

SCOTTISH POWER UK PLC
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the six months ended 30 June 2023

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SCOTTISH POWER UK PLC

INTERIM MANAGEMENT REPORT

for the six months ended 30 June 2023

GROUP OVERVIEW

Scottish Power UK plc (“the Company”) is a wholly-owned subsidiary of Iberdrola, S.A. (“Iberdrola”), one of the largest utility companies in the world and a leader in renewable energy. The Company acts as a holding company of the Scottish Power UK plc Group (“the Group”) and is a member of the Scottish Power Limited Group (“ScottishPower”).

The three divisions operated by the Group during the year were Energy Networks, Renewable production (formerly known as Renewables), and Customer business (formerly known as Energy Retail and Wholesale).

Energy Networks is responsible for three regulated electricity network businesses in the UK. These businesses are 'asset-owner companies', holding the regulated assets and electricity transmission and distribution licenses of the Group, and are regulated monopolies.

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

Our **Customer business** is responsible for the supply of electricity and gas to almost five million domestic and business customers throughout the UK, including customer registration, billing, and handling enquiries in respect of these services, and associated metering activity. In addition, this division manages both smart and hydrogen solution activities, the Group's exposure to the UK wholesale electricity and gas markets, and the optimisation of gas storage.

Continuing to shape 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. In November 2022, as part of the €47 billion investment programme announced by Iberdrola, ScottishPower confirmed plans for £6.7 billion of investment in clean energy between 2023 and 2025 across our Energy Networks and Renewables divisions, setting out our ambitions to invest the equivalent of £8 million every working day over this period.

We have ambitious investments planned in offshore wind, onshore renewables, networks, storage and green hydrogen. The scale of these investments mean that we are recruiting a record number of skilled jobs and apprentices. Following the launch of our 1,000 new green jobs campaign in summer 2022, we continue to target and recruit these and more new green jobs in ScottishPower. With offers having been made for more than three quarters of the 1,000 jobs so far, the recruitment drive continues.

The ongoing cost of living crisis continues to dominate the landscape in the UK. We have continued to support our customers by pausing the use of warrants and remote change mode on prepayment meters in February 2023 this year, and by completing the process for making payments to customers through the Energy Bills Support Scheme. On 25 August 2023, Ofgem announced the October-December 2023 price cap level at £1,923 per Direct Debit (DD) customer at current typical consumption, down from £2,074 at present.

Reductions in the price cap will bring welcome relief to customers, but energy prices remain higher than they were pre-2022. To help mitigate the impact of external cost pressures on the UK from wholesale energy markets, our commitment to investing in green energy security remains strong. In addition to our plans for significant investments in renewables and network infrastructure, this year so far we have launched the Climate Action Hub, alongside other leading Scottish businesses, and published our first Sustainable Development Strategy, 'Action 2030: Powering a Sustainable Future'. The key themes in this strategy are 'Clean Energy', 'Climate Action', 'Biodiversity and Ecosystems', 'Circular Economy', 'Our Communities' and 'Work and Skills'.

In addition, as part of our ongoing partnership with the World Wide Fund for Nature (“WWF”), we commissioned Frontier Economics, one of the largest economic consultancies in Europe, to produce a report assessing the scale of deployment of energy efficiency measures (including low-carbon technologies such as heat pumps) needed to meet the UK Government's 15% energy consumption reduction target in the residential housing sector for 2030, as well as a 20% 'stretch' target for 2030. The indicative analysis from Frontier Economics estimates that if all committed and planned policies are implemented and perform as expected, there is a significant deployment gap from reaching the 15% target, with estimates of a further 2 million homes needing to receive insulation retro-fits, and another 500,000 homes to receive a heat pump.

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We believe that deepening the relationships we have with our customers is absolutely crucial if we are to fill this gap.

Electricity and gas customers have arguably never faced a more challenging situation. Recognising that everything we do in our Retail business is about our customers, from the energy we supply to the smart meters we install, going forward this part of our business will be known as our 'Customer business'. This change reflects the fact our Customer business is moving away from being just an energy supplier, with the growth of our Smart Solutions business bringing an increase in the products we are offering our customers. Instead of purely supplying customers with gas and electricity, in the future we will help them optimise their energy usage and bills, ensuring they get the maximum benefit from their solar panels, battery, electric vehicle ("EV") or heat pump.

We also continue to act on the principles set out in our Just Transition strategy, launched at the United Nations Climate Change Conference (COP26) in 2021. For there to be a just transition to a greener future, we need to work in partnership with local communities, consumers, employees, supply chains and policy makers to realise our shared net zero ambitions. We're committed as an organization to ensuring that the energy transition is fair, and that the people we serve have a stake in shaping it. ScottishPower is at the heart of communities across the country, whether it is through the 1,000+ new green jobs it is recruiting, the renewable power it generates or the secure, stable electricity it supplies or keeping the lights on from generation to plug.

We are also proud to take an active role in promoting positive engagement with these wider communities. For example, in early 2023, we announced a landmark partnership deal with Scottish Women's Football ("SWF") and the Scottish Women's Premier League ("SWPL"), dedicated to energising women's football at every age and stage across the country. As a major employer in the UK, with a key focus on encouraging more women to consider science, technology, engineering and mathematics ("STEM") careers, this partnership is a demonstration of our commitment in this area.

Delivering a better future, quicker, for everyone

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

In March 2023, our ScottishPower Renewable production business formalised its biggest ever contract award of £1.3 billion for 95 Siemens Gamesa turbines for our East Anglia Three offshore wind farm ("EA3"). The project will supply enough green energy for 1.3 million UK homes. Off the Norfolk coast, EA3 will be the world's second largest windfarm, with over 2,300 jobs being supported during its construction. We also recently confirmed the contract for the transport and installation of the foundations and inner-array cables for our EA3 offshore wind farm with Seaway7, part of the Subsea7 Group.

Significant innovations and investments continue to be made in our Energy Networks business, with our RIIO-ED2 (Revenue = Incentives + Innovation + Outputs) business plan, 'Enabling the path to Net Zero', implemented in April 2023, and running until March 2028. In addition to setting out how Energy Networks will develop a network that is ready for net zero, the plan sets out how we will act as a trusted partner for communities, customers and stakeholders, and ready our business for a digital and sustainable future. As 2023 progresses, the significance of the need for grid infrastructure investment to deliver the required renewables capacity to homes and businesses across the country has rocketed up the agenda and is being discussed by politicians in a way that has never been seen before.

Energy Networks has also made considerable investments in the early part of 2023, as part of ongoing efforts to ensure the grid is net zero-ready. Examples include:

- £23 million upgrade to the Crewe substation, to the benefit of 80,000 households.
- In a series of UK firsts, Energy Networks was awarded £10 million, through the Engineering, Physics, and Sciences Research Council's Prosperity Partnership Fund to create a 'digital twin' of the country's electricity network that will model and test digital solutions to manage increased electricity demand on its real-life counterpart.
- We are leading a consortium to launch a world-leading project, 'BLADE', to demonstrate the potential of using offshore wind to provide 'black start' restoration services to the electricity grid thanks to funding from The Office of Gas and Electricity Markets ("Ofgem"). Black start is the better known name for Active Electricity System Restoration Service,

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the procedure used to restore power in the event of a total or partial shutdown of the electricity transmission system, which has traditionally relied on fossil fuels like coal and gas.

Further to the group-wide strategy, Energy Networks published its own Just Transition strategy in 2023, setting out the steps it will take to embed the principles of a fair and equitable transition into everything it does. Energy Networks also launched the Transmission Net Zero Fund this year. This £5 million fund has been created to support communities and ensure no one is left behind on the country's journey to net zero emissions. It will support projects that are contributing to decarbonisation efforts within the Energy Networks' transmission areas across central and southern Scotland.

In our interactions with the UK Government and the Devolved Administrations we have highlighted the need to streamline the planning and consenting process for major new energy infrastructure projects, including updating the National Policy Statements governing planning applications in England and Wales. We also welcomed the Winsor report from the UK Government's first Electricity Networks Commissioner in August 2023, including its recommendations on reforming the planning regime in Scotland to better align it with the more streamlined regime in England and Wales, including defined timescales for the different stages.

We are also engaging with the UK Government on the need to ensure that the Contracts for Difference ("CfD") auctioning programme for renewable generation responds appropriately going forward to accommodate the sharp increase in supply chain costs, resulting from the global economic strains caused by the pandemic and then by the onset of the Ukraine crisis. As a helpful first step, the UK Government introduced a new full expensing regime in terms of capital allowances at the Spring Budget 2023, running for three years, with plans to put this on an enduring footing when fiscal resources allow. These kind of policy steps will be important to stay on track with progressing towards meeting the UK Government's ambition for 50 gigawatts ("GW") of offshore wind by 2030.

We continue to work with Ofgem to ensure that the consumers who are struggling to pay their bills receive appropriate support, particularly the most vulnerable. We have also worked with Ofgem to improve the design of the price cap so that suppliers can efficiently recover incurred costs. This has enabled delayed recovery of costs incurred in 2022, with the result that suppliers are now better placed to achieve the levels of financial resilience that will be required to survive future price shocks.

The Group continues to contribute to the wider external debate about the government and regulatory measures required to tackle the critical backlog in network connections for new renewables projects. We welcomed Ofgem's launch in December of its Accelerated Strategic Network Investment (ASTI) scheme and are working to take forward vital new transmission infrastructure on the East Coast under this scheme.

GROUP FINANCIAL PERFORMANCE
Group operating performance

	Revenue		Operating profit		Capital investment	
	Six months ended 30 June 2023	Six months ended 30 June 2022	Six months ended 30 June 2023	Six months ended 30 June 2022	Six months ended 30 June 2023	Six months ended 30 June 2022
Financial key performance indicators ("KPIs")	£m	£m	£m	£m	£m	£m
Scottish Power UK plc	5,848.0	3,372.2	1,147.5	522.4	666.4	561.5

In the six months ended 30 June 2023, revenue has increased by £2,476 million versus the same period in 2022. This was mainly from the Customer business where revenues have risen to reflect higher energy procurement costs.

Operating profit for the six months ended 30 June 2023 was £1,148 million, an increase of £625 million compared to the equivalent period in 2022. This increase is mainly driven by the Customer business. In the twelve-month period ended 31 December 2022, Customer business gross margins were materially adversely impacted as the price cap methodology did not allow suppliers to fully recover high energy costs. In the first half of 2023, gross margins have benefitted from specific price cap allowances which have facilitated recovery of these prior year losses. In addition, limited energy market liquidity

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has resulted in an inability to perfectly match the commodity cost element of the quarterly price cap tariff with resulting timing impacts across Q4 2022 (adverse) and Q1 2023 (favourable). These two factors have contributed an estimated £460 million to the £625 million period improvement. Other Customer business factors included increased commodity prices resulting in higher unitary margins and non-recurrence of previous year losses as legacy domestic and business products have rolled off.

ScottishPower's capital investment rose by £105 million to £666 million for the six months ended 30 June 2023 versus the same period in 2022. This increase reflects both the increase in Energy Networks business' RIIO investment programmes and the Renewable production business' investment in development sites.

Group cash flow, net debt and Condensed consolidated statement of financial position

Liquidity and cash management

Net cash flows from operating activities increased by £106 million to £986 million versus the same period in 2022. As detailed in the table below, cash decreased by £722 million with overall net debt increasing by £207 million to £5,567 million in the six months ended 30 June 2023.

	30 June 2023	31 December 2022
	£m	£m
Analysis of net debt		
Cash	146.7	869.1
Loans receivable from Iberdrola Group companies	1,327.0	1,224.8
Loans payable to Iberdrola Group companies	(4,743.4)	(5,011.3)
External loans payable	(1,627.5)	(1,866.8)
Current financial liabilities	(16.9)	(23.8)
Lease liabilities	(569.3)	(523.8)
Accrued interest	(142.2)	(75.5)
Interest receivable from Iberdrola Group companies	40.5	19.5
Cross currency swap	17.9	27.6
Net debt	(5,567.2)	(5,360.2)

The calculation of net debt at 30 June 2023 is consistent with the approach at 31 December 2022 as set out in the Consolidated annual accounts.

At 30 June 2023, 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. As indicated in the Consolidated annual financial statements for the year ended 31 December 2022, 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 Condensed consolidated statement of financial position from 31 December 2022 to 30 June 2023

The Group's **capital expenditure and investment** totalled £666 million for the six months ended 30 June 2023. The movement is primarily attributable to capital expenditure and investment across the period. This included major investment within Energy Networks totalling £343 million and the development and construction of the Production pipeline totalling £239 million as well as investment within the Customer business of £68 million.

The **net pension surplus** at 30 June 2023 across the Group's defined benefit schemes decreased by £80 million from 31 December 2022. This is principally due to an increase in gilt yields resulting in a reduction in the value of hedged assets and an increase in liabilities due to higher than assumed growth in pensionable salaries and the effect of membership movements. The effect of these movements is partly offset by employer deficit contributions over the period.

Derivative financial instruments totalled a net liability position of £317 million in the six months ended 30 June 2023. This is a movement of £745 million since 31 December 2022. The decrease in the net liability is predominantly driven by the delivery of out-of-the money gas and electricity trades for H1 2023 offset by adverse forward price movements for trades delivering after June 2023. The movement also resulted in an increase in the associated **deferred tax liabilities** totalling £172 million over the same period.

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Trade and other receivables (excluding loans receivable from Iberdrola Group companies) decreased by £255 million. This is primarily due to a decrease in collateral posted with counterparties for derivative trading, lower customer activity due to seasonal impacts and warmer weather within the spring and summer months, and the winding down of government support schemes.

Inventories increased by £294 million in the six months ended 30 June 2023 principally due to the purchase of Renewable Obligation Certificates ("ROCs") which will be used to settle the Group's Renewable Obligation.

Total equity increased by £761 million to £7,828 million primarily due to the impact of the net profit for the six months ended 30 June 2023, the increase in the Cash flow hedge reserve (net of tax) of £532 million partially offset by a dividend of £384 million paid to a non-controlling partner.

Other provisions increased by £230 million predominantly reflecting £193 million of ROC costs charged to the income statement for the six-month period to June 2023 and the recognition of a provision in respect of an ongoing regulatory matter.

Trade and other payables decreased by £563 million reflecting the impact of seasonal demand in relation to the purchase of gas and electricity as well as the seasonal impact of customer payment patterns.

The Group has a **current tax liability** of £30 million at 30 June 2023 (31 December 2022 current tax asset of £79 million), the movement in the period is primarily due to an increase in the income tax charge offset against refunds from HMRC and current year payments on account in respect of EA1.

Additional information, where relevant, can be found in the notes to the Condensed consolidated interim financial statements.

The Condensed consolidated interim financial statements have not been reviewed by external auditors.

SCOTTISH POWER DIVISIONS

ENERGY NETWORKS

Operating review

Transmission business

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

Distribution business

- In March 2023, the eight-year RIIO-ED1 price control period ended. Subject to final confirmation from Ofgem (expected later in the year), RIIO-ED1 performance has delivered our agreed outputs and has performed on, or ahead of, targets in our approach to safety, reliability and availability, and customer service. This includes investment in incremental green recovery projects in the drive towards net zero.
- The five year £3 billion RIIO-ED2 price control period commenced on 1 April 2023. Implementation of the delivery plan has commenced for the increased volume of activity in RIIO-ED2 including increased recruitment in key areas coupled with external contract placement.

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

2023 performance

	Revenue		Operating profit		Capital investment	
	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended
	30 June 2023	30 June 2022	30 June 2023	30 June 2022	30 June 2023	30 June 2022
Financial key performance indicators ("KPIs")	£m	£m	£m	£m	£m	£m
Energy Networks	764.9	682.9	307.5	303.9	342.6	282.5

In the six months ended 30 June 2023, Energy Networks' revenue has increased by £82 million versus the same period in 2022. Allowable transmission revenues have increased under RIIO-T2 by £37 million reflecting increased capital investment. Distribution revenues include £8 million higher revenues in relation to supplier of last resort levies. There is an equal and opposite variance within Procurements. Underlying distribution revenues are £37 million higher than prior period reflecting higher base revenues partly offset by a drop in volume, the impact of which will be recovered in future years.

Operating profit for the six months ended 30 June 2023 was £308 million, an increase of £4 million compared to the equivalent period in 2022. The increase is primarily due to increased allowable revenue pricing being mostly offset by lower demand and higher regulatory driven operating expenses.

Energy Networks' capital investment increased by £60 million to £343 million in the six months ended 30 June 2023. Whilst the largest change was in the transmission business capital investment also grew in distribution. This increase reflects the significant RIIO-T2 and RIIO-ED2 investment programmes, facilitating the move to UK net zero targets.

Non-financial performance indicators ("KPIs")

	Notes	30 June 2023	30 June 2022
Distributed energy (GWh)	(a)		
- SP Distribution plc ("SPD")		7,767	8,070
- SP Manweb plc ("SPM")		6,446	6,676
Annual reliability of supply	(b)		
- SP Transmission plc ("SPT")		100.00%	99.99%
Customer interruptions	(c)		
- SPD		17.6	17.2
- SPM		15.9	13.4
Customer minutes lost	(d)		
- SPD		12.2	13.1
- SPM		15.4	13.1

(a) Gigawatt hours ("GWh") distributed through the network.

(b) Annual reliability of supply is provided by the ESO, National Grid.

(c) Number of customer interruptions per 100 customers. A measure of volume of customers affected by a fault.

(d) Average number of minutes our customers have their supply interrupted. A measure of the volume of customers affected by the fault combined with the time taken to restore supply.

Outlook for 2023 and beyond

- We will continue to progress development of the Eastern HVDC link project including the award of engineering, procurement and construction turnkey contracts for converter stations and cables. In addition, pre-construction planning and procurement activity for other direct current links as part of the HND suite of projects will also be progressed.
- A key focus for H2 will be the targeted delivery of increased activity associated with regulatory outputs for the commencement of RIIO-ED2 and the next year of RIIO-T2.

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- RIIO-ED2 will be particularly significant for the decarbonisation of transport and domestic heating, and the connection of low carbon electricity (additional 5 GW) as the business drives towards net zero goals building in innovation whilst maintaining high levels of asset stewardship.

RENEWABLE PRODUCTION

Operating review

Offshore wind

Renewable production, formerly known as ‘Renewables’, continues to develop the 2.9 GW East Anglia Hub (“EA Hub”) which consists of three offshore wind farm projects: East Anglia One North (“EA1N”), East Anglia Two (“EA2”) and EA3. Updates in relation to these projects are outlined below:

- In 2022, Renewable production secured CfDs for the EA3 project comprising a total of 1,372 megawatts (“MW”) which will be developed in three phases. The project took a final investment decision during February 2023 and secured all key contract scopes including foundations, export cable, wind turbine supply and installation during Q2 of 2023.
- Key engineering and design works on EA1N and EA2 are continuing to progress.
- Following success in the ScotWind seabed leasing round in 2022, three offshore projects with a total capacity of 7 GW are being developed; two large-scale floating projects in partnership with Shell (3 GW MarramWind and 2 GW CampionWind) and one solo fixed project (2 GW MachairWind). Early development works are progressing for all three projects, including bird and marine mammal surveys, whilst metocean surveys and geophysical site investigations have also been taking place on MachairWind and MarramWind projects this summer.
- Renewable production signed the Offshore Renewable Energy Declaration at the North Sea Summit in April 2023, signifying a commitment to working with other industry players and governments to create a greener energy future in Europe.

Onshore Renewables

- On 7 March 2023, Renewable production completed the purchase of 28% of the share capital in Cumberhead West Wind Farm Ltd., bringing the company 100% into ScottishPower ownership.
- Renewable production took its final investment decisions on the Hagshaw Hill Repowering and Cumberhead West projects in June 2023 allowing construction to commence, with the turbine contracts for both projects now being awarded. As a result, the decommissioning of the original Hagshaw Hill windfarm has begun.
- On 21 June 2023, Renewable production completed the purchase of 100% of Pipplepen Solar Limited (previously known as EEB37 Limited), a 32 MW solar development project in Dorset, South West England, being the last of the solar acquisitions from Elgin Energy as part of a deal signed in January 2022.
- Harestanes battery energy storage systems (“BESS”) continues to be developed with other battery opportunities continuing to be explored.

In November 2022, the UK Government announced the introduction of the Electricity Generator Levy (“EGL”) on a variety of forms of low-carbon generation, applicable from 1 January 2023. The legislation had royal ascent in July 2023, but to date Renewable production has not recognised any tax payable under the EGL legislation.

2023 performance

	Revenue		Operating profit		Capital investment	
	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended
	30 June 2023	30 June 2022	30 June 2023	30 June 2022	30 June 2023	30 June 2022
	£m	£m	£m	£m	£m	£m
Financial key performance indicators ("KPIs")						
Renewable production	545.9	551.4	235.5	263.4	239.2	208.5

In the six months to 30 June 2023, Renewable production's revenue decreased by £6 million versus the same period in 2022. Wind output decreased by 16% (the equivalent of £77 million of income), reflecting calmer weather conditions. This decrease was primarily offset by revenue increases due to ROC and CfD annual indexation and higher energy prices. These price increases were reflected in sales primarily to the Customer business.

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Operating profit for the six months ended 30 June 2023 decreased by £28 million to £236 million. Lower revenues were compounded by higher transmission network use of system ("TNUoS") (primarily as a result of the 2022 EA1 OFTO sale) as well as higher depreciation (as a result of a reduction in the useful lives of a number of wind farm assets from 1 July 2022).

Capital investment increased by £31 million to £239 million in the six months ended 30 June 2023 primarily reflecting investment in offshore development sites.

Non-financial performance indicators ("KPIs")

	Notes	30 June 2023	30 June 2022
Wind			
Output (GWh)	(a)	3,470	4,108
Installed capacity (MW)	(b)	2,895	2,895
Availability	(c)	95%	95%
Solar			
Output (megawatt hours ("MWh"))	(a), (d)	3,265	2,448
Installed capacity (MW)	(b), (d)	10	10
Battery			
Installed capacity (MW)	(b), (e)	101	104

(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 is all in respect of Carland Cross Solar PV site, which commenced operations in January 2022.

(e) Installed capacity relates to Gormans BESS and Whitelee BESS.

Outlook for 2023 and beyond

- With all major contracts now signed, EA3 construction is well underway with completion expected in 2026.
- Development of EA1N and EA2 continues with the focus on the route to market and analysing agreements with the supply chain for the key contracts before a final investment decision can be made.
- Renewable production continue to look for opportunities in future CfD auctions, with Allocation Round 6 scheduled in 2024 as well as engaging with other partners to create possible purchase price agreements which deliver a route to market for our projects.
- Renewable production continues to bring the solar projects that were awarded a CfD during 2022 into a position where final investment decisions can be taken allowing construction to begin.
- Renewable production continues to work as part of the wider sector on the Onshore Wind Sector Deal with the Scottish Government.

CUSTOMER BUSINESS

Operating review

Supply and market conditions

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

With customer bills high, our operational focus remains on prompt cash collection, the retention of customers on secure payment plans, and supporting our customer base to manage their debt position. In early 2023, Ofgem began a market-wide review of suppliers' collection of debt without customer consent via prepayment meters, covering both prepayment meter installation under the warrant and remote change of smart meter mode. This review followed the temporary pause of this activity from 3 February 2023 following media exposure of alleged poor practice by one supplier. Ofgem and suppliers agreed a new voluntary approach for the use of prepayment meters to reclaim debt without customer consent, and suppliers must demonstrate readiness to comply with the code ahead of restarting this activity. Ofgem has set a target

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date of October 2023 for moving from a voluntary code to formal guidance and license conditions. The business continues to engage with Ofgem on all aspects, including the recovery of additional debt created as a result of the moratorium and the new regulatory framework.

The suspension of forced prepayment installations has limited the options available to customers and has also had a significant impact on our ability to secure problematic debt on a reasonable repayment plan. The adverse impact of the temporary suspension and the introduction of a new code of practice for prepayment installations has yet to be determined. The business is lobbying Ofgem to ensure that any adverse costs resulting from these actions are recovered in a fair and reasonable manner.

Government support

For domestic customers, the Energy Bills Support Scheme ("EBSS") has ended, and the EPG scheme remains limited, aligning prepayment prices with those at the Direct Debit ("DD") level. The Government's EPG scheme provided a discount to domestic customers during the first half of 2023, ensuring that a typical DD household in the UK paid an average of £2,500 a year for their dual fuel energy bill. From July 2023, the protection only applies if prices rise above £3,000 per annum for a typical household, however, the price cap is currently lower. The UK Government has taken action to use the EPG scheme to level prepayment and DD prices with a scheduled end date of March 2024. However, recent falling wholesale prices have resulted in the cap being lower than the £3,000 protection level since 1 July 2023 with no discounts applied. Meanwhile the Energy Bill Relief Scheme ("EBRS"), which ran from October 2022 to March 2023 for non-domestic customers has now ended and was superseded by the Energy Bill Discount Scheme which will provide a lower level of support until March 2024.

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

Support for customers in vulnerable circumstances

Customer service levels were impacted by the cost of living crisis, associated government schemes, and energy price increases during the period January to March 2023. The business responded to the increased queries by expanding resourcing and extending our webchat services' operating hours. Contact volumes started to decrease between April and June 2023 as the crisis eased and customers benefited from warmer weather. As a result, service levels have improved with overall contact volumes lower and average wait times decreasing. Additionally, the proportion of customer queries being successfully resolved through webchat services continues to increase.

Prior to the increase in energy costs, the business had measures in place to support both financially and non-financially vulnerable customers. The cost of living crisis leaves us concerned for vulnerable customers and such the business has refined its approach to supporting these customers, largely focused on:

- the introduction of a new Affordability Team; and
- continued engagement with key support organisations such as Citizens Advice and StepChange.

The latter ensures that customers have access to independent advice on both debt and energy efficiency measures. The business continues to proactively engage with both Ofgem and the UK Government, remaining focused on the growing financial challenges customers are experiencing.

Ofgem's focus in the first half of 2023 has been on progressing financial resilience proposals for suppliers, making further amendments to the default price cap methodology, and consulting on proposals on consumer standards. In early 2023, Ofgem introduced a programme to improve consumer standards that focused on three areas; prepayment meters, ease of supplier contact for consumers, and suppliers' approach to supporting customers in financial difficulty. Ofgem published its decision requiring suppliers to protect Renewable Obligation payments and introduced additional powers and reporting that required the protection of customer credit balances. Ofgem also consulted on minimum capital requirements for suppliers due to be in place by March 2025. Ofgem continues to consult on further changes to the price cap methodology which include a review of debt-related costs, operating costs, and earnings before interest and tax ("EBIT") margin. They have also consulted on proposals to levelise payment methods related to price differentials.

Following its decision to exit the Industrial and Commercial ("I&C") supply market in 2022, the business continues to service its remaining customer base but does not offer new fixed-term contract terms at the point of renewal. I&C customers have

SCOTTISH POWER UK PLC
INTERIM MANAGEMENT REPORT *continued*
for the six months ended 30 June 2023

either the option of leaving ScottishPower at contract renewal or continuing to receive supply at default SVT prices. As a result of this policy the I&C portfolio has continued to decrease in size.

The Customer business continues to make significant efforts and investments to support smart meter rollout. As at June 2023, smart meters accounted for 54% of relevant meters in our portfolio.

Recognising the UK Government's green hydrogen target of 10 GW by 2023, the business is developing a significant portfolio of green hydrogen production opportunities. Developments include the 100 MW project located within the UK's busiest container port at Felixstowe, which was recently awarded a Net Zero Hydrogen Fund Strand 1 Grant.

2023 performance

	Revenue		Operating profit/(loss)		Capital investment	
	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended
	30 June 2023	30 June 2022	30 June 2023	30 June 2022	30 June 2023	30 June 2022
Financial key performance indicators ("KPIs")	£m	£m	£m	£m	£m	£m
Customer business	5,060.6	2,781.4	598.8	(51.0)	68.4	62.1

In the six months ended 30 June 2023, the Customer business' revenues increased by £2,279 million to £5,061 million versus the same period in 2022. Much of this increase was due to higher energy costs being reflected in the business' domestic SVT price cap tariff.

The Customer business had an operating profit of £599 million for the six months to June 2023. This is a £650 million improvement on the equivalent prior year period operating loss. In the twelve-month period ending 31 December 2022, the Customer business' gross margins were materially adversely impacted as the price cap methodology did not allow suppliers to fully recover high energy costs. In the first half of 2023, gross margins have benefitted from specific price cap allowances which have facilitated recovery of these prior year losses. In addition, limited energy cost market liquidity has resulted in an inability to perfectly match the commodity cost element of the quarterly price cap tariff with resulting timing impacts across Q4 2022 (adverse) and Q1 2023 (favourable). These two factors have contributed an estimated £460 million of the £650 million period improvement. Other factors include increased commodity prices resulting in higher unitary margins and non-recurrence of previous year losses as legacy domestic and business products have rolled off.

Capital investment in the Customer business increased by £6 million mainly due to increases in smart meter purchases and IT investment offsetting a decrease in customer contract costs.

Non-financial performance indicators ("KPIs")		30 June 2023	30 June 2022
	Notes		
Volume supplied (GWh)	(a)	18,512	21,531
Customer service performance	(b)	2nd	2nd
Smart meters in portfolio	(c)	54.0%	46.9%
Customers (thousands)	(d)		
- Electricity		2,711	2,786
- Gas		1,893	1,948
		4,604	4,734

- (a) Lower 2023 volumes mainly due to lower gas demand resulting from milder weather and customer behaviour in Q1 2023 versus Q1 2022, and demand destruction from higher prices.
- (b) Based on the Citizens Advice Domestic Energy Suppliers' Customer Service Report. The 2022 and 2023 rankings reflect ScottishPower's position relative to the other 'Big Five' energy companies.
- (c) Percentage of relevant customer base with a smart meter.
- (d) Customer numbers are based on the average number of Meter Point Administration Numbers for electricity customers and Meter Point Reference Numbers for gas customers during the year to 30 June 2023.

Outlook for 2023 and beyond

- We expect seasonality to drive lower underlying profits in the second half of the year, a normal trend for this market. As usual, uncertainties remain over the balance of the year, including the impacts of weather, commodity prices, the

SCOTTISH POWER UK PLC
INTERIM MANAGEMENT REPORT *continued*
for the six months ended 30 June 2023

economic and regulatory backdrop and the competitive environment.

- The business will continue to engage with the UK Government and Ofgem to ensure the regulatory framework is fair and fit for purpose. All policies must enable the business to deliver the service and solutions needed to support its customers and deliver net zero. This will include continuing to focus on adjustments to the price cap and the use of alternative mechanisms to allow suppliers to recover efficient costs.
- The product market is showing some signs of returning, albeit not to anywhere near the same degree as previous years.
- The business has concentrated making the adoption of Smart Solutions even easier by offering financing solutions for solar panels, as well as improving the design, quote and ordering experience. Focus remains on developing our public charging network for EVs and Smart Solutions. The key to future engagement will be to take advantage of using energy flexibly in line with the energy system, so Smart Solutions are developing new services to enable customers to remotely manage their smart devices.
- The UK energy management function continues to trade in line with forward hedging strategies as approved by the Customer and Renewable production businesses. These strategies seek to create comparative value relative to competitors while adhering to strict limits on market, credit and collateral risk, and, anticipating the potential impacts of variable demand and generation volumes.
- Government-led funding is under negotiation for Hydrogen Allocation Round 1 (“HAR1”) for Whitelee Green Hydrogen and Cromarty Green Hydrogen facilities. When constructed these projects will be among the UK’s first and largest green Hydrogen production facilities, supporting the decarbonisation of industry and heavy transport with clean green fuel.

RISKS UPDATE

The Group’s principal risks and uncertainties are broadly the same as those highlighted in the Scottish Power UK plc’s Consolidated annual financial statements for the year ended 31 December 2022.

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. **CfD indexation** provides limited protection from supply chain cost increases making it more challenging to construct wind farm assets whilst remaining economical.
- **Cyber security**, specifically a breach which leads to unwanted infiltration of ScottishPower’s IT infrastructure.
- **Supply chain**, both in terms of costs and availability. Higher commodity prices have translated to increased supply chain costs. In addition, increased demand for specialist services has reduced available capacity in some supply chains. The key to mitigating this is maintaining constructive dialogue with the supply chain on multiple packages, highlighting plans and potential constraints. Where necessary, levels of key areas of inventory will be increased as well as ongoing monitoring of underlying commodity costs and adherence to hedging policy.
- **Cost of living crisis**, 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.
- **Recruitment and retention of staff**, particularly in Renewable production, is demanding due to increased competition for experienced and skilled staff.

Full details of these risks are provided in the Group principal risks and uncertainties section of the Strategic Report contained in Scottish Power UK plc’s Consolidated annual financial statements for the year ended 31 December 2022.

SCOTTISH POWER UK PLC
INTERIM MANAGEMENT REPORT *continued*
for the six months ended 30 June 2023

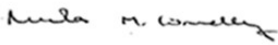
RESPONSIBILITY STATEMENT

The directors are responsible for preparing the Condensed consolidated interim financial statements for the six months ended 30 June 2023 in accordance with applicable law, regulations, and accounting standards.

The directors confirm that to the best of their knowledge:

- the Condensed consolidated interim financial statements have been prepared in accordance with UK-adopted International Accounting Standard 34 'Interim Financial Statements'; and
- the Condensed consolidated interim financial statements include a fair review of the information required by Disclosure Guidance and Transparency Rules 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 Condensed consolidated 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 Connelly
Director
21 September 2023

SCOTTISH POWER UK PLC
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 June 2023

		30 June 2023	31 December 2022 Restated*
	Notes	£m	£m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		521.4	527.9
Goodwill		364.6	364.6
Other intangible assets		156.8	163.3
Property, plant and equipment		15,541.7	15,227.6
Property, plant and equipment in use		13,840.5	13,910.3
Property, plant and equipment in the course of construction		1,701.2	1,317.3
Right-of-use assets		515.0	459.6
Pensions asset	4	266.2	341.9
Non-current financial assets		95.3	237.6
Investments in joint ventures		9.1	8.7
Other investments	5	0.2	0.2
Derivative financial instruments	5	86.0	228.7
Non-current trade and other receivables	6	852.1	605.5
TOTAL NON-CURRENT ASSETS		17,791.7	17,400.1
CURRENT ASSETS			
Inventories		935.7	642.2
Current trade and other receivables	6	2,298.6	2,697.6
Current tax asset		-	78.8
Current financial assets		241.7	428.5
Derivative financial instruments	5	241.7	428.5
Cash	5	146.7	869.1
TOTAL CURRENT ASSETS		3,622.7	4,716.2
TOTAL ASSETS		21,414.4	22,116.3

* Comparative figures have been restated (refer to Note 2B1)

SCOTTISH POWER UK PLC
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *continued*
at 30 June 2023

	Notes	30 June 2023 £m	31 December 2022 £m
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		7,139.7	6,031.9
Share capital		3,551.7	3,551.7
Share premium		398.2	398.2
Hedge reserve		(217.5)	(749.8)
Other reserves		420.5	420.5
Retained earnings		2,986.8	2,411.3
Of non-controlling interests		688.0	1,035.2
TOTAL EQUITY		7,827.7	7,067.1
NON-CURRENT LIABILITIES			
Non-current deferred income		1,470.5	1,425.5
Non-current provisions		449.6	357.6
Provisions for retirement benefit obligations	4	105.9	101.9
Other provisions	7	343.7	255.7
Bank borrowings and other non-current financial liabilities		4,553.0	4,489.5
Loans and other borrowings	8	4,158.4	4,147.8
Derivative financial instruments	5	394.6	341.7
Non-current lease liabilities		536.7	487.8
Non-current trade and other payables		25.0	10.4
Non-current income tax liabilities		6.2	6.2
Deferred tax liabilities	9	1,629.0	1,354.8
TOTAL NON-CURRENT LIABILITIES		8,670.0	8,131.8
CURRENT LIABILITIES			
Current deferred income		51.4	57.2
Current provisions		478.3	336.4
Other provisions	7	478.3	336.4
Bank borrowings and other current financial liabilities		2,621.4	4,206.6
Current financial liabilities		16.9	23.8
Loans and other borrowings	8	2,354.7	2,805.8
Derivative financial instruments	5	249.8	1,377.0
Current lease liabilities		32.6	36.0
Current trade and other payables	10	1,703.5	2,281.2
Current tax liabilities		29.5	-
TOTAL CURRENT LIABILITIES		4,916.7	6,917.4
TOTAL LIABILITIES		13,586.7	15,049.2
TOTAL EQUITY AND LIABILITIES		21,414.4	22,116.3

The accompanying Notes 1 to 15 are an integral part of the Condensed consolidated statement of financial position at 30 June 2023.

SCOTTISH POWER UK PLC
CONDENSED CONSOLIDATED INCOME STATEMENT
for the six months ended 30 June 2023

		Six months ended 30 June 2023	Six months ended 30 June 2022
	Notes	£m	£m
Revenue	3, 11	5,848.0	3,372.2
Procurements		(3,668.5)	(1,941.4)
GROSS MARGIN		2,179.5	1,430.8
Net staff costs		(131.1)	(129.7)
External services		(338.0)	(282.4)
Other operating results		37.6	35.3
Net operating costs		(431.5)	(376.8)
Taxes other than income tax		(123.5)	(90.7)
GROSS OPERATING PROFIT		1,624.5	963.3
Net expected credit losses on trade and other receivables		(79.2)	(52.9)
Depreciation and amortisation charge, allowances and provisions		(397.8)	(388.0)
OPERATING PROFIT	3	1,147.5	522.4
Results of companies accounted for using the equity method		0.4	-
Dividends received		0.7	-
Finance income		120.2	7.4
Finance costs		(287.6)	(100.0)
PROFIT BEFORE TAX		981.2	429.8
Income tax	12	(252.8)	(87.5)
NET PROFIT FOR THE PERIOD		728.4	342.3
Non-controlling interests		(37.9)	(31.2)
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO THE PARENT		690.5	311.1

All results relate to continuing operations.

The accompanying Notes 1 to 15 are an integral part of the Condensed consolidated income statement for the six months ended 30 June 2023.

SCOTTISH POWER UK PLC
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 June 2023

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
NET PROFIT FOR THE PERIOD	728.4	342.3
OTHER COMPREHENSIVE INCOME		
Items that may be subsequently reclassified to the Condensed consolidated income statement:		
Cash flow hedges:		
Change in the value of cash flow hedges	722.6	878.6
Tax relating to cash flow hedges	(169.2)	(207.7)
	553.4	670.9
Items that will not be reclassified to the Condensed consolidated income statement:		
Retirement benefits:		
Movements in retirement benefits	(132.6)	171.1
Tax relating to movements in retirement benefits	33.2	(53.2)
Cash flow hedges:		
Change in the value of cash flow hedges	(27.8)	1.4
Tax relating to cash flow hedges	6.6	(0.3)
	(120.6)	119.0
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	432.8	789.9
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,161.2	1,132.2
Total comprehensive income for the period attributable to equity holder of the parent	1,123.4	1,100.6
Total comprehensive income for the period attributable to non-controlling interests	37.8	31.6
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,161.2	1,132.2

The accompanying Notes 1 to 15 are an integral part of the Condensed consolidated statement of comprehensive income for the six months ended 30 June 2023.

SCOTTISH POWER UK PLC
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2023

	Attributable to equity holder of the parent						Non-controlling interests	Total equity
	Share capital	Share premium	Hedge reserve	Other reserves	Retained earnings	Total		
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	3,551.7	398.2	(749.8)	420.5	2,411.3	6,031.9	1,035.2	7,067.1
Total comprehensive income for the period	-	-	532.3	-	591.1	1,123.4	37.8	1,161.2
Acquisition of remaining interest in a subsidiary*	-	-	-	-	(15.6)	(15.6)	(0.6)	(16.2)
Dividends**	-	-	-	-	-	-	(384.4)	(384.4)
At 30 June 2023	3,551.7	398.2	(217.5)	420.5	2,986.8	7,139.7	688.0	7,827.7

*During the period, the Group acquired the remaining 28% interest in Cumberhead West Wind Farm Ltd.

**Dividends of £384.4 million were paid in the six months to 30 June 2023 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						Non-controlling interests	Total equity
	Share capital	Share premium	Hedge reserve	Other reserves	Retained earnings	Total		
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2022	3,551.7	398.2	793.3	420.5	2,679.6	7,843.3	1,081.7	8,925.0
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

The accompanying Notes 1 to 15 are an integral part of the condensed Consolidated statement of changes in equity for the six months ended 30 June 2023.

SCOTTISH POWER UK PLC
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2023

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Cash flows from operating activities		
Profit before tax	981.2	429.8
Adjustments for:		
Depreciation, amortisation and impairment	391.3	379.2
Change in provisions	236.0	177.7
Result of companies accounted for using the equity method	(0.4)	-
Transfer of assets from customers	(23.7)	(22.1)
Net finance income and costs	167.4	92.6
Shareholding income	(0.7)	-
Net losses on disposal/write-off of non-current assets	7.2	9.2
Movement in retirement benefits	(45.1)	(52.8)
Net fair value (gains)/losses on operating derivatives (including early settlement)	(128.1)	16.2
Movement in deferred income	(2.6)	-
Changes in working capital:		
Change in trade and other receivables	282.2	(48.3)
Change in inventories	(320.9)	(375.9)
Change in trade and other payables	(644.9)	237.7
Change in derivative financial instruments	29.0	-
Provisions paid	(3.3)	(4.8)
Assets received from customers (deferred income)	61.4	46.4
Income taxes received/(paid)	0.2	(4.3)
Net cash flows from operating activities (i)	986.2	880.6
Cash flows from investing activities		
Interest received	26.2	10.3
Dividends received	0.7	-
Investments in intangible assets	(29.7)	(29.5)
Investments in property, plant and equipment (net of capital grants)	(541.5)	(555.9)
Acquisition of remaining interest in a subsidiary	(16.2)	-
Investments in joint arrangements	-	(77.2)
Proceeds from disposal of property, plant and equipment	-	0.7
Increase in amounts due from Iberdrola Group companies - current loans receivable	(102.3)	(205.6)
Net cash flows from investing activities (ii)	(662.8)	(857.2)
Cash flows from financing activities		
(Decrease)/increase in amounts due to Iberdrola Group companies		
- current loans payable	(268.0)	107.1
Dividends paid to non-controlling interests	(384.4)	(80.7)
Interest paid	(95.1)	(55.5)
Interest paid on lease liabilities	(10.0)	(9.8)
Repayments of borrowing and other financial liabilities	(261.4)	(7.5)
Payments of lease liabilities	(26.9)	(11.8)
Net cash flows from financing activities (iii)	(1,045.8)	(58.2)
Net (decrease)/increase in cash and cash equivalents (i)+(ii)+(iii)	(722.4)	(34.8)
Cash and cash equivalents at beginning of period	869.1	182.9
Cash and cash equivalents at end of period	146.7	148.1
	30 June	30 June
Cash and cash equivalents at end of period comprises:	2023	2022
	£m	£m
Condensed consolidated statement of financial position cash (including restricted cash - refer to Note 5(a))	146.7	148.1
Condensed consolidated statement of cash flows cash and cash equivalents	146.7	148.1

The accompanying Notes 1 to 15 are an integral part of the Condensed consolidated statement of cash flows for the six months ended 30 June 2023.

SCOTTISH POWER UK PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
30 June 2023

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, Scottish Power Limited ("SPL"), is the holding company of the ScottishPower Group. The Condensed consolidated interim financial statements for the six months ended 30 June 2023 comprise those of the Company, its subsidiaries and joint arrangements (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 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These Condensed consolidated interim financial statements for the six months ended 30 June 2023 were authorised for issue by the Board on September 2023. The financial information set out in these Condensed consolidated 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 Condensed consolidated interim financial statements do not constitute the Group's statutory accounts for the six months ended 30 June 2023 within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2022 were approved for issue by the Board on 18 April 2023 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 consolidated interim financial statements should be read in conjunction with the Group's Consolidated annual financial statements for the year ended 31 December 2022 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 Consolidated annual financial statements for the year ending 31 December 2023 will be prepared in accordance with UK-adopted IAS.

In preparing these Condensed consolidated interim financial statements, significant judgements, estimates and assumptions are often required in respect of items which have a significant effect on the reported amounts of assets, liabilities, income and expenses recognised in the financial statements. The judgements and estimates made by management in applying the Group's accounting policies in preparing these Condensed consolidated interim financial statements were consistent with those applied in the Group's Consolidated annual financial statements for the year ended 31 December 2022, except for judgement relating to the derivative financial instruments (inflation swaps) for the East Anglia Three project ("EA3") (see below).

In preparing these Condensed consolidated interim financial statements and applying its accounting policies, the Group applied judgements around the consideration of climate change and retail energy onerous contracts and no material impact has been identified. The Group has the following estimation uncertainties in applying its accounting policies:

- retirement benefit obligation (including valuation of level 3 pension plan assets);
- expected credit losses ("ECLs") on Energy Customer's trade receivables;
- accrued 'unbilled' revenue; and
- provision for decommissioning costs.

2 BASIS OF PREPARATION *continued****Significant judgement at 31 December 2022******Derivative financial instruments: East Anglia Three project - inflation swaps***

During 2022, the Group entered into consumer price index ("CPI") inflation swaps to reduce earnings volatility associated with the CPI-indexed income which will be received under the EA3 Contracts for Difference ("CfD") contract secured during July 2022. These hedging transactions were entered into in advance of the Final Investment Decision to construct the EA3 wind farm and so judgement was applied to assess whether it was highly probable that the project would proceed, and therefore whether the cash flows under the CfD arrangement would occur (being the hedged item), to allow hedge accounting to be applied.

At 31 December 2022, management deemed that it was highly probable that the EA3 project would proceed and so highly probable that the underlying forecast transaction would occur allowing hedge accounting to be applied. A change in this judgement could have had a material impact on the amounts recorded in Other comprehensive income, the Income statement and the cash flow hedge reserve. As the Final Investment Decision to proceed with the project was taken on 7 February 2023, this removed the judgement around the highly probable assessment.

Accounting policies

The Group's accounting policies applied in preparing these Condensed consolidated interim financial statements, were consistent with those applied in the Group's Consolidated annual financial statements for the year ended 31 December 2022, with the exception of those amended by the application of a new accounting policy as set out in Note 2B2 below. Income tax expense for the six months ended 30 June 2023 has been calculated based on the best estimate of the expected tax rate expected for the full financial year.

B CHANGES IN PRESENTATION AND POLICY**B1 PRIOR YEAR ADJUSTMENT – CLASSIFICATION OF LOANS RECEIVABLE**

IAS 1 requires that loans should be classified as current or non-current in line with whether the entity expects them to be settled or received within twelve months of the reporting date. Following a review of its loans, the directors identified that certain loans receivable (primarily those due from Iberdrola Group companies which are repayable on demand) were classified as current in the prior year and should have been classified as non-current. The comparatives have been restated for this re-classification. The impact is a decrease of £589.1 million in the Current trade and other receivables at 31 December 2022 from £3,286.7 million as previously reported to £2,697.6 million and a corresponding increase in Non-current trade and other receivables from £16.4 million as previously reported to £605.5 million. There is no impact on the Company's net assets position at 1 January 2023 or its results for the period ended 30 June 2023.

B2 CHANGE IN POLICY GIVEN IMPACT OF NEW IAS

For the six months ended 30 June 2023, the Group has 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:

Standard	Notes
<ul style="list-style-type: none"> IFRS 17 'Insurance Contracts' including 'Amendments to IFRS 17' and 'Initial Application of IFRS 17' and 'IFRS 9 Financial Instruments - Comparative information' Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2: 'Disclosure of Accounting Policies' Amendments to IAS 12 'Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction' Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates' Amendments to IAS 12 'Income Taxes: International Tax Reform - Pillar Two Model Rules' 	(a)
<p>(a) The Group has concluded that contracts such as breakdown contracts (e.g. boiler and appliance cover contracts) and product warranties are generally not within the scope of the standard or do not represent a significant insurance risk. Performance guarantees issued have been assessed to determine the significance of the insurance risk transferred and do not represent a significant risk. The Group does not have any financial guarantees (including parent company and inter-group guarantees) that were in scope of IFRS 4 'Insurance Contracts.' The Group has irrevocably elected not to account for financial guarantees issued since 1 January 2023 under IFRS 17 but will instead account for them under IFRS 9 'Financial Instruments', IFRS 7 'Financial Instruments: Disclosures' and IAS 32 'Financial Instruments: Presentation'.</p> <p>(b) This amendment is effective for annual reporting periods beginning on or after 1 January 2023. The disclosures required by this amendment are not required for any interim period ending on or before 31 December 2023.</p>	(b)

SCOTTISH POWER UK PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*

30 June 2023

2 BASIS OF PREPARATION *continued*

The following new standards and amendments to standards have been issued by the International Accounting Standards Board ("IASB") but have an effective date after the date of these Condensed consolidated 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 annual periods commencing on or after)	Planned date of application by the Group
• Amendments to IFRS 16 'Leases: Liability in a Sale and Leaseback'	(a)	1 January 2024	1 January 2024
• Amendments to IAS 1 'Presentation of Financial Statements: Classification of Liabilities as Current or Non-current' and 'Deferral of Effective Date' and 'Non-current Liabilities with Covenants'	(a)	1 January 2024	1 January 2024
• Amendments to IAS 7 'Statement of Cash Flows' and IFRS 7 'Financial Instruments: Disclosures': 'Supplier Finance Arrangements'	(a), (b)	1 January 2024	1 January 2024
• IFRS 14 'Regulatory Deferral Accounts'	(a), (b), (c)	1 January 2016	To be decided
• Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures': 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	(a), (b), (d)	Deferred indefinitely	To be decided
(a) The future application of this pronouncement is not expected to have a material impact on the Group's accounting policies, financial position or performance.			
(b) This pronouncement has not yet been endorsed by the UK.			
(c) The endorsement process of this interim standard has not been launched. 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.			
(e) The International Sustainability Standards Board has issued IFRS S1 'General Requirements for Disclosure of Sustainability-related Financial Information' and IFRS S2 'Climate-related Disclosures' which are both effective for periods commencing on or after 1 January 2024. Both standards have yet to be endorsed by the UK. The planned timing of application of these standards to the Group and their potential impact will be considered in line with any relevant endorsement guidance issued.			

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 2022, which were approved for issue by the Board on 18 April 2023. The updated going concern assessment that has been prepared for the period to December 2024, therefore reflects the updated forecasts and principal risks and uncertainties of the Group.

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

For the purposes of the directors' assessment of the Group's going concern position, and to satisfy them of the Group's ability to pay its liabilities as they fall due, the directors have prepared an updated Consolidated cash flow forecast to December 2024 on the basis of the ongoing liquidity of the UK wholesale energy and gas markets, including the cash flow of longer-term strategies and projects. The cash flow forecast takes account of severe but plausible downsides, including reductions in the price curve and production output of Renewable production, decreases in demand in the Customer business, and reductions in the collectability of retail customer debt.

The updated cash flow forecasts continue to indicate that even under the severe but plausible downside scenario, the Group's existing resources and committed facilities, including £2.2 billion of undrawn committed revolving credit facilities maturing in 2025 (refer to Note 8(c)), 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 Condensed consolidated interim financial statements, and therefore have prepared the aforementioned financial statements on a going concern basis.

SCOTTISH POWER UK PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*
30 June 2023

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; Networks, Renewable production and the Customer business. 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 Condensed 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 2023, the Group's reported segments were as follows:

Reported Segment*	Description
Networks	The transmission and distribution business within the Group.
Renewable production	The origination, development, construction and operation of renewable energy generation plants, principally onshore and offshore wind, with a growing presence in battery storage and solar.
Customer business	The supply of electricity and gas to domestic and business customers; the Group's smart solutions activities, smart meter asset provision, hydrogen activities; and managing the Group's exposure to the UK wholesale electricity and gas markets and the optimisation of gas storage.

* The Group's reportable segments have been renamed in the period (refer to page 1) however the activities within each segment remain comparable with those at 31 December 2022.

(b) Revenue by reported segment

The revenue by reported segment for the six months ended 30 June 2023 is detailed below:

Reported segment	External revenue £m	Inter-segment revenue £m	Revenue reported to the CODM £m
Networks	686.0	78.9	764.9
Renewable production	114.0	431.9	545.9
Customer business	5,048.0	12.6	5,060.6
Elimination of inter-segment revenue			(523.4)
			5,848.0

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
Networks	604.4	78.5	682.9
Renewable production	(5.3)	556.7	551.4
Customer business	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 price over the agreed strike price for energy generated by applicable wind farms.

SCOTTISH POWER UK PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*
30 June 2023

3 BUSINESS SEGMENT REPORTING *continued*

(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:

	2023	2022
	£m	£m
Networks	307.5	303.9
Renewable production	235.5	263.4
Customer business	598.8	(51.0)
Unallocated	5.7	6.1
	1,147.5	522.4

(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 for the six months ended 30 June 2023 is detailed below:

	2023	2022
	£m	£m
Networks	342.6	282.5
Renewable production	239.2	208.5
Customer business	68.4	62.1
Unallocated	16.2	8.4
	666.4	561.5

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 2022.

(a) Analysis of balance

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

	30 June	31 December
	2023	2022
	£m	£m
Included on Condensed consolidated statement of financial position as non-current assets		
SPPS	266.2	341.9
Included on Condensed consolidated statement of financial position as non-current liabilities		
Manweb and UURBS	(105.9)	(101.9)
Total net asset	160.3	240.0

SCOTTISH POWER UK PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*
30 June 2023
4 RETIREMENT BENEFIT OBLIGATIONS *continued*
(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 2023			31 December 2022		
	Defined benefit obligation £m	Scheme assets £m	Total £m	Defined benefit obligation £m	Scheme assets £m	Total £m
At beginning of period/year	(3,188.1)	3,428.1	240.0	(4,989.0)	5,181.2	192.2
Items recognised in the Condensed consolidated income statement:						
Current service cost	(10.8)	-	(10.8)	(47.6)	-	(47.6)
Past service credit (Note (i))	-	-	-	5.2	-	5.2
Interest (expense)/income	(73.5)	81.3	7.8	(96.3)	101.3	5.0
Administration expenses	-	(1.9)	(1.9)	-	(3.9)	(3.9)
	(84.3)	79.4	(4.9)	(138.7)	97.4	(41.3)
Items recognised in the Condensed consolidated statement of comprehensive income:						
Actuarial gains and (losses)	7.1	(139.7)	(132.6)	1,682.5	(1,732.0)	(49.5)
Other movements						
Employer contributions	-	57.8	57.8	-	138.6	138.6
Benefits paid	105.0	(105.0)	-	261.9	(261.9)	-
Scheme members' contributions	(2.3)	2.3	-	(4.8)	4.8	-
	102.7	(44.9)	57.8	257.1	(118.5)	138.6
At end of period/year	(3,162.6)	3,322.9	160.3	(3,188.1)	3,428.1	240.0

- (i) The past service credit for the year ended 31 December 2022 of £5.2 million comprises a reduction of £5.2 million for prior year provisions for costs associated with a restructuring.
- (ii) Analysis of the defined benefit obligation and scheme assets at 30 June 2023 and 31 December 2022:

	30 June 2023			31 December 2022		
	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	(3,159.9)	3,322.9	163.0	(3,185.2)	3,428.1	242.9
Present value of unfunded obligations	(2.7)	-	(2.7)	(2.9)	-	(2.9)
Total net asset			160.3			240.0

(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 2023.

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

	30 June 2023	31 December 2022
Rate of increase in salaries (Note (i))	3.2% p.a.	3.2% p.a.
Rate of increase in deferred pensions (RPI capped at 5% p.a.) (Note (ii))	3.2% p.a.	3.2% p.a.
Rate of increase to pensions in payment (RPI capped at 5% p.a.) (Note (iii))	3.2% p.a.	3.1% p.a.
Discount rate	5.0% p.a.	4.8% p.a.
Inflation assumption – RPI	3.2% p.a.	3.2% p.a.
Inflation assumption – CPI	2.6% p.a.	2.6% p.a.

(i) For members of the Final Salary Life Plan “FSLP” section of the SPPS scheme, the 30 June 2023 salary assumption is 3.5% p.a. (31 December 2022 3.4% p.a.).

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

(iii) For members of Manweb, the majority of pensions in payment are assumed to increase in line with RPI without a cap applied.

The weighted average life expectancies for mortality and the post-retirement mortality assumptions used to determine the defined benefit obligations at 30 June 2023 remain unchanged from those disclosed at 31 December 2022 in the Consolidated annual financial statements.

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4 RETIREMENT BENEFIT OBLIGATIONS *continued***(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 2022 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:

Impact of changing material assumptions	Increase/(decrease) in defined benefit obligation			
	30 June 2023		31 December 2022	
	£m	£m	£m	£m
Rate of increase/decrease in inflation	1.0%	0.5%	1.0%	0.5%
Increase by	354.8	178.9	357.3	180.2
Decrease by	(331.8)	(175.9)	(334.0)	(177.1)
Rate of increase/decrease in discount rate	1.0%	0.5%	1.0%	0.5%
Increase by	(392.7)	(207.1)	(395.3)	(208.5)
Decrease by	492.9	231.9	496.9	233.5
Assumed life expectancy				
Increase mortality by one additional year		116.4		117.2

(e) Valuation of plan assets***Fair value of plan assets***

SPPS and Manweb investment strategies are similar and there is no significant difference in risk profiles due to either geography or industry type. The schemes' assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group. Neither of the schemes held ScottishPower or Iberdrola shares in 2023 or 2022.

Valuation of level 3 plan assets

Level 3 assets are investments where a market quotable price is not available. The fair values of these assets are derived in accordance with IFRS 13 'Fair Value Measurement' and provided by the relevant fund manager. As detailed in the Group's Consolidated Annual Report and Accounts for the year ended 31 December 2022, 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 end. When final valuations are received, a retrospective review is carried out and updated where relevant.

5 FINANCIAL INSTRUMENTS**(a) Carrying amount of financial instruments**

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

Classification	30 June 2023		31 December 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
	£m	£m	£m	£m
Financial assets				
	Fair value through profit or loss			
Other investments				
("FVTPL")	0.2	0.2	0.2	0.2
Derivative financial instruments				
Fair value hedging instrument	327.7	327.7	657.2	657.2
Receivables (Note (ii))				
Amortised cost/FVTPL	3,078.4	3,078.4	3,228.6	3,228.6
Cash (Note (ii))				
Amortised cost	146.7	146.7	869.1	869.1
Financial liabilities				
Loans and other borrowings				
Amortised cost	(6,513.1)	(6,312.1)	(6,953.6)	(6,831.1)
Derivative financial instruments				
Fair value hedging instrument	(644.4)	(644.4)	(1,718.7)	(1,718.7)
Payables (Note (ii))				
Amortised cost	(1,453.9)	(1,453.9)	(2,037.4)	(2,037.4)
Current financial liabilities				
Amortised cost	(16.9)	(16.9)	(23.8)	(23.8)

(i) Balances outwith the scope of IFRS 7 and IFRS 9 have been excluded, namely Prepayments, Other tax receivables, Payments received on account and Other taxes and social security.

(ii) The value of restricted cash at 30 June 2023 was £43.6 million (31 December 2022 £38.0 million).

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5 FINANCIAL INSTRUMENTS *continued***(b) Measurement of financial instruments**

The Group holds certain financial instruments which are measured in the Condensed consolidated statement of financial position at fair value as detailed in Note 5(a) on the previous page. 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 2023 and 31 December 2022, all Other investments held by the Group are classified as Level 1 and all Derivative financial instruments held by the Group are classified as Level 2. All contingent consideration receivable held by the Group is classified as Level 2.

Included in Level 2 derivative liabilities of £644.4 million (31 December 2022 £1,718.7 million) are inseparable third-party credit enhancements. These have been reflected in the fair value measurement of the liability.

Level 2 commodity derivatives are fair-valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and their quoted prices in an active market.

Level 2 foreign exchange derivatives comprise cross currency swaps and forward foreign exchange contracts, which are both fair-valued using the forward exchange rates quoted in an active market.

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

Level 2 contingent consideration of £1.2 million (31 December 2022 £1.8 million) included in Receivables was fair-valued using a Monte Carlo simulation method, which is a risk and probability based model. The main risks inherent in the model are the potential adverse impacts from delay and weather resulting in overspend.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. There were no transfers in either the current period or prior year.

(c) Analysis of derivative financial instruments – carrying amount

	30 June 2023				31 December 2022			
	Assets		Liabilities		Assets		Liabilities	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
	£m	£m	£m	£m	£m	£m	£m	£m
Hedging derivatives:								
Exchange rate hedges:								
Fair value hedge - Currency swap	0.3	17.9	-	-	0.7	26.9	-	-
Cash flow hedge - Foreign exchange rate	1.0	2.0	(14.2)	(3.4)	13.4	0.1	(0.4)	-
Commodity hedges - Cash flow hedge	397.1	87.0	(366.5)	(56.1)	588.6	243.7	(1,593.1)	(98.4)
Inflation swap - Cash flow hedge	-	-	(14.5)	(352.6)	-	-	(13.0)	(277.1)
Non-hedging derivatives:								
Commodity derivatives - Non hedge	268.8	0.8	(283.8)	(4.2)	588.6	1.3	(598.9)	(9.5)
Exchange rate derivatives - Non hedge	3.7	-	-	-	67.7	-	(2.1)	-
Total gross derivatives	670.9	107.7	(679.0)	(416.3)	1,259.0	272.0	(2,207.5)	(385.0)
Impact of netting	(429.2)	(21.7)	429.2	21.7	(830.5)	(43.3)	830.5	43.3
Total net derivatives on Statement of financial position	241.7	86.0	(249.8)	(394.6)	428.5	228.7	(1,377.0)	(341.7)

(d) 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, cash collateral with other Iberdrola group companies, as well as letters of credit. The Group utilises CPI-linked inflation swaps to reduce earnings volatility associated with CPI-indexed income which is received through its CfDs. During the period, the Group entered into a new collateral agreement with SPL in relation to these swaps in order to mitigate its credit risk. The value of this collateral at 30 June 2023 was £367.1 million and is included within Other receivables (refer to Note 6).

30 June 2023

5 FINANCIAL INSTRUMENTS *continued*

At 30 June 2023, the value of letters of credit held amounted to £11.3 million (31 December 2022 £11.3 million) and letters of credit posted amounted to £376.3 million (31 December 2022 £1,234.6 million), £63.1 million (31 December 2022 £870.0 million) of which related to a letter of credit posted with the Group's commodity derivative clearer. The movement in letters of credit posted reflects a reduction in initial margining required as a result of relative stability in energy price movements since 31 December 2022.

(e) Credit risk management – Energy Customers trade receivables

The Group applies the IFRS 9 simplified model to measure ECLs, which uses a lifetime expected loss allowance, for all Energy Customer's trade receivables. The Group has adopted the practical expedient whereby it calculates the ECL on Energy Customer's domestic and small and medium-sized enterprise ("SME") receivables using a provision matrix. In line with previous periods, 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, including the ongoing cost of living crisis and the forecast uncertainty in macro-economic indicators, in line with IFRS 9, a forward-looking loss allowance has been included to ensure that external factors are appropriately mitigated. Although pressures on energy bills are considered high, they are at similar levels to last winter whereby higher energy prices were discounted by the EBSS £400 support for each household. Therefore, debt risk remains broadly in line with levels at 31 December 2023.

For I&C customers, the ECL is based on external credit scoring. The Energy Customers Credit Risk and Corporate Risk teams remain vigilant in tracking any liquidity issues on existing customers to identify any pre-emptive actions required, including putting collateral or letters of credit in place. These receivables are included in the non-aged balances of the table below. The EBRS, which ran from October 2022 to March 2023 for non-domestic customers has now ended and was superseded by the Energy Bill Discount Scheme ("EBDS"), which will provide a lower level of support until March 2024. Set out below are the details of the credit risk exposure on Energy Customer's trade receivables:

	Current	More than 90 days past due	More than 180 days past due	More than 12 months past due	Non-aged balances	Unbilled (Note (i))	Total
At 30 June 2023	£m	£m	£m	£m	£m	£m	£m
Weighted average expected loss rate (%)	10.7%	31.5%	41.4%	55.0%	5.1%	14.7%	26.7%
Gross carrying amount: Trade receivables	301.3	165.3	156.4	277.1	176.2	194.7	1,271.0
Loss allowance	(32.2)	(52.1)	(64.8)	(152.4)	(8.9)	(28.6)	(339.0)
Net carrying value	269.1	113.2	91.6	124.7	167.3	166.1	932.0

	Current	More than 90 days past due	More than 180 days past due	More than 12 months past due	Non-aged balances	Unbilled (Note (i))	Total
At 31 December 2022	£m	£m	£m	£m	£m	£m	£m
Weighted average expected loss rate (%)	12.6%	32.1%	41.7%	55.7%	2.1%	23.7%	23.1%
Gross carrying amount: Trade receivables	212.5	105.6	143.3	237.4	436.1	118.1	1,253.0
Loss allowance	(26.7)	(33.9)	(59.7)	(132.3)	(9.1)	(28.0)	(289.7)
Net carrying value	185.8	71.7	83.6	105.1	427.0	90.1	963.3

(i) The gross carrying amount at 30 June 2023 includes unbilled receivables of £194.7 million (31 December 2022 £118.1 million) reflecting gross unbilled receivables of £797.2 million (31 December 2022 £1,263.7 million) less customer credit balances of £574.4 million (31 December 2022 £1,124.7 million) and a £28.1 million (31 December 2022 £20.9 million) provision in relation to energy volumes still to reach final settlement. The loss allowance in relation to unbilled receivables is £28.6 million (31 December 2022 £28.0 million).

(f) Sensitivity analysis on Energy Customer's loss allowance – billed receivables

The methodology and assumptions applied in estimating the ECL for the six months ended 30 June 2023, and the provision held at that date in respect of the Energy Customer's 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 customers.

Included within the gross carrying amount of trade receivables is £1,076.3 million of billed receivables at 30 June 2023 (31 December 2022 £1,134.9 million). The loss allowance in relation to billed receivables is £310.4 million (31 December 2022 £261.7 million).

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5 FINANCIAL INSTRUMENTS *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 2023, the loss allowance for billed receivables of £310.4 million (31 December 2022 £261.7 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 £53.8 million (31 December 2022 £56.7 million). A 5% decrease would decrease the loss allowance by £53.8 million (31 December 2022 £56.7 million).

6 TRADE AND OTHER RECEIVABLES

		30 June 2023	31 December 2022 Restated*
	Notes	£m	£m
Current trade and other receivables			
Receivables due from Iberdrola Group companies - loans		484.7	635.7
Trade receivables (including accrued income)	(a)	1,168.2	1,256.9
Receivables in respect of government support schemes		97.3	122.0
Other receivables	(b)	548.4	683.0
		2,298.6	2,697.6

* Comparative figures have been restated (refer to Note 2B1)

- (a) Trade receivables (including accrued income) includes £932.0 million (31 December 2022 £963.3 million) in respect of Energy Customers (refer to Note 5(e)).
- (b) Other receivables includes £367.1 million (31 December 2022 £nil) collateral posted with SPL for derivative trading and £57.3 million (31 December 2022 £529.0 million) collateral posted with external parties.

		30 June 2023	31 December 2022 Restated*
	Note	£m	£m
Non-current trade and other receivables			
Receivables due from Iberdrola Group companies - loans	(a)	842.3	589.1
Other receivables		9.8	16.4
		852.1	605.5

* Comparative figures have been restated (refer to Note 2B1)

- (a) These loans due from Iberdrola Group companies are repayable on demand but classified as non-current as the Group expects to realise the assets after twelve months from the reporting date.

7 OTHER PROVISIONS

		30 June 2023	31 December 2022
	Notes	£m	£m
Reorganisation and restructuring	(a)	0.4	3.1
Renewables Obligation		519.3	326.7
Decommissioning		261.2	256.8
Regulatory	(b)	36.0	-
Other		5.1	5.5
		822.0	592.1

- (a) The reorganisation and restructuring provision relates to restructuring programmes within the Customer business. The movement in the period is due to payments made with the remaining balance expected to be utilised throughout the rest of 2023.
- (b) As disclosed in the 2022 Annual Report and Accounts, Contingent liabilities Note 30, from time to time, various regulatory authorities open inquiries with the Group in relation to compliance with licences, laws and regulations. The Group is currently involved in one such matter and is working proactively with the relevant authority to reach a satisfactory conclusion. A provision of £36.0 million has been recorded based on the current position, the Group expects to utilise this provision within the next twelve months.

SCOTTISH POWER UK PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*
30 June 2023

8 LOANS AND OTHER BORROWINGS

	Notes	30 June 2023 £m	31 December 2022 £m
Current loans and other borrowings			
Loans payable to Iberdrola Group companies		2,213.4	2,481.3
Loans payable to external counterparties	(a)	(0.9)	249.0
Accrued interest due to Iberdrola Group companies		100.1	42.3
Accrued interest due to external counterparties		42.1	33.2
	(b)	2,354.7	2,805.8
Non-current loans and other borrowings			
Loans payable to Iberdrola Group companies		2,530.0	2,530.0
Loans payable to external counterparties		1,628.4	1,617.8
		4,158.4	4,147.8

- (a) Loans payable to external counterparties includes £(0.9) million (31 December £(0.9) million) finance costs due to be amortised within one year.
(b) The decrease of £451.1 million in Current loans and other borrowings in the six months to 30 June 2023 mainly comprises a decrease of £268.0 million in on demand loans payable to Iberdrola Group companies and the maturity of a £250.0 million euro-sterling bond in May 2023.
(c) The Group has three intra-group committed revolving credit facility arrangements with SPL for £1.0 billion, £0.5 billion, and £0.7 billion with expiry dates of February 2025, March 2025 and March 2025 respectively. These facilities have never been drawn. Therefore, at 30 June 2023 the Group had £2.2 billion of undrawn committed facilities available (31 December 2022 £1.5 billion).

9 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 2023	1,504.2	(146.6)	60.9	(35.9)	(27.8)	1,354.8
Charge/(credit) to Income statement	3.8	(8.8)	-	35.9	83.5	114.4
Recorded in the Statement of comprehensive income	-	180.6	(20.8)	-	-	159.8
At 30 June 2023	1,508.0	25.2	40.1	-	55.7	1,629.0

- (a) Legislation was enacted on 10 June 2021 under the Finance Act 2021 that increased the UK Corporation tax rate to 25% from 1 April 2023.

10 CURRENT TRADE AND OTHER PAYABLES

	30 June 2023 £m	31 December 2022 £m
Trade payables	582.8	1,004.2
Collateral	26.0	24.1
Payables in respect of government support schemes	6.6	174.1
Other payables	1,088.1	1,078.8
	1,703.5	2,281.2

SCOTTISH POWER UK PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*
30 June 2023

11 REVENUE

(a) Disaggregation of revenue

Six months ended 30 June 2023				
	Networks	Renewable	Customer	Total
	£m	production	business	£m
Segment revenue	764.9	545.9	5,060.6	6,371.4
Inter-segment revenue	(78.9)	(431.9)	(12.6)	(523.4)
External revenue	686.0	114.0	5,048.0	5,848.0
Electricity distribution	424.3	-	-	424.3
Electricity transmission	237.6	-	-	237.6
Transfers of assets from customers	24.1	-	-	24.1
Supply of electricity	-	-	3,384.1	3,384.1
Supply of gas	-	-	1,545.6	1,545.6
CfD income	-	94.9	-	94.9
Commodity derivative income	-	(9.2)	97.0	87.8
Other	-	28.3	21.3	49.6
External revenue	686.0	114.0	5,048.0	5,848.0

Six months ended 30 June 2022				
	Networks	Renewable	Customer	Total
	£m	production	business	£m
Segment revenue	682.9	551.4	2,781.4	4,015.7
Inter-segment revenue	(78.5)	(556.7)	(8.3)	(643.5)
External revenue	604.4	(5.3)	2,773.1	3,372.2
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

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 period 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 5(f). For further details on unbilled receivables refer to Note 5(e).

Had actual consumption been 4.8% 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 £38.5 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 83% of unbilled revenue relates to the most recent quarter where there is a higher level of estimation uncertainty.

SCOTTISH POWER UK PLC**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *continued*****30 June 2023****12 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 2023 £m	Six months ended 30 June 2022 £m
Corporation Tax at 23.5% (2022 19%)	230.6	81.7
Adjustments in respect of prior periods	(1.0)	(2.9)
Impact of tax rate change on current period tax charge	5.4	3.8
Non-deductible expenses and other permanent differences	17.8	4.9
Income tax expense for the period	252.8	87.5

(a) Legislation was enacted on 10 June 2021 under the Finance Act 2021 that increased the UK Corporation Tax rate to 25% from 1 April 2023.

13 COMMITMENTS

	30 June 2023 £m	31 December 2022 £m
Capital commitment contracted but not provided	3,493.3	1,129.5
Long-term energy purchase contract commitments	2,511.5	4,950.1
Other contractual commitments	1,369.5	517.3
	7,374.3	6,596.9

14 RELATED PARTY TRANSACTIONS

The Group has material loans receivable from and payable to Iberdrola Group companies which are disclosed in Notes 6 and 8 respectively. There has been no change in counterparties since 31 December 2022.

The nature of related parties has not changed since 31 December 2022.

15 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.