
Finance cost	(297.3)	(218.8)
Total discounted lease liabilities	**592.1**	523.8

Analysis of total lease liabilities		
Non-current	551.5	487.8
Current	40.6	36.0
Total	**592.1**	523.8

Details of the Group's risk management strategy for liquidity risks inherent in its lease liability are described at Note 12(e)C1.

(d) Amounts recognised in Income statement

	Note	**2023 £m**	2022 £m
Interest on lease liabilities		(20.2)	(19.2)
Variable lease payments not included in the measurement of lease liabilities		(23.6)	(14.5)
Income from sub-leasing right-of-use assets		0.1	0.2
Expenses relating to short-term leases	(i)	(10.4)	(10.8)

(i) This charge relates to leases for plant and equipment, and vehicles which are considered short-term. Future commitments relating to the portfolio of short-term leases entered into for the next financial year are not expected to be materially different from the expense charged in the current year.

(e) Amounts recognised in the Statement of cash flows

	2023 £m	2022 £m
Payments of lease liabilities	(43.5)	(25.9)
Interest paid on lease liabilities	(19.8)	(18.4)
Payments for variable lease components	(22.5)	(14.5)
Payments for short-term leases	(9.2)	(9.1)
Total cash outflow for leases	**(95.0)**	(67.9)

10 RETIREMENT BENEFITS

A ANALYSIS OF BALANCE

The amounts recognised in the Statement of financial position in respect of the net retirement benefit assets/(obligations) are detailed below:

	2023 £m	2022 £m
Non-current assets	**246.6**	341.9
Non-current liabilities	**(123.4)**	(101.9)

B GROUP PENSION ARRANGEMENTS

The Group operates the following pension schemes for staff:

Scheme	Scottish Power Pension Scheme ("SPPS")	Manweb Group of Electricity Supply Pension Scheme ("Manweb")	Stakeholder Pension Plan
Type of benefit	Final salary	Final salary	Defined contribution
New entrants	No	No	Yes
Funded separately from Group assets	Yes	Yes	Yes
Administration method	Trustee board	Trustee board	Insurance contract
Member contributions	5% of salary	5.5% of salary	5% of salary with the option to change the contribution rate
How Group contributions are determined	Agreement of Trustee and Group following actuarial valuation (last valuation: 31 March 2021)	Agreement of Trustee and Group following actuarial valuation (last valuation: 31 March 2021)	Defined
Current actual Group contributions	53.4% of salary	52.9% of salary	Up to 10% of salary for the majority of employees
Special contributions during year ended 31 December 2023	£38.7 million	£49.0 million	None
Special contributions planned for year ending 31 December 2024	£3.8 million	£53.9 million	None
Pension charge	Based on advice of independent qualified actuary	Based on advice of independent qualified actuary	Equal to actual Group contributions in the year (2023 £20.9million, 2022 £17.3 million)

The age profile of the two final salary schemes is expected to rise over time, due to the schemes being closed to new entrants. All else being equal, this will, in turn, result in increasing service costs for these two schemes due to the actuarial valuation method used, the projected unit method, which IAS 19 stipulates is used to determine the present value of the defined benefit obligation and current service cost.

The Group also operates an Unfunded Unapproved Retirement Benefit Scheme for former senior executives' benefit promises in excess of limits set by the UK taxation authorities. The UURBS has no invested assets, and the Group has provided £2.8 million as at 31 December 2023 (2022 £2.9 million) for the benefit promises which will ultimately be paid by the Group.

In light of the improvement in the SPPS funding position and the desire to avoid trapped surplus, the Company agreed a revised Schedule of Contributions with the SPPS Trustees in December 2023. While the Scheme remains at least 99% funded on a technical provisions basis, the revised schedule suspends the previously agreed deficit contributions from 31 December 2023 until the outcome of the 31 March 2024 triennial funding valuation exercise is known and a new recovery plan is agreed (if applicable).

At the 2022 year end, the Defined Benefit Obligation for Manweb was updated to reflect the constructive obligation arising from the 'best endeavours' commitment to provide pension increases in line with uncapped Retail Price Index ("RPI") inflation. This obligation has previously been communicated to Manweb members, is referenced in the scheme funding documents and has been in place for some time.

C GROUP PENSION SCHEME GOVERNANCE

As described in the table above, the Group operates two defined benefit pension schemes. Active members continue to accrue benefits in the schemes, which are based on final pensionable salary. The two schemes are closed to new entrants.

The schemes are approved by HMRC and subject to standard UK pensions and tax law. The defined benefit schemes are subject to the scheme funding requirements as set out in section 224 of the Pensions Act 2004. In accordance with the scheme funding requirements, an actuarial funding valuation is carried out at least triennially to determine the appropriate level of ongoing contributions for both future service and a recovery plan in respect of any deficit at the valuation date. These actuarial valuations will be based on assumptions agreed between the Trustees and the Group. The assumptions used to calculate liabilities (or technical provisions) in a triennial funding valuation may differ from those used when accounting under IAS 19. The Trustees are required to set assumptions prudently, whereas IAS 19 assumptions are set with regard to the Group's best estimates. Additionally, the discount rate used to value technical provisions in a triennial valuation will take into account the scheme investment strategy, rather than being based on the yield on AA corporate bonds as required under IAS 19. The most recent completed actuarial valuations were as at the effective date of 31 March 2021.

In accordance with UK trust and pensions law, the defined benefit pension schemes are governed by their respective Board of Trustees. Although the Group meets the financial cost of running the schemes, the Trustees are responsible for the management and governance of the schemes, and have a duty to act in the best interests of the members.

The strategic management of the assets is the responsibility of the Trustees acting on expert advice. The Trustees take advice from the schemes' actuaries and investment advisers with a view to investing the schemes' assets in a manner that is appropriate to the nature and duration of the expected future retirement and death benefits payable from the schemes. In consultation with the Group, the Trustees have set out target investment strategies for the schemes of 66% matching and 34% growth assets.

10 RETIREMENT BENEFITS *continued*

In terms of the matching portfolio, the schemes utilise a Liability Driven Investment ("LDI") strategy. The aim of the LDI portfolio is to invest in a range of assets (mostly bonds) which broadly match the expected future benefit payments from the schemes. In addition, the Trustee of SPPS and the Trustee of Manweb implemented longevity swaps in December 2014 and July 2016 respectively. For further details, refer to the Mortality risk section that follows.

D RISK MANAGEMENT

The defined benefit schemes expose the Group to actuarial risks and details of the specific risks and how they are managed are described below.

D1 INVESTMENT (MARKET) RISK

There is a risk relating to changes in the value of the portfolio due to movements in the market value of the assets. To the extent that there is a mismatch between the investment strategy and the overall level and profile of the liabilities, this can lead to volatility in the funding level, and as the portfolio matures there is a risk of not being able to reinvest assets at the assumed rates. The Trustees utilise an LDI strategy which aims to invest 66% of the assets in matching LDIs such as bonds, which broadly match the nature and profile of the future expected benefit payments from the schemes.

The underlying LDI strategy utilises investment in fixed-interest and index-linked government securities, cash, and derivative instruments such as interest and inflation rate swaps. The objective of the LDI strategy is to manage the schemes' interest and inflation rate exposure relative to the interest and inflation rate exposure of the liability cash flows. Hence, the strategy provides a hedge against changes in scheme liabilities resulting from interest and inflation rate movements (refer to further detail below). LDI assets are valued in accordance with fair value principles. For instance, valuations will be based on quoted prices where available (e.g. fixed-interest securities) and pricing models using observable market inputs (e.g. in relation to swaps and other derivative instruments). The Trustees have diversified the market risk in the growth portfolio across multiple asset types, such as property and private and mezzanine debt. As with LDI, growth assets are valued based on quoted prices where available (e.g. quoted equities and corporate bonds). Where investments do not have a market quotable price available, such as level 3 assets, the fair values are derived in accordance with IFRS 13 'Fair Value Measurement' ("IFRS 13") and provided by the fund manager. Through diversification, the specific risk associated with individual investments is mostly mitigated and expected volatility of returns is reduced. In addition, the Trustees review the investment strategies on a regular basis to ensure that it remains appropriate and in particular in response to legislative changes, a material change in the schemes' funding levels or changes in the attitude to risk of the Trustees or Group.

Each of the pension schemes is invested in an appropriately diversified range of assets. The broad proportion of each asset class in which the schemes aim to be invested are as shown in the table below, however it is important to note that this may vary from time to time as markets change and cash may be held for strategic reasons. Additional information on the schemes' investment strategies, including ESG considerations, can be found in each of the Statement of investment principles at www.sppensions.com.

	2023	2022
LDI	**66%**	66%
Property	**8%**	8%
Mezzanine/Private debt	**26%**	26%
	100%	100%

D2 MORTALITY RISK

The assumptions adopted by the Group make allowance for future improvements in life expectancy. There is a risk that life expectancy improves faster than assumed and that benefits are paid for longer than expected, thereby increasing the cost of the schemes. The Group and the Trustees regularly review the actual scheme mortality experience to minimise the risk of using an inappropriate assumption. In general, the Trustees will also use prudent assumptions when deriving the triennial actuarial valuation basis used for funding requirements.

In December 2014 and July 2016, the Trustees of SPPS and Manweb (respectively) implemented a longevity swap in respect of the current pensioners at that time. The swap removes the previously unhedged longevity risk for the pensioners (and their contingent spouses) by hedging the risk of members covered by the contract living longer than expected (who constitute approximately 40% and 60% of the total liability of the SPPS and Manweb schemes respectively). The swaps are an insurance contract between both SPPS and Manweb and the counterparty insurer. Counterparty risk is mitigated by both SPPS and Manweb and the counterparty posting collateral to the other party on a daily basis to account for market movements in the value of the derivatives held.

D3 CURRENCY RISK

The Trustees have appointed Blackrock to manage the currency hedging mandates for SPPS and Manweb. Through the use of currency forwards, approximately 75% of the currency exposure inherent in the euro-denominated infrastructure and private debt instruments, and US dollar-denominated mezzanine and private debt instruments is hedged.

D4 INTEREST RATE RISK

A fall in the yield on government bonds increases both the liabilities and assets of the schemes. To the extent that the assets do not fully match the nature and duration of the liabilities, this could lead to a worsening in the funding position of the schemes. The Trustees currently target 66% of the schemes' investments in LDI which include matching assets such as fixed-interest bonds. The interest rate hedging strategy adopted within the LDI portfolio provides partial protection against the impact of changes in yields. The current target is for 90% and 80% of the interest rate risk (for SPPS and Manweb respectively) to be hedged on a technical provisions basis. Under the de-risking framework agreed between the Group and the Trustees, the level of interest rate hedging will be increased when market conditions are deemed favourable. As the level of hedging increases, funding level volatility will be further reduced.

10 RETIREMENT BENEFITS *continued*

D5 INFLATION RATE RISK

The majority of the schemes' liabilities increase in line with inflation, subject to relevant caps and collars. To the extent that inflation is higher than expected, this will increase the liabilities of the schemes. The schemes' target investment strategy is to invest 66% of the portfolio in LDI investments which will include bonds that are also linked to inflation. The inflation hedging strategy adopted within the LDI portfolio provides partial protection against the impact of changes in inflation. The current target is for 90% and 80% of the inflation rate risk (for SPPS and Manweb respectively) to be hedged on a technical provisions basis. Under the de-risking framework agreed between the Group and the Trustees, the level of inflation rate hedging will be increased when market conditions are deemed favourable. As the level of hedging increases, funding level volatility will be further reduced.

D6 MANWEB CREDIT FACILITY

In 2023 the Company provided a revolving credit facility to Manweb for the purpose of ensuring that the scheme has sufficient short-term liquidity under a future stress scenario. For example, a significant collateral call in relation to the scheme's derivative hedging of inflation and interest rates caused by a sharp rise in gilt yields such as that seen during the September 2022 "LDI crisis" in the UK. The facility allows for a maximum loan of £80.0 million and is in place until 31 December 2026 – at that point the scheme is expected to have sufficient liquidity under a stressed scenario due to the maturity profile of the scheme's illiquid assets, meaning the revolving credit facility would no longer be required.

Manweb has sufficient liquidity to meet current cash flow requirements and accordingly no drawdowns from the facility have been made to date, nor are any drawdowns expected in the immediate future. While the facility is in place and no drawdowns have been made, there is no accounting impact for the Company.

E ACTUARIAL ASSUMPTIONS

E1 PENSION SCHEMES ASSUMPTIONS

The assumptions used by the independent actuary for the pension arrangements, for both schemes, were developed by management with the assistance of the independent actuary.

(a) The table below details the assumptions used by the independent actuary for the pension scheme arrangements and are expressed as weighted averages:

	2023	2022
Rate of increase in salaries (Note (i))	**3.0% p.a.**	3.2% p.a.
Rate of increase in deferred pensions (RPI capped at 5% p.a.) (Note (ii))	**3.0% p.a.**	3.2% p.a.
Rate of increase to pensions in payment (RPI capped at 5% p.a.) (Note (iii))	**3.0% p.a.**	3.1% p.a.
Discount rate	**4.4% p.a.**	4.8% p.a.
Inflation assumption – RPI	**3.0% p.a.**	3.2% p.a.
Inflation assumption – CPI	**2.4% p.a.**	2.6% p.a.

(i) For members of the FSLP section of the SPPS scheme, the 2023 salary assumption is 3.3% p.a. (2022 3.4% p.a.).
(ii) For members of the FSLP section of the SPPS scheme, deferred pensions are increased with reference to statutory revaluation.
(iii) For members of Manweb, the majority of pensions in payment are assumed to increase in line with RPI without a cap applied.

Most benefits in the schemes increase in deferment or in retirement, with the rate and index of increase determined by when the benefit was accrued by the member and in which section. As stated in the scheme rules, the vast majority of benefits increase in line with RPI inflation subject to various floors and caps. A very small proportion of benefits, namely guaranteed minimum pension benefits accrued between April 1988 and April 1997, increase in retirement in line with CPI inflation with a 0% floor and a 3% cap applied on an annual basis.

For the year ended 31 December 2023 management has made a refinement to the way that the discount rate has been set. The discount rate is now the single rate that would result in the same Defined Benefit Obligation as discounting future cashflows using the full yield curve (rather than taking a single point from the curve at the duration of the schemes' liabilities, as was the case in previous years). This is a change in accounting estimate as per IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' ("IAS 8"). This change, in isolation, has increased the discount rate by 0.44% at 31 December 2023 resulting in a reduction in Defined Benefit Obligation of £150.0 million for SPPS and a reduction in Defined Benefit Obligation of £50.0 million for Manweb.

(b) The weighted average life expectancies for mortality used to determine the benefit obligations were as follows:

	SPPS				Manweb			
	2023		2022		2023		2022	
At 31 December	**Male Years**	**Female Years**	Male Years	Female Years	**Male Years**	**Female Years**	Male Years	Female Years
Member age 63 (current life expectancy)	**22.6**	**24.6**	24.0	25.7	**22.6**	**25.3**	24.0	25.7
Member age 45 (life expectancy at age 63)	**23.8**	**26.5**	25.2	27.1	**24.1**	**27.1**	25.2	27.1

(c) The post-retirement mortality assumptions are as follows:

	2023		2022
Base tables	**SPPS**	**Manweb**	**SPPS and Manweb**
	115%/113% S3PMA /115%/122% S3PFA (non-pensioner/pensioner)	**111%/113% S3PMA /106%/112% S3PFA (non-pensioner/pensioner)**	95% S2PMA/100% S2PFA (ill-health members have a +6-year age rating)
Allowance for future improvements	**CMI* 2022 with 7.0 smoothing parameter 0.25% initial addition parameter**	**CMI* 2022 with 7.0 smoothing parameter 0.25% initial addition parameter**	CMI* 2021 with 7.0 smoothing parameter 0.25% initial addition parameter
	40% w2022 parameter	**40% w2022 parameter**	10% w2020 parameter
	1.25% long-term improvement rate	**1.25% long-term improvement rate**	1.25% long-term improvement rate

* CMI – Continuous mortality investigations

10 RETIREMENT BENEFITS *continued*

The post retirement mortality assumptions have been set as follows:

- Base tables: consistent with best estimate from analysis conducted by the Scheme Actuary for purpose of latest triennial funding valuations.
- Future mortality improvements: review the latest CMI model and consider if any new parameters have been introduced or changes made to core parameters and carry out an analysis to ensure that these are set to be appropriate for the scheme's population.

The above reviews have led to the adoption of the latest 2022 CMI future improvements model. COVID-19 continues to affect mortality rates in the UK and the Company expects that it will take many years before mortality improvements revert to a pre-pandemic state. The Company therefore considers that it is appropriate to adopt a CMI w2022 parameter of 40% (the weight placed on the excess deaths observed during 2022).

E2 IMPACT OF CHANGING MATERIAL ASSUMPTIONS ON THE DEFINED BENEFIT OBLIGATIONS

The sensitivity analysis below has been calculated by varying the critical actuarial assumption whilst keeping all other assumptions constant. Liabilities are calculated using the same method and membership data as that used to derive the defined benefit obligation. As well as impacting on salary growth, a change in inflation also impacts on other inflation-linked assumptions such as increases to deferred pensions and pensions in payment. This sensitivity applies to the defined benefit obligations only, and not to the net defined benefit pension asset/liability in its entirety, the measurement of which is driven by a number of factors including, in addition to the assumptions below, the fair value of scheme assets. There has been no change to the method year-on-year to assess the sensitivity of the results to changes in the critical actuarial assumptions.

Possible changes as at 31 December to one of the actuarial assumptions would have affected the defined benefit obligations as noted below. Given the reduction in market volatility relative to the prior year end, the range of scenarios presented below for 2023 is narrower than for 2022.

	Increase/(decrease) in defined benefit obligations					
		2023			2022	
Impact of changing material assumption	**£m**	**£m**	**£m**	£m	£m	£m
Rate of increase/decrease in inflation	**0.5%**	**0.25%**	**0.1%**	1.0%	0.5%	0.1%
Increase by	**166.3**	**79.8**	**31.8**	357.3	180.2	32.5
Decrease by	**(164.7)**	**(84.4)**	**(33.6)**	(334.0)	(177.1)	(34.2)
Rate of increase/decrease in discount rate	**0.5%**	**0.25%**	**0.1%**	1.0%	0.5%	0.25%
Increase by	**(206.4)**	**(106.0)**	**(43.1)**	(395.3)	(208.5)	(107.2)
Decrease by	**230.7**	**112.1**	**44.0**	496.3	233.5	113.5
Assumed life expectancy						
Increase mortality by one additional year			**114.6**			117.2

E3 ANALYSIS OF SCHEME ASSETS

E3.1 FAIR VALUE OF PLAN ASSETS

The following table provides information on the composition and fair value of plan assets of the SPPS and Manweb schemes.

	2023				2022			
	SPPS £m	**Manweb £m**	**Total £m**	**Plan asset allocation %**	SPPS £m	Manweb £m	Total £m	Plan asset allocation %
Equities	**–**	**–**	**–**	**–**	34.3	57.8	92.1	2.7%
LDI instrument (Note (i))	**1,279.1**	**256.5**	**1,535.6**	**45.7%**	1,223.4	175.9	1,399.3	40.8%
Property	**220.6**	**83.1**	**303.7**	**9.0%**	195.2	87.5	282.7	8.2%
Cash	**84.2**	**27.0**	**111.2**	**3.3%**	97.1	59.8	156.9	4.6%
Mezzanine/private debt	**890.7**	**263.5**	**1,154.2**	**34.4%**	902.1	281.7	1,183.8	34.6%
Longevity swap fair value	**(234.2)**	**(105.5)**	**(339.7)**	**(10.1)%**	(172.0)	(87.9)	(259.9)	(7.6)%
Longevity swap collateral (Note (ii))	**368.3**	**227.5**	**595.8**	**17.7%**	378.3	194.9	573.2	16.7%
Fair value of scheme assets	**2,608.7**	**752.1**	**3,360.8**	**100.0%**	2,658.4	769.7	3,428.1	100.0%

(i) At 31 December 2023, LDI instruments include £50.2 million of cash for SPPS and £10.3 million of cash for Manweb. The remaining assets within each scheme's liability driven investment allocations include fixed and index-linked government bonds as well as interest rate and inflation swap contracts. None of these investments are categorised as level 3 assets (refer to E3.2 overleaf).

(ii) Longevity swap collateral is held in gilts and cash.

10 RETIREMENT BENEFITS *continued*

SPPS and Manweb investment strategies are similar and there is no significant difference in risk profiles due to either geography or industry type. The schemes' assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group. Neither of the schemes held ScottishPower or Iberdrola shares in 2023 or 2022.

As at 31 December 2023, no plan assets (2022 2.7% of plan assets) have quoted prices in active markets. Markets are considered active if transactions for the asset take place with sufficient frequency and volume to provide pricing information at the measurement date and on an ongoing basis. The remaining plan assets do not have quoted prices in active markets. Of these plan assets, £1,117.6 million (2022 £1,206.7 million) are level 3 assets, which are discussed below.

E3.2 VALUATION OF LEVEL 3 PLAN ASSETS

Level 3 assets are investments where a market quotable price is not available. The fair values of these assets are derived in accordance with IFRS 13 and provided by the relevant fund manager. As noted below, year end valuations for some level 3 assets may be estimated and are significant accounting estimates. Final audited year end valuations for these assets are typically not available until several months after the year end. Additionally, as 31 December 2023 was not a working day, some of the asset values used are as at 29 December 2023, however there is not a material differential as a result of this. As part of the controls carried out on these assets, a retrospective review is carried out for the purposes of these accounts and material valuation differences updated.

(a) Property

An independent market valuation of the direct property investments as at 31 December 2023 is provided by BNP Paribas with reference to comparable market transactions. Key assumptions for property valuations are market rents and yields. Accordingly, the direct property valuation is not reported as being subject to 'material valuation uncertainty'. The fair value of the indirect property assets is based on the most recent available fund valuation at 31 December 2023.

(b) Mezzanine/private debt

Fair values are based on the most recently available quarterly valuations (30 September 2023) adjusted where relevant for cash flows to year end. Various different valuation methods are utilised by the mezzanine/private debt managers as appropriate for the underlying investment including discounted cash flows, enterprise value, cost plus accrued interest and external pricing. For instance, where internal cash flow modelling has been performed, significant assumptions will include discount rate and, expected cash flows. No material adjustments to the relevant quarterly valuations have been noted by the fund managers.

(c) Longevity swap

During 2023, an independent assessment of the fair values of the swaps was carried out on behalf of the Trustees by the actuary for the schemes for the purposes of updating the reported values in the scheme accounts as at 31 March 2023. Following a review by the Group of this valuation methodology, it was determined that this methodology, and consequently the fair values reported at 31 March 2023, were suitable for reporting under IAS 19 in accordance with IFRS 13. The fair value assessment carried out by the independent actuary allows for the difference between the present value of the known cash flows under the original fixed leg of the swap using longevity assumptions agreed at inception and the present value of the projected cash flows under the floating leg. The projections underlying the floating leg of the swap allow for the schemes' actual mortality experience since inception, more up to date data on current swap population and, more up to date industry expectations of future longevity experience and an allowance for the fees the Company expects the market to charge at the current time.

Therefore, for the purposes of the 31 December 2023 valuation, the Group has revised the 31 March 2023 fair value in line with this figure and adjusted to the year end in line with movements in the value of the fixed and floating legs of the swaps as calculated under the existing collateral model valuations due to changes in financial assumptions and the estimated impact of actual versus assumed scheme mortality experience. Hence the valuation takes into consideration current market conditions at the reporting date. This valuation approach is consistent with the methodology adopted for the 2022 year end.

As at 31 December 2023, the fair values of the longevity swap liabilities for SPPS and Manweb were £(234.2) million (2022 £(172.0) million) and £(105.5) million (2022 £(87.9) million) respectively.

10 RETIREMENT BENEFITS *continued*

F MOVEMENTS IN THE DEFINED BENEFIT OBLIGATIONS AND SCHEME ASSETS DURING THE YEAR

(a) Movements in the present value of the defined benefit obligations and scheme assets are as follows:

	2023			2022		
	Defined benefit obligations £m	**Scheme assets £m**	**Total £m**	Defined benefit obligations £m	Scheme assets £m	Total £m
At 1 January	**(3,188.1)**	**3,428.1**	**240.0**	(4,989.0)	5,181.2	192.2
Items recognised in the Consolidated income statement						
Current service cost	**(21.6)**	**–**	**(21.6)**	(47.6)	–	(47.6)
Past service costs (charge)/credit (Note (i))	**(0.2)**	**–**	**(0.2)**	5.2	–	5.2
Interest (expense)/income (Note (ii))	**(146.6)**	**161.9**	**15.3**	(96.3)	101.3	5.0
Administration expenses	**–**	**(4.3)**	**(4.3)**	–	(3.9)	(3.9)
	(168.4)	**157.6**	**(10.8)**	(138.7)	97.4	(41.3)
Items recognised in the Consolidated statement of comprehensive income						
Actuarial gains arising from changes in demographic assumptions	**192.2**	**–**	**192.2**	95.0	–	95.0
Actuarial (losses)/gains arising from changes in financial assumptions	**(140.1)**	**–**	**(140.1)**	1,803.3	–	1,803.3
Actuarial losses arising from changes of the scheme experience different to that assumed	**(126.0)**	**–**	**(126.0)**	(215.8)	–	(215.8)
Return on assets relative to interest income (Note (ii))	**–**	**(167.3)**	**(167.3)**	–	(1,732.0)	(1,732.0)
	(73.9)	**(167.3)**	**(241.2)**	1,682.5	(1,732.0)	(49.5)
Other movements						
Employer contributions	**–**	**135.2**	**135.2**	–	138.6	138.6
Benefits paid	**197.5**	**(197.5)**	**–**	261.9	(261.9)	–
Scheme members' contributions	**(4.7)**	**4.7**	**–**	(4.8)	4.8	–
	192.8	**(57.6)**	**135.2**	257.1	(118.5)	138.6
At 31 December	**(3,237.6)**	**3,360.8**	**123.2**	(3,188.1)	3,428.1	240.0

(i) The past service costs of £0.2 million for the year ended 31 December 2023 (2022 credit of £5.2 million) comprised new provisions for restructuring costs and true-ups of prior year provisions for restructuring costs.

(ii) The actual loss on scheme assets amounted to £(5.4) million (2022 loss of £(1,630.7) million. As noted previously, the schemes' assets are largely hedged against movements in interest rates and inflation. The fall in bond yields over the period acts to increase the value of the plan assets. But this is largely offset by the effect of a reduction in long-term inflation expectations (which reduces the value of the plan assets) and a reduction in the fair value of the longevity swaps over the period.

(b) Analysis of the defined benefit obligations and scheme assets at 31 December:

	2023			2022		
	Defined benefit obligations £m	**Scheme assets £m**	**Total £m**	Defined benefit obligations £m	Scheme assets £m	Total £m
Present value of funded obligations/fair value of scheme assets	**(3,234.8)**	**3,360.8**	**126.0**	(3,185.2)	3,428.1	242.9
Present value of unfunded obligations	**(2.8)**	**–**	**(2.8)**	(2.9)	–	(2.9)
Total net asset			**123.2**			240.0

(c) The net asset/(liability) at 31 December is analysed by scheme as follows:

	2023 £m	2022 £m
Included on the Statement of financial position as non-current assets		
SPPS	**246.6**	341.9
Included on the Statement of financial position as non-current liabilities		
Manweb and UURBS	**(123.4)**	(101.9)
Total net asset	**123.2**	240.0

G ADDITIONAL INFORMATION

G1 FUTURE CONTRIBUTIONS

The Group expects to contribute £105.5 million to the pension schemes in the year ending 31 December 2024. The level of cash contributions payable by the Group will next be reviewed at the 31 March 2024 triennial funding valuations which are due to be completed by 30 June 2025.

10 RETIREMENT BENEFITS *continued*

G2 MATURITY PROFILE OF THE DEFINED BENEFIT OBLIGATIONS

The following table provides expected undiscounted future cash flow projections for both pension schemes based on current member data. These cash flows reflect expected benefit payment amounts based on the underlying demographic assumptions adopted at 31 December 2023. Cash flows are expected to peak in 2034 for Manweb and 2035 for SPPS with benefits payments extending to approximately 2080 for Manweb and 2090 for SPPS.

	Expected future cash flows (£m)				
Year	**2024**	**2025**	**2026**	**2027**	**2028**
SPPS	117.0	107.5	110.5	113.5	114.9
Manweb	52.4	46.6	46.9	47.3	51.1

Liabilities have been calculated as at 31 December 2023 based on membership data provided as at 30 April 2023.

G3 ANALYSIS OF THE DEFINED BENEFIT OBLIGATIONS BY MEMBER STATUS

	2023		2022	
At 31 December	**SPPS %**	**Manweb %**	SPPS %	Manweb %
Active members	**24**	**21**	22	20
Deferred members	**15**	**8**	15	9
Pensioners	**61**	**71**	63	71
The weighted average duration of the defined benefit obligations as at 31 December	**14.0 years**	**12.5 years**	14.5 years	12.5 years

G4 MINIMUM FUNDING REQUIREMENT

Under the rules of each scheme, the Trustees cannot unilaterally wind-up the schemes and the Group would be able to assume gradual settlement of the liabilities over time until all members have left. Having then triggered a wind-up, any remaining surplus would revert to the Group. Furthermore, the power to amend the rules of each scheme lies with the Group, and the Trustees cannot unilaterally improve benefits under the schemes. Therefore, the Group has an unconditional right to a refund under IFRIC 14 'IAS 19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' and thus there is no requirement to restrict any IAS 19 surplus, should it arise, nor to recognise any additional liabilities in respect of minimum funding requirements.

11 INVESTMENTS IN JOINT VENTURES

(a) Movements in aggregate of individually immaterial investments in joint ventures are analysed as follows:

	£m
1 January 2022	7.7
Share of result for year	1.3
Dividends	(0.3)
At 1 January 2023	8.7
Share of result for year	1.1
At 31 December 2023	**9.8**

(i) Investments in joint ventures are accounted for using the equity method. Details of the Group's joint ventures are set out in Appendix 1.

(ii) No quoted market prices exist for investments in joint ventures.

(iii) No significant restrictions exist (e.g. resulting from borrowing arrangements, regulatory requirements or contractual arrangements between investors with joint control of, or significant influence over, a joint venture) that impact upon the ability of joint ventures to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group (2022 none).

(b) Commitments

The Group has commitments not recognised at 31 December 2023 relating to its interests in joint ventures of £0.8 million (2022 £0.9 million).

12 FINANCIAL INSTRUMENTS

(a) Carrying amount of financial instruments

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

	Classification	Notes	2023 Carrying amount £m	2023 Fair value £m	2022 Carrying amount £m	2022 Fair value £m
Financial assets						
Other investments	FVTPL		**0.2**	**0.2**	0.2	0.2
Derivative financial instruments	Fair value hedging instrument	(v)	**302.7**	**302.7**	657.2	657.2
Receivables	Amortised cost/FVTPL	(i), (ii)	**2,777.4**	**2777.4**	3,228.6	3,228.6
Cash		(iii)	**159.1**	**159.1**	869.1	869.1
Financial liabilities						
Loans and other borrowings	Amortised cost	(iv)	**(6,899.6)**	**(6,833.0)**	(6,953.6)	(6,831.1)
Derivative financial instruments	Fair value hedging instrument		**(581.6)**	**(581.6)**	(1,718.7)	(1,718.7)
Payables	Amortised cost	(i)	**(1,913.8)**	**(1,913.8)**	(2,037.4)	(2,037.4)
Other financial liabilities	Amortised cost		**(247.3)**	**(247.3)**	(23.8)	(23.8)

The carrying amount of these financial instruments is calculated as set out in Note 4H. With the exception of Loans and other borrowings, the carrying amount 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 (iv) below.

(i) Balances outwith the scope of IFRS 7 and IFRS 9 have been excluded, namely Prepayments, Other tax receivables, Payments received on account and Other taxes and social security. The Receivables balance at 31 December 2023 also excludes £1.3 million of prepayments with joint ventures. The balance at 31 December 2022 also excludes £8.8 million of Receivables in respect of government support schemes that represented prepaid EBSS obligation costs relating to payments made to certain customers in advance of the 2022 year end (refer to Note 13(c)).

(ii) Included within Receivables is £0.2 million of contingent consideration (2022 £1.8 million).

(iii) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits. Restricted cash is £54.1 million as at 31 December 2023 (2022 £38.0 million) representing cash held relating to regulatory projects (refer to Notes 4R and 4S).

(iv) The fair value of listed debt is calculated using the most recently traded price to the 2023 year end date. The fair value of all other loans and borrowings is calculated using a discounted cash flow.

(v) Included within Derivative financial assets is £8.2 million (2022 £nil) of embedded derivatives.

(b) Measurement of financial instruments

The Group holds certain financial instruments which are measured in the Statement of financial position at fair value as detailed in Note 12(a) above. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

In both the current and prior year, all Other investments held by the Group are classified as Level 1 and all Derivative financial instruments held by the Group are classified as Level 2. All contingent consideration receivable held by the Group is classified as Level 2.

Included in Level 2 derivative liabilities of £581.6 million (2022 £1,718.7 million) are inseparable third-party credit enhancements. These have been reflected in the fair value measurement of the liability.

Level 2 commodity derivatives are fair-valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and their quoted prices in an active market.

Level 2 foreign exchange derivatives comprise a cross-currency swap and forward foreign exchange contracts, which are both fair-valued using the forward exchange rates quoted in an active market.

Level 2 CPI-linked inflation swaps are fair-valued using a discounted cash flow which uses forward inflation expectations derived from observable markets.

Level 2 embedded derivatives are fair-valued using discounted cash flows which use forward expectations for inflation derived from observable markets, the quoted prices of relevant commodities and quoted forward exchange rates.

Level 2 contingent consideration referenced in Note 12(a)(ii) above is fair-valued using a Monte Carlo simulation method, which is a risk and probability based model. The main risks inherent in the model are the potential adverse impacts from delay and weather resulting in overspend.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. There were no transfers in either the current or prior year.

12 FINANCIAL INSTRUMENTS *continued*

(c) Analysis of derivative financial instruments – carrying amount

		2023				2022			
		Assets		Liabilities		Assets		Liabilities	
	Note	Current £m	Non-current £m	Current £m	Non-current £m	Current £m	Non-current £m	Current £m	Non-current £m
Hedging derivatives:									
Exchange rate hedges:									
Fair value hedge – Cross-currency swap		–	17.5	–	–	0.7	26.9	–	–
Cash flow hedge – Foreign exchange rate		2.1	0.1	(14.1)	(10.9)	13.4	0.1	(0.4)	–
Commodity hedges – Cash flow hedge		362.5	74.5	(439.1)	(34.0)	588.6	243.7	(1,593.1)	(98.4)
Inflation swaps – Cash flow hedge		–	–	(23.9)	(215.8)	–	–	(13.0)	(277.1)
Non-hedging derivatives:									
Foreign exchange rate – Non-hedge		–	–	–	–	67.7	–	(2.1)	–
Commodity derivatives – Non-hedge		163.7	–	(167.0)	(2.7)	588.6	1.3	(598.9)	(9.5)
Embedded derivatives – Non-hedge		–	8.2	–	–	–	–	–	–
Total gross derivatives		528.3	100.3	(644.1)	(263.4)	1,259.0	272.0	(2,207.5)	(385.0)
Impact of netting	(i)	(315.3)	(10.6)	315.3	10.6	(830.5)	(43.3)	830.5	43.3
Total net derivatives on Statement of financial position		213.0	89.7	(328.8)	(252.8)	428.5	228.7	(1,377.0)	(341.7)

(i) Certain derivative financial instruments are presented net in the Statement of financial position. A reconciliation between the gross and net position is provided in Note 12(d).

(d) Offsetting of financial assets and financial liabilities

The Group is eligible to present financial assets and financial liabilities net in the Statement of financial position as described in Note 4H2.3. The following table provides information on the impact of offsetting in the Statement of financial position as well as the financial impact of the netting of certain instruments in the event of default or similar agreements.

2023	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial (liabilities) /assets offset in the Statement of financial position £m	Net amounts of financial assets/(liabilities) presented in the Statement of financial position £m	Related amounts not offset in Statement of financial position: Financial instruments (Note (i)) £m	Related amounts not offset in Statement of financial position: Collateral (held)/posted (Notes (ii) and (iii)) £m	Net amount £m
Financial assets						
Receivables	2,955.0	(177.6)	2,777.4	(406.1)	(8.3)	2,363.0
Derivative financial instruments	628.6	(325.9)	302.7	–	(15.3)	287.4
Financial liabilities						
Payables	(2,091.4)	177.6	(1,913.8)	6.0	8.3	(1,899.5)
Derivative financial instruments	(907.5)	325.9	(581.6)	–	400.1	(181.5)
Other financial liabilities	(247.3)	–	(247.3)	15.3	–	(232.0)

2022	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial (liabilities) /assets offset in the Statement of financial position £m	Net amounts of financial assets/(liabilities) presented in the Statement of financial position £m	Related amounts not offset in Statement of financial position: Financial instruments (Note (i)) £m	Related amounts not offset in Statement of financial position: Collateral (held)/posted (Notes (ii) and (iii)) £m	Net amount £m
Financial assets						
Receivables	3,578.1	(349.5)	3,228.6	(516.6)	(0.2)	2,711.8
Derivative financial instruments	1,531.0	(873.8)	657.2	–	(50.5)	606.7
Financial liabilities						
Payables	(2,386.9)	349.5	(2,037.4)	17.7	0.2	(2,019.5)
Derivative financial instruments	(2,592.5)	873.8	(1,718.7)	–	525.6	(1,193.1)
Other financial liabilities	(23.8)	–	(23.8)	23.8	–	–

(i) Certain contracts for both financial assets and financial liabilities, do not currently meet the offsetting criteria within IAS 32. However, in the event of default, these would be required to be offset per the requirements of the contract. The above balances show the effect on the Group if these contracts were also offset.

(ii) The Group enters into standard netting agreements with its commodity trading counterparties in order to mitigate the credit risk exposure of the Group. In addition, the Group utilises collateral support agreements with derivative counterparties to manage its credit exposure. These forms of collateral include margining for trading with exchanges, collateral used for bilateral and brokering trading, as well as letters of credit. At 31 December 2023, the value of letters of credit held amounted to £10.3 million (2022 £11.3 million). The value of letters of credit posted and performance guarantee bonds amounted to £451.8 million (2022 £1,234.6 million), £145.0 million (2022 870.0 million) of which related to a letter of credit posted with the Group's commodity derivative clearer. The reduction in 2023 reflects a lower level of volatility in commodity derivative markets.

(iii) At 31 December 2023, the Group held collateral of £45.3 million (2022 £47.9 million) in respect of receivables, of which £43.9 million (2022 £44.1 million) can be offset against financial assets. At 31 December 2023, the Group also posted collateral of £441.2 million (2022 £572.2 million) in respect of payables, of which £420.4 million (2022 £519.0 million) can be offset against financial liabilities.

12 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management

The Group's principal financial liabilities, other than Derivative financial instruments, comprise Loans and other borrowings, Trade and other payables and Other financial liabilities. Their main purpose is to finance the Group's operations. The Group's principal financial assets, other than Derivative financial instruments, comprise Trade and other receivables, and Cash that arises directly from its operations. The Group also holds other investments.

The Group has exposure to the following risks arising from the above financial instruments:

A CREDIT RISK
B COMMODITY MARKET RISK
C TREASURY RISK

The Group's senior management oversee the management of exposure to these risks through the policies detailed below. References to ScottishPower below apply fully to the Group.

The ScottishPower governance structure is supported by group risk policies and other relevant guidelines adopted and approved by the SPL Board together with relevant risk guidelines that are approved by the SPL Board. The risk limits and indicators within the guidelines are approved by the boards of the Group's divisions. ScottishPower's business risk assessment teams and the independent group risk management function support the SPL Board in the execution of due diligence and risk management. In addition, the boards of the Group's divisions are responsible for ensuring that their respective business risks are adequately assessed, monitored, mitigated and managed. The UK Risk Director reports on risks for ScottishPower to the SP ACC and such reports are then presented to the SPL Board. ScottishPower's Internal Audit function also objectively and independently supervises the effectiveness of the Group's internal control system, which is made up of a set of risk management and control mechanisms and systems. This is achieved through regular and ad hoc audits, the results of which are reported to the SP ACC.

The governance structure described above, ensures that the risk management policies established for each business to identify, assess, monitor, report, manage and mitigate each relevant risk is adequately designed and implemented, and that an effective and efficient system of internal controls is maintained. The divisions adhere to their specific business risk limits and guidelines which were approved by the SPL Board.

The positions on risk and strategy for risk management are contained in the Risk Policy for Iberdrola's businesses in the UK (i.e. ScottishPower). The SPL Board adopts these policies which are implemented through a rigid risk governance structure, whereby responsibilities are vested with groups, committees and individuals on a global, as well as a division level. Generally, the risk management policy and control environment ensures that transactions undertaken, and instruments used, fall into the types of transactions approved by the SPL Board and are properly validated within the appropriate levels of authority. Transactions include instruments such as physically-settled instruments, financially-settled instruments, other contractual obligations, regulatory requirements and other obligations. The types of instruments which can be used are approved for each division. Subject to the limit requirements discussed above, no transactions were executed unless they were an approved instrument. Authorised personnel are permitted to engage only in those activities specified in the business operational policies and procedures.

A clear reporting structure is implemented within ScottishPower. It ensures that the portfolios are monitored on a timely basis and sufficient information is made available to management to enable quick response of the business to the dynamic characteristics of its market environment. Those reports include daily position, mark-to-market, Value at Risk ("VaR") reports as well as periodical fundamentals reports, credit watch, credit exposure, accounting and insurance reports.

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 Group is exposed to credit risk from its operating activities (primarily trade receivables) and financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The carrying amount of financial assets and contracts represent the maximum credit exposure to the Group.

A1 CREDIT RISK MANAGEMENT

The Group is exposed to both settlement risk (defined as the risk of a counterparty failing to pay for energy and/or 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).

Aggregate portfolio risk is monitored and reported by a Credit VaR Monte-Carlo-based simulation model to quantify the total credit risk within the existing portfolio.

Further details on the credit risk management strategy adopted for significant types of financial asset are set out below.

- Exposure to credit risk in the supply of electricity and gas arises from the potential that customers default on their invoiced payables. The financial strength and credit-worthiness of business customers is assessed prior to commencing, and for the duration of, their contract of supply. Both domestic and business customers' credit-worthiness is reviewed from a variety of internal and external information sources including customer payment history and credit checks.
- Credit risk in respect of other transactions is mitigated by contracting with multiple counterparties and limiting exposure to individual counterparties based upon the risk of counterparty default.
- Credit risk associated with energy-related derivatives is considered to be with counterparties in related energy industries, financial institutions operating in energy markets, or fellow Iberdrola Group companies. At the counterparty level, the Group employs specific eligibility criteria in determining appropriate limits for each prospective counterparty, and supplements this with netting and collateral agreements including margining, guarantees, letters of credit and cash deposits where appropriate.
- Credit risk from balances with banks and financial institutions is managed by SPL Treasury 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.

In both the current and prior year, the Group evaluated the concentration of risk with respect to financial assets as low, with no material concentration of credit risk arising from one particular counterparty.

12 FINANCIAL INSTRUMENTS *continued*

B COMMODITY MARKET RISK

Commodity market risk is principally comprised of energy market risk.

B1 ENERGY MARKET RISK

Throughout 2023 and the prior year, the Group was exposed to energy market risk associated with fluctuations in the market price of electricity and gas, compounded by volumetric risk caused by unplanned changes in the output of the portfolio of generation assets and consumption by energy customers.

B2 ENERGY MARKET RISK MANAGEMENT

The risk management policies are implemented at the business level with the oversight of the divisions' boards, management teams and the independent risk management function. The Group uses a number of risk measurement procedures and techniques to ensure that risk is kept within pre-approved limits. The key measures are stop-loss limits and volume exposure by tenor limits. All valuation models are reviewed and approved by the independent group risk management function on an ongoing basis, including changes to assumptions and model inputs. Changes that could have had significant impact on the Accounts required additional review and approval by the appropriate boards.

During both the current and prior year, the risk management function employed additional techniques such as VaR, to assist in measuring risk within the volume exposure by tenor limits. VaR is a key measure of the potential financial loss on a price exposure position over a defined period to a given level of confidence. VaR computations for the Group's energy commodity portfolios were based on a historical simulation technique, which utilised historical energy market forward price curve changes to estimate the potential unfavourable impact of price changes in the portfolio positions. The quantification of market risk using VaR provided a consistent measure of risk and sensitivity across the Group's continually changing portfolio, however, VaR was not necessarily indicative of actual results that may occur.

Future changes in markets inconsistent with historical data or assumptions used could cause variation in actual results to exceed predicted ranges. The Group's VaR computations for its energy commodity portfolio utilised several key assumptions, including a 99% confidence level for the resultant price changes and a holding period of five business days. VaR, while sensitive to changes in portfolio volume, does not account for commodity volume risk. Commodity volume risk is defined as the possibility that a change in the supply of, or demand for, the commodity will create an unexpected imbalance and change the requirements for the commodity.

The application of the VaR methodology includes the total forecasted volumes for the renewable generation assets and customer contracts to provide a more accurate measure of the risk associated with the volume exposure by tenor limits. The Group's VaR measures are shown in the table below.

	2023 £m	2022 £m
VaR	**129.9**	368.1
Average VaR over prior year	**202.7**	214.0
Maximum VaR over prior year	**366.1**	489.9
Minimum VaR over prior year	**127.6**	67.1

B3 HEDGING OF ENERGY MARKET RISK

Hedging activities associated with energy market risk are undertaken by Energy Management. The strategy of the business is to mitigate the economic risks associated with electricity generation and supply of electricity and natural gas to end users in both the wholesale and customer markets. From a reporting perspective the objective is to report earnings results that are consistent with its operational strategies and hence recognise the earnings effect of financial and non-financial derivative transactions executed to hedge economic business risks in the same period in which the hedged operational activity impacts earnings. The aim is to minimise earnings volatility, which would otherwise be present as a result of fair valuing all derivative contracts under IFRS 9. To achieve this objective, where effectiveness documentation and reporting requirements are met, cash flow hedge accounting is applied by designation of a series of derivative trades, and deferring in equity the fair value changes of open derivative positions until the period in which the forecast transactions occur.

Cash flow hedging strategies are developed for both the electricity and natural gas portfolios to hedge the variability in cash flows associated with changes in the market price of each commodity. Forward (fixed price/fixed volume) contracts are designated as hedging instruments for the majority of electricity and gas hedges. Load-following swaps are used to a lesser extent to hedge risks associated with electricity generation.

Counterparty risk is discussed in Note 12(e)A1.

12 FINANCIAL INSTRUMENTS *continued*

B4 COMMODITY CASH FLOW HEDGES

Certain commodity derivative instruments do not qualify for or are not subject to hedge accounting, including derivatives taken out with the ultimate parent company, Iberdrola, S.A.. Changes in the fair value of any derivative instrument that is not subject to hedge accounting are recognised immediately in the Income statement and are included in Gross margin, Finance income or Finance cost.

For an analysis of the split of the carrying amount of hedging and non-hedging commodity derivatives refer to Note 12(c).

The amounts relating to commodity derivatives designated as hedging instruments during the year are detailed in the table below:

	Notes	2023 Hedging derivatives £m	2022 Hedging derivatives £m
Notional amount		**2,516.7**	4,477.7
Carrying amount – asset	(a)	**437.0**	832.3
Carrying amount – liability	(a)	**(473.1)**	(1,691.5)
Changes in the value of the hedging instrument recognised in other comprehensive income		**823.1**	(1,770.1)
Amount reclassified from Cash flow hedge reserve to Income statement	(b)	**1,687.4**	(1,060.5)

(a) The carrying amount of derivative assets and liabilities are recorded within Derivative financial instruments on the Statement of financial position.

(b) The amount reclassified from the Cash flow hedge reserve to the Income statement is recorded within Gross margin.

The amounts at the reporting date relating to commodity items designated as hedged items were as follows:

	Change in fair value used for calculating hedge effectiveness		Cash flow hedge reserve balance	
Line item in the Accounts in which the hedged item is/will be included	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Gross margin	**(823.1)**	1,770.1	**(30.8)**	(693.2)

The assessment of effectiveness of all hedging relationships currently in place is carried out on a monthly basis as part of the financial reporting cycle. Prospective assessment is carried out at inception of the hedge and on an ongoing basis to verify that the hedge remains effective.

The Group determines that the economic relationship between the hedging instrument (the commodity derivative) and the hedged item (the commodity purchases or sale) will virtually always achieve 100% effectiveness where the key terms of the hedged item match the key terms of the hedging instrument. This will occur where the hedging instrument is a forward contract. As this is also the contract used to execute the hedged transaction, the key terms will match. Where this is not the case, prospective assessment is carried out at inception of the hedge, and on an ongoing basis, to verify that the hedge remains effective by comparing the movements in the fair value of the cash flows of the expected highly probable transaction with movements in the fair value of the hedging instrument.

Ineffectiveness will arise if the trade has been cancelled, in which case there would be no future transaction. In such circumstances, the trade and the hedge would be eliminated from the accounts. Ineffectiveness will also arise if the Group receives notification that the business have been unable to obtain a reliable price forecast from market sources or if there is a change to the Group Risk Management Strategy. Additionally, ineffectiveness will arise from any differences in the key terms of the hedged item and the hedging instrument.

B4.1 SENSITIVITY ANALYSIS ON COMMODITY PRICES

The sensitivity on the consolidated results to changes in the market prices of the main commodities are set out in the table below. Sensitivities below reflect reasonably possible changes in commodity prices. The sensitivities have changed from prior year as the market is less volatile than 2022 but is potentially more susceptible to market shocks, particularly price increases.

		2023			2022		
Commodity	Note	**Variation in price**	**Impact on Profit before tax £m**	**Impact on Equity before tax £m**	Variation in price	Impact on Profit before tax £m	Impact on Equity before tax £m
Gas		**+150%**	**–**	**399.5**	+100%	–	837.9
		-25%	**–**	**(66.6)**	-50%	–	(419.0)
Electricity	(a)	**+75%**	**(2.5)**	**(57.7)**	+45%	(5.1)	475.2
	(a)	**-25%**	**0.8**	**19.3**	-45%	5.1	(475.2)

(a) At 31 December 2023, the volume of trades entered to hedge the sale of electricity generated exceeded the volume of trades entered to purchase electricity.

12 FINANCIAL INSTRUMENTS *continued*

C TREASURY RISK

Treasury risk is comprised of liquidity risk, market risk and inflation risk. The Group's cash management and short-term financing activity is integrated with Iberdrola's. The Group's financing structure is determined by its position in the wider Iberdrola Group. The Group produces short-term rolling cash flow requirements and, if necessary, any required funding is obtained. The Group holds investment grade ratings with Moody's Investor Services (Baa1), S&P Global Ratings (BBB+) and Fitch Ratings (BBB+).

C1 TREASURY LIQUIDITY RISK MANAGEMENT

The Group's liquidity position and short-term financing activities are integrated and aligned with Iberdrola's. Liquidity risk, the risk that the Group will have insufficient funds to meet its liabilities, is managed by SPL Treasury, who are responsible for arranging banking facilities on behalf of ScottishPower. Iberdrola Financiación S.A. (a fellow Iberdrola Group company) and SPL are the principal internal counterparties for the loan balances due from the Group. SPL is the principal counterparty for the loan balances due to the Group.

The tables below summarise the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments.

C1.1 FINANCIAL LIABILITIES (EXCLUDING COMMODITY DERIVATIVES)

	2023						
Cash outflows*	**2024 £m**	**2025 £m**	**2026 £m**	**2027 £m**	**2028 £m**	**2029 and thereafter £m**	**Total £m**
Derivative financial instruments (excluding commodity derivatives)	**857.2**	**426.2**	**269.7**	**147.3**	**96.1**	**197.3**	**1,993.8**
Loans and other borrowings	**3,380.3**	**485.7**	**622.0**	**1,691.4**	**275.3**	**2,041.8**	**8,496.5**
Payables	**1,906.8**	**–**	**6.8**	**0.1**	**0.1**	**–**	**1,913.8**
Other financial liabilities	**225.9**	**6.8**	**4.6**	**3.9**	**3.6**	**2.5**	**247.3**
	6,370.2	**918.7**	**903.1**	**1,842.7**	**375.1**	**2,241.6**	**12,651.4**

	2022						
Cash outflows*	2023 £m	2024 £m	2025 £m	2026 £m	2027 £m	2028 and thereafter £m	Total £m
Derivative financial instruments (excluding commodity derivatives)	155.8	20.2	19.7	18.9	18.9	200.7	434.2
Loans and other borrowings	3,083.7	657.9	401.9	547.8	1,617.3	2,185.1	8,493.7
Payables	2,027.0	0.4	5.7	4.3	–	–	2,037.4
Other financial liabilities	23.8	–	–	–	–	–	23.8
	5,290.3	678.5	427.3	571.0	1,636.2	2,385.8	10,989.1

* Maturity analysis of lease liabilities is presented at Note 9(c).

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

The future cash flows on derivative instruments (including commodity derivatives below) may differ from the amounts in the table above as interest and exchange rates or the relevant conditions underlying the calculation change. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

C1.2 COMMODITY DERIVATIVES

The Group believes the liquidity risk associated with commodity derivatives needs to be considered in conjunction with the profile of payments in relation to all derivative contracts rather than only those in a liability position.

	2023						
	2024 £m	**2025 £m**	**2026 £m**	**2027 £m**	**2028 £m**	**2029 and thereafter £m**	**Total £m**
Net cash outflows/(inflows)	**516.7**	**(258.2)**	**(40.0)**	**(8.7)**	**(8.7)**	**(4.0)**	**197.1**

	2022						
	2023 £m	2024 £m	2025 £m	2026 £m	2027 £m	2028 and thereafter £m	Total £m
Net cash outflows/(inflows)	2,824.2	(73.2)	30.8	(6.3)	(8.7)	(12.7)	2,754.1

Details of the Group's contractual commitments are given in Note 32.

C2 TREASURY MARKET RISK MANAGEMENT

Market risk is the risk of loss resulting from changes in market rates (interest rates and foreign currency). The Group utilises a number of financial instruments to manage interest rate and foreign currency exposures.

12 FINANCIAL INSTRUMENTS *continued*

C2.1 INTEREST RATE RISK

The Group's financial assets and liabilities are exposed to fluctuations in interest rates which impact upon cash flows and fair value measurements. Interest rates rose throughout 2022 as a consequence of rising inflation. This trend continued until August 2023 and has remained flat since then. Based on market analysis, interest rates are expected to decline in 2024 due to the fall in inflation compared to the previous year. Changing interest rates and their impact upon the Group are constantly reviewed as discussed in the hedging strategy below.

(i) Hedging of interest rate risk

In order to adequately manage and limit interest rate risk, the Iberdrola Group annually determines the desired structure of the debt between fixed and floating interest rates, taking into account the indexing of income either interest rate or price index. SPL Treasury then take 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 Group may use interest rate derivatives, whether to set the interest rate (or limit its variability) for variable rate debt or to change debt from fixed rate to floating rate. Derivatives may also be used to establish the cost of future debt issues, provided they are highly probable and aligned to the strategic plan.

(ii) Interest rate analysis of debt

The table below shows the debt structure of the Group after taking hedging derivatives into account.

	2023 £m	2022 £m
Fixed rate	**2,091.4**	2,344.8
Variable rate	**4,621.8**	4,533.3
	6,713.2	6,878.1

The Group's borrowings are held at amortised cost. The reference interest rates for the floating rate borrowings in 2023 are Sterling Overnight Index Average ("SONIA"), Bank of England Base Rate ("Base") and RPI.

The variable rate debt consists of a £67.2 million (2022 £76.1 million) Japanese Yen ("JPY") loan, £386.3 million (2022 £345.9 million) inflation-linked bonds, £1,630.0 million SONIA debt (2022 £1,820.0 million) and £2,538.3 million (2022 £2,291.3 million) loans linked to Base.

(iii) 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 charge in 2023 £m	Impact on interest charge in 2022 £m
Loans payable	JPY debt	(a)	+0.5%	**0.3**	0.3
			+1.0%	**0.5**	0.5
			-0.5%	**(0.3)**	(0.3)
			-1.0%	**(0.5)**	(0.5)
Loans payable	Inflation-linked bonds	RPI	+0.5%	**1.9**	1.7
			+1.0%	**3.9**	3.5
			-0.5%	**(1.9)**	(1.7)
			-1.0%	**(3.9)**	(3.5)
Loans payable	SONIA debt (excluding JPY debt)	SONIA	+0.5%	**8.2**	9.1
			+1.0%	**16.3**	18.2
			-0.5%	**(8.2)**	(9.1)
			-1.0%	**(16.3)**	(18.2)
Loans payable	Short-term variable rate debt	Base	+0.5%	**12.7**	11.5
			+1.0%	**25.4**	22.9
			-0.5%	**(12.7)**	(11.5)
			-1.0%	**(25.4)**	(22.9)
Loans receivable	Short-term variable rate debt	Base	+0.5%	**(4.6)**	(6.1)
			+1.0%	**(9.1)**	(12.2)
			-0.5%	**4.6**	6.1
			-1.0%	**9.1**	12.2

(a) The interest on the JPY debt is fixed, however this is changed to variable by a cross-currency swap.

12 FINANCIAL INSTRUMENTS *continued*

C2.2 FOREIGN CURRENCY RISK

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which purchases and borrowings are denominated. The currencies in which these transactions are primarily denominated are Euros, US Dollars and Norwegian Krone. The SPL Board policy stipulates that there should be no significant exposure to foreign currency balances and therefore SPL Treasury will hedge all foreign currency payments and contracts which have a (cumulative) value greater than a Sterling equivalent of £0.25 million.

(i) Hedging of foreign currency risk

The Group uses a combination of a cross-currency swap and foreign currency forwards to hedge its exposure to foreign currency risk. Under the Group's policy, the critical terms of the forwards and swap must align with the hedged items.

For treasury-related items the Group only designates the spot component of foreign currency forwards and its cross-currency swap in a hedge relationship. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward points. The changes in the forward points of the foreign currency forwards, or in the case of the cross-currency swap the interest differential, that relate to hedging currency denominated loans are deferred in the Cost of hedging reserve.

The Group also enters into foreign currency forwards in relation to asset purchases, and items of general expenditure. For such items, the Group generally designates the entire value of the foreign currency forward in the hedge relationship.

Some foreign currency forwards do not satisfy the requirements for hedge accounting (economic hedges) under IFRS 9. These foreign currency forwards are subject to the same risk management policies as all other derivative contracts. However, they are accounted for as 'held for trading' with gains and losses recognised in Finance income or Finance costs in the Income statement.

The table below illustrates the timing of the notional amount of the hedging instrument and the average forward price of the hedging instrument.

At 31 December 2023	Note	1 year £m	2 years £m	3 years £m	4 years £m	5 years+ £m	Total £m
USD	(a)	38.9	95.3	28.6	4.2	51.4	**218.4**
EUR	(a)	847.6	334.4	222.4	121.2	95.6	**1,621.2**
DKK	(a)	1.7	–	–	–	–	**1.7**
NOK	(a)	69.7	–	–	–	–	**69.7**
		957.9	429.7	251.0	125.4	147.0	**1,911.0**

(a) USD - US Dollar; EUR - Euro; DKK - Danish Krone; NOK - Norwegian Krone
(b) The information presented in the table above includes the gross notional value of the hedging derivative financial instruments arranged in absolute terms (without offsetting of purchase and sale positions).

At 31 December 2023	Average forward price of the hedging instrument (exchange rate) 1 year	2 years	3 years	4 years	5 years
USD (GBP:USD)	1.27	1.25	1.24	1.28	1.59
EUR (GBP:EUR)	1.14	1.11	1.10	1.08	1.08
DKK (GBP:DKK)	8.59	–	–	–	–
NOK(GBP:NOK)	13.09	–	–	–	–

Further details on the Group's foreign currency cash flow hedges and fair value hedges are set out below and on the following pages.

(ii) Foreign exchange rate cash flow hedges

Hedging of the purchase of assets and services: The Group is subject to cash flow risk resulting from the purchase of various assets and services which are denominated in foreign currencies. The risk being hedged relates to the fluctuation in the functional currency terms of value of these foreign currency denominated purchases. The Group enters into forward foreign exchange rate contracts to hedge those risks.

For an analysis of the split of the carrying amount of forward foreign exchange contracts refer to Note 12(c).

12 FINANCIAL INSTRUMENTS *continued*

The amounts relating to foreign exchange rate derivatives designated as cash flow hedges during the year are detailed in the table below.

	Notes	2023 Hedging derivatives £m	2022 Hedging derivatives £m
Notional amount		**1,859.6**	464.3
Carrying amount – asset	(a)	**2.2**	13.5
Carrying amount – liability	(a)	**(25.0)**	(0.4)
Changes in the value of the hedging instrument recognised in other comprehensive income	(b)	**(35.9)**	14.4
De-designated cash flow hedges recognised in the Income statement	(c)	**(0.2)**	0.1
Amount reclassified from Cash flow hedge reserve to Income statement	(d)	**0.2**	–
Amount reclassified from Cash flow hedge reserve to Statement of financial position	(e)	**0.5**	(1.2)

(a) The carrying amount of derivative assets and liabilities are recorded within Derivative financial instruments on the Statement of financial position.

(b) This is consistent with the change in the fair value of the hedging instrument used to calculate effectiveness for hedging of asset purchases and items of general expenditure.

(c) De-designated cash flow hedges of £0.2 million (2022 £0.1 million) were recognised in the Income statement and included in Finance income (2022 Finance costs).

(d) The amount reclassified from the Cash flow hedge reserve to the Income statement recorded and included within External services was £0.1 million (2022 £nil). In the current year £0.1 million (2022 £nil) was also released from the Cost of hedging reserve and included within Finance costs.

(e) The amount reclassified from the Cash flow hedge to the Statement of financial position was £0.5 million (2022 £(1.2) million). Refer to Note 15. The amount reclassified to Property, plant and equipment in the course of construction was £0.3 million (2022 £(1.5) million) and the amount reclassified to Inventories was £0.2 million (2022 £0.3 million).

The amounts at the reporting date relating to foreign exchange items designated as hedged items were as follows:

	Change in fair value used for calculating hedge effectiveness		Cash flow hedge reserve balance	
Line item in the Accounts in which the hedged item is/will be included	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Property, plant and equipment in the course of construction	**18.2**	(0.2)	**(15.5)**	7.3
Inventories	**15.8**	(12.4)	**(7.2)**	12.8
External services	**1.4**	(1.1)	**1.4**	2.3
Intangibles	**0.5**	–	**(0.5)**	–
Loans and other borrowings	**–**	(0.7)	**–**	–
	35.9	(14.4)	**(21.8)**	22.4
Less non-controlling interest share of cash flow hedge reserve	**–**	–	**(0.9)**	(1.1)
Total	**35.9**	(14.4)	**(22.7)**	21.3

The Group determines that the economic relationship between the hedging instrument (the foreign exchange rate forward contract) and the hedged item (the asset purchase or general expenditure) will mostly achieve 100% effectiveness. This is because the Group compares movements in the fair value of the expected highly probable forecast foreign currency cash flows, with movements in the fair value of the expected changes in cash flows from the hedging instrument. Forecast future foreign currency cash flows are largely based upon contractual obligations.

Ineffectiveness will arise if the trade has been cancelled, in which case there would be no future transaction. Ineffectiveness will also arise if the Group receives notification that the business has been unable to obtain a reliable price forecast from market sources or if there is a change in the Group's risk management strategy. Finally, ineffectiveness will arise from any differences in the key terms of the hedged item and the hedging instrument.

(iii) Fair value hedges

Hedging the value of cross-currency debt: the Group has issued debt instruments denominated in JPY. The value of the Group's liability with respect to those instruments is subject to foreign exchange risk and interest rate risk. As a result, the Group entered into a cross-currency swap and has designated it within a fair value hedging relationship where it meets the required hedging criteria to mitigate this risk. The carrying amount of the associated 10 billion JPY loan is £67.2 million (2022 £76.1 million).

	Notes	At 31 December 2023	At 31 December 2022
Notional amount (£m)		**51.4**	51.4
Carrying amount – asset (£m)	(a)	**17.5**	27.6
Change in fair value of the hedging instrument used in calculating hedge effectiveness (£m)		**(10.1)**	(6.0)
Change in fair value of hedged item used to calculate hedge effectiveness (£m)	(b)	**10.1**	6.0
Hedge ratio		**1:1**	1:1
Average hedge rate for the year (£: JPY)		**1:194.55**	1:194.55

(a) The carrying amount of the fair value cross-currency swap is included within Derivative financial instruments on the Statement of financial position.

(b) In both the current and prior year the change in value of hedged items used to calculate hedge effectiveness is included within Loans and other borrowings.

(iv) Hedge assessment on foreign currency derivatives

Hedge assessment on foreign currency derivatives is completed prospectively to verify that the forecast transactions are still highly probable of occurring (for cash flow hedges) as well as retrospectively, to assess the effectiveness in the period under review. Prospective assessment is performed using sensitivity analysis and critical terms matching.

12 FINANCIAL INSTRUMENTS *continued*

(v) Sensitivity analysis on foreign currency derivatives and cash flows

Sensitivity analysis is completed below for the open Euro, Norwegian Krone and US Dollar population of foreign exchange rate derivatives at 2023 year end. The sensitivity analysis performed reflects reasonably probable fluctuations to the spot rates used in the derivative valuation model. There is no income statement impact in 2023 as there are no open non-hedging foreign exchange rate forwards at year end. At 2022 year end the sensitivity analysis was only performed on the open Euro population as reasonably possible exchange fluctuations in other currencies would have had no significant impact on the financial statements.

		2023		2022	
Percentage change in spot rate used in derivative valuation model	Notes	**Net impact on Finance income and cost £m**	**Net impact on Cash flow hedge reserve before tax £m**	Net impact on Finance income and cost £m	Net impact on Cash flow hedge reserve before tax £m
Net expense generated by an appreciation in the GBP: EUR spot rate of 2% (2022 7%)	(a)	**–**	**(33.3)**	(137.8)	(21.3)
Net income generated by a depreciation in the GBP: EUR spot rate of 3% (2022 1%)	(a)	**–**	**40.4**	20.8	3.2
Net expense generated by an appreciation in the GBP: NOK spot rate of 8% (2022 nil)	(b)	**–**	**(4.9)**	–	–
Net income generated by a depreciation in the GBP: NOK spot rate of 5% (2022 nil)	(b)	**–**	**3.6**	–	–
Net expense generated by an appreciation in the GBP: USD spot rate of 3% (2022 nil)	(c)	**–**	**(4.8)**	–	–
Net income generated by a depreciation in the GBP: USD spot rate of 7% (2022 nil)	(c)	**–**	**11.6**	–	–

(a) The percentages used in the sensitivity analysis above are based on the deviation between the year end GBP: EUR spot rate and the highest and lowest GBP: EUR spot rates observed in the market in each respective year.

(b) The percentages used in the sensitivity analysis above are based on the deviation between the year end GBP: NOK spot rate and the highest and lowest GBP: NOK spot rates observed in the market in each respective year.

(c) The percentages used in the sensitivity analysis above are based on the deviation between the year end GBP: USD spot rate and the highest and lowest GBP: USD spot rates observed in the market in each respective year.

Foreign currency cash balances held are so small any movement in foreign exchange rates would result in an insignificant movement in the Income statement in both the current and prior year (less than £0.1m before tax).

C3 INFLATION RATE RISK

The Group is exposed to inflation risk through its CfDs. Income earned through CfDs varies with inflation and volatility inherent in inflation will therefore impact the Group's income.

(i) Hedging of inflation rate risk

To reduce exposure to this risk, the Group utilises CPI inflation swaps. These instruments result in the Group receiving a fixed CPI interest element, and paying a variable CPI interest element based on outturned CPI. The aim is to reduce earnings volatility, as the cash flows from the CPI swaps will offset volatility in the income from CfDs due to CPI inflation. In 2022, the Group entered into two new CPI inflation swaps to reduce earnings volatility associated with the CPI-indexed income which will be received under the EA3 CfD contract.

The swaps are designated as cash flow hedges under IFRS 9 and hedge separately identifiable and reliably measurable contract terms of CfDs.

	Notes	**2023 Hedging derivatives £m**	2022 Hedging derivatives £m
Notional amount		**281.7**	281.7
Carrying amount – liability		**(239.7)**	(290.1)
Change in the fair value of the hedging instrument recognised in other comprehensive income	(a)	**50.4**	(146.3)
Amount reclassified from Cash flow hedge reserve to Income statement	(b)	**14.6**	3.3

(a) This is consistent with the change in the fair value of the hedging instrument used to calculate effectiveness.

(b) Amounts reclassified to Income statement are included within Gross margin.

	Change in fair value used for calculating hedge effectiveness		**Cash flow hedge reserve balance**	
Line item in the Accounts in which the hedged item will be included	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Gross margin	**(50.4)**	146.3	**(238.1)**	(289.8)

(ii) Hedge effectiveness

The Group determines that the economic relationship between the hedging instrument and the hedged item will virtually always achieve 100% effectiveness. This is because the Group compares movements in the fair value of the expected highly probable cash flows, with movements in the fair value of the expected changes in cash flows from the hedging instrument. Forecast cash flows are based upon contractual obligations.

13 TRADE AND OTHER RECEIVABLES

	Notes	2023 £m	Restated* 2022 £m
Current receivables:			
Receivables due from Iberdrola Group companies and joint ventures	(a)	**263.7**	29.5
Receivables due from Iberdrola Group companies – loans	(b)	**408.0**	636.1
Receivables due from Iberdrola Group companies – interest		**100.1**	19.5
Trade receivables (including unbilled revenue)		**1,256.5**	1,256.9
Prepayments		**57.7**	39.8
Other tax receivables		**24.1**	20.0
Receivables in respect of government support schemes	(c)	**38.9**	122.0
Other receivables	(a)	**203.4**	574.2
	(d)	**2,352.4**	2,698.0
Non-current receivables:			
Receivables due from joint ventures		**1.0**	1.2
Receivables due from Iberdrola Group companies – loans	(b)	**507.0**	588.7
Prepayments		**3.0**	5.9
Other receivables		**0.1**	9.3
	(d)	**511.1**	605.1

* Comparative amounts have been restated (Refer to Note 2A2).

(a) Receivables due from Iberdrola Group companies and joint ventures includes £239.7 million (2022 £nil) of collateral posted. Other receivables includes £201.5 million (2022 £572.2 million) of collateral posted.

(b) Current and non-current loans due from Iberdrola Group companies are receivable on demand with interest earned at Base plus 1%. The loans are repayable on demand but certain loans are classified as non-current as the Group expects to realise the assets after twelve months from reporting date.

(c) At 31 December 2023, the Group had receivables due from the UK Government of £35.0 million (2022 £52.5 million), £2.2 million (2022 £60.7 million) and £1.7 million (2022 £nil) relating to the EPG, EBRS and EBDS schemes respectively. At December 31 2022 this balance also included £8.8 million of prepaid EBSS obligation costs relating to payments made to certain customers in advance of the year end.

(d) For trade receivables, the Group applies the simplified model for the calculation of ECLs. Given the varying risk characteristics of the population of trade receivables, this balance has been segmented for disclosure purposes into energy customers' trade receivables and Other trade receivables. Details of the Groups ECLs are as follows:

A1 ENERGY CUSTOMERS' TRADE RECEIVABLES

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

In line with IFRS 9, a forward-looking loss allowance has been included to ensure that external factors are appropriately mitigated. This has considered the current level of energy market disruption, including the ongoing cost of living crisis and the regulatory changes made around restricting forced prepayment meter installations, together with the forecast uncertainty in macro-economic indicators.

The main government support mechanisms in place over Winter 2022/23 have now effectively ended with the £400 EBSS support ceasing in March 2023 and the EPG scheme, while still in place until March 2024, only effectively supporting customers until Q2 2023, due to the price cap being below the £3,000 EPG level from July 2023 onwards. Therefore, while these schemes offered support in the first half of 2023 and helped to mitigate customer debt levels increasing over this period, there is limited benefit going forward. While the level of underlying price cap has lowered year-on-year, the average customer bill is still broadly double the level it was prior to the energy price increases experienced in 2020, resulting in sustained pressure on customers' ability to pay.

The new Ofgem-introduced mandatory rules covering both prepayment meter installation under warrant and remote change of smart meter mode, together with the suspension of forced prepayment installations for the majority of 2023, has limited the options available to recover debt and this has been factored in to forward-looking ECL considerations.

In terms of assessing I&C customers, the ECL is based on external credit scoring. The Energy Customers Credit Risk and Corporate Risk teams remain vigilant in tracking any liquidity issues on existing customers to identify any pre-emptive actions required, including putting collateral or letters of credit in place.

With the exception of I&C customers, management considers that where customers are final and all debt collection procedures have been exhausted, collectability is not deemed to be reasonably assured and therefore, amounts billed to these customers are written off as uncollectable. Set out below are the details of the credit risk exposure on energy customers' trade receivables:

At 31 December 2023	Current £m	90–179 days past due £m	180–365 days past due £m	More than 12 months past due (Note (a)) £m	Non-aged balances (Note (b)) £m	Unbilled (Note (c)) £m	Total (Note (d)) £m
Weighted average expected loss rate (%)	**15.2%**	**34.8%**	**43.5%**	**51.8%**	**2.1%**	**15.8%**	**25.6%**
Gross carrying amount: Trade receivables	**205.1**	**119.9**	**215.8**	**232.1**	**303.4**	**177.1**	**1,253.4**
Loss allowance	(31.2)	(41.7)	(93.8)	(120.2)	(6.3)	(27.9)	(321.1)
Net carrying amount	**173.9**	**78.2**	**122.0**	**111.9**	**297.1**	**149.2**	**932.3**

13 TRADE AND OTHER RECEIVABLES *continued*

At 31 December 2022	Current £m	90–179 days past due £m	180–365 days past due £m	More than 12 months past due £m	Non-aged balances (Note (b)) *Restated £m	Unbilled (Note (c)) *Restated £m	Total £m
Weighted average expected loss rate (%)	12.6%	32.1%	41.7%	55.7%	3.0%	11.3%	23.1%
Gross carrying amount: Trade receivables	212.5	105.6	143.3	237.4	307.1	247.1	1,253.0
Loss allowance	(26.7)	(33.9)	(59.7)	(132.3)	(9.1)	(28.0)	(289.7)
Net carrying amount	185.8	71.7	83.6	105.1	298.0	219.1	963.3

* 2022 values have been restated as a result of a management review of the classifications of non-aged and unbilled balances. The result had no impact on any of the total values including the gross carrying amount, loss allowance, net carrying amount or weighted average expected credit loss rate (%). The impact is a decrease of £129.0 million in the gross carrying amount within non-aged balances at 31 December 2022 from £436.1 million as previously reported to £307.1 million and a corresponding increase in gross carrying amount within unbilled from £118.1 million as previously reported to £247.1 million. Due to the nature of the reclassification, there was no impact on the loss allowance. However, the weighted average expected loss rate (%) has moved within non-aged balances at 31 December 2022 from 2.1% as previously reported to 3.0% and within unbilled, a decrease from 23.7% as previously reported to 11.3% directly as a result of the gross carrying amount movement. The comparatives have been restated for this reclassification. The total gross carrying amount is unchanged.

(a) The loss rate for billed debt aged over twelve months has reduced versus prior year driven by a lower proportion of final debt within the customer debt book, which attracts higher provision rates versus customers who are still on supply. The primary reason for this reduction in final debt is due to increased year-on-year write-offs, partly due to the impact from the UK Government's enforced suspension on installing prepayment meters.

(b) At 31 December 2023, no amounts are either past due or impaired (2022 £0.4 million); no amounts are past due but not impaired in either year. Non-aged balances include balances with I&C customers where the ECL is based on external credit scoring.

(c) The unbilled receivables of £177.1 million (2022 £247.1 million) includes gross unbilled receivables of £343.9 million (2022 £522.8 million) less customer credit balances of £156.4 million (2022 £272.1 million) in relation to non-DD customers and £10.4 million (2022 £3.6 million) provision in relation to energy volumes which have still to reach final settlement. The loss allowance in relation to unbilled receivables is £27.9 million (2022 £28.0 million). Further information on unbilled receivables, including sensitivity, is detailed in Note 3.

(d) Since the prior year, the weighted average expected loss rate for energy customers' trade receivables has increased by 2.5%. This is predominantly driven by the recent regulatory changes imposed by Ofgem on the ability of suppliers to fit prepayment meters. This is combined with the aging of the debt book as a consequence of market conditions.

(e) Net carrying amount of £932.3 million (2022 £963.3 million) includes gross billed debt of £897.4 million (2022 £777.5 million) for domestic and SME customers and £286.9 million (2022 £252.5 million) of loss allowance on this billed debt. This amount is subject to significant estimation uncertainty, refer to Note 3.

A2 OTHER TRADE RECEIVABLES

The Group also uses the IFRS 9 simplified model to measure ECLs for all other trade receivables. The provision rates represent a lifetime ECL and are based on the Iberdrola Group's historical loss experience and default rates. The table below illustrates the ECL on other trade receivables:

At 31 December 2023	**0-6 months £m**	**Greater than 6 months £m**	**Total £m**
Weighted average expected loss rate (%)	**0.4%**	**28.9%**	**2.5%**
Gross carrying amount	**307.8**	**24.6**	**332.4**
Loss allowance	(1.1)	(7.1)	(8.2)
Net carrying amount	**306.7**	**17.5**	**324.2**

At 31 December 2022	0-6 months £m	Greater than 6 months £m	Total £m
Weighted average expected loss rate (%)	0.7%	54.4%	4.8%
Gross carrying amount	284.8	23.7	308.5
Loss allowance	(2.0)	(12.9)	(14.9)
Net carrying amount	282.8	10.8	293.6

Other trade receivables are written off when there is no reasonable expectation of recovery; indicators of which include, amongst others, the failure of a debtor engage in a repayment plan with the Group. The loss allowance has decreased by £6.7 million since the prior year. This is primarily due to bad debt write offs. Refer to the table reconciling the movement in the opening to the closing loss allowance at Note 13(e)A6.

A3 SECURITY FOR TRADE RECEIVABLES

For some trade receivables, the Group may obtain security in the form of guarantees or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement (refer to Note 12(d)). The Group does not otherwise require collateral in respect of trade and other receivables.

A4 OTHER FINANCIAL ASSETS

Other financial assets, which are not included above are not considered to have a material credit risk this includes receivables in respect of government support schemes.

A5 FINANCIAL GUARANTEES

The Group's policy is only to provide financial guarantees for subsidiaries' liabilities relating to financing transactions. Under exceptional circumstances Parent Company Guarantees are issued, in favour of a third party, to cover business operations of a Group company.

13 TRADE AND OTHER RECEIVABLES *continued*

A6 RECONCILIATION OF OPENING TO CLOSING LOSS ALLOWANCE

The closing loss allowances for all financial assets measured at amortised cost at 31 December 2023 reconciles to the opening loss allowances as follows:

	Note	Trade receivables £m	Other receivables and Receivables due from Group companies – loans and interest £m	Total £m
Balance at 1 January 2022		241.0	0.1	241.1
Increase in loss allowance recognised in the Income statement	(a)	81.4	0.2	81.6
Reversal of provision recognised in the Income statement	(a)	(0.9)	–	(0.9)
Utilisation of provision		(16.9)	–	(16.9)
At 1 January 2023		304.6	0.3	304.9
Increase/(decrease) in loss allowance recognised in the Income statement	(a)	206.0	(0.2)	205.8
Utilisation of provision	(a)	(181.2)	–	(181.2)
At 31 December 2023		**329.4**	**0.1**	**329.5**

(a) Net credit losses on trade and other receivables per the Consolidated income statement of £206.0 million (2022 £86.5 million) includes £5.6 million of credits offset by £5.6 million (2022 £6.0 million) additional net costs primarily in relation to bad debt write offs. The remaining difference of £0.2 million in the current year (2022 £0.2 million) relates to ECLs recorded within Finance costs.

The overall increase from the prior year in the loss allowance of £24.7 million is primarily driven by changes in market conditions resulting in an increase in the gross carrying value of trade receivables.

14 INVENTORIES

	2023 £m	2022 £m
Fuel stocks	**34.1**	31.4
Offshore transmission assets	**566.1**	310.7
ROCs	**236.8**	256.8
Other inventories	**57.6**	43.3
	894.6	642.2

(a) Inventories with a value of £403.5 million (2022 £1,123.0 million) were recognised as an expense during the year. £662.3 million of the 2022 value relates to the external sale of the EA1 offshore transmission asset.

15 ANALYSIS OF MOVEMENTS IN CASH FLOW HEDGE RESERVE

(a) The changes in the hedge reserve arising from valuation adjustments to hedging derivatives is set out below:

Analysis of cash flow hedge reserve	Cost of hedging reserve £m	Commodity hedges £m	Foreign exchange rate hedges £m	Inflation hedge £m	Gross value of hedges £m	Tax effect £m	Total £m
At 1 January 2022	1.4	1,121.7	7.8	(143.8)	987.1	(193.8)	793.3
Effective cash flow hedges recognised	–	(754.4)	14.5	(149.3)	(889.2)	168.9	(720.3)
Removed from equity and recognised in Income statement	–	(1,060.5)	–	3.3	(1,057.2)	200.9	(856.3)
Removed from equity and recognised in carrying amount of hedged items	–	–	(1.2)	–	(1.2)	0.2	(1.0)
Cost of hedging reserve – change in fair value	0.2	–	–	–	0.2	–	0.2
De-designated cash flow hedges	–	–	0.1	–	0.1	–	0.1
Non-controlling interest's share of cash flow hedges	–	–	0.1	–	0.1	–	0.1
Change in tax rate	–	–	–	–	–	34.1	34.1
At 1 January 2023	1.6	(693.2)	21.3	(289.8)	(960.1)	210.3	(749.8)
Effective cash flow hedges recognised	–	(1,025.0)	(44.6)	37.1	(1,032.5)	242.6	(789.9)
Removed from equity and recognised in Income statement	–	1,687.4	0.1	14.6	1,702.1	(399.3)	1,302.8
Removed from equity and recognised in carrying amount of hedged items	–	–	0.5	–	0.5	(0.1)	0.4
Cost of hedging reserve – change in fair value	(0.6)	–	–	–	(0.6)	0.1	(0.5)
De-designated cash flow hedges	–	–	(0.2)	–	(0.2)	–	(0.2)
Cost of hedging reserve – reclassified to Income Statement	0.1	–	–	–	0.1	–	0.1
Non-controlling interest's share of cash flow hedges	–	–	0.2	–	0.2	–	0.2
Change in tax rate	–	–	–	–	–	3.3	3.3
At 31 December 2023	**1.1**	**(30.8)**	**(22.7)**	**(238.1)**	**(290.5)**	**56.9**	**(233.6)**

(b) The maturity analysis of amounts included in the hedge reserve is as follows:

	2023 £m	2022 £m
Less than 1 year	**(80.0)**	(642.2)
1-2 years	**16.2**	110.7
2-3 years	**(20.2)**	(15.0)
3-4 years	**(19.2)**	(24.5)
5 or more years	**(130.4)**	(178.8)
	(233.6)	(749.8)

16 NON-CONTROLLING INTERESTS

	Note	East Anglia One Limited £m	Other £m	Total £m
At 1 January 2022		1,079.0	2.7	1,081.7
Net profit for the year		72.4	0.4	72.8
Dividends		(119.2)	–	(119.2)
Changes in the values of cash flow hedges		(0.1)	–	(0.1)
At 1 January 2023		1,032.1	3.1	1,035.2
Acquisition	(a)	–	(0.6)	(0.6)
Net profit for the year		91.4	0.3	91.7
Dividends		(439.8)	–	(439.8)
Changes in the values of cash flow hedges		(0.2)	–	(0.2)
At 31 December 2023		**683.5**	**2.8**	**686.3**

(a) On 7 March 2023, the Group acquired the remaining 28% share capital of Cumberhead West Wind Farm Ltd..

(b) The following table summarises financial information relating to East Anglia One Limited for the year ending 31 December 2023, before any Group consolidation adjustments. None of the Group's other subsidiaries that have a non-controlling interest are considered to be material to the Group.

	2023 £m	2022 £m
Non-current assets	1,608.1	1,675.7
Current assets	198.5	995.5
Non-current liabilities	(345.7)	(309.1)
Current liabilities	(34.8)	(74.0)
Net assets	**1,426.1**	2,288.1
Net assets attributable to non-controlling interest	**570.4**	915.2
Revenue	**503.0**	1,151.4
Dividends paid	**(1,099.5)**	(297.9)
Net profit for the year	237.9	190.8
Other comprehensive income	(0.4)	(0.4)
Total comprehensive income	**237.5**	190.4
Profit allocated to non-controlling interest	**95.2**	76.3
Other comprehensive income allocated to non-controlling interest	**(0.2)**	(0.2)
Cash flows from operating activities	380.1	1,006.3
Cash flows from investing activities	(3.1)	(11.9)
Cash flows from financing activities	(1,107.3)	(303.6)
Net (decrease)/increase in cash and cash equivalents	**(730.3)**	690.8

17 DEFERRED INCOME

Year ended 31 December 2022	At 1 January 2022 £m	Disposals £m	Receivable during year £m	Released to Income statement £m	At 31 December 2022 £m
Transfer of assets from customers	1,397.7	(1.6)	121.6	(45.3)	1,472.4
Other revenue-related deferred income	–	–	10.7	(0.4)	10.3
	1,397.7	(1.6)	132.3	(45.7)	1,482.7

Year ended 31 December 2023	At 1 January 2023 £m	Disposals £m	Receivable during year £m	Released to Income statement £m	**At 31 December 2023 £m**
Transfer of assets from customers	1,472.4	(0.6)	127.2	(48.7)	**1,550.3**
Other revenue-related deferred income	10.3	–	–	(7.6)	**2.7**
	1,482.7	(0.6)	127.2	(56.3)	**1,553.0**

Analysis of total deferred income	**2023 £m**	2022 £m
Non-current	**1,500.4**	1,425.5
Current	**52.6**	57.2
	1,553.0	1,482.7

18 OTHER PROVISIONS

Year ended 31 December 2022	Notes	At 1 January 2022 £m	Reassessment of decommissioning costs £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	At 31 December 2022 £m
Reorganisation and restructuring	(a)	5.3	–	5.3	–	(6.0)	(1.5)	3.1
Decommissioning costs	(b)	443.0	(179.1)	1.6	3.9	(8.6)	(4.0)	256.8
Renewables Obligation	(c)	344.7	–	434.1	–	(452.1)	–	326.7
Retail energy onerous contracts	(d)	60.0	–	–	–	(60.0)	–	–
Other	(e)	6.0	–	1.6	–	(0.2)	(1.9)	5.5
		859.0	(179.1)	442.6	3.9	(526.9)	(7.4)	592.1

Year ended 31 December 2023	Notes	At 1 January 2023 £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	**At 31 December 2023 £m**
Reorganisation and restructuring	(a)	3.1	–	–	(2.9)	(0.1)	**0.1**
Decommissioning costs	(b)	256.8	6.9	9.5	(2.1)	(1.1)	**270.0**
Renewables Obligation	(c)	326.7	388.7	–	(432.5)	–	**282.9**
Regulatory	(f)	–	38.0	–	–	–	**38.0**
Other	(e)	5.5	6.8	–	(0.3)	(1.1)	**10.9**
		592.1	440.4	9.5	(437.8)	(2.3)	**601.9**

Analysis of total provisions	**2023 £m**	2022 £m
Non-current	**264.9**	255.7
Current	**337.0**	336.4
	601.9	592.1

(a) The reorganisation and restructuring provision relates to restructuring programmes within the Customer business division launched in previous years. The balance of this provision is expected to be utilised in 2024.

(b) The provision for decommissioning costs is the discounted future estimated costs of decommissioning certain non-current assets. There is significant estimation uncertainty in relation to this. Refer to Note 3 for further details. The decommissioning costs are expected to be incurred in the period between 2024 and 2067. The following table shows the timeline in which undiscounted costs in relation to the decommissioning provision are expected to become current:

	Less than 1 year £m	1 to 10 years £m	11 to 20 years £m	21 to 30 years £m	31 to 40 years £m	41 years and therafter £m	**Total £m**
Decommissioning costs	5.0	94.2	127.5	270.0	101.9	9.7	**608.3**

(c) The provision for the Renewables Obligation at 31 December 2023 principally represents the value of ROCs for 2023 expected to be delivered in 2024. The utilisation of £432.5 million in the current year represents the ROCs surrendered to meet the annual RO. This provision is not discounted. Refer to Note 4 J for the accounting policy.

(d) The provision at 1 January 2022 of £60.0 million, relating to retail energy onerous contracts was fully utilised by 31 December 2022. At 31 December 2022, those contracts were no longer onerous as the economic benefits expected to be received from them exceeded the unavoidable costs of meeting the obligations under the contracts.

(e) The provisions at both 31 December 2023 and 31 December 2022 are not individually sufficiently material to warrant separate disclosure.

(f) As set out in Note 31, from time to time, regulatory bodies including Ofgem, open inquiries with the Group in relation to compliance with licences, laws and regulations. The Group is currently involved in such matters and is working proactively with the relevant authority to reach a satisfactory conclusion. A provision of £38.0 million has been recorded based on the current position, the Group expects to utilise this provision in 2024.

19 OTHER FINANCIAL LIABILITIES

	Notes	**2023 £m**	2022 £m
Current other financial liabilities:			
Confirming arrangements	(a)	**204.3**	–
Collateral held	(b)	**15.3**	23.8
Software license liabilities		**6.3**	–
		225.9	23.8

	2023 £m	2022 £m
Non-current other financial liabilities:		
Software license liabilities	**21.4**	–

(a) During 2023, the Group agreed with a supplier to extend the payment periods for certain invoices in respect of property, plant and equipment. The payment periods for these invoices were extended from 15 or 60 days to 160 days. Payment terms with other suppliers are normally between 30 and 90 days. By virtue of the supplier financing arrangement agreed, the supplier may choose to receive payment from a bank prior to the due date of the invoices. The arrangement does not introduce any additional collateral, guarantees or security.

The Group has determined that, as the extended payment terms negotiated with the supplier are beyond the normal terms agreed with other suppliers and the Group is required to pay a fee representing the supplier's cost of offering the extended terms, the appropriate presentation of the £204.3 million (2022 £nil) outstanding under this supplier finance arrangement is Other financial liabilities in the Consolidated statement of financial position, rather than Trade and other payables. The Group has had no cash flows associated with these payments in the year.

A description of how the Group manages the liquidity risk inherent in this supplier financing arrangement is set out at Note 12(e)C1.

(b) Refer to Note 4H.5 for further details.

20 LOANS AND OTHER BORROWINGS

(a) Analysis by instrument and maturity

	Notes	Interest rate*	Maturity	**2023 £m**	2022 £m
Loans with Iberdrola Group companies		Base + 1%	On demand	2,535.3	2,288.3
Loan with joint venture		Base + 1%	13 December 2024	3.0	3.0
Loans with Iberdrola Group companies	(i)	SONIA + CAS + 0.78%	20 December 2027	380.0	570.0
Loans with Iberdrola Group companies		3.05%	20 December 2027	900.0	900.0
Loans with Iberdrola Group companies	(ii)	SONIA + 2.3%	1 March 2028	100.0	100.0
Loans with Iberdrola Group companies	(ii)	SONIA + 0.84%	1 March 2029	650.0	650.0
Loans with Iberdrola Group companies	(ii)	SONIA + 0.82%	1 March 2031	500.0	500.0
Loans payable to Iberdrola Group companies				**5,068.3**	5,011.3
£250 million euro-sterling bond	(iii)	6.75%	29 May 2023	–	249.9
£175 million inflation-linked bond	(iv), (v), (vi)	3.494% x RPI	13 October 2024	386.3	345.9
£350 million euro-sterling bond	(vii), (viii)	5.875%	17 July 2026	349.3	349.0
£350 million euro-sterling bond	(vii), (ix)	4.875%	20 September 2027	348.8	348.4
10 billion JPY loan	(x)	4.6%	27 July 2029	67.2	76.1
£350 million euro-sterling bond	(vii), (xi)	2.0%	13 November 2031	343.3	347.5
£50 million medium-term note	(iv), (v), (vi)	5.75%	9 December 2039	50.0	50.0
£100 million medium-term note	(iv), (v)	6.375%	31 May 2041	100.0	100.0
Loans payable to external counterparties				**1,644.9**	1,866.8
Accrued interest due to Iberdrola Group companies				**163.1**	42.3
Accrued interest due to external counterparties				**23.3**	33.2
				6,899.6	6,953.6

Analysis of total loans and other borrowings	Note	**2023 £m**	2022 £m
Non-current		**3,789.4**	4,147.8
Current	(xii)	**3,110.2**	2,805.8
		6,899.6	6,953.6

* SONIA + CAS - Sterling Overnight Index Average plus Credit Adjustment Spread.

(i) This loan has the interest rates reset at pre-determined dates. The repayment of £190.0 million that was paid in 2023 was classified as current in the above analysis at 31 December 2022.

(ii) These loans can be redeemed at any time by the Group, totally or partially, at market value giving five business days' notice to the lender. The settlement value will be calculated as defined by the repayment clause within each individual loan agreement. The lender may declare these loan agreements to have matured early in the event the lender's shareholding in the Group reduces to the extent that the Group no longer belongs to the Iberdrola Group.

(iii) This bond was re-paid in full during the year at maturity.

(iv) The external debt contains non-financial covenants. A future breach of these covenants may require repayment of the loans earlier than indicated in the above table. Under the agreements, the covenants are monitored on a regular basis by SPL Treasury and regularly reported to management to ensure compliance with the agreements.

(v) SPL and the Company have an established joint US$7 billion euro medium-term note programme. SPL has not issued under the programme. The Company has in issue various notes in Sterling which can be redeemed with 30 to 90 days' notice in case of unfavourable and unavoidable changes in the UK tax laws impacting on the note payments.

(vi) These bonds and notes contain a 'Loss of licence' covenant that may require repayment of the outstanding amount should the Group lose the relevant licence (distribution, transmission and supply licences).

(vii) These bonds and notes contain a 'Loss of licence' covenant that may require repayment of the outstanding amount should the issuing company lose the relevant licence (distribution and transmission licences).

(viii) The £350 million euro-sterling bond will be redeemed at its principal amount in July 2026 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the Group at a higher redemption price (as determined by a financial advisor appointed by the Group and Guarantor) giving 30 to 60 days' notice.

(ix) The £350 million euro-sterling bond will be redeemed at its principal amount in September 2027 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the Group at a higher redemption price (as determined by a financial advisor appointed by the Group and Guarantor) giving 30 to 60 days' notice.

(x) The interest rate quoted above on the 10 billion JPY loan is fixed. This is changed to a variable rate by a cross-currency swap.

(xi) The £350 million euro-sterling bond will be redeemed at its principal amount in November 2031 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the Group at a higher redemption price (as determined by a financial advisor appointed by the Group and Guarantor) giving 30 to 60 days' notice.

(xii) Current borrowings at 31 December 2023 comprise loans with Iberdrola Group companies repayable on demand, the £175 million inflation-linked bond, the loan with a joint venture, accrued interest and the short-term element of fair value hedge adjustments due to be amortised within one year, which totalled £(0.8) million. Current borrowings at 31 December 2022 comprised loans with Iberdrola Group companies repayable on demand or within the next year, the £250 million euro-sterling bond, the loan with a joint venture, the accrued interest, the short-term element of the SONIA + CAS 2027 loan with Iberdrola (refer to footnote (i) above) and the short-term element of fair value hedge adjustments due to be amortised within one year, which totalled £(0.9) million.

(xiii) At 31 December 2023, the Group had a total of £2.7 billion (2022 £1.5 billion) of undrawn committed facilities with SPL available, which included a £0.7 billion facility signed in March 2023 and a £0.5 billion facility signed in December 2023. As at the date of signing these accounts, the Group has replaced its existing committed facilities with a new £2.7 billion, five-year committed facility. The new committed facility with SPL expires on 30 April 2029 and remains undrawn.

20 LOANS AND OTHER BORROWINGS *continued*

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

	Notes	Lease liabilities £m	Loans and other borrowings (Current) £m	Loans and other borrowings (Non-current) £m	Other financial liabilities £m	Total £m
At 1 January 2022		510.7	1,021.8	4,561.0	34.8	6,128.3
Increase in amounts due to Iberdrola Group companies		–	1,518.8	–	–	1,518.8
Repayments of other financial liabilities		–	–	–	(11.0)	(11.0)
Payments of lease liabilities		(25.9)	–	–	–	(25.9)
Interest paid		(18.4)	(164.4)	–	–	(182.8)
Total movements from financing cash flows	(i)	(44.3)	1,354.4	–	(11.0)	1,299.1
Transfer from non-current to current		–	439.8	(439.8)	–	–
Credit facility – initial margin	(ii)	–	(200.0)	–	–	(200.0)
Other movements	(iii)	57.4	189.8	26.6	–	273.8
Total liability-related other movements		57.4	429.6	(413.2)	–	73.8
At 31 December 2022		523.8	2,805.8	4,147.8	23.8	7,501.2

	Notes	**Lease liabilities £m**	**Loans and other borrowings (Current) £m**	**Loans and other borrowings (Non-current) £m**	**Other financial liabilities £m**	**Total £m**
At 1 January 2023		**523.8**	**2,805.8**	**4,147.8**	**23.8**	**7,501.2**
Increase in amounts due to Iberdrola Group companies		–	57.0	–	–	57.0
Repayments of external borrowings		–	(250.0)	(4.5)	–	(254.5)
Repayments of other financial liabilities		–	–	–	(8.5)	(8.5)
Payments of lease liabilities		(43.5)	–	–	–	(43.5)
Interest paid		(19.8)	(235.9)	–	–	(255.7)
Total movements from financing cash flows	(i)	**(63.3)**	**(428.9)**	**(4.5)**	**(8.5)**	**(505.2)**
Transfer from non-current to current		–	345.9	(345.9)	–	–
Other movements	(iii)	131.6	387.4	(8.0)	232.0	743.0
Total liability-related other movements		**131.6**	**733.3**	**(353.9)**	**232.0**	**743.0**
At 31 December 2023		**592.1**	**3,110.2**	**3,789.4**	**247.3**	**7,739.0**

(i) Total movements from financing cash flows do not include financing cash flows relating to equity. Cash flows not included relate to dividends paid.

(ii) During 2021, the Group agreed an amendment to its terms and conditions with its commodities derivative clearer which included an initial deposit margin facility of £200.0 million. This was fully utilised at 31 December 2021 but was not in use at 31 December 2022 or 31 December 2023.

(iii) Other movements includes non-cash movements including accrued interest expense and the acquisition of lease liabilities and other financial liabilities in respect of confirming arrangements and software license liabilities.

21 TRADE AND OTHER PAYABLES

	Notes	**2023 £m**	2022 £m
Current trade and other payables:			
Payables to Iberdrola Group companies and joint ventures		**2.8**	4.1
Trade payables		**646.9**	1,004.2
Other taxes and social security		**68.8**	99.3
Payments received on account		**179.8**	154.9
Capital payables and accruals		**649.9**	322.7
Collateral held		**30.0**	24.1
Payables in respect of government support schemes	(a)	**–**	174.1
Other payables	(b)	**577.2**	497.8
		2,155.4	2,281.2
Non-current other payables:			
Capital payables and accruals		**–**	0.4
Other payables		**7.0**	10.0
		7.0	10.4

(a) In the prior year, this balance primarily reflected funds received from the UK Government in relation to the EBSS which had not yet been paid to customers.

(b) Included within other payables is a balance of £533.3 million (£459.8 million) relating to net DD customer credits (comprising customer credits of £894.6 million (2022 £885.4 million) in excess of £426.7 million (2022 £442.8 million) of unbilled receivables) and a £65.4 million (2022 £17.2 million) provision in relation to energy volumes which have still to reach final settlement. Further information on unbilled payables, including sensitivity, is detailed in Note 3.

22 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Note	Property, plant and equipment £m	Derivative financial instruments £m	Retirement benefits £m	Trading losses £m	Other temporary differences £m	Total £m
At 1 January 2022		1,455.6	218.2	51.6	(54.2)	(21.2)	1,650.0
Charge/(credit) to Income statement		48.6	11.6	–	0.1	(6.6)	53.7
Recorded in the Statement of comprehensive income	(a)	–	(376.4)	9.3	18.2	–	(348.9)
At 1 January 2023		1,504.2	(146.6)	60.9	(35.9)	(27.8)	1,354.8
Charge/(credit) to Income statement		157.5	(8.0)	–	35.9	4.1	189.5
Recorded in the Statement of comprehensive income	(a)	–	142.0	(30.0)	–	–	112.0
At 31 December 2023		**1,661.7**	**(12.6)**	**30.9**	**–**	**(23.7)**	**1,656.3**

(a) Legislation was enacted on 10 June 2021 under the Finance Act 2021 that increased the UK Corporation Tax rate to 25% from 1 April 2023. Accordingly, the deferred tax balances at 31 December 2023 have been provided at 25%, to reflect the rate that the temporary differences are expected to reverse at.

(b) The Group have recognised the deferred tax on the surplus of the ScottishPower pension scheme at 25% because the expected manner of recovery of the surplus is via reduced future contributions. Under IAS 12 'Income Taxes', the applicable rate in this circumstance is the prevailing Corporation Tax rate.

(c) At 31 December 2023, the Group had unutilised capital losses of £33.7 million (2022 £34.2 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.

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

(e) A breakdown of tax recognised directly in equity is set out below:

	Note	2023 £m	2022 £m
Relating to current tax:			
Retirement benefits movements	(i)	**(29.2)**	(18.5)
Cash flow hedge movements		**11.4**	(27.7)
Onerous provisions		**–**	(11.4)
Trading losses		**–**	(18.2)
		(17.8)	(75.8)

	Note	2023 £m	2022 £m
Relating to deferred tax:			
Retirement benefits movements	(i)	**(30.0)**	9.3
Cash flow hedge movements		**142.0**	(376.4)
Trading losses		**–**	18.2
		112.0	(348.9)

(i) The tax on Retirement benefits movements is comprised of a Corporation Tax credit of £29.2 million (2022 £18.5 million) arising due to the excess of pension contributions over costs and a deferred tax credit of £30.0 million (2022 charge of £9.3 million) relating to actuarial gains.

23 REVENUE

(a) Disaggregation of revenue

	Notes	2023 Energy Networks £m	Renewable production £m	Customer business £m	Total £m
Revenue arising from contracts with customers in scope of IFRS 15:					
Electricity distribution		875.6	–	–	**875.6**
Electricity transmission		513.3	–	–	**513.3**
Transfers of assets from customers		48.7	–	–	**48.7**
Supply of electricity	(i)	–	–	4,444.7	**4,444.7**
Supply of gas	(i)	–	–	1,709.8	**1,709.8**
Other		–	64.0	37.8	**101.8**
		1,437.6	64.0	6,192.3	**7,693.9**
Revenue arising from contracts in scope of IAS 20:					
Revenue received from government support schemes	(ii)	–	–	1,426.2	**1,426.2**
CfD		–	239.6	–	**239.6**
		–	239.6	1,426.2	**1,665.8**
Revenue arising from contracts in scope of IFRS 9:					
Derivative income		–	(19.6)	114.0	**94.4**
		1,437.6	**284.0**	**7,732.5**	**9,454.1**

23 REVENUE *continued*

	Notes	2022 Energy Networks £m	Renewable production £m	Customer business £m	Total £m
Revenue arising from contracts with customers inscope of IFRS 15:					
Electricity distribution		789.9	–	–	789.9
Electricity transmission		385.5	–	–	385.5
Transfers of assets from customers		45.3	–	–	45.3
Supply of electricity	(i)	–	–	4,219.8	4,219.8
Supply of gas	(i)	–	–	1,511.7	1,511.7
Other		–	58.6	45.5	104.1
Sale of offshore transmission asset		–	682.4	–	682.4
		1,220.7	741.0	5,777.0	7,738.7
Revenue arising from contracts in scope of IAS 20:					
Revenue received from government support schemes	(ii)	–	–	591.5	591.5
CfD		–	(76.3)	–	(76.3)
		–	(76.3)	591.5	515.2
Revenue arising from contracts in scope of IFRS 9:					
Derivative income		–	(19.5)	200.5	181.0
		1,220.7	645.2	6,569.0	8,434.9

(i) Revenue received for the year ended 31 December 2023 in respect of the EBSS and domestic and non-domestic AFP schemes (accounted for under IFRS 15) was £509.1 million (2022 £498.5 million), £39.7 million (2022 £nil), and £4.8 million (2022 £nil) respectively. All revenue received in respect of government schemes accounted for under IFRS 15 is offset by an equal amount paid to the customer.

(ii) Revenue received for the year ended 31 December 2023 in respect of the EPG, EBRS, and EBDS schemes (accounted for as government grants) was £1,322.8 million (2022 £513.6 million), £91.3 million (2022 £77.9 million), and £12.1 million (2022 £nil) respectively.

Revenue recognition accounting policies for the above disclosed revenue streams are disclosed at Note 4H3 and Note 4M. All revenue arises from operations within the UK and Republic of Ireland. Revenue from outside the UK is not deemed material enough to warrant separate disclosure.

(b) Contract balances

	Notes	**31 December 2023 £m**	31 December 2022 £m	31 December 2021 £m
Receivables	(i), (ii)	**1,172.1**	1,119.6	779.8
Contract liabilities	(iii), (iv)	**(2,265.5)**	(2,097.2)	(1,623.4)

(i) Included within Trade and other receivables (refer to Note 13).

(ii) £200.7 million (2022 £83.8 million) of net expected credit losses on trade and other receivables were recognised during the year on receivables arising from the Group's contracts with customers.

(iii) Contract liabilities comprises the entire balance of deferred income (refer to Note 17) with the remainder included within Trade and other payables (refer Note 21).

(iv) The amount of contract liabilities recognised as revenue in the year is £494.1 million (2022 £132.0 million). The remaining movement in contract liabilities relates to new liabilities recognised in the year.

24 EMPLOYEE INFORMATION

(a) Staff costs

	2023 £m	2022 £m
Wages and salaries	**367.5**	321.7
Social security costs	**39.4**	35.8
Pension and other costs	**60.6**	76.0
	467.5	433.5
Capitalised staff costs	**(189.5)**	(173.9)
	278.0	259.6

(b) Employee numbers

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

	2023	2022
Energy Networks	**3,526**	3,227
Renewable production	**808**	657
Customer business	**1,084**	1,346
Corporate	**579**	541
	5,997	5,771

25 TAXES OTHER THAN INCOME TAX

	Notes	2023 £m	2022 £m
Property taxes		**130.1**	120.3
Other taxes	(a)	**181.7**	77.8
Electricity Generator Levy	(b)	**56.5**	–
		368.3	198.1

(a) Other taxes mainly comprises obligations specific to the energy industry, principally ECO scheme and Warm Home Discount scheme.
(b) The Electricity Generator Levy is a temporary 45% charge on exceptional receipts generated from low-carbon UK power generation meeting certain conditions. The levy is in effect from 1 January 2023 to 31 March 2028.

26 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2023 £m	2022 £m
Property, plant and equipment depreciation charge	**660.4**	630.2
Right-of-use asset depreciation charge	**39.4**	33.9
Intangible asset amortisation charge	**97.1**	116.4
Charges and provisions, allowances and impairment of assets	**26.1**	13.2
	823.0	793.7
Capitalised right-of-use asset depreciation	**(8.6)**	(5.8)
	814.4	787.9

27 FINANCE INCOME

	2023 £m	2022 £m
Interest on bank and other deposits	**15.0**	4.9
Interest receivable from Iberdrola Group companies	**100.2**	19.5
Net interest on retirement benefit obligations	**15.3**	5.0
Foreign exchange gains	**2.2**	2.1
Fair value and other gains on non-hedging derivatives	**8.8**	74.1
Fair value gains on contingent consideration	**3.5**	3.2
	145.0	108.8

28 FINANCE COSTS

	Note	2023 £m	2022 £m
Interest on bank loans and overdrafts		**1.8**	0.4
Interest on amounts due to Iberdrola Group companies		**268.3**	99.8
Interest on other borrowings		**118.1**	116.3
Net impairment of financing and investment instruments		**(0.2)**	0.2
Unwinding of discount on provisions		**9.5**	3.9
Unwinding of discount on software licence liabilities		**0.8**	–
Interest on lease liabilities		**20.2**	19.2
Foreign exchange losses		**1.6**	2.6
Fair value and other losses on non-hedging derivatives		**45.7**	9.7
		465.8	252.1
Capitalised interest	(a)	**(46.8)**	(8.7)
		419.0	243.4

(a) The tax relief on the capitalised interest for the year ended 31 December 2023 was £11.0 million (2022 £1.7 million).

29 INCOME TAX

	2023 £m	2022 £m
Current tax:		
UK Corporation Tax charge on profits for the year	**230.2**	82.2
Adjustments in respect of prior years	**1.0**	5.5
Current tax for the year	**231.2**	87.7
Deferred tax:		
Origination and reversal of temporary differences	**199.4**	71.7
Adjustments in respect of prior years	**(9.9)**	(18.0)
Deferred tax for the year	**189.5**	53.7
Income tax expense for the year	**420.7**	141.4

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

	2023 £m	2022 £m
Corporation Tax at 23.5% (2022 19%)	**385.2**	133.2
Adjustments in respect of prior years	**(8.9)**	(12.5)
Impact of tax rate change on current year charge	**8.4**	19.0
Non-deductible expenses and other permanent differences	**36.0**	1.7
Income tax expense for the year	**420.7**	141.4

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 31 December 2023 have been provided at 25%, to reflect the rate that the temporary differences are expected to reverse at.

Comparison of UK Corporation Tax charge and payments	2023 £m	2022 £m
UK Corporation Tax charge on profits for the year	**230.2**	82.2
UK Corporation Tax in the Statement of cash flows	**51.8**	22.6
Current tax (liability)/asset recognised in the Statement of financial position	**(81.0)**	78.8

The amount of Corporation Tax paid in the year, shown in the Consolidated statement of cash flows, and the amount of the Corporation Tax charge for the year are not the same. The four installment payments that are required during the year are based on forecasts of the total Corporation Tax charged in the Consolidated income statement and the Consolidated statement of comprehensive income. In addition, the amount in the Consolidated statement of cash flows also includes any refunds received or payments made relating to Corporation Tax liabilities of prior years.

The current tax asset recognised in the Statement of financial position at 31 December 2022 arose largely as a consequence of the significant historical losses arising in the Customer business.

Pillar Two model rules

The ultimate parent company of the Group is Iberdrola S.A., a company based in Spain. Iberdrola is the parent company of a global group within the scope of the Organisation for Economic Co-operation and Development's Pillar Two model rules and is therefore responsible for calculating the multi-national top-up tax for the Iberdrola Group. The Group is not within the scope of multi-national top-up tax.

The UK has enacted legislation to incorporate the Pillar Two model rules with effect from 1 January 2024. This includes domestic top-up tax ("DTT") legislation. The Group is within the scope of the DTT legislation and is in the process of assessing its exposure to DTT. As the UK Corporation Tax rate is currently 25%, a DTT liability is not expected. However, due to the complexities in applying the legislation and the fact that 2024 financial information is not yet available, there may still be a liability to DTT.

Since this legislation was not effective at the reporting date, there is no current tax impact for the year ended 31 December 2023. The Group has applied the exception available in the Amendments to IAS 12 'Income Taxes: International Tax Reform – Pillar Two Model Rules' which was effective for the Group from 1 January 2023, and therefore, has not recognised or disclosed information about deferred tax assets and liabilities related to Pillar Two income taxes.

30 DIVIDENDS

	2023 pence per ordinary share	2022 pence per ordinary share	2023 £m	2022 £m
Interim dividend paid	**11.0**	10.1	**780.0**	715.0

31 CONTINGENT LIABILITIES

From time to time, regulators, including Ofgem and the Health and Safety Executive, open inquiries with the Group in relation to compliance with licenses, laws and regulations. ScottishPower's businesses are also party to various other legal claims, actions and complaints, certain of which may involve material amounts.

Where the outflow of resources is considered probable, and a reasonable estimate can be made of the amount of the present obligation, a provision is recognised for these amounts (refer to Note 18). Where an outflow is not probable, but is possible, or a reasonable estimate of the present obligations cannot be made, a contingent liability exists. ScottishPower currently believes that resolution of these matters will not have a materially adverse effect on the Consolidated accounts.

32 FINANCIAL COMMITMENTS

Contractual commitments

ScottishPower manages its energy resource requirements by integrating long-term firm, short-term and spot market purchases with its own generating resources to manage volume and price volatility and maximise value across the energy value chain. As part of its energy resource portfolio, the Group is committed under long-term purchase contracts summarised in the tables below.

	2023						
	2024 £m	**2025 £m**	**2026 £m**	**2027 £m**	**2028 £m**	**2029 and thereafter £m**	**Total £m**
Long-term energy purchase contract commitments	1,804.8	105.2	5.1	–	–	–	**1,915.1**
Other contractual commitments	469.5	294.9	62.8	49.7	47.8	70.1	**994.8**

	2022						
	2023 £m	2024 £m	2025 £m	2026 £m	2027 £m	2028 and thereafter £m	Total £m
Long-term energy purchase contract commitments	4,485.8	399.1	61.1	4.1	–	–	4,950.1
Other contractual commitments	169.0	76.2	57.0	52.3	47.7	115.1	517.3

33 RELATED PARTY TRANSACTIONS

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

	2023				2022			
	Ultimate parent (Iberdrola, S.A.) £m	**Immediate parent (Scottish Power Limited) £m**	**Other Iberdrola Group companies £m**	**Joint ventures £m**	Ultimate parent (Iberdrola, S.A.) £m	Immediate parent (Scottish Power Limited) £m	Other Iberdrola Group companies £m	Joint ventures £m
Types of transaction								
Sales and rendering of services	**–**	**2.0**	**15.6**	**2.8**	–	1.9	60.9	2.0
Purchases and receipt of services	**(33.0)**	**(0.6)**	**(17.3)**	**(14.5)**	(32.0)	(0.6)	(53.0)	(19.6)
Finance costs (excluding non-hedging derivatives)	**–**	**(236.4)**	**(31.9)**	**–**	–	(87.3)	(12.5)	–
Finance income (excluding non-hedging derivatives)	**0.3**	**100.2**	**–**	**–**	–	19.5	–	–
Net (losses)/gains on non-hedging derivatives	**(7.8)**	**(36.9)**	**–**	**–**	(6.2)	70.6	–	–
Changes in the value of cash flow hedges	**–**	**(43.9)**	**–**	**–**	–	13.5	–	–
Dividends paid	**–**	**(780.0)**	**–**	**–**	–	(715.0)	–	–
Balances outstanding								
Loans receivable	**–**	**915.0**	**–**	**–**	–	1,224.8	–	–
Trade and other receivables	**1.3**	**241.4**	**18.6**	**3.4**	–	1.8	25.4	3.5
Interest receivable	**–**	**100.1**	**–**	**–**	–	19.5	–	–
Derivative financial assets	**0.8**	**2.3**	**–**	**–**	1.6	81.1	–	–
Loans payable	**–**	**(4,685.3)**	**(380.0)**	**(3.0)**	–	(4,438.3)	(570.0)	(3.0)
Trade and other payables	**–**	**(1.2)**	**(0.2)**	**(1.4)**	–	(1.2)	(0.5)	(2.4)
Interest payable	**–**	**(162.5)**	**(0.6)**	**–**	–	(41.5)	(0.8)	–
Derivative financial liabilities	**(3.3)**	**(25.0)**	**–**	**–**	(7.8)	(2.1)	–	–

(i) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received in relation to inter-group transactions.

(b) Remuneration of key management personnel

The remuneration of the key management personnel of the Group is set out below. The remuneration of all eleven (2022 13) key management personnel who served during the year is included within staff costs at Note 24(a).

	2023 £m	2022 £m
Short-term employee benefits	**4.3**	3.6
Post-employment benefits	**0.2**	0.4
Share-based payments	**3.4**	3.7
	7.9	7.7

33 RELATED PARTY TRANSACTIONS *continued*

(c) Directors' remuneration

The remuneration of the directors who provided qualifying services to the Group is set out below. All of the directors were remunerated by the Group during both years. All of the directors (2022 all) were remunerated directly by the Company.

	2023 £000	2022 £000
Aggregate remuneration in respect of qualifying services	**1,107**	911
Aggregate contributions to a defined contribution pension scheme	**21**	20
Number of directors who exercised share options	**4**	3
Number of directors who received shares under a long-term incentive scheme	**3**	2
Number of directors accruing retirements benefits under a defined benefit scheme	**2**	1
Number of directors accruing retirement benefits under a defined contribution scheme	**1**	1

Highest paid director	2023 £000	2022 £000
Aggregate remuneration	**405**	353
Accrued pension benefit	**–**	71

(i) The highest paid director received a benefit under a long-term share incentive scheme in both years.

(ii) The highest paid director exercised share options in both years.

(d) Immediate and ultimate parent company

The immediate parent company is Scottish Power Limited which is also the parent company of the smallest group in which the results of the Company are consolidated. Copies of the consolidated accounts of Scottish Power Limited 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. Copies of the consolidated accounts of Iberdrola, S.A. may be obtained from its registered office at Iberdrola, S.A., Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain.

In addition to the Company's parent undertakings disclosed above, the Group's other related undertakings are disclosed in Appendix 1.

34 AUDITOR'S REMUNERATION

	Note	2023 £m	2022 £m
Audit of the Company and Consolidated annual accounts		**0.9**	0.7
Audit of the Company's subsidiaries pursuant to legislation		**3.0**	2.8
Audit of the Group's pension schemes pursuant to legislation	(a)	**0.1**	0.1
Audit fees		**4.0**	3.6
Audit-related assurance services		**0.1**	0.1
		4.1	3.7

(a) The Group's SPPS pension scheme paid the fees of £0.1 million (2022 £0.1 million) relating to that scheme's audit.

SCOTTISH POWER UK PLC
COMPANY STATEMENT OF FINANCIAL POSITION
at 31 December 2023

	Notes	2023 £m	2022 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	36	**30.5**	20.5
Property, plant and equipment	37	**43.5**	45.0
Right-of-use-assets	38	**96.7**	91.2
Retirement benefits asset	39	**246.6**	341.9
Non-current financial assets		**5,041.1**	5,050.5
Investments in subsidiaries	40	5,023.5	5,023.5
Other investments		0.1	0.1
Derivative financial instruments	41	17.5	26.9
Non-current trade and other receivables	42	**3,994.3**	3,119.3
TOTAL NON-CURRENT ASSETS		**9,452.7**	8,668.4
CURRENT ASSETS			
Current trade and other receivables	42	**67.0**	323.1
Current tax assets		**32.2**	28.8
Current financial assets		**–**	0.7
Derivative financial instruments	41	–	0.7
TOTAL CURRENT ASSETS		**99.2**	352.6
TOTAL ASSETS		**9,551.9**	9,021.0
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**6,174.7**	6,066.8
Share capital		3,551.7	3,551.7
Share premium		398.2	398.2
Hedge reserve		0.7	1.2
Other reserve		420.4	420.4
Retained earnings – opening balance		1,695.3	1,187.1
Retained earnings – profit for the year		1,070.4	1,263.5
Retained earnings – other movements		(962.0)	(755.3)
Retained earnings – closing balance		1,803.7	1,695.3
TOTAL EQUITY		**6,174.7**	6,066.8
NON-CURRENT LIABILITIES			
Non-current provisions		**126.5**	104.9
Provision for retirement benefit obligations	39	123.4	101.9
Other provisions	43	3.1	3.0
Non-current bank borrowings and other financial liabilities		**1,375.3**	1,722.0
Other financial liabilities	44	8.0	–
Loans and other borrowings	45	1,367.2	1,722.0
Derivative financial instruments	41	0.1	–
Non-current lease liabilities	38	**116.1**	111.2
Non-current trade and other payables	46	**3.4**	4.8
Deferred tax liabilities	47	**30.6**	56.7
TOTAL NON-CURRENT LIABILITIES		**1,651.9**	1,999.6
CURRENT LIABILITIES			
Current provisions		**1.9**	1.5
Other provisions	43	1.9	1.5
Current bank borrowings and other financial liabilities		**1,675.6**	914.0
Other financial liabilities	44	17.2	23.8
Loans and other borrowings	45	1,658.3	890.2
Derivative financial instruments	41	0.1	–
Current lease liabilities	38	**7.8**	7.8
Current trade and other payables	46	**40.0**	31.3
TOTAL CURRENT LIABILITIES		**1,725.3**	954.6
TOTAL LIABILITIES		**3,377.2**	2,954.2
TOTAL EQUITY AND LIABILITIES		**9,551.9**	9,021.0

Authorised for issue by the SPUK Board and signed on its behalf on 19 March 2024.

Nicola Connelly
Director

The accompanying Notes 35 to 53 and Appendix 1 are an integral part of the Company statement of financial position at 31 December 2023.

SCOTTISH POWER UK PLC
COMPANY STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2023

	2023 £m	2022 £m
NET PROFIT FOR THE YEAR	**1,070.4**	1,263.5
OTHER COMPREHENSIVE INCOME		
Items that may be subsequently released to the Income statement:		
Cash flow hedges:		
Changes in the value of cash flow hedges	**(0.6)**	0.3
Tax relating to cash flow hedges	**0.1**	(0.1)
	(0.5)	0.2
Items that will not be reclassified to the Income statement:		
Retirement benefits:		
Movements in retirement benefits	**(241.2)**	(49.5)
Tax relating to movements in retirement benefits	**59.2**	9.2
	(182.0)	(40.3)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**(182.5)**	(40.1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**887.9**	1,223.4

Total comprehensive income for both years is wholly attributable to the equity holder of Scottish Power UK plc.

SCOTTISH POWER UK PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2023

	Share capital (Note (a)) £m	Share premium (Note (b)) £m	Hedge reserve (Note (c)) £m	Other reserves (Note (d)) £m	Retained earnings (Note (e)) £m	Total £m
At 1 January 2022	3,551.7	398.2	1.0	420.4	1,187.1	5,558.4
Profit for the year attributable to equity holder of the Company	–	–	–	–	1,263.5	1,263.5
Changes in the value of cash flow hedges	–	–	0.3	–	–	0.3
Movements in retirement benefits	–	–	–	–	(49.5)	(49.5)
Tax relating to cash flow hedges	–	–	(0.1)	–	–	(0.1)
Tax relating to movements in retirement benefits	–	–	–	–	9.2	9.2
Dividends	–	–	–	–	(715.0)	(715.0)
At 1 January 2023	3,551.7	398.2	1.2	420.4	1,695.3	6,066.8
Profit for the year attributable to equity holder of the Company	–	–	–	–	1,070.4	1,070.4
Changes in the value of cash flow hedges	–	–	(0.6)	–	–	(0.6)
Movements in retirement benefits	–	–	–	–	(241.2)	(241.2)
Tax relating to cash flow hedges	–	–	0.1	–	–	0.1
Tax relating to movements in retirement benefits	–	–	–	–	59.2	59.2
Dividends	–	–	–	–	(780.0)	(780.0)
At 31 December 2023	**3,551.7**	**398.2**	**0.7**	**420.4**	**1,803.7**	**6,174.7**

(a) At 31 December 2023 the Company had 7,103,427,542 allotted, called up and fully paid ordinary shares of 50p each (2022 7,103,427,542). 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.

(b) The share premium account represents consideration received for shares issued in excess of their nominal amount.

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

(d) Other reserves as at 31 December 2023 comprises a capital contribution reserve of £412.2 million (2022 £412.2 million) and a capital redemption reserve of £8.2 million (2022 £8.2 million).

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

The accompanying Notes 35 to 53 and Appendix 1 are an integral part of the Company statement of comprehensive income and the Company statement of changes in equity for the year ended 31 December 2023.

35 COMPANY INFORMATION AND PRINCIPAL ACCOUNTING POLICIES

A COMPANY INFORMATION AND ACTIVITIES

Scottish Power UK plc (registered company number SC117120) is a private company limited by shares. It is incorporated in Scotland and its registered address is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD. The Company financial statements present information about the Company as a separate entity, and not about the Group.

The Company principally acts as the holding company of the Scottish Power UK plc group, whose activities are set out in Note 1 to the Consolidated financial statements, and has its own board of directors. The Company's immediate parent company, SPL, is the holding company of the SPL group.

B BASIS OF PREPARATION

B1 BASIS OF PREPARATION OF THE COMPANY ACCOUNTS

The Company is required by law to prepare accounts and to deliver them to the Registrar of Companies. The Company accounts are prepared in accordance with the accounting policies set out in Note 35D. Monetary amounts are presented in pounds Sterling and rounded to the nearest hundred thousand unless otherwise indicated. The Company financial statements are prepared on the historical cost basis apart from certain financial assets and liabilities which are measured at fair value.

The Company financial statements have been prepared in accordance with FRS 101. In preparing these financial statements, the Company has applied the recognition, measurement and disclosure requirements of UK-adopted IAS including newly effective IAS for the year ended 31 December 2023 as noted in Note 2B. The application of these amendments has not had a material impact on the Company's accounting policies, financial position or performance. In applying FRS 101, the Company has made amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken:

- the preparation of a Statement of cash flows and the related notes;
- comparative period reconciliations for intangible assets and property, plant and equipment;
- disclosures in respect of transactions with wholly owned subsidiaries of Iberdrola, S.A.;
- disclosures in respect of capital management;
- disclosures in respect of deferred tax assets and liabilities related to Pillar Two model rules income taxes;
- the effects of new, but not yet effective, IAS pronouncements; and
- disclosures in respect of the compensation of key management personnel.

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

B2 GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 1 to 24.

The Company statement of financial position presents net current liabilities of £1,626.1 million as at 31 December 2023, including £1,195.0 million of on demand loans with Iberdrola Group companies. The Company financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Company is the holding company of Scottish Power UK plc Group which, is a significant component of Iberdrola, one of the world's largest utilities. The Company participates in a UK treasury function operated by SPL Treasury. SPL Treasury works closely with Iberdrola to manage the Company's and the Group's funding requirements, which are reviewed and adjusted on a regular basis using a mixture of funding provided via Iberdrola through the global treasury function and external funding. The Company meets its day-to-day working capital requirements from term loans (refer to Note 45), together with operational cash flows, intercompany loans and trading balances with the group headed by Iberdrola, the ultimate parent company. The Iberdrola Group has also provided a £2.7 billion of undrawn committed revolving credit facility maturing in 2029 at the date of approval of these financial statements (refer to Note 45(g)).

As a consequence, the Company depends, in part, on the ability and intention of the Iberdrola Group to continue as a going concern. The directors have considered the Company's funding relationship with Iberdrola to date and have considered available relevant information, including the liquidity disclosures in the Iberdrola Group's 2023 financial statements, relating to Iberdrola's ability to continue as a going concern. In addition, the directors have no reason to believe that the Iberdrola Group does not have the ability to, and will not continue to, fund the Company to enable it to continue in operational existence.

For the purposes of the directors' assessment of the Group's going concern position, the directors have prepared a Company cash flow forecast for a period of at least twelve months from March 2024.

The cash flow forecast indicates that alongside the Company's existing resources and committed facilities, including £2.7 billion of undrawn committed revolving credit facilities maturing in 2029, additional financing is required during the going concern period. As noted above, the directors are confident in the ability and intention of the SPL Group, and the Iberdrola Group, to maintain the required funding level during the going concern assessment period, under both the base and downside scenarios, based on the borrowing history to date and the liquidity position of the Iberdrola Group.

The directors acknowledge that there can be no certainty that this funding will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. In the unlikely event of not being able to access additional funding as may be required, the Company has options including delaying or deferring dividends.

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 twelve months from the date of approval of the Company financial statements and therefore, have prepared the financial statements on a going concern basis.

35 COMPANY INFORMATION AND PRINCIPAL ACCOUNTING POLICIES *continued*

C JUDGEMENTS AND ESTIMATION UNCERTAINTIES

Management has made a number of judgements and assumptions about the future and about other sources of estimation uncertainty at the end of the reporting period that may have a significant risk of resulting in a material adjustment to the Company's reported amounts of assets and liabilities within the next financial year. The significant estimation uncertainty made by management is set out below.

- Retirement benefit obligation (including valuation of level 3 pension plan assets) – Notes 3, 4F and 39.

Management has also considered a non-significant judgement relating to climate change. The impact of climate change, including risks identified in the Strategic Report on page 26, on the Company's financial statements has been considered. No material impact on the judgements and estimates made in the preparation of the Company's financial statements has been identified (refer to Note 3 for more details). This consideration focussed on the Company`s going concern position, including the cash flow prepared for the directors' assessment referred to in Note 2.

D PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in preparing the Company's financial statements are set out below. In the process of determining and applying these accounting policies, judgement, apart from those involving estimations (refer to Note 35C), is often required that can significantly affect the amounts recognised in the Company financial statements. Management has made no such judgements.

Investments

The Company's investments in subsidiaries are stated in the Company statement of financial position at cost, or the fair value of shares issued as consideration where applicable. Dividends from subsidiaries are recognised when the right to receive the dividend is established.

Investments in subsidiaries are stated at cost and reviewed for impairment if there are indicators that the carrying value may not be recoverable. An impairment loss is recognised to the extent that the carrying amount cannot be recovered either by selling the asset or by continuing to hold the asset and benefiting from the net present value of the future cash flows (value-in-use) of the investment.

Applicable Group accounting policies

The following principal accounting policies applied by the Company are consistent with those applied for the Group financial statements:

- Other intangible assets (refer to Note 4B);
- Property, plant and equipment (refer to Note 4C);
- Leased assets (refer to Note 4D);
- Impairment of intangible assets, property, plant and equipment and leased assets (refer to Note 4E);
- Retirement benefits (refer to Note 4F)
- Financial instruments (refer to Note 4H);
- Decommissioning costs (refer to Note 4K); and
- Taxation (refer to Note 4Q).

36 INTANGIBLE ASSETS

Year ended 31 December 2023	Note	Computer software £m
Cost:		
At 1 January 2023		119.7
Additions	(b)	23.2
Disposals		(0.9)
At 31 December 2023		**142.0**
Amortisation:		
At 1 January 2023		99.2
Amortisation for the year		13.2
Disposals		(0.9)
At 31 December 2023		**111.5**
Net book value:		
At 31 December 2023		**30.5**
At 1 January 2023		20.5

(a) The cost of fully amortised computer software still in use at 31 December 2023 was £87.2 million (2022 £77.1 million).
(b) Included within computer software additions is £0.6 million (2022 £0.9 million) from internal development.
(c) Computer software includes SaaS cloud arrangements with a carrying value of £8.8 million (2022 £0.9 million).

37 PROPERTY, PLANT AND EQUIPMENT

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

Year ended 31 December 2023	Property, plant and equipment in use £m
Cost:	
At 1 January 2023	113.0
Additions	8.1
Disposals	(13.9)
At 31 December 2023	**107.2**
Depreciation:	
At 1 January 2023	68.0
Charge for the year	9.0
Disposals	(13.3)
At 31 December 2023	**63.7**
Net book value:	
At 31 December 2023	**43.5**
At 1 January 2023	45.0

(i) Property, plant and equipment in use principally comprises fixtures and fittings and IT equipment.
(ii) The cost of fully depreciated property, plant and equipment still in use at 31 December 2023 was £33.5 million (2022 £35.5 million).

(b) Capital commitments

	2023						
	2024 £m	**2025 £m**	**2026 £m**	**2027 £m**	**2028 £m**	**2029 and thereafter £m**	**Total £m**
Contracted but not provided	**0.5**	–	–	–	–	–	**0.5**

	2022						
	2023 £m	2024 £m	2025 £m	2026 £m	2027 £m	2028 and thereafter £m	Total £m
Contracted but not provided	1.0	0.4	0.5	0.8	1.5	3.9	8.1

38 LEASING

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

(a) Nature of leases

Buildings

The Company leases buildings primarily for its office space and retail space. The leases typically have lease terms running from ten to 25 years. Certain leases have options to extend the term by up to ten years at the end of the existing term. Most contracts have no termination options, whilst certain contracts have specific break options exercisable five or ten years before the contract end date.

The lease for the head office building has a 25 year term ending in 2041 at which point the Company has the right to extend the lease to 2046 (and to 2051 at 2046). It is currently not deemed reasonably certain that these extension options will be taken. However, should they be taken, the estimated movement in the lease liability would be a decrease of £(0.1) million and a further increase of £11.3 million respectively.

Vehicles

The Company leases vehicles with lease terms of between five and seven years, primarily being pool vehicles to mobilise its operational staff.

Other equipment

The Company leases office equipment with lease terms typically of seven years.

Variable lease payments

Certain building leases contain variable lease payments that are based on the building services supplied; a common payment term for this type of lease. The fixed annual payments for the year were £11.9 million compared to variable payments of £0.4 million. The Company expects the relative proportion of fixed and variable lease payments to remain broadly consistent in future years.

Extension options

Some building and equipment leases 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. Those 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 guarantees, no leases subject to significant restrictions or covenants, and no sale and leaseback transactions.

38 LEASING *continued*

(b) Right-of-use assets

Year ended 31 December 2022	Note	Buildings £m	Vehicles £m	Other equipment £m	Total £m
Cost					
At 1 January 2022		101.5	2.8	3.1	107.4
Additions		–	0.1	–	0.1
Adjustments for changes in liabilities	(i)	10.7	(0.1)	(0.1)	10.5
At 31 December 2022		112.2	2.8	3.0	118.0
Depreciation					
At 1 January 2022		17.2	1.7	1.5	20.4
Charge for the year		5.7	0.4	0.3	6.4
At 31 December 2022		22.9	2.1	1.8	26.8
Net book value					
At 31 December 2022		89.3	0.7	1.2	91.2
At 1 January 2022		84.3	1.1	1.6	87.0

Year ended 31 December 2023	Note	**Buildings £m**	**Vehicles £m**	**Other equipment £m**	**Total £m**
Cost					
At 1 January 2023		112.2	2.8	3.0	118.0
Adjustments for changes in liabilities	(i)	11.9	0.9	–	12.8
At 31 December 2023		**124.1**	**3.7**	**3.0**	**130.8**
Depreciation					
At 1 January 2023		22.9	2.1	1.8	26.8
Charge for the year		6.3	0.6	0.4	7.3
At 31 December 2023		**29.2**	**2.7**	**2.2**	**34.1**
Net book value					
At 31 December 2023		**94.9**	**1.0**	**0.8**	**96.7**
At 1 January 2023		89.3	0.7	1.2	91.2

(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.

	2023 £m	2022 £m
Less than one year	11.1	11.3
One to five years	41.5	38.6
More than five years	106.5	105.3
Total undiscounted lease liabilities at 31 December	**159.1**	155.2
Finance cost	(35.2)	(36.2)
Total discounted lease liabilities	**123.9**	119.0

Analysis of total lease liabilities		
Non-current	**116.1**	111.2
Current	**7.8**	7.8
Total	**123.9**	119.0

Details of the Company's risk management strategy for liquidity risks inherent in its lease liability are described at Note 12(e)C1.

(d) Amounts recognised in Income statement

	2023 £m	2022 £m
Interest on lease liabilities	**(3.9)**	(3.8)
Variable lease payment not included in the measurement of lease liabilities	**(0.4)**	(0.4)
Income from sub-leasing right-of-use assets	**0.1**	0.2

(e) Total cash outflow for leases

	2023 £m	2022 £m
Total cash outflow for leases	**(12.3)**	(10.1)

39 RETIREMENT BENEFITS

The amounts recognised in the Company statement of financial position in respect of net retirement benefit assets/obligations are detailed below:

	2023 £m	2022 £m
Non-current assets	**246.6**	341.9
Non-current liabilities	**(123.4)**	(101.9)

The Company recognises the respective pension scheme assets and obligations in its Statement of financial position for the schemes for which it is the sponsoring employer as there is no appropriate contractual agreement or Group policy to allocate the assets and obligations on a legal entity basis. Detailed disclosures for accounting under IAS 19, under the provisions of IFRIC 14, are provided in Note 10 of the Group financial statements.

40 INVESTMENT IN SUBSIDIARIES

	Investment in subsidiaries £m
At 1 January 2022, 1 January 2023 and 31 December 2023	**5,023.5**

(a) The Company's subsidiaries are listed in Appendix 1.

41 DERIVATIVE FINANCIAL INSTRUMENTS

	Derivative financial instruments £m
At 1 January 2022	33.5
Recorded in Income statement	(3.7)
Recorded in Cash flow hedge reserve	0.3
Cash settlement of derivative interest	(2.5)
At 1 January 2023	27.6
Recorded in Income statement	(9.2)
Recorded in Cash flow hedge reserve	(0.6)
Cash settlement of derivative interest	(1.0)
Recorded in Loans and other borrowings	0.5
At 31 December 2023	**17.3**

The Company's derivatives comprise forward foreign exchange contracts and a cross-currency swap. The Company uses foreign currency forwards in relation to asset purchases and other items of general expenditure. For such items, the Company generally designates the entire value of the foreign currency forward in the hedge relationship. The tables below illustrate the timing of the notional amount of the foreign currency forwards and the average forward price of the foreign currency forwards.

	Notional amount of hedging instrument (maturity profile) £m				
At 31 December 2023	Less than 1 year	1-2 years	2-3 years	3-4 years	Total
USD	**0.4**	**0.4**	**0.6**	**4.2**	**5.6**
EUR	**4.9**	**2.3**	**0.6**	**–**	**7.8**
	5.3	**2.7**	**1.2**	**4.2**	**13.4**

	Average forward price (exchange rate)			
At 31 December 2023	Less than 1 year	1-2 years	2-3 years	3-4 years
USD (GBP:USD)	1.27	1.27	1.27	1.28
EUR (GBP:EUR)	1.13	1.11	1.10	–

The Company has issued debt instruments denominated in JPY. As a result, the Company has entered into a cross-currency swap and has designated it within a fair value hedging relationship where it meets the required hedging criteria to mitigate this risk. The carrying amount of the associated 10 billion JPY loan at 31 December 2023 is £67.2 million (2022 £76.1 million). The notional amount of the cross-currency swap is £51.4 million and the average hedge rate for the year (GBP: JPY) is 1:194.55.

42 TRADE AND OTHER RECEIVABLES

	Note	2023 £m	2022 £m
Current receivables:			
Receivables due from Iberdrola Group companies		**8.1**	9.3
Receivables due from Iberdrola Group companies – loans	(a)	**–**	268.7
Receivables due from Iberdrola Group companies – interest		**31.7**	22.3
Trade receivables		**1.1**	0.5
Prepayments		**6.6**	5.5
Other tax receivables		**19.5**	16.8
		67.0	323.1
Non-current receivables:			
Receivables due from Iberdrola Group companies – loans	(a)	**3,993.8**	3,119.0
Prepayments		**0.4**	0.2
Other receivables		**0.1**	0.1
		3,994.3	3,119.3

(a) At 31 December 2022, current loans from Iberdrola Group companies comprised on demand loans of £52.7 million which earned interest at Base plus 1%, £66.0 million on loans which earned interest at a fixed rate of 3.57% and which were repaid in full on maturity during 2023, and instalments of £150.0 million due on loans with a final maturity of 2025 earning interest at a fixed rate of 2.821%. The non-current loans with Iberdrola Group companies comprised the final instalment of £150.0 million due on loans with a final maturity of 2025 earning interest at a fixed rate of 2.821%, loans (which are all repayable on maturity) of £320.0 million and £700.0 million both due to mature in 2029 earning interest at 12-month SONIA + 3.365% and 6-month SONIA + 1.025% respectively, £1,150.0 million due to mature in 2030 earning interest at 6-month SONIA + 0.78%, £800.0 million due to mature in 2032 earning interest at a fixed rate of 3.6% less ECLs of £(1.0) million.

At 31 December 2023, there were no loans with Iberdrola Group companies classified as current. Non-current loans with Iberdrola Group companies comprised the final £150.0 million bi-annual instalments of the loan which is due to mature in 2025 which earns interest at a fixed rate of 2.821%. In addition, there are loans (which are all repayable on maturity) of £320.0 million and £700.0 million both due to mature in 2029 earning interest at 12-month SONIA + 3.365% and 6-month SONIA + 1.025% respectively, £1,150.0 million due to mature in 2030 earning interest at 6-month SONIA + 0.78%, £1,125.0 due to mature in 2032 earning interest at a fixed rate of 3.6%, £550.0 million due to mature in 2033 earning interest at a fixed rate of 5.67% less ECLs of £(1.2) million.

(b) ECLs in respect of Trade and other receivables are not material for either the current or prior years.

43 PROVISIONS

Year ended 31 December 2022	Note	At 1 January 2022 £m	Unwinding of discount £m	Utilised during year £m	At 31 December 2022 £m
Onerous contracts		0.1	–	(0.1)	–
Decommissioning costs	(a)	4.4	0.1	–	4.5
		4.5	0.1	(0.1)	4.5

Year ended 31 December 2023	Note	At 1 January 2023 £m	Unwinding of discount £m	New provisions £m	**At 31 December 2023 £m**
Decommissioning costs	(a)	4.5	0.1	0.4	**5.0**

Analysis of total other provisions	2023 £m	2022 £m
Non-current	**3.1**	3.0
Current	**1.9**	1.5
	5.0	4.5

(a) The provision for decommissioning costs is the discounted future estimated costs of decommissioning certain non-current assets. The decommissioning is expected to occur over the period between 2024 and 2041.

44 OTHER FINANCIAL LIABILITIES

	2023 £m	2022 £m
Current other financial liabilities:		
Software license liabilities	**1.9**	–
Collateral held	**15.3**	23.8
	17.2	23.8

	2023 £m	2022 £m
Non-current other financial liabilities:		
Software license liabilities	**8.0**	–

45 LOANS AND OTHER BORROWINGS

Analysis by instrument and maturity	Notes	Interest rate	Maturity	2023 £m	2022 £m
Loans with Iberdrola Group companies		Base +1%	On demand	1,195.0	599.3
Loans with Iberdrola Group companies		SONIA + 0.84%	1 March 2029	650.0	650.0
Loans with Iberdrola Group companies		SONIA + 0.82%	1 March 2031	500.0	500.0
Loans with Iberdrola Group companies				**2,345.0**	1,749.3
£250 million euro-sterling bond	(a)		29 May 2023	–	249.9
£175 million inflation-linked bond	(b), (c), (d)	3.494% x RPI	13 October 2024	386.3	345.9
10 billion JPY loan	(e)	4.6%	27 July 2029	67.2	76.1
£50 million medium-term note	(b), (c), (d)	5.75%	9 December 2039	50.0	50.0
£100 million medium-term note	(c), (d)	6.375%	31 May 2041	100.0	100.0
Loans with external counterparties				**603.5**	821.9
Accrued interest due to Iberdrola Group companies				**68.8**	22.9
Accrued interest due to external counterparties				**8.2**	18.1
				3,025.5	2,612.2

Analysis of loans and other borrowings	Note	2023 £m	2022 £m
Non-current		**1,367.2**	1,722.0
Current	(f)	**1,658.3**	890.2
		3,025.5	2,612.2

(a) The £250 million euro-sterling bond was repaid in full during the year at maturity.

(b) These bonds and notes contain a 'Loss of licence' covenant that may require repayment of the outstanding amount should the Group lose the relevant licence (distribution, transmission and supply licences).

(c) The external debt contains non-financial covenants. A future breach of these covenants may require repayment of the loans earlier than indicated in the above table. Under the agreements, the covenants are monitored on a regular basis by SPL Treasury and regularly reported to management to ensure compliance with the agreements.

(d) SPL and the Company have an established joint US$7 billion euro medium-term note programme. SPL has not issued under the programme. The Company has in issue various notes in Sterling which can be redeemed with 30 to 90 days' notice in case of unfavourable and unavoidable changes in the UK tax laws impacting on the note payments.

(e) The interest rate quoted above on the 10 billion JPY loan is fixed. This is changed to a variable rate by a cross-currency swap.

(f) Current borrowings at 31 December 2023 comprise loans with Iberdrola Group companies repayable on demand, the £175 million inflation-linked bond and accrued interest. Current borrowings at 31 December 2022 comprised loans with Iberdrola Group companies repayable on demand, the £250 million euro-sterling bond and accrued interest.

(g) At 31 December 2023, the Company had a total of £2.7 billion (2022 £1.5 billion) of undrawn committed facilities with SPL available, which included a £0.7 billion facility signed in March 2023 and a £0.5 billion facility signed in December 2023. As at the date of signing these accounts, the Company has replaced its existing committed facilities with a new £2.7 billion, five-year committed facility. The new committed facility with SPL expires on 30 April 2029 and remains undrawn.

46 TRADE AND OTHER PAYABLES

	2023 £m	2022 £m
Current trade and other payables:		
Payables due to Iberdrola Group companies	**0.7**	–
Trade payables	**18.6**	12.4
Other taxes and social security	**1.3**	1.1
Payments received on account	**0.1**	–
Capital payables	**7.1**	7.6
Other payables	**12.2**	10.2
	40.0	31.3
Non-current other payables:		
Other payables	**3.4**	4.4
Capital payables	**–**	0.4
	3.4	4.8

47 DEFERRED TAX

Deferred tax provided in the financial statements is as follows:

	Property, plant and equipment £m	Derivative financial instruments £m	Retirement benefits £m	Trading losses £m	Other temporary differences £m	Total £m
At 1 January 2022	2.6	(0.4)	(51.6)	18.2	1.7	(29.5)
(Credit)/charge to Income statement	(1.0)	–	–	–	1.4	0.4
Recorded in the Statement of comprehensive income	–	(0.1)	(9.3)	(18.2)	–	(27.6)
At 1 January 2023	1.6	(0.5)	(60.9)	–	3.1	(56.7)
Credit to Income statement	(3.0)	–	–	–	(1.0)	(4.0)
Recorded in the Statement of comprehensive income	–	0.1	30.0	–	–	30.1
At 31 December 2023	**(1.4)**	**(0.4)**	**(30.9)**	**–**	**2.1**	**(30.6)**

(a) Legislation was enacted on 10 June 2021 under the Finance Act 2021 that increased the UK Corporation tax rate to 25% from 1 April 2023. Accordingly, the deferred tax assets at 31 December 2023 have been provided at 25%, to reflect the rate that the temporary differences are expected to reverse at.

(b) At 31 December 2023, the Company had unutilised capital losses of £5.4 million (2022 £5.4 million). No deferred tax has been recognised in the financial statements due to the unpredictability of suitable future profit streams against which these losses may be utilised.

48 COMPANY INCOME STATEMENT

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own income statement. The Company's income statement was authorised for issue by the SPUK Board on 19 March 2024. The net profit for the financial year per the financial statements of the Company was £1,070.4 million (2022 £1,263.5 million).

49 EMPLOYEE INFORMATION

(a) Staff costs

	2023 £m	2022 £m
Wages and salaries	**47.9**	41.2
Social security costs	**5.4**	4.8
Pension and other costs	**10.7**	10.7
Total staff costs	**64.0**	56.7
Less: capitalised staff costs	**(1.1)**	(1.9)
Charged to the Income statement	**62.9**	54.8

(b) Employee numbers

Details of the year end and average number of employees (full and part time) employed by the Company, including UK-based directors, can be found within the Corporate category of Note 24(b).

(c) Pensions

The Company's contributions in the year were £5.0 million (2022 £7.5 million). The Company contributes to the Group's defined benefit and defined contribution schemes in the UK. Full details of these schemes can be found in Note 10.

50 AUDITOR'S REMUNERATION

Auditor remuneration is billed on a group basis and not recharged to the Company. Of the total Group audit fee for the year ended 31 December 2023, £256,000 (2022 £205,000) related to the audit of the Company accounts. The total auditor remuneration for the Group is disclosed in Note 34.

51 DIVIDENDS

	2023 pence per ordinary share	2022 pence per ordinary share	**2023 £m**	2022 £m
Interim dividend paid	**11.0**	10.1	**780.0**	715.0

52 FINANCIAL COMMITMENTS

	2023						
	2024 £m	**2025 £m**	**2026 £m**	**2027 £m**	**2028 £m**	**2029 and thereafter £m**	**Total £m**
Contractual commitments	**10.2**	**2.2**	**1.1**	**0.1**	**0.1**	**–**	**13.7**

	2022						
	2023 £m	2024 £m	2025 £m	2026 £m	2027 £m	2028 and thereafter £m	Total £m
Contractual commitments	5.6	3.0	0.2	–	–	–	8.8

53 RELATED PARTY TRANSACTIONS

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

	2023 Subsidiary companies £m	2022 Subsidiary companies £m
Types of transaction		
Sales and rendering of services	**0.1**	0.1
Balances outstanding		
Trade and other receivables	**0.1**	–

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

(b) Directors' remuneration

Details of directors' remuneration are set out at Note 33(c).

APPENDIX 1: SUBSIDIARIES AND JOINT ARRANGEMENTS

SCOPE OF CONSOLIDATION

The table below sets out details of the subsidiaries and joint arrangements of the Group and the Company at 31 December 2023. These are all included in the Consolidated financial statements of the Group. All entities are indirect holdings unless specified. Shares owned by the Group are all ordinary shares.

Name	Principal activities	Registered office and country of incorporation (Note (xi))	Equity interest 2023		2022
Energy Networks					
Subsidiaries					
Scottish Power Energy Networks Holdings Limited	Holding company	(A)	100%	(i)	100%
SP Distribution plc	Ownership and operation of distribution network within the Central Belt and Southern Scotland area	(A)	100%		100%
SP Manweb plc	Ownership and operation of distribution network within Cheshire, Merseyside, North Shropshire and North Wales area	(B)	100%		100%
SP Power Systems Limited	Provision of asset management services	(A)	100%		100%
SP Transmission plc	Ownership and operation of transmission network within the Central Belt and Southen Scotland area	(A)	100%		100%
Joint venture					
NGET/SPT Upgrades Limited	Operation of offshore Western HVDC Transmission link	(C)	50%	(ii)	50%
Joint operation					
Eastern Green Link 1 Limited	Development of offshore Eastern HVDC Transmission link	(C)	50%	(ii), (iii)	–
Renewable production					
Subsidiaries					
ScottishPower Renewable Energy Limited	Holding company	(A)	100%	(i)	100%
Blaenau Gwent Solar Limited	Development of a solar farm	(D)	100%	(iv)	100%
Bryn Henllys SF Limited	Development of a solar farm	(D)	100%	(iv)	100%
Coldham Windfarm Limited	Operation of an onshore wind farm	(B)	80%		80%
Cumberhead West Wind Farm Ltd.	Development and construction of an onshore wind farm	(A)	100%	(v)	72%
Douglas West Extension Limited	Development of an onshore wind farm	(A)	72%	(vi)	72%
Down Barn Farm SF Limited	Development of a solar farm	(D)	100%	(iv)	100%
East Anglia One Limited	Operation of an offshore wind farm	(E)	60%		60%
East Anglia One North Limited	Development of an offshore wind farm	(E)	100%		100%
East Anglia Three Limited	Development of an offshore wind farm	(E)	100%		100%
East Anglia Two Limited	Development of an offshore wind farm	(E)	100%		100%
Grafton Underwood Solar Limited	Development of a solar farm	(D)	100%	(iv)	100%
Hagshaw Hill Repowering Ltd	Development and construction of an onshore wind farm	(A)	100%		100%
Longney Solar Limited	Development of a solar farm	(D)	100%	(iv)	100%
MachairWind Limited	Development of an offshore wind farm	(A)	100%	(vii)	100%
Milltown Airfield Solar PV Limited	Development of a solar farm	(D)	100%	(iv)	100%
Pipplepen Solar Limited (formerly known as EEB37 Limited)	Development of a solar farm	(D)	100%	(iv)	–
Ranksborough Solar Limited	Development of a solar farm	(D)	100%	(iv)	100%
ScottishPower Renewables (UK) Limited	Development, construction and operation of onshore wind and solar farms and battery storage	(F)	100%		100%
ScottishPower Renewables (WODS) Limited	Operation of an offshore wind farm	(A)	100%		100%
Sparrow Lodge Solar Limited	Development of a solar farm	(D)	100%	(iv)	100%
Speyslaw Solar Limited	Development of a solar farm	(D)	100%	(iv)	100%
Thurlaston Solar Limited	Development of a solar farm	(D)	100%	(iv)	100%
Tuckey Farm Solar Limited	Development of a solar farm	(D)	100%	(iv)	100%
Wood Lane Solar Limited	Development of a solar farm	(D)	100%	(iv)	100%
Joint ventures					
CeltPower Limited	Operation of an onshore wind farm	(B)	50%		50%
East Anglia Offshore Wind Limited	Commercial operation of offshore meteorological mast	(E)	50%		50%
Morecambe Wind Limited	Provision of operational services	(G)	50%		50%
Joint operations					
CampionWind Limited	Development of an offshore wind farm	(H)	50%	(vii)	50%
MarramWind Limited	Development of an offshore wind farm	(H)	50%	(vii)	50%

APPENDIX 1: SUBSIDIARIES AND JOINT ARRANGEMENTS *continued*

Name	Principal activities	Registered office and country of incorporation (Note (xi))	Equity interest 2023		2022
Customer business					
Subsidiaries					
Scottish Power Retail Holdings Limited	Holding company	(A)	100%	(i)	100%
ScottishPower (DCL) Limited	Holding company	(B)	100%		100%
ScottishPower Energy Management Limited	Wholesale energy management company engaged in purchase and sale of electricity and gas	(A)	100%		100%
ScottishPower Energy Management (Agency) Limited	Agent for energy management activity of ScottishPower Energy Management Limited and Scottish Power UK plc	(A)	100%		100%
ScottishPower Generation (Assets) Limited	Asset owning company	(A)	100%		100%
ScottishPower (SCPL) Limited	Holding company	(B)	100%		100%
ScottishPower Energy Retail Limited	Supply of electricity and gas to domestic and business customers and development of green hydrogen	(A)	100%		100%
SP Dataserve Limited	Data collection, data aggregation, meter operation and revenue protection	(A)	100%		100%
SP Smart Meter Assets Limited	Provider of smart meter assets and services	(A)	100%		100%
Dormant subsidiaries in liquidation					
SP Network Connections Limited	In liquidation	(J)	100%	(viii)	100%
Dormant subsidiaries now dissolved					
SP Gas Transportation Cockenzie Limited	Dissolved	(I)	–	(ix)	100%
SP Gas Transportation Hatfield Limited	Dissolved	(I)	–	(ix)	100%
ScottishPower Investments Limited	Dissolved	(I)	–	(i), (ix)	100%
ScottishPower Renewables (UK Assets) Limited	Dissolved	(I)	–	(ix)	100%

(i) The investment in this company was a direct shareholding of Scottish Power UK plc.

(ii) NGET/SPT Upgrades Limited and Eastern Green Link 1 Limited both have a non-coterminous reporting date of 31 March, which is a contractual obligation as agreed in the joint operating agreement and shareholders' agreement for these companies respectively.

(iii) On 22 August 2023, SP Transmission plc, a subsidiary of the Group, acquired 50% of the share capital in Eastern Green Link 1 Limited for a total consideration of £50.

(iv) ScottishPower Renewables (UK) Limited ("SPRUKL"), a subsidiary of the Group, acquired the entire share capital of the following entities on the date stated for a total consideration of £55.3 million:

- Blaenau Gwent Solar Limited 31 October 2022
- Bryn Henllys SF Limited 5 January 2022
- Down Barn Farm SF Limited 5 January 2022
- Grafton Underwood Solar Limited 13 January 2022
- Longney Solar Limited 20 May 2022
- Milltown Airfield Solar PV Limited 13 January 2022
- Ranksborough Solar Limited 20 May 2022
- Sparrow Lodge Solar Limited 13 January 2022
- Speyslaw Solar Limited 13 January 2022
- Thurlaston Solar Limited 13 January 2022
- Tuckey Farm Solar Limited 13 January 2022
- Wood Lane Solar Limited 13 January 2022

On 21 June 2023, SPRUKL acquired the entire share capital of Pipplepen Solar Limited (formerly known as EEB37 Limited) for a total consideration of £5.6 million.

(v) SPRUKL held 72% of the share capital in this entity until 7 March 2023 when the Group acquired the remaining 28% of share capital.

(vi) On 2 February 2024, SPRUKL sold its 72% holding in Douglas West Extension Limited.

(vii) MachairWind Limited was incorporated on 12 January 2022 and is a direct and wholly-owned subsidiary of SPRUKL. CampionWind Limited and MarramWind Limited were also incorporated on 12 January 2022 and are 50% joint operations held by SPRUKL.

(viii) SP Network Connections Limited was placed into member's voluntary liquidation on 7 August 2023.

(ix) SP Gas Transportation Hatfield Limited, ScottishPower Renewables (UK Assets) Limited, SP Gas Transportation Cockenzie Limited and ScottishPower Investments Limited were dissolved on 8 February, 12 April, 18 April and 11 December 2023 respectively.

(x) On 20 December 2022, the Group disposed of the entire shareholding in Manweb Services Limited for a total consideration of £9.0 million. Given the company's net assets of £0.5 million, this resulted in a gain on sale of £8.5 million.

(xi) The registered offices of the subsidiaries and joint arrangements are as listed below, along with their countries of incorporation. Where a company's registered office is in England, it is registered in England and Wales.

(A) 320 St. Vincent Street, Glasgow, G2 5AD, Scotland
(B) 3 Prenton Way, Prenton, CH43 3ET, England
(C) 1–3 Strand, London, WC2N 5EH, England
(D) 4th Floor, 1 Tudor Street, London, EC4Y 0AH, England
(E) 3rd Floor, 1 Tudor Street, London, EC4Y 0AH, England
(F) The Soloist, 1 Lanyon Place, Belfast, BT1 3LP, Northern Ireland
(G) 5 Howick Place, London, SW1P 1WG, England
(H) 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland
(I) Johnston Carmichael, 227 West George Street, Glasgow, G2 2ND, Scotland
(J) Johnston Carmichael LLP, Birchin Court, 20 Birchin Lane, London, EC3V 9DU, England

For those entities incorporated in Scotland, Northern Ireland and England and Wales, the principal place of business is considered to be the UK; for all other entities, the country of incorporation is the principal place of business.

Scottish Power UK plc

Registered office: 320 St. Vincent Street, Glasgow, Scotland, G2 5AD

Registered in Scotland: No. SC117120