SCOTTISH POWER UK PLC
CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
for the six months ended 30 June 2022

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INTERIM MANAGEMENT REPORT
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GROUP OVERVIEW

Scottish Power UK plc ("the Company") acts as the holding company of the Scottish Power UK plc Group ("the Group"). The company is a member of the Scottish Power Limited Group ("ScottishPower").

Shaping the future of energy in the UK

As 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 renewable 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, investing £6 million every working day between 2020 and 2025 to create a better future, quicker.

With our plans to invest significantly in renewable generation and the electricity network infrastructure that will support the green transition, our Renewables and Energy Networks operating divisions have made further progress by securing a significant number of green energy infrastructure projects during the six months ended 30 June 2022.

Energy Retail and Wholesale, which is responsible for the supply of electricity and gas to customers and for managing the Group's exposure to the UK wholesale electricity and gas markets, continues to operate in challenging conditions as a result of unprecedented volatility and increased costs in wholesale energy markets. We are playing a leading role in policy debates with government, parliamentary and regulatory stakeholders on the measures required to mitigate the worst impacts of high energy prices for consumers and to ensure the energy supplier market can fully recover its costs and be put on a more sustainable footing. On 8 September 2022, the Prime Minister announced the Energy Price Guarantee to provide support for domestic and non-domestic customers, and we are fully engaged in discussions to ensure the implementation of these plans.

We have decades of experience delivering the clean, green, secure energy system the UK needs. From supporting vulnerable people to make the energy transition, to building renewable generation that our economy needs; from modernising our electricity networks to connect more renewable energy and enable the Electric Vehicle ("EV") revolution, to pioneering the development of floating wind deep offshore; we have a clear vision for secure, green and affordable energy across the UK.

Post-pandemic demand, combined with supply constraints linked first to the pandemic and now to the war in Ukraine, have caused global gas prices to rocket during the six months ended 30 June 2022. The future of energy in the UK has become a critical issue. Our climate change ambitions, the importance of energy sovereignty, and the cost of living crisis, all point to a need for speed in delivering more green, more secure and more affordable energy. These three critical needs are not in conflict with each other and given our unique position in the UK as the only integrated energy company investing in renewables, electricity grids and helping homes to decarbonise, the Group is an engine for delivering decarbonisation and growth across the communities we serve.

During the six months ended 30 June 2022, we contributed to the development of public policy in these areas through the launch of Better Homes, Cooler Planet, a joint research report with the World Wide Fund for Nature ("WWF") conservation organisation on the environmental and economic benefits of installing low-carbon technologies in UK homes. We also published The Need for Speed policy document, which set out ten recommendations for delivering green energy security, affordably and at pace. The recommendations identified practical steps to:

- make faster progress on energy efficiency to reduce demand and cut household bills;
- incentivise the move to low-carbon, electric homes;
- rebalance energy bills to spread costs more fairly;
- provide enduring support for the most vulnerable customers through a social tariff;
- speed up the deployment of renewables;
- legislate to embed net zero priorities across relevant authorities and statutory bodies;
- repower existing onshore wind at pace;
- ensure agile regulation to back 'no regrets' network investment;
- speed up planning for grid infrastructure; and
- prioritise the commercialisation of low carbon hydrogen.

UPDATE ON GROUP STRATEGY

Continuing to create a better future, quicker, by delivering a low-carbon future for the UK

The UK has led the world in decarbonising the power sector, but if we are to deliver the UK Government's ambition of generating 95% of electricity from low-carbon sources by 2030, we need to accelerate. To meet the UK's net zero targets, the amount of renewable generation that needs to be connected will increase significantly. So too, will levels of electricity demand, as we move to cleaner forms of transport and heating.

In April 2022, the UK Government's Energy Security Strategy set a new target of 50 gigawatts ("GW") of offshore wind by 2030 and emphasised the importance of strategic investment in a smarter, modernised energy network, with the ambition of delivering a zero-carbon power system by 2035.

We are well-placed to contribute to the UK achieving its net zero ambitions. To date during 2022, our Renewables and Energy Networks divisions have made further progress towards this goal by securing a record number of green energy infrastructure projects. These include:

- In January 2022, as part of the ScotWind auction, Renewables was awarded seabed rights for three offshore projects with total capacity of 7 GW; two large-scale floating projects in partnership with Shell and one solo fixed project. Taken together, these projects treble ScottishPower's offshore wind pipeline to more than 10 GW and boost its position in UK's offshore wind market.
- In June 2022, The Office of Gas and Electricity Markets ("Ofgem"), the energy regulator, published its draft determination for a £3 billion upgrade for Energy Networks' distribution network, as part of the RIIO-ED2 (Revenue = Incentives + Innovation + Outputs) distribution price control. Spanning the years 2023 to 2028, this forms the basis for preparing the electricity network to connect renewable energy and the electrification of transport and heat.
- In July 2022, Renewables was awarded Contracts for Difference ("CfDs") for 16 renewable energy projects (offshore wind, onshore wind and solar) across the UK through the Allocation Round 4 ("AR4") process. Totalling 2.1 GW, these projects will almost double the Group's green energy generation capacity.
- Also in July 2022, the Electricity System Operator ("ESO") published its Holistic Network Design plan, which sets out the need for investment in twelve Energy Networks onshore transmission projects considered essential for delivering the UK's 2030 offshore wind targets.

The momentum of the first six months of 2022 and our record of achievement, now gives us our biggest ever investment pipeline of green energy assets to help deliver the UK Government's energy strategy and net zero for the UK. As a direct result, in July 2022, we announced our largest-ever recruitment drive. We need at least 1,000 people to join us in new positions during 2022 and 2023 to design, build and operate this green energy infrastructure. These roles will be directly employed across all areas of ScottishPower's divisions and at all stages, from trainees to time-served trades and supporting roles. The UK supply chain will also see a further boost and potentially thousands more indirect jobs created as the Group's billions of pounds' worth of projects advance at pace.

In the Energy Retail and Wholesale division, against a backdrop of unprecedented increases in wholesale costs over the past year and the collapse of multiple suppliers, Energy Retail has initiated a series of remedial actions to reduce operating costs and improve efficiency. In early 2022, Energy Retail announced its intention to exit the Industrial and Commercial ("I&C") segment of the market.

The Group has contributed to the wider external debate about the government measures required to tackle the rising energy costs for consumers. We recognise the negative impact the cost of living crisis is having on our customers and we have played a leading role in offering proposals to the UK Government, backed by the industry, to support customers, and the wider UK economy, through this challenging period. We continue to engage with the UK Government, regulator, industry and wider stakeholders on these issues.

We have engaged with Ofgem on several key consultations regarding market reform and the fair recovery of the costs incurred over this volatile period, and we welcomed the UK Government's £400 Energy Bills Support Scheme ("EBSS") for domestic customers in May 2022. We welcomed the Prime Minister's announcement on 8 September 2022 that the UK Government will introduce a new Energy Price Guarantee for domestic customers, to be set at £2,500 per annum for the next two years from October 2022 (for a typical household paying by direct debit), as a decisive intervention which is designed to offer relief for worried bill-payers ahead of winter. Similarly, the UK Government's announcement of the new Energy Bill Relief Scheme to support non-domestic customers for an initial six month period from October 2022 is a welcome measure from the UK Government.

We also recognise the importance of providing support for customers in vulnerable circumstances during the cost of living crisis. Prior to the increase in energy costs, we already had in place measures to support both financially and non-financially vulnerable customers. These included both direct measures and signposting to third parties who may be able to offer more holistic support. We have further reviewed our approaches to ensure we are doing as much as we can to support customers struggling to pay for their energy. As part of these efforts, we have established a dedicated Affordability Team, consisting of specially trained customer service agents, and we have strengthened our links with key organisations, such as Citizens Advice, and developed a new partnership with StepChange, the leading provider of free, independent debt advice.

Energy Retail continues to make progress on Smart Solutions, where the Group is developing its offering for the domestic installation of EV chargers, solar panels and heat pumps, and on the development of its Hydrogen business through a pipeline of emerging projects.

GROUP FINANCIAL PERFORMANCE

Group operating performance

	Revenue		Operating profit		Capital investment	
	Six months ended 30 June 2022	Six months ended 30 June 2021	**Six months ended 30 June 2022**	Six months ended 30 June 2021	**Six months ended 30 June 2022**	Six months ended 30 June 2021
Financial key performance indicators ("KPIs")	**£m**	£m	**£m**	£m	**£m**	£m
Scottish Power UK plc	**3,372.2**	2,776.9	**522.4**	500.6	**561.5**	467.8

In the six months ended 30 June 2022, revenue has increased by £595 million versus the same period in 2021. This was mainly from the Energy Retail and Wholesale division where revenues have risen to reflect higher procurement costs (primarily energy but also network costs).

Operating profit for the six months ended 30 June 2022 was £522 million, an increase of £22 million compared to the equivalent period in 2021. This increase is mainly driven by the Energy Networks division due to an increase in the allowable revenues. Whilst Renewables wind production improved in the six months to 30 June 2022 compared to the same period in 2021, the increase in the Energy Retail and Wholesale division's revenues were not sufficient to cover the increased energy, other procurement, and bad debt costs.

ScottishPower's capital investment increased by £94 million to £562 million for the six months ended 30 June 2022 versus the same period in 2021, primarily reflecting increased Renewables investment in development sites.

Group cash flow, net debt and Consolidated statement of financial position

Liquidity and cash management

Net cash flows from operating activities decreased by £84 million to £881 million versus the same period in 2021. As detailed in the table below, cash decreased by £35 million with overall net debt decreasing by £15 million to £4,519 million in the six months ended 30 June 2022.

Analysis of net debt	**30 June 2022 £m**	31 December 2021 £m
Cash	**148.1**	182.9
Loans receivable from Iberdrola Group companies	**1,383.1**	1,177.5
Loans payable to Iberdrola Group companies	**(3,599.6)**	(3,492.5)
External loans payable	**(1,845.7)**	(1,840.0)
Current financial liabilities	**(27.3)**	(34.8)
Lease liabilities	**(532.8)**	(510.7)
Accrued interest	**(74.3)**	(50.3)
Cross currency swap	**29.5**	33.6
Net debt	**(4,519.0)**	(4,534.3)

The calculation of Net debt at 30 June 2022 is consistent with the approach at 31 December 2021 as set out in the Consolidated annual financial statements.

As at 30 June 2022, the Company continues to hold investment-grade credit ratings and the overall funding objective of the Group is to maintain a forecast debt position for the various Group entities at least in line with their current ratings.

With the cessation of London Inter-Bank Offer Rate ("LIBOR") at the end of 2021, all current LIBOR variable rate loans have now switched to an alternative reference rate (Sterling Overnight Index Average ("SONIA") Term or UK Base rate) during 2022 with minimal impact to the accounts.

As indicated in the Consolidated annual financial statements for the year ended 31 December 2021, the ongoing support of the ultimate parent company, Iberdrola S.A., for future funding and liquidity provides a central underpinning for the directors in their assessment of ongoing funding for the Group.

Movements in Consolidated statement of financial position from 31 December 2021 to 30 June 2022
The Group's **capital expenditure and investment** totalled £639 million for the six months ended 30 June 2022. Capital expenditure and investment across the period included major investment within Energy Networks totalling £283 million and the development and construction of the Renewables pipeline of £286 million which includes £77 million in relation to investments in joint ventures.

The **net pension surplus** at 30 June 2022 across the Group's defined benefit schemes increased by £227 million from 31 December 2021 principally due to current market conditions resulting in an increase to the discount rate and a corresponding reduction to both the defined benefit obligations and the schemes' assets (refer to Note 4).

Derivative financial instruments increased by £880 million in the six months ended 30 June 2022 driven by increases in market prices, principally in relation to power and gas. Correspondingly, the collateral held and the Cash flow hedge reserve, associated with these derivatives, increased by £392 million and £880 million respectively.

Trade and other receivables (excluding loans due from Iberdrola Group companies) decreased by £128 million following a change to how the Group funds collateral requirements (refer to Note 7) and a seasonal reduction in commodity trading, offset by the impact of higher Energy Retail revenue as a consequence of higher prices.

Inventories increased by £354 million in the six months ended 30 June 2022 principally driven by Renewable Obligation Certificate ("ROC") purchases over the period; the certificates for the April 2021 to March 2022 compliance period will be surrendered in the third quarter of 2022.

Total equity increased by £1,003 million to £9,977 million (31 December 2021 £8,974 million) reflecting the impact of the net profit for the six months ended 30 June 2022, the increase in the Cash flow hedge reserve (net of tax) of £672 million and the increase in the net pension surplus partially offset by a dividend of £81 million to Bilbao Offshore Holding Limited, a non-controlling partner.

Trade and other payables (excluding collateral) decreased by £164 million reflecting the impact of seasonal demand in relation to the purchase of gas and electricity offset by the seasonal impact of customer payment patterns.

Increases in both the derivatives balances and pensions net surplus have resulted in an increase in the **Deferred tax liability** of £336 million in the six months ended 30 June 2022.

Within **Other provisions,** a provision of £60 million for retail energy onerous contracts was recognised upon the implementation of the amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on 1 January 2022. The related current tax asset of £11 million and a reduction in retained earnings of £49 million were also recognised to reflect this. £54 million of the provision has been utilised during the six months ended 30 June 2022 (refer to Note 2B2).

Additional information, where relevant, can be found in the Notes to the Consolidated condensed interim financial statements.

The Consolidated condensed interim financial statements have not been reviewed by external auditors.

SCOTTISH POWER DIVISIONS

ENERGY NETWORKS

Operating review

Transmission business

- In April 2022, we moved into the second year of the five-year RIIO-T2 transmission price control period. We are still on track to deliver our agreed outputs during the remainder of the period.
- In July 2022, the Publication of the ESO's Holistic Network Design identified the need for strategic investments of more than £5 billion in Energy Networks transmission projects in south and central Scotland by 2030.
- Ofgem approved the final needs case for the multi-billion pound Eastern High Voltage Direct Current ("HVDC") link project.

Distribution business

- In April 2022, we moved into the final year of the eight-year RIIO-ED1 distribution price control period. We are on track to deliver our agreed outputs during the remainder of the period and are performing 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.
- Following extensive discussion with Ofgem, Supplier of Last Resort Payments ("SoLR") to suppliers were included in distribution use of systems tariffs to allow recovery from April 2022.
- In June 2022, Ofgem published its draft determination on Energy Networks' RIIO-ED2 final business plan, setting out its initial view on the need for £3 billion of investment in Energy Networks' distribution grids between 2023 and 2028. Ofgem's draft determination provides a good starting point, but there are many areas that we will need to review and work on constructively with Ofgem on ahead of the final determination. A detailed response to the draft determination was submitted to Ofgem at the end of August 2022.

2022 performance

	Revenue		Operating profit		Capital investment	
	Six months ended 30 June 2022	Six months ended 30 June 2021	**Six months ended 30 June 2022**	Six months ended 30 June 2021	**Six months ended 30 June 2022**	Six months ended 30 June 2021
Financial key performance indicators ("KPIs")	**£m**	£m	**£m**	£m	**£m**	£m
Energy Networks	**682.9**	638.5	**303.9**	290.6	**282.5**	293.1

In the six months ended 30 June 2022, Energy Networks' revenue has increased by £44 million versus the same period in 2021. Allowable transmission revenues have increased under RIIO-T2 by £3 million. Distribution revenues include £29 million in relation to SoLR levies. There is an equal and opposite value within Procurements. Underlying distribution revenues are £12 million higher than the prior period reflecting higher base revenues partly offset by a 2.7% drop in volumes (primarily domestic), the impact of which will be recovered in future years.

Operating profit for the six months ended 30 June 2022 was £304 million, an increase of £13 million compared to the equivalent period in 2021. The increase is primarily due to increased allowable revenue pricing partly offset by lower demand.

Energy Networks' capital investment decreased by £11 million for the six months ended to June 2022 versus the same period in 2021, primarily due to lower spend in the Transmission business. However, investment is expected to increase to facilitate UK net zero targets as we progress through RIIO-T2 and into RIIO-ED2.

Non-financial performance indicators ("KPIs")	Notes	**30 June 2022**	30 June 2021
Distributed energy (GWh)	(a)		
- SP Distribution plc ("SPD")		**8,070**	8,264
- SP Manweb plc ("SPM")		**6,676**	6,894
Annual reliability of supply	(b)		
- SP Transmission plc ("SPT")		**99.99%**	99.99%
Customer interruptions	(c)		
- SPD		**17.2**	21.7
- SPM		**13.4**	17.4
Customer minutes lost	(d)		
- SPD		**13.1**	15.9
- SPM		**13.1**	18.8

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

Outlook for 2022 and beyond

- Continue targeted delivery of regulatory outputs for both the close out of RIIO-ED1 and next year of RIIO-T2.
- Drive for the optimal outcome from the final determination for RIIO-ED2 in November 2022.
- Development of Eastern HVDC link project as part of the Holistic Network Design suite of projects.

RENEWABLES

Operating review

Offshore wind

Renewables continues to develop the 2.9 GW East Anglia Hub ("EA Hub") which consists of three projects; East Anglia One North ("EA1N"), East Anglia Two ("EA2") and East Anglia Three ("EA3").

- On 31 March 2022, the Secretary of State for the Department of Business, Energy & Industrial Strategy ("BEIS") granted development consent for our EA1N and EA2 offshore wind farms. The consents allow up to 67 turbines and 75 turbines respectively.
- On 7 July 2022, Renewables secured CfDs in AR4 for the EA3 offshore wind project compromising a total of 1,372 megawatts ("MW") which will be developed in three phases. The project continues to progress activities as it moves forward to its final investment decision in late 2022.
- On 10 June 2022, East Anglia One Limited ("EA1L") was granted an exemption from the legislative requirement to hold a transmission licence under the Electricity Act 1989 from 10 June 2022 until 13 April 2023. EA1L continues the work necessary to complete the sale of offshore electricity transmission assets to preferred bidder, Transmission Capital Partners.
- Adding to this pipeline, on 17 January 2022, Renewables and Shell were awarded the seabed rights to develop two new floating wind projects through Crown Estate Scotland's ScotWind leasing scheme; the MarramWind joint venture off the north-east coast of Scotland (3 GW) and CampionWind joint venture off the east coast of Scotland (2 GW). In addition, Renewables was awarded the seabed rights for a fixed-foundation project off the coast of Islay; MachairWind (2 GW). Renewables are set to provide £25 million in supply chain stimulus funds to support MachairWind. Renewables and Shell together will provide a further £50 million in total to support their two floating ScotWind projects.

Onshore Renewables

- In early January 2022, Renewables signed two deals to acquire a total of up to 17 solar projects in the UK, with a combined capacity of more than 800 MW. This portfolio of solar sites will add enough clean energy to power over 220,000 homes. As of June 2022, eleven of the 17 project companies had been acquired; the remaining projects have conditions to be met before they complete.
- In May 2022, Renewables' 50 MW Gormans Battery Energy Storage System ("BESS") became operational in County Meath, Ireland, being the Iberdrola Group's first operational commercial-scale battery storage system anywhere in the world.
- On 7 July 2022, Renewables successfully secured CfDs for 15 onshore renewable energy projects in Scotland, England and Wales through the AR4 process, making these the first-ever Renewables onshore wind and solar projects to be supported through the scheme. The awards are in respect of five onshore wind projects totalling 396 MW and ten solar sites totalling 326 MW.
- During 2022, Renewables successfully secured contracts in the UK Capacity Market auctions for Harestanes BESS and Whitelee BESS. These contracts allow National Grid to manage the security of supply and prevent future blackouts on the system.
- As part of the UK Government's plan to support people and business with their energy bills, a new Energy Supply Taskforce has been established with a remit to negotiate with renewable generators to reduce prices. We are engaging with the UK Government on the implications of this on the Renewables division's Renewables Obligation accredited projects.

2022 performance

	Revenue		Operating profit		Capital investment	
	Six months ended 30 June 2022	Six months ended 30 June 2021	**Six months ended 30 June 2022**	Six months ended 30 June 2021	**Six months ended 30 June 2022**	Six months ended 30 June 2021
Financial key performance indicators ("KPIs")	**£m**	£m	**£m**	£m	**£m**	£m
Renewables	**551.4**	433.0	**263.4**	184.5	**208.5**	90.9

In the six months ended 30 June 2022, Renewables revenue increased by £118 million versus the same period in 2021. Wind output increased by 23% (£73 million), reflecting more productive weather conditions. In addition, revenue increased due to ROC and CfD annual indexation and higher energy prices. These price increases were reflected in sales primarily to Energy Retail.

Operating profit for the six months ended 30 June 2022 was £263 million, an increase of £79 million compared to the equivalent period in 2021. Higher revenues were partially offset by increased Balancing Services Use of System charge ("BSUoS") and network costs as well as lower insurance receipts and higher insurance costs.

Capital investments increased by £118 million to £209 million for the six months ended June 2022 versus the same period in 2021, reflecting investment in offshore wind, onshore wind and solar development sites.

Non-financial performance indicators ("KPIs")	Notes	**30 June 2022**	30 June 2021
Wind			
Wind output (GWh)	(a)	**4,108**	3,347
Installed wind capacity (MW)	(b)	**2,895**	2,895
Wind availability	(c)	**95%**	97%
Solar			
Solar output (megawatt hours ("MWh"))	(a), (d)	**2,448**	0
Installed solar capacity (MW)	(b), (d)	**10**	0
Battery			
Installed battery capacity (MW)	(b), (e)	**104**	0

(a) Output is a measure of the electrical output generated in the period, 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.

Outlook for 2022 and beyond

We welcomed the publication of the UK Government's British Energy Security Strategy in April 2022 which increased the UK's offshore wind ambition to 50 GW by 2030 with 5 GW from floating offshore wind. Clear investable signals will be maintained through annual CfD auctions, with the next round opening in March 2023. Onshore wind will continue to be included in future CfD rounds and arrangements to support repowering of existing onshore wind sites is also being considered. This will help Renewables continue to deliver its renewable energy ambitions both on and offshore.

ENERGY RETAIL AND WHOLESALE

Operating review

The unprecedented increase in wholesale costs experienced over the past year has continued to have a significant impact on the supply market landscape. A significant number of suppliers failed during 2021 leaving substantial levels of mutualisation and industry levy costs to be recovered from the remaining suppliers through the course of the current and future years. As a direct consequence of increased costs, there are very few products available on the market and as such a significant proportion of consumers across the industry have defaulted on to the standard variable tariff ("SVT") price cap.

On 8 September 2022, the UK Government announced a new Energy Price Guarantee for domestic customers. The scheme is a two-year intervention which the UK Government states will ensure that a typical household in Great Britain pays an average £2,500 a year on their energy bill, for the next two years from 1 October 2022. This compares to Ofgem's 26 August 2022 announcement of its latest review of the price cap which increased to £3,549 and was due to come into effect on 1 October 2022 had it not been for this intervention. The Energy Price Guarantee is a direct support to consumers from the UK Government, with suppliers being compensated for the cost of the Energy Price Guarantee. Discussions are ongoing with the UK Government on the detail of the scheme including for customers on fixed term tariffs, and for the period from January 2023 onwards. We predict the methodology for the price cap for the three months from 1 January 2023 to reach more than £5,000 demonstrating the need for the current and continuing UK Government intervention to avoid what we consider would be a truly catastrophic situation for UK households.

The Group recognises the negative impact the cost of living crisis is having on our customers which is why we have continued to engage with the UK Government over recent months offering our own solution, backed by the industry, to support the UK economy, and so this intervention is a welcome support for our customers. The UK Government has also announced the introduction of the ("EBSS") which provides support to customers by giving a £400 credit to domestic electricity customers over a six-month period (October 2022 to March 2023; £67 per month). The Group continues to work with BEIS and Ofgem on how to implement this mechanism in the most effective way for our customers. However, even with these interventions, wholesale prices are contributing to energy bills well above historic levels presenting those most vulnerable households with real financial challenges. The UK Government has also announced more targeted support for subsets of households as the cost of living rises, including a £150 rebate for some council tax bands, and additional support for customers in receipt of some benefits including those with low income, disabilities and pensioners. We continue to believe more government assistance is needed on an enduring basis to ease the burden on households who need it most and we will continue to engage with the UK Government and Ofgem through key consultations regarding market reform and the fair recovery of the costs incurred over this volatile period.

In Q1 2022, a decision was made to exit the I&C supply market over a period of time through the introduction of a number of targeted actions to maximise the value of this segment. This decision has been made largely due to the volatility experienced in this segment, particularly around balancing costs as a result of the unprecedented rise in market prices and mutualisation costs from failed suppliers, and the resultant risk on existing tight margins across this segment. All existing customers will continue to be serviced as normal until contracts naturally mature between now and 2025.

Recognising the pressure on non-domestic customers, the UK Government introduced a support scheme for non-domestic customers, similar to the domestic Energy Price Guarantee. Through a new UK Government Energy Bill Relief Scheme, which will run for an initial six-month period, the UK Government will provide a discount on energy prices for all non-domestic customers. This support will apply to fixed contracts agreed on or after 1 April 2022, as well as deemed, variable and flexible tariffs and contracts, applying to energy usage from 1 October 2022 to 31 March 2023. The level of price reduction for each business will vary depending on their contract type and circumstances. We welcome the announcement from Government to support this customer segment.

The Energy Retail business has expanded its restructuring program announced in 2021 to ensure that it can continue to operate sustainably in these unprecedented challenging market conditions.

Support for customers in vulnerable circumstances during the cost of living crisis

Prior to the increase in energy costs, we already had in place measures to support both financially and non-financially vulnerable customers. This included both direct measures and signposting to third parties who may be able to offer more holistic support. We continue to be proactive in raising the issue of increasing energy prices with UK Government and other industry stakeholders such as Ofgem. In parallel, we have further reviewed our approaches to ensure we are doing as much as we can to support customers struggling to pay for their energy. Subsequent action has largely focused on two areas:

- Setting up a dedicated Affordability Team, consisting of specially trained customer service agents.
- Strengthening our links with key organisations, such as Citizens Advice, and developing a new partnership with StepChange, the leading provider of free, independent debt advice.

In terms of the regulator's response, Ofgem has tightened the rules governing market entry, and of ongoing monitoring of existing suppliers focused on financial resilience. They are also consulting on increased measures around ensuring suppliers have sufficient capital to survive critical periods and to protect consumer credit balances.

Energy Retail continues to make significant efforts and investments to support its smart meter roll-out and as at June 2022, the overall progress was 46.9% smart meters as a percentage of relevant meters in our portfolio. Ofgem opened an investigation in 2020 into potential breaches of rules around our smart meter installation obligations for domestic customers in 2019. Energy Retail continues to co-operate with Ofgem on the investigation which is ongoing.

The Wholesale business continues to sell forward Renewables power generation, and purchase forward Retail power and gas requirements, to provide price certainty in an environment where commodity markets have continued to experience substantial price increases and price volatility. In light of the current commodity market status, the Wholesale business has had to optimise its credit and collateral positions with market counterparties. The Wholesale business has also sought to optimise use of its gas storage facilities given gas price increases and volatility.

2022 performance

	Revenue		Operating (loss)/profit		Capital investment	
	Six months ended 30 June 2022	Six months ended 30 June 2021	**Six months ended 30 June 2022**	Six months ended 30 June 2021	**Six months ended 30 June 2022**	Six months ended 30 June 2021
Financial key performance indicators ("KPIs")	**£m**	£m	**£m**	£m	**£m**	£m
Energy Retail and Wholesale	**2,781.4**	2,076.8	**(51.0)**	22.9	**62.1**	77.6

In the six months ended 30 June 2022, Energy Retail and Wholesale's revenue increased by £705 million versus the same period in 2021. Retail domestic revenues increased by £364 million mainly as a result of tariff increases partly offset by lower volumes from milder weather. Business revenues have increased mainly reflecting the higher cost of energy.

Operating loss for the six months ended 30 June 2022 was £51 million, a decrease of £74 million compared to the equivalent period in 2021. Whilst revenues increased, so too did procurements (mainly higher energy costs but also higher network costs). As a result, gross margins were £81 million lower versus the same period in 2021.

Net operating costs and Taxes other than income taxes decreased by £34 million primarily as a result of reduced Energy Company Obligation ("ECO") scheme costs. Depreciation increased by £9 million versus 30 June 2021 and bad debt costs have increased by £18 million reflecting higher levels of domestic debt in particular, driven by higher cost of energy.

Capital investment in Energy Retail and Wholesale decreased by £16 million to £62 million for the six months ended June 2022 versus the same period in 2021, mainly due to decreased customer contract costs. This reflects the downturn in supply market competition following the energy cost increase.

Non-financial performance indicators ("KPIs")	Notes	**30 June 2022**	30 June 2021
Volume supplied (GWh)	(a)	**21,531**	25,182
Customer service performance	(b)	**2nd**	4th
Smart meters in portfolio	(c)	**46.9%**	38.2%
Customers (thousands)	(d)		
- Electricity		**2,786**	2,673
- Gas		**1,948**	1,865
		4,734	4,538

(a) Lower 2022 volumes mainly due to lower gas demand resulting from milder weather in Q1 2022 compared to Q1 2021.

(b) Based on the Citizens Advice Domestic Energy Suppliers' Customer Service Report. The 2022 rankings reflect ScottishPower's position relative to the other "Big Five" Energy Companies (2021 ranking is relative to the other 'Big Seven').

(c) Percentage of relevant Energy Retail customer base with a smart meter. Throughout 2022 we continue to make strong progress towards our smart meter rollout plan.

(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 period to 30 June 2022. Average customer numbers have increased from 4,538,000 to 4,734,000 mainly due to SoLR customer gains.

Outlook for 2022 and beyond

The Group will continue to engage with the government and Ofgem to look across a number of policy areas to ensure the regulatory framework is fair and fit for purpose. All policies must enable the Group to deliver the service and solutions needed to support its customers and deliver net zero. The changes to the SVT price cap as a result of recent consultations will be implemented as part of the October 2022 price cap.

Progress continues to be made in the expansion and development of the Smart Solutions area, particularly around the Group's presence in the EV charger market and in the solar and heat pump market. In addition, the Group is making headway in the development of the Hydrogen market through a pipeline of emerging projects.

The Wholesale business will continue to trade forward in line with Renewables and Retail requirements, whilst paying close attention to counterparty credit positions over the coming winter. Optimising the deployment of gas from the gas storage facility will be an important area of focus over the coming winter.

RISKS UPDATE

The Group's principal risks and uncertainties are broadly the same as those highlighted in the Consolidated annual financial statements for the year ended 31 December 2021.

Several risks continue to be the most prominent:

- **Regulatory and political intervention** and in particular any sudden changes of policy or interventions outside regulatory frameworks.
- **Cyber security**, specifically a breach which leads to unwanted infiltration of ScottishPower's IT infrastructure.

Other risks have increased in prominence:

- **Wholesale market prices** particularly the increased volatility and sustained high level of price. This has introduced structural uncertainty including diverging from the level of the price cap in the retail segment of the industry. The risk has heightened in the first six months of 2022, partially due to the war in Ukraine. The sustained high price levels increase the future risk of 'backwardation' and the impacts this will have on the Energy Retail business. In addition, it has resulted in lower levels of wholesale energy market liquidity and increased volatility has resulted in higher collateral requirements for exchange-based trading. This is mitigated as part of the hedging policy designed to manage price and volume risk.
- **Failing to deliver the transmission and distribution outputs** agreed with Ofgem for Energy Networks price controls. Mitigating actions include formulating detailed investments, resource, outage contingency plans supported by an extensive procurement strategy and having a funding strategy in place to support delivery.
- The high cost of living combined with the deterioration in the economy sees increasing risk of **higher levels of bad debt**. Mitigating actions include implementing processes to assist customers during this period, in particular vulnerable customers, in addition to identifying increased debts quickly such that early collections and debt follow up procedures can be implemented appropriately in a timely manner.
- Higher commodity prices have translated to **increased supply chain costs**. The key to mitigating this is maintaining constructive dialogue with the supply chain on multiple packages, highlighting plans and potential constraints. Where necessary key areas of inventory will be increased as well as ongoing monitoring of underlying commodity costs and adherence to hedging policy.

Full details of these risks are provided in the Group principal risks and uncertainties section of the Strategic Report contained in the Consolidated annual financial statements for the year ended 31 December 2021.

RESPONSIBILITY STATEMENT

The directors are responsible for preparing the Consolidated condensed interim financial statements for the six months ended 30 June 2022 in accordance with applicable law, regulations, and accounting standards.

The directors confirm that to the best of their knowledge:

- the Consolidated condensed interim financial statements have been prepared in accordance with United Kingdom adopted International Accounting Standard 34; and
- the Consolidated condensed interim financial statements includes a fair review of the information required by Disclosure Guidance and Transparency Rules ("DTR") 4.2.7, namely an indication of the important events that have occurred during the first six months of the financial year and their impact on the Consolidated condensed interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

By order of the board of directors:

Nicola M. Connelly

Nicola Connelly
Director
23 September 2022

SCOTTISH POWER UK PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 June 2022

	Notes	**30 June 2022 £m**	31 December 2021 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		**556.7**	588.8
Goodwill		364.6	364.6
Other intangible assets		192.1	224.2
Property, plant and equipment	3	**15,267.2**	15,027.1
Property, plant and equipment in use		13,852.6	13,876.8
Property, plant and equipment in the course of construction		1,414.6	1,150.3
Right-of-use assets		**472.0**	455.3
Pensions asset	4	**422.5**	291.7
Non-current financial assets		**481.4**	240.5
Investments in joint ventures	5	84.8	7.7
Other investments		0.2	0.2
Derivative financial instruments	6	396.4	232.6
Non-current trade and other receivables		**16.3**	29.7
TOTAL NON-CURRENT ASSETS		**17,216.1**	16,633.1
CURRENT ASSETS			
Inventories		**1,308.3**	954.8
Current trade and other receivables	7	**2,622.3**	2,558.4
Current tax asset		**70.2**	67.7
Current financial assets		**2,046.3**	1,290.2
Derivative financial instruments	6	2,046.3	1,290.2
Cash		**148.1**	182.9
TOTAL CURRENT ASSETS		**6,195.2**	5,054.0
TOTAL ASSETS		**23,411.3**	21,687.1

SCOTTISH POWER UK PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION *continued*
at 30 June 2022

	Notes	**30 June 2022 £m**	31 December 2021 £m
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**8,943.9**	7,891.9
Share capital		3,551.7	3,551.7
Share premium		398.2	398.2
Hedge reserve		1,464.9	793.3
Other reserves		420.5	420.5
Retained earnings		3,108.6	2,728.2
Of non-controlling interests		**1,032.6**	1,081.7
TOTAL EQUITY		**9,976.5**	8,973.6
NON-CURRENT LIABILITIES			
Non-current deferred income		**1,379.8**	1,397.7
Non-current provisions		**550.0**	548.3
Provisions for retirement benefit obligations	4	3.8	99.5
Other provisions	8	546.2	448.8
Bank borrowings and other non-current financial liabilities		**4,572.7**	4,773.5
Loans and other borrowings	9	4,316.8	4,561.0
Derivative financial instruments	6	255.9	212.5
Non-current lease liabilities		**506.2**	477.5
Non-current trade and other payables		**12.7**	8.8
Non-current income tax liabilities		**6.2**	6.2
Deferred tax liabilities	10	**1,985.6**	1,650.0
TOTAL NON-CURRENT LIABILITIES		**9,013.2**	8,862.0
CURRENT LIABILITIES			
Current deferred income		**45.0**	-
Current provisions		**487.6**	350.2
Other provisions	8	487.6	350.2
Bank borrowings and other current financial liabilities		**1,733.8**	1,563.7
Current financial liabilities		27.3	34.8
Loans and other borrowings	9	1,202.8	1,021.8
Derivative financial instruments	6	503.7	507.1
Current lease liabilities		**26.6**	33.2
Current trade and other payables	11	**2,128.6**	1,904.4
TOTAL CURRENT LIABILITIES		**4,421.6**	3,851.5
TOTAL LIABILITIES		**13,434.8**	12,713.5
TOTAL EQUITY AND LIABILITIES		**23,411.3**	21,687.1

The accompanying Notes 1 to 17 are an integral part of the Consolidated statement of financial position at 30 June 2022.

SCOTTISH POWER UK PLC
CONSOLIDATED INCOME STATEMENT
for the six months ended 30 June 2022

	Notes	**Six months ended 30 June 2022 £m**	Six months ended 30 June 2021 £m
Revenue	3, 12	3,372.2	2,776.9
Procurements		(1,941.4)	(1,369.1)
GROSS MARGIN		**1,430.8**	1,407.8
Staff costs		(213.0)	(215.7)
Capitalised staff costs		83.3	78.6
External services		(282.4)	(283.6)
Other operating results		35.3	33.8
Net operating costs		**(376.8)**	(386.9)
Taxes other than income tax		**(90.7)**	(113.8)
GROSS OPERATING PROFIT		**963.3**	907.1
Net expected credit losses on trade and other receivables		(52.9)	(35.5)
Depreciation and amortisation charge, allowances and provisions		(388.0)	(371.0)
OPERATING PROFIT	3	**522.4**	500.6
Results of companies accounted for using the equity method		-	0.4
Finance income		7.4	7.8
Finance costs		(100.0)	(88.7)
PROFIT BEFORE TAX		**429.8**	420.1
Income tax	13	(87.5)	(398.2)
NET PROFIT FOR THE PERIOD		**342.3**	21.9
Non-controlling interests		(31.2)	(17.1)
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO THE PARENT		**311.1**	4.8

All results relate to continuing operations.

The accompanying Notes 1 to 17 are an integral part of the Consolidated income statement for the six months ended 30 June 2022.

SCOTTISH POWER UK PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 June 2022

	Six months ended 30 June 2022 £m	Six months ended 30 June 2021 £m
NET PROFIT FOR THE PERIOD	**342.3**	21.9
OTHER COMPREHENSIVE INCOME		
Items that may be subsequently reclassified to the Income statement:		
Cash flow hedges:		
Change in the value of cash flow hedges	**878.6**	233.8
Tax relating to cash flow hedges	**(207.7)**	(44.5)
	670.9	189.3
Items that will not be reclassified to the Income statement:		
Actuarial gains on retirement benefits:		
Actuarial gains on retirement benefits	**171.1**	261.8
Tax relating to actuarial gains on retirement benefits	**(53.2)**	(43.5)
Cash flow hedges:		
Change in the value of cash flow hedges	**1.4**	(3.1)
Tax relating to cash flow hedges	**(0.3)**	0.6
	119.0	215.8
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	**789.9**	405.1
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,132.2**	427.0
Total comprehensive income for the period attributable to equity holders of the parent	**1,100.6**	411.0
Total comprehensive income for the period attributable to non-controlling interests	**31.6**	16.0
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,132.2**	427.0

The accompanying Notes 1 to 17 are an integral part of the Consolidated statement of comprehensive income for the six months ended 30 June 2022.

SCOTTISH POWER UK PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2022

	Attributable to equity holder of the parent							
	Share capital £m	Share premium £m	Hedge reserve £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 31 December 2021	3,551.7	398.2	793.3	420.5	2,728.2	7,891.9	1,081.7	8,973.6
Adjustments due to impact of IAS 37 amendment (refer to Note 2B2)	-	-	-	-	(48.6)	(48.6)	-	(48.6)
Adjusted balance 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
Total comprehensive income for the period	-	-	671.6	-	429.0	1,100.6	31.6	1,132.2
Dividends*	-	-	-	-	-	-	(80.7)	(80.7)
At 30 June 2022	**3,551.7**	**398.2**	**1,464.9**	**420.5**	**3,108.6**	**8,943.9**	**1,032.6**	**9,976.5**

*Dividends of £80.7 million were paid in the six months to 30 June 2022 to Bilbao Offshore Holding Limited, which holds a 40% non-controlling interest in the Group's subsidiary, East Anglia One Limited.

	Attributable to equity holder of the parent							
	Share capital £m	Share premium £m	Hedge reserve £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2021	3,551.7	398.2	157.7	420.5	2,214.1	6,742.2	1,091.0	7,833.2
Total comprehensive income for the period	-	-	187.9	-	223.1	411.0	16.0	427.0
At 30 June 2021	3,551.7	398.2	345.6	420.5	2,437.2	7,153.2	1,107.0	8,260.2

The accompanying Notes 1 to 17 are an integral part of the Consolidated statement of changes in equity for the six months ended 30 June 2022.

SCOTTISH POWER UK PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2022

	Six months ended 30 June 2022 £m	Six months ended 30 June 2021 £m
Cash flows from operating activities		
Profit before tax	**429.8**	420.1
Adjustments for:		
Depreciation, amortisation and impairment	**379.2**	367.5
Change in provisions	**177.7**	223.0
Result of companies accounted for using the equity method	**-**	(0.4)
Transfer of assets from customers	**(22.1)**	(21.6)
Net finance income and costs	**92.6**	80.9
Net losses on disposal/write-off of non-current assets	**9.2**	3.7
Movement in retirement benefits	**(52.8)**	(49.7)
Net fair value losses on operating derivatives	**16.2**	0.8
Changes in working capital:		
Change in trade and other receivables	**(48.3)**	(19.1)
Change in inventories	**(375.9)**	(207.7)
Change in trade and other payables	**237.7**	125.0
Provisions paid	**(4.8)**	(3.5)
Assets received from customers (deferred income)	**46.4**	50.3
Income taxes paid	**(4.3)**	(4.4)
Net cash flows from operating activities (i)	**880.6**	964.9
Cash flows from investing activities		
Interest received	**10.3**	17.8
Investments in intangible assets	**(29.5)**	(50.0)
Investments in property, plant and equipment (net of capital grants)	**(555.9)**	(591.2)
Investments in joint ventures	**(77.2)**	-
Proceeds from disposal of property, plant and equipment	**0.7**	0.4
(Decrease)/increase in amounts due from Iberdrola Group companies		
- current loans receivable	**(205.6)**	66.0
Net cash flows from investing activities (ii)	**(857.2)**	(557.0)
Cash flows from financing activities		
Increase/(decrease) in amounts due to Iberdrola Group companies		
- current loans payable	**107.1**	(1,184.8)
Increase in amounts due to Iberdrola Group companies - non-current loans payable	**-**	1,250.0
Dividends paid to non-controlling interests	**(80.7)**	-
Interest paid	**(55.5)**	(58.1)
Interest paid on lease liabilities	**(9.8)**	(9.6)
Repayments of borrowing and other financial liabilities	**(7.5)**	(309.8)
Payments of lease liabilities	**(11.8)**	(11.8)
Net cash flows from financing activities (iii)	**(58.2)**	(324.1)
Net (decrease)/increase in cash and cash equivalents (i)+(ii)+(iii)	**(34.8)**	83.8
Cash and cash equivalents at beginning of period	**182.9**	140.1
Cash and cash equivalents at end of period	**148.1**	223.9

Cash and cash equivalents at end of period comprises:	**30 June 2022 £m**	30 June 2021 £m
Consolidated statement of financial position cash (net of overdraft)	**148.1**	223.9
Consolidated statement of cash flows cash and cash equivalents	**148.1**	223.9

The accompanying Notes 1 to 17 are an integral part of the Consolidated statement of cash flows for the six months ended 30 June 2022.

1 COMPANY INFORMATION

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's immediate parent company, SPL, is the holding company of the ScottishPower Group. The Consolidated condensed interim financial statements for the six months ended 30 June 2022 comprise those of the Company, its subsidiaries and joint ventures (together referred to as "the Group").

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.

2 BASIS OF PREPARATION

A BASIS OF PREPARATION OF THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

These Consolidated condensed interim financial statements for the six months ended 30 June 2022 were authorised for issue by the Board on 23 September 2022. The financial information set out in these Consolidated condensed interim financial statements has been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and UK-adopted IAS 34 'Interim Financial Reporting'. These financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). However, explanatory notes are included within the Interim Management Report to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last Consolidated annual financial statements.

These Consolidated condensed interim financial statements do not constitute the Group's statutory accounts for the six months ended 30 June 2022 within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2021 were approved for issue by the Board on 22 April 2022 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006. The financial information contained in these Condensed interim financial statements is unaudited.

These Condensed interim financial statements should be read in conjunction with the Group's Consolidated annual financial statements for the year ended 31 December 2021 which were prepared in accordance with UK-adopted International Accounting Standards ("IAS") and in conformity with the requirements of the Companies Act 2006. The Group's financial statements for the year ending 31 December 2022 will be prepared in accordance with UK-adopted IAS.

In preparing these Consolidated condensed interim financial statements, the significant judgements, estimates and assumptions made by management in applying the Group's accounting policies were consistent with those applied in the Group's Consolidated annual financial statements for the year ended 31 December 2021.

Consistent with the year ended 31 December 2021, other than those involving estimates the Group has one such judgement being the recognition of onerous retail contracts and assumptions made about the future and other major sources of estimation uncertainty which have significant risk of resulting in a material adjustment to the carrying amount for revenues, expenses, assets and liabilities are as follows:

- retirement benefit obligation (including valuation of level 3 pension plan assets) – Note 4;
- expected credit losses ("ECLs") on Energy Retail trade receivables - Note 6(d); and
- accrued 'unbilled' revenue – Note 12(b).

Similarly the Group's accounting policies applied in preparing these Consolidated condensed interim financial statements, were consistent with those applied in the Group's Consolidated annual financial statements for the year ended 31 December 2021, with the exception of those amended by the application of a new accounting policy and a change in presentation as set out in Note 2B below. Income tax expense for the six months ended 30 June 2022 has been calculated based on the best estimate of the expected tax rate expected for the full financial year.

2 BASIS OF PREPARATION *continued*

B CHANGES IN PRESENTATION AND POLICY

B1 VOLUNTARY CHANGE IN PRESENTATION OF DEFERRED INCOME

Energy Networks 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 Consolidated statement of financial position as this is a contract liability. In prior years, the full liability was classified as non-current, however, during the period, the directors have reviewed the classification of such balances and concluded that the value of deferred income which is expected to be released to the Income statement within the next year should be recorded within current liabilities. The effect of this change has not been reflected as a restatement to prior year deferred income and current liabilities as the directors do not consider this to have had a material impact. The deferred income recognised in the Consolidated annual financial statements for the year ended 31 December 2022 will also be presented in this way.

B2 CHANGE IN POLICY GIVEN IMPACT OF NEW IFRS

With effect from 1 January 2022, the Group has adopted the amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract'. Following the amendments, the costs to be considered to fulfil a contract when assessing if a contract is onerous or not is defined as being both the incremental costs and an allocation of other costs that relate directly to fulfilling a contract. Upon application of this amendment, certain contracts with retail customers defaulting on to the standard variable tariff were considered to be onerous as the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received from them. As at 1 January 2022, a provision for £60.0 million, the related current tax asset of £11.4 million and a reduction in retained earnings of £48.6 million were recognised to reflect this. The value of the provision at 30 June 2022 is £6.4 million.

For the six months ended 30 June 2022, the Group has also applied the following amendments for the first time, none of which have had a material impact on the Group's accounting policies, financial position or performance:

- Amendments to IFRS 3 'Business Combinations: Reference to the Conceptual Framework'
- Amendments to IAS 16 'Property, Plant and Equipment: Proceeds before Intended Use'
- Annual Improvements to IFRS Standards 2018-2020 Cycle

The following new standards and amendments to standards have been issued by the International Accounting Standards Board ("IASB") but have an effective date after the date of these Consolidated condensed interim 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
• IFRS 17 'Insurance Contracts' including 'Amendments to IFRS 17' and 'Initial Application of IFRS 17 and IFRS 9 - Comparative Information'	(a)	1 January 2023	1 January 2023
• Amendments to IAS 1 'Presentation of Financial Statements: Classification of Liabilities as Current or Non-current' and 'Deferral of Effective Date'	(a), (b)	1 January 2023	1 January 2023
• Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2: 'Disclosure of Accounting Policies'	(a), (b)	1 January 2023	1 January 2023
• Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates'	(a), (b)	1 January 2023	1 January 2023
• Amendments to IAS 12 'Income Taxes: Deferred Tax Related to Assets and Liabilities arising from a Single Transaction'	(a), (b)	1 January 2023	1 January 2023
• 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

2 BASIS OF PREPARATION *continued*

B2 CHANGE IN POLICY GIVEN IMPACT OF NEW IFRS *continued*

(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. On 29 January 2021, the IASB issued an exposure draft for a proposed replacement standard.
(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.

C GOING CONCERN

The directors have updated their going concern assessment performed to support the Consolidated annual financial statements for the year ended 31 December 2021, which were approved for issue by the Board on 22 April 2022. The updated cash flow forecasts took account of severe but plausible downsides, including continued Energy Retail gross margin uncertainty, increased capital expenditure in both the Renewables and Networks divisions; reductions in the Renewables price curve; and reductions in the collectability of Energy Retail customer debt. The updated going concern assessment that has been prepared for the period to December 2023, therefore reflects the updated forecasts and principal risks and uncertainties of the Group, including the ongoing economic uncertainty resulting from commodity price volatility and energy market uncertainty.

The consolidated cash flow forecast indicates that, under the revised severe but plausible downside scenarios, the Group's existing resources and committed facilities, including £1.5 billion of undrawn credit committed until February 2025 and March 2025 (refer to Note 9(a)), are sufficient to enable it to trade and pay its liabilities as they fall due for the forecast period.

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

3 BUSINESS SEGMENT REPORTING

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 division operates. The Group is organised into three reportable segments; Energy Networks, Renewables, and Energy Retail and Wholesale. In line with IFRS 8 'Operating Segments', 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. All revenue for the reported segments arise from operations within Great Britain and Ireland. Revenue arising from operations within the Republic of Ireland is not deemed material enough to disclose as a separate operating segment.

(a) Operating segments

During the six months ended 30 June 2022, the Group's reported segments were as follows:

Reported Segment	Description
Energy Networks	The transmission and distribution business within the Group.
Renewables	The origination, development, construction and operation of renewable energy generation plants, principally onshore and offshore wind, with a growing presence in renewable technologies and innovations such as battery storage and solar.
Energy Retail and Wholesale	The supply of electricity and gas to domestic and business customers; the Group's Smart Solutions activities and smart meter asset provision; and managing the Group's exposure to the UK wholesale electricity and gas markets and the optimisation of gas storage

3 BUSINESS SEGMENT REPORTING *continued*

(b) Revenue by reported segment

The revenue by reported segment for the six months ended 30 June 2022 is detailed below:

Reported segment	External revenue £m	Inter-segment revenue £m	Revenue reported to the CODM £m
Energy Networks	**604.4**	**78.5**	**682.9**
Renewables (Note (i))	**(5.3)**	**556.7**	**551.4**
Energy Retail and Wholesale	**2,773.1**	**8.3**	**2,781.4**
Elimination of inter-segment revenue			**(643.5)**
			3,372.2

(i) External revenue includes £(25.9) million of CfD 'income' being amounts paid to the UK Government under the terms of CfD contracts for certain offshore wind farms. The amount paid is the excess of the average market price over the agreed strike price for energy generated by applicable wind farms.

The revenue by reported segment for the six months ended 30 June 2021 is detailed below:

Reported segment	External revenue £m	Inter-segment revenue £m	Revenue reported to the CODM £m
Energy Networks	567.4	71.1	638.5
Renewables	137.5	295.5	433.0
Energy Retail and Wholesale	2,072.0	4.8	2,076.8
Elimination of inter-segment revenue			(371.4)
			2,776.9

(c) Operating profit/(loss) by reported segment

The operating profit/(loss) by reported segment reported to the CODM for the six months ended 30 June is detailed below:

	2022 £m	2021 £m
Energy Networks	**303.9**	290.6
Renewables	**263.4**	184.5
Energy Retail and Wholesale	**(51.0)**	22.9
Unallocated	6.1	2.6
	522.4	500.6

(d) Acquisition of property, plant and equipment and intangible assets by reported segment

The acquisition of property, plant and equipment and intangible assets by reported segment reported to the CODM for the six months ended 30 June is detailed below:

	Notes	**2022 £m**	2021 £m
Energy Networks		**282.5**	293.1
Renewables	(i), (ii)	**208.5**	90.9
Energy Retail and Wholesale		**62.1**	77.6
Unallocated		8.4	6.2
		561.5	467.8

(i) During the six months ended 30 June 2022, the Group acquired the entire share capital of the following solar development entities, treated as asset acquisitions and included in the total above, for a total consideration of £53.2 million:

- Bryn Henllys SF Limited (formerly known as Lightsource SPV 75 Limited)
- Down Barn Farm SF Limited (formerly known as Lightsource SPV 174 Limited)
- Milltown Airfield Solar PV Limited
- EEB18 Limited
- EEB27 Limited
- EEB28 Limited
- EEB30 Limited
- EEB11 Limited
- EEB24 Limited
- EEB 22 Limited
- EEB33 Limited

(ii) Additions in the six months ended 30 June 2022 include £75.4 million in relation to the purchase of seabed lease rights in respect of the MachairWind offshore windfarm following the success in the Scotwind auctions.

4 RETIREMENT BENEFIT OBLIGATIONS

The Group has two funded final salary pension schemes which provide defined benefits based on final pensionable pay, the Scottish Power Pension Scheme ("SPPS") and the Manweb Group of the Electricity Supply Pension Scheme ("Manweb"). The schemes are closed to new entrants, however active members continue to accrue benefits. The Schemes are subject to independent valuations at least every three years. The Group also has an unfunded unapproved retirement benefit scheme ("UURBS") and a defined contribution scheme, the Stakeholder Pension Plan, details of which were provided in the Group's Consolidated annual financial statements for the year ended 31 December 2021.

(a) Analysis of balance

The net asset/(liability) is analysed by scheme as follows:

	30 June 2022 £m	31 December 2021 £m
Included on Consolidated statement of financial position as non-current assets		
SPPS	**419.8**	291.7
Manweb	**2.7**	-
	422.5	291.7
Included on Consolidated statement of financial position as non-current liabilities		
Manweb	**-**	(94.6)
UURBS	**(3.8)**	(4.9)
	(3.8)	(99.5)
Total net surplus	**418.7**	192.2

The triennial valuations as at 31 March 2021 for both the SPPS and Manweb Schemes were finalised at the end of June 2022 and new contribution schedules agreed between the Trustees and Company. These new payment schedules came into force from July 2022. The employer contribution rates for SPPS and Manweb increased from July 2022 to 53.4% and 52.9% respectively and the deficit repair contributions for SPPS and Manweb are based on combined annual payments of £80.2 million per annum from 1 April 2022 to 31 March 2028 increasing in line with the Retail Price Index ("RPI").

(b) Movements in the defined benefit obligation and scheme assets during the period/year

Movements in the present value of the defined benefit obligation and scheme assets during the period/year are as follows:

	30 June 2022			31 December 2021		
	Defined benefit obligation £m	**Scheme assets £m**	**Total £m**	Defined benefit obligation £m	Scheme assets £m	Total £m
At beginning of period/year	**(4,989.0)**	**5,181.2**	**192.2**	(5,616.2)	5,057.6	(558.6)
Items recognised in the Consolidated income statement:						
Current service cost	**(23.8)**	**-**	**(23.8)**	(56.4)	-	(56.4)
Past service costs (Note (i))	**5.2**	**-**	**5.2**	(8.7)	-	(8.7)
Past service costs - FSLP (Note (ii))	**-**	**-**	**-**	85.7	-	85.7
Interest (expense)/income	**(48.5)**	**50.6**	**2.1**	(76.7)	70.2	(6.5)
Adminstration expenses	**-**	**(2.0)**	**(2.0)**	-	(4.3)	(4.3)
	(67.1)	**48.6**	**(18.5)**	(56.1)	65.9	9.8
Items recognised in the Consolidated statement of comprehensive income:						
Actuarial gains and (losses)	**1,192.6**	**(1,021.5)**	**171.1**	412.8	173.2	586.0
Other movements						
Employer contributions	**-**	**73.9**	**73.9**	-	155.0	155.0
Benefits paid	**109.8**	**(109.8)**	**-**	275.5	(275.5)	-
Scheme members' contributions	**(2.3)**	**2.3**	**-**	(5.0)	5.0	-
	107.5	**(33.6)**	**73.9**	270.5	(115.5)	155.0
At end of period/year	**(3,756.0)**	**4,174.7**	**418.7**	(4,989.0)	5,181.2	192.2

(i) The past service costs for the six months ended 30 June 2022 of £5.2 million (year ended 31 December 2021 £(8.7) million) comprises a reduction of £5.2 million for expected pension costs in 2022 associated with a restructuring (year ended 31 December 2021 new provision of £8.7 million for expected costs in 2022).

(ii) During the year ended 31 December 2021 the Group and the scheme Trustee agreed that the Group would no longer augment benefits in the Final Salary Life Plan ("FSLP") section of SPPS to provide RPI deferred revaluation and would instead revert to statutory revaluation for all service and will apply this across all deferred revaluation applicable to the member. As a result, there was a reduction in the liabilities of £85.7 million in respect of non-pensioner members of the FSLP section of SPPS, calculated using market conditions on the date that members were informed of the change.

4 RETIREMENT BENEFIT OBLIGATIONS *continued*

(b) Movements in the defined benefit obligation and scheme assets during the period/year *continued*

(iii) Analysis of the defined benefit obligation and scheme assets at 30 June 2022 and 31 December 2021:

	30 June 2022			31 December 2021		
	Defined benefit obligation £m	**Scheme assets £m**	**Total £m**	Defined benefit obligation £m	Scheme assets £m	Total £m
Present value of funded obligations/ fair value of scheme assets	**(3,752.2)**	**4,174.7**	**422.5**	(4,984.1)	5,181.2	197.1
Present value of unfunded obligations	**(3.8)**	**-**	**(3.8)**	(4.9)	-	(4.9)
Total net asset			**418.7**			192.2

(c) Actuarial assumptions

The assumptions used by the independent actuary for the pension arrangements, for all schemes, were developed by management with the assistance of the independent actuary and there have been no significant changes to the assumption methodologies applied during the six months ended 30 June 2022.

(i) The table below details the assumptions used by the independent actuary for the pension scheme arrangements and are expressed as weighted averages:

	30 June 2022	31 December 2021
Rate of increase in salaries*	**3.2% p.a.**	3.4% p.a.
Rate of increase in deferred pensions (RPI capped at 5% p.a)**	**3.2% p.a.**	3.4% p.a.
Rate of increase to pensions in payment (RPI capped at 5% p.a)	**3.1% p.a.**	3.3% p.a.
Discount rate	**3.7% p.a.**	2.0% p.a.
Inflation assumption – RPI	**3.2% p.a.**	3.4% p.a.
Inflation assumption – Consumer price index ("CPI")	**2.6% p.a.**	2.8% p.a.

* For members of the FSLP section of the SPPS scheme, the salary assumption at 30 June 2022 is 3.5% p.a. (31 December 2021 3.6% p.a.).

** For members of the FSLP section of the SPPS scheme, deferred pensions are increased with reference to statutory revaluation.

(ii) The weighted average life expectancies for mortality and the post-retirement mortality assumptions used to determine the defined benefit obligations at 30 June 2022 remain unchanged from those disclosed at 31 December 2021 in the Consolidated annual financial statements.

(d) Impact of changing material assumptions on the defined benefit obligation

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 obligation 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 since that applied in the year ended 31 December 2021 to assess the sensitivity of the results to changes in the critical actuarial assumptions.

Reasonably possible changes to one of the actuarial assumptions would have affected the defined benefit obligation as follows:

	Increase/(decrease) in defined benefit obligation	
Impact of changing material assumptions	**30 June 2022 £m**	31 December 2021 £m
Rate of increase in inflation		
Increase by 0.1%	**58.6**	86.9
Decrease by 0.1%	**(57.1)**	(84.6)
Discount rate		
Increase by 0.25%	**(153.5)**	(227.3)
Decrease by 0.25%	**165.1**	244.6
Assumed life expectancy		
Increase mortality by one additional year	**150.3**	199.7

4 RETIREMENT BENEFIT OBLIGATIONS *continued*

(e) Valuation of level 3 plan assets

Level 3 assets are investments where a market quotable price is not available. At 30 June 2022, £1,265.3 million of plan assets (31 December 2021 £1,053.9 million) are level 3 assets. The fair values of these assets are derived in accordance with IFRS 13 'Fair Value Measurement' and provided by the relevant fund manager. As noted below, interim valuations for some level 3 assets maybe estimated. Final interim valuations for these assets are typically not available until several months after the period ended 30 June 2022. As part of the checks carried out on these assets, a retrospective review is carried out for the purpose of these accounts and finally once all valuations are available.

(i) Infrastructure

Fair values at 30 June 2022 are estimated based on the valuations reported by the custodian as at 31 May 2022 and adjusted for movements in appropriate market indices to 30 June 2022. The custodian valuation at 31 May 2022 is based on the most recently available quarterly valuations (31 March 2022) adjusted where relevant for cash flows to 31 May 2022. The fund manager carried out internal valuations of the investments to assess the fair values at 31 March 2022. In respect of equity investments, cash flows forecasted over the life of the asset were discounted to derive a valuation at the relevant reporting date, or where available, valuations were based on contractual sales values. Hence significant assumptions will relate to the expected cash flows and discount rates. The fund manager has taken into consideration the potential impact of the COVID-19 pandemic on the valuation of the assets at 31 March 2022. As at the relevant valuation date, the fund valuation was not subject to a material adjustment in relation to this impact.

(ii) Property

Fair values at 30 June 2022 are estimated based on the valuations reported by the custodian as at 31 May 2022 and adjusted for movements in appropriate indices to 30 June 2022. An independent market valuation of the direct property investments as at 31 March 2022 is provided by BNP Paribas with reference to comparable market transactions. For instance, a key assumption is the market rent and hence yields available. The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date, property markets are mostly functioning again, with transaction volumes and other relevant evidence returning to levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, the direct property valuation is not reported as being subject to 'material valuation uncertainty'. The custodian based their 31 May 2022 valuation on this quarterly report adjusted for cash flows to the month end. The fair value of the indirect property assets reported by the custodian is based on the most recent available fund valuation at 31 March 2022 adjusted for cash flows to the month end.

(iii) Private/mezzanine debt

Fair values at 30 June 2022 are estimated based on the valuations reported by the custodian as at 31 May 2022 and adjusted for movements in appropriate market indices to 30 June 2022.The custodian's fair values are based on the most recently available quarterly valuations (31 March 2022) adjusted where relevant for cash flows to 31 May 2022. Various different valuation methods are utilised by the private/mezzanine 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. Fund managers continue to assess the impact of COVID-19 on portfolio valuations. No material adjustments to the relevant quarterly valuations have been noted by the fund managers.

(iv) Longevity swap

During 2021, an independent assessment of the fair values of the swaps was carried out on behalf of the Trustees by the scheme actuary for the purposes of updating the reported values in the scheme accounts as at 31 March 2021. 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 2021, were suitable for reporting under IAS 19 'Employee Benefits' 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.

Therefore, for the purposes of the 30 June 2022 valuation, the Group has reset the 31 March 2021 fair value in line with this figure and adjusted to the period end in line with movements in the fixed and floating legs of the swaps as calculated under the existing collateral model valuations. Hence the valuation takes into consideration current market conditions at the reporting date. This valuation approach is consistent with the methodology adopted for the 2021 year end.

4 RETIREMENT BENEFIT OBLIGATIONS *continued*

(e) Valuation of level 3 plan assets *continued*

(iv) Longevity swap *continued*

As at 30 June 2022, the fair values of the longevity swaps for SPPS and Manweb were £(204.7) million (31 December 2021 £(289.6) million) and £(109.2) million (31 December 2021 £(161.8) million) respectively.

5 INVESTMENTS IN JOINT VENTURES

In the six months ended 30 June 2022, the Group invested a total of £77.2 million in Marramwind Limited and Campionwind Limited.

6 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.

		30 June 2022		31 December 2021	
	Classification	**Carrying amount £m**	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets					
Other investments	FVTPL	**0.2**	**0.2**	0.2	0.2
Derivative financial instruments	Fair value hedging instrument	**2,442.7**	**2,442.7**	1,522.8	1,522.8
Receivables (Note (i))	Amortised cost	**2,566.5**	**2,566.5**	2,525.6	2,525.6
Cash	Amortised cost	**148.1**	**148.1**	182.9	182.9
Financial liabilities					
Loans and other borrowings	Amortised cost	**(5,519.6)**	**(5,816.7)**	(5,582.8)	(6,031.7)
Derivative financial instruments	Fair value hedging instrument	**(759.6)**	**(759.6)**	(719.6)	(719.6)
Payables (Note (ii))	Amortised cost/FVTPL	**(1,902.7)**	**(1,902.7)**	(1,719.0)	(1,719.0)
Current financial liabilities	Amortised cost	**(27.3)**	**(27.3)**	(34.8)	(34.8)

(i) At 30 June 2022, balances outwith the scope of IFRS 7 and IFRS 9 have been excluded, namely Prepayments and Other tax receivables totalling £72.1 million (31 December 2021 £62.5 million).

(ii) At 30 June 2022, balances outwith the scope of IFRS 7 and IFRS 9 have been excluded, namely Payments received on account and Other taxes and social security totalling £238.6 million (31 December 2021 £194.2 million).

(b) Measurement of financial instruments

The Group holds certain financial instruments which are measured in the Consolidated statement of financial position at fair value as detailed in Note 6(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.

As at 30 June 2022 and 31 December 2021, 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.

Included in Level 2 derivative liabilities of £759.6 million (31 December 2021 £719.6 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 cross currency swaps and forward foreign exchange contracts, which are both fair-valued using the forward exchange rates quoted in an active market.

The Level 2 CPI-linked inflation swap is fair-valued using a discounted cash flow which uses forward inflation expectations derived from observable markets.

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 period or prior year.

6 FINANCIAL INSTRUMENTS *continued*

(c) Credit risk management - Collateral and letters of credit

The Group enters into standard netting agreements with its commodity trading counterparts in order to mitigate the credit risk exposure of the Group. In addition, the Group utilises collateral support agreements with derivative counterparts to manage its credit exposure. These forms of collateral include margining for trading with exchanges, cash collateral used for bilateral and brokering trading, as well as letters of credit. At 30 June 2022, the value of letters of credit held amounted to £4.0 million (31 December 2021 £5.2 million) and letters of credit posted amounted to £771.2 million (31 December 2021 £273.5 million).

(d) Credit risk management – Energy Retail trade receivables

The Group applies the IFRS 9 simplified model to measure ECLs, which uses a lifetime expected loss allowance, for all Energy Retail customer receivables. The Group has adopted the practical expedient whereby it calculates the ECL on Energy Retail's customer 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, the recoverability of equivalent balances from the previous three years have been reviewed.

Recognising the current level of energy market disruption and the forecast uncertainty in macro-economic indicators including the ongoing cost of living crisis, in line with IFRS 9, a forward-looking loss allowance has been included to ensure that external factors are appropriately mitigated.

For I&C customers, the ECL is based on external credit scoring. The Energy Retail 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.

These receivables are included in the non-aged balances of the table below.

At 30 June 2022	Current £m	More than 90 days past due £m	More than 180 days past due £m	More than 12 months past due £m	Non-aged balances £m	Unbilled (Note (i)) £m	Total £m
Weighted average expected loss rate (%)	**11.9%**	**32.1%**	**42.1%**	**50.6%**	**3.7%**	**13.3%**	**23.6%**
Gross carrying amount: Trade receivables	**247.3**	**104.1**	**122.4**	**237.7**	**238.6**	**182.3**	**1,132.4**
Loss allowance	(29.4)	(33.4)	(51.5)	(120.3)	(8.8)	(24.2)	(267.6)
Net carrying value	**217.9**	**70.7**	**70.9**	**117.4**	**229.8**	**158.1**	**864.8**

At 31 December 2021	Current £m	More than 90 days past due £m	More than 180 days past due £m	More than 12 months past due £m	Non-aged balances £m	Unbilled (Note (i)) £m	Total £m
Weighted average expected loss rate (%)	13.3%	34.2%	43.1%	48.4%	3.0%	21.5%	25.4%
Gross carrying amount: Trade receivables	165.3	72.9	110.5	209.3	225.1	98.9	882.0
Loss allowance	(22.0)	(24.9)	(47.6)	(101.4)	(6.7)	(21.3)	(223.9)
Net carrying value	143.3	48.0	62.9	107.9	218.4	77.6	658.1

(i) The gross carrying amount at 30 June 2022 includes unbilled receivables of £182.3 million (31 December 2021 £98.9 million) reflecting gross unbilled receivables of £746.8 million (31 December 2021 £655.6 million) less customer credit balances of £539.6 million (31 December 2021 £526.5 million) and a £24.9 million (31 December 2021 £30.2 million) provision in relation to energy volumes still to reach final settlement. The loss allowance in relation to unbilled receivables is £24.2 million (31 December 2021 £21.3 million).

(e) Sensitivity analysis on Energy Retail's loss allowance – billed receivables

The methodology and assumptions applied in estimating the ECL for the six months ended 30 June 2022, and the provision held at that date in respect of the Energy Retail trade receivables, are deemed appropriate, as described above. Nevertheless, the level of estimation uncertainty in determining the provision has increased in light of the cost of living challenges facing our customers.

Included within the gross carrying amount of trade receivables in the credit risk exposure table above, £950.1 million relates to billed receivables at 30 June 2022 (31 December 2021 £783.1 million). The loss allowance in relation to billed receivables is £243.4 million (31 December 2021 £202.6 million).

6 FINANCIAL INSTRUMENTS *continued*

(e) Sensitivity analysis on Energy Retail's loss allowance – billed receivables *continued*

The actual level of billed receivables collected may differ from the estimated levels of recovery, which could impact operating profit positively or negatively. At 30 June 2022, the loss allowance for billed receivables of £243.4 million (31 December 2021 £202.6 million) was supported by a projection based on a 36-month cash collection performance. Based on the weighted average expected loss rates in the table above, a 5% increase in the overall expected loss rate would increase the loss allowance by £47.5 million (31 December 2021 £39.2 million). A 5% decrease would decrease the loss allowance by £47.5 million (31 December 2021 £39.2 million).

7 CURRENT TRADE AND OTHER RECEIVABLES

	Notes	**30 June 2022 £m**	31 December 2021 £m
Current trade and other receivables			
Receivables due from Iberdrola Group companies - loans		**1,383.1**	1,177.5
Trade receivables (including accrued income)	(a)	**1,118.6**	1,023.0
Other receivables	(b)	**120.6**	357.9
		2,622.3	2,558.4

(a) Trade receivables (including accrued income) includes £864.8 million (31 December 2021 £658.1 million) in respect of Energy Retail (refer to Note 6(d)).
(b) Other receivables at 31 December 2021 includes the £200.0 million initial deposit margin facility which was not utilised at 30 June 2022 (refer to Note 9(b)).

8 OTHER PROVISIONS

	Notes	**30 June 2022 £m**	31 December 2021 £m
Reorganisation and restructuring	(a)	**10.5**	5.3
Renewables Obligation		**570.2**	344.7
Retail energy onerous contract	(b)	**6.4**	-
Decommissioning		**441.5**	443.0
Other		**5.2**	6.0
		1,033.8	799.0

(a) In the six months to 30 June 2022, the provision for reorganisation and restructuring increased by £5.2 million, being an increase in costs associated with the restructuring.
(b) The amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract' were implemented by the Group from 1 January 2022. The impact of this amendment as at 1 January 2022 was a provision for £60.0 million, of which £53.6 million had been utilised by 30 June 2022 (refer to Note 2B2).

9 LOANS AND BORROWINGS

	Note	**30 June 2022 £m**	31 December 2021 £m
Current loans and borrowings			
Loans payable to Iberdrola Group companies		**879.6**	772.5
Loans payable to external counterparties	(c)	**248.9**	(1.0)
Accrued interest due to Iberdrola Group companies		**30.8**	17.5
Accrued interest due to external counterparties		**43.5**	32.8
Credit facility – initial margin		**-**	200.0
		1,202.8	1,021.8

9 LOANS AND BORROWINGS *continued*

	30 June 2022 £m	31 December 2021 £m
Non-current loans and borrowings		
Loans payable to Iberdrola Group companies	**2,720.0**	2,720.0
Loans payable to external counterparties	**1,596.8**	1,841.0
	4,316.8	4,561.0

(a) The Group has two intra-group committed revolving credit facility arrangements with SPL for £1.0 billion and £0.5 billion, with expiry dates of February 2025 and March 2025 respectively. These facilities have never been drawn. Therefore, at 31 December 2021 and 30 June 2022, the Group had £1.5 billion of undrawn committed facilities available.

(b) The increase of £181.0 million in current loans and borrowings in the six months to 30 June 2022 mainly comprises an increase of £107.1 million in on-demand loans payable to Iberdrola Group companies and a reclassification of a £249.8 million euro-sterling bond with a maturity of May 2023 from non-current to current, offset by a £200.0 million reduction in initial deposit margin facility.

(c) Loans payable to external counterparties includes £(0.9) million (31 December 2021 £(1.0) million) of the short-term element of fair value hedge adjustments and the adjustments on discontinued fair value hedges due to be amortised within one year.

10 DEFERRED TAX

	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
Charged to the Income statement	11.8	-	-	-	50.0	61.8
Recorded in the Statement of comprehensive income	-	220.6	53.2	-	-	273.8
At 30 June 2022	**1,467.4**	**438.8**	**104.8**	**(54.2)**	**28.8**	**1,985.6**

11 CURRENT TRADE AND OTHER PAYABLES

	30 June 2022 £m	31 December 2021 £m
Current trade and other payables		
Trade payables	**678.1**	1,028.3
Collateral	**662.4**	270.7
Other payables	**788.1**	605.4
	2,128.6	1,904.4

12 REVENUE

(a) Disaggregation of revenue

	Six months ended 30 June 2022			
	Energy Networks £m	Renewables £m	Energy Retail and Wholesale £m	Total £m
Electricity distribution	381.6	-	-	**381.6**
Electricity transmission	200.7	-	-	**200.7**
Transfers of assets from customers	22.1	-	-	**22.1**
Supply of electricity	-	-	2,003.2	**2,003.2**
Supply of gas	-	-	677.8	**677.8**
CfD income	-	(25.9)	-	**(25.9)**
Commodity derivative income	-	(10.4)	71.7	**61.3**
Other	-	31.0	20.4	**51.4**
External revenue	**604.4**	**(5.3)**	**2,773.1**	**3,372.2**

12 REVENUE *continued*
(a) Disaggregation of revenue *continued*

	Six months ended 30 June 2021			
	Energy Networks £m	Renewables £m	Energy Retail and Wholesale £m	Total £m
Electricity distribution	348.1	-	-	348.1
Electricity transmission	197.7	-	-	197.7
Transfers of assets from customers	21.6	-	-	21.6
Supply of electricity	-	-	1,480.0	1,480.0
Supply of gas	-	-	548.0	548.0
CfD income	-	106.4	-	106.4
Commodity derivative income	-	(0.2)	24.2	24.0
Other	-	31.3	19.8	51.1
External revenue	567.4	137.5	2,072.0	2,776.9

All revenue is recognised over time.

(b) Supply of electricity and gas – unbilled estimation uncertainty

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

The estimated value of energy delivered to customers is included within billed revenue (where an estimated reading is included within an issued invoice) and unbilled revenue (where no invoice has been invoiced). For further details on billed receivables, refer to Note 6(e). For further details on unbilled receivables refer to Note 6(d)(i).

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 £28.1 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 91% of unbilled revenue relates to the most recent quarter where there is a higher level of estimation uncertainty.

13 INCOME TAX

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

	Six months ended 30 June 2022 £m	Six months ended 30 June 2021 £m
Corporation Tax at 19% (2021 19%)	**81.7**	79.8
Adjustments in respect of prior periods	**(2.9)**	(1.6)
Impact of tax rate change on opening deferred tax balance	**-**	303.1
Impact of tax rate change on current period tax charge	**3.8**	13.3
Non-deductible expenses and other permanent differences	**4.9**	3.6
Income tax expense for the period	**87.5**	398.2

Legislation was enacted on 10 June 2021 under the Finance Act 2021 that will increase the UK Corporation Tax rate to 25% from 1 April 2023. Accordingly deferred tax balances at 1 January 2021 increased by £303.1 million reflecting the rate that the temporary differences are expected to reverse at.

14 CONTINGENT LIABILITES

East Anglia One Limited, a subsidiary of the Company, held an exemption from the legislative requirement to hold a transmission licence under the Electricity Act 1989 ("the legislative requirement"). This exemption expired on 13 December 2021 ("the Exemption Date"). Following due consideration of relevant legal, contractual and regulatory implications and as a result of positive engagement with, and assurances from, the Department for BEIS and Ofgem, the project continued to generate and transmit electricity beyond that date. On 10 June 2022, East Anglia One Limited was granted a further exemption from the legislative requirement from that date until 13 April 2023. Based on the information available at the reporting date, or at the date of signing, there are no contingent liabilities arising from these events.

15 COMMITMENTS

	30 June 2022 £m	31 December 2021 £m
Capital commitment contracted but not provided	**1,216.3**	466.1
Long-term energy purchase contract commitments	**4,632.1**	3,513.7
Other contractual commitments	**680.9**	621.6
	6,529.3	4,601.4

16 RELATED PARTY TRANSACTIONS

The Group has material loans receivable from and payable to Iberdrola Group companies which are disclosed in Notes 7 and 9 respectively. There has been no change in counterparties since 31 December 2021.

The nature of related parties has not changed since 31 December 2021, other than new joint ventures detailed in Note 5. There are no transactions or balances with those joint ventures to be disclosed.

17 SEASONALITY OF OPERATIONS

Amounts reported for the interim period may not be indicative of the amounts that will be reported for the full year due to seasonal fluctuations in customer demand for gas and electricity, the impact of weather on demand, renewable generation output and market changes in commodity prices.

Domestic demand for gas is generally higher in the winter and lower in the summer. Demand is also generally higher in January to June than in July to December. Domestic power consumption is higher in the winter than the summer, however, is more balanced between January to June and July to December.

Wind output volumes are variable, but are generally higher in winter months. Total volumes tend to be broadly consistent for the first and second halves of the year, with the volume profile being weighted towards the earlier and later months of the year where weather is more unsettled and windier conditions are experienced.