SCOTTISHPOWER ENERGY RETAIL LIMITED
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2023

Registered No. SC190287

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SCOTTISHPOWER ENERGY RETAIL LIMITED
STRATEGIC REPORT

The directors present their Strategic Report on ScottishPower Energy Retail Limited ("the Company") for the year ended 31 December 2023. This includes an overview of the Company's structure, strategic outlook including 2023 performance, and principal risks and uncertainties.

INTRODUCTION

The principal activity of the Company, registered company number SC190287, is the supply of electricity and gas to domestic and business customers throughout Great Britain ("GB"), including customer registration, billing and handling enquiries in respect of these services. The Company is also responsible for the associated metering activity, including the smart meter installation programme, and managing its smart solutions activities which launched the UK's first nationwide installation service for air source heat pumps, solar panels, batteries and electric vehicle ("EV") charging in 2022.

During 2023, an average of 4.6 million gas and electricity customers were supplied by the Company. At 31 December 2023, the Company supplied 4.5 million gas and electricity customers. The Company aims to deliver a top-class experience for its customers, one which is hassle-free, making it easier for customers to contact the business through a range of routes and providing flexibility to meet customer needs.

In order to support the UK's efforts to achieve 'net zero' by 2050, the Company's Hydrogen department is working to develop green hydrogen solutions and opportunities. This activity will continue for the foreseeable future.

The ultimate parent of the Company is Iberdrola, S.A. ("Iberdrola") whose shares are listed on all four stock markets in Spain. The immediate parent of the Company is Scottish Power Retail Holdings Limited ("SPRHL"). Scottish Power Limited ("SPL") is the United Kingdom ("UK") holding company of the Scottish Power Limited Group ("ScottishPower") of which the Company is a member.

The Company is part of ScottishPower's Customer business, (formerly known as the Energy Retail business).

Notwithstanding net liabilities, the Accounts are prepared on a going concern basis. Refer to Note 1B2 for further details.

STRATEGIC OUTLOOK

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 the Company's portfolio now being on the standard variable tariff ("SVT") which is subject to the price cap set by the UK's energy regulator (The Office of Gas and Electricity Markets ("Ofgem")). Changes to the price cap methodology enabled suppliers to recover some of the 2022 costs incurred but not previously recovered for price-capped customers during 2023. Energy prices were at their peak in January 2023, and although prices fell during 2023, they remained almost double the level of previous years. This presents vulnerable customers with financial challenges. The Company continues to be concerned about customer affordability, particularly considering the increase of energy usage and associated costs during the winter months. Details of how the Company provides support to its customers can be found on pages 10 and 11 of the Strategic Report.

In a challenging economic environment, there continues to be a focus on measures to address the cost of living challenges being experienced by many in society. A number of electricity and gas customers will continue to face challenging energy prices, particularly as additional government support measures introduced in 2022 come to an end. The Company recognises that everything it does is about its customers, from the energy it supplies to the smart meters it installs.

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

Government support schemes

The Energy Bills Support Scheme ("EBSS") which provided support by giving a credit to domestic electricity customers ended in March 2023. The UK Government's Energy Price Guarantee ("EPG") scheme provided a discount to domestic customers during the first half of 2023, ensuring that a typical Direct Debit ("DD") household in the UK paid an average of £2,500 a year for their dual fuel energy bill. From July 2023 to March 2024 (when the EPG scheme ended), the discount only applied if prices rose above £3,000 per annum for a typical household, however, the price cap remained below this

STRATEGIC OUTLOOK *continued*

level and therefore the scheme did not provide support to customers other than being used by the UK Government to provide a discount to prepayment customers which levelised the price with those for the DD payment method until the EPG scheme ended. The Energy Bill Relief Scheme ("EBRS") for non-domestic customers ended in March 2023 and was superseded by the Energy Bill Discount Scheme ("EBDS") which provided a lower level of support to these customers until 31 March 2024.

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

Ofgem activity

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

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

During 2023, Ofgem continued to focus on implementation and monitoring of new rules focused on ensuring the financial resilience of suppliers in the market. This included ongoing reporting from suppliers and subsequently an appointment of a financial resilience supervisor. In addition, from November 2023 suppliers have been required to protect Renewables Obligation scheme payments on an ongoing basis. Suppliers must submit an annual adequacy self-assessment report to Ofgem, (from March 2024), which includes an explanation of the supplier's plans to meet a new requirement on capital adequacy which will be implemented on 31 March 2025.

Ofgem published a decision to amend the approach to the allowance for earnings before interest and tax ("EBIT") margin in the price cap effective from October 2023, and to introduce an additional temporary allowance for increased credits provided to prepayment customers as a result of the continued costs of living crisis. A decision on the introduction of an additional temporary bad debt-related allowance was published in Q1 2024 and was included in the price cap effective from April 2024 for twelve months. The allowance is on a 'float and true-up' basis and will be reviewed to assess a need for any true up from April 2025. This decision is considered a positive outcome and goes someway to alleviate the costs incurred as a result of the introduction of temporary restrictions of the use of prepayment meters for debt in early 2023, and the subsequent policy changes implemented by Ofgem in this area later in 2023. In Q1 2024, Ofgem also published its decision to implement a levelisation and reconciliation process for prepayment prices under the default tariff cap which replaces the levelisation undertaken for prepayment by the UK Government under the EPG scheme, with this being in place from 1 April 2024. Ofgem also continues to consult on further changes to the price cap methodology including a review of operating costs, wholesale costs and further assessment of the approach to levelise payment methods related to price differentials.

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

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

The Company has continued engagement with Ofgem on all policy areas via bilateral engagement and broader industry routes, in order to influence the proposals in the best interests of the Company and its customers.

STRATEGIC OUTLOOK *continued*

Customer debt

With customer bills high, the Company's operational focus remains on prompt cash collection, the retention of customers on secure payment plans, and supporting its customer base to manage its debt position. In early 2023, Ofgem began a market-wide review of suppliers' approach to switching customers to prepayment meters without consent as a means to recovering debt, covering both prepayment meter installation under warrant and remote change of smart meter mode. This review followed the temporary pause of this activity from 3 February 2023 by all suppliers to allow agreement of a new voluntary approach for the use of prepayment meters to reclaim debt without customer consent with the Code of Practice published on 18 April 2023. After consultation, Ofgem introduced mandatory new rules and guidance which came into effect on 8 November 2023 replacing the Code of Practice. Suppliers must demonstrate readiness to comply with the new rules ahead of restarting the use of prepayment meters, and on 8 January 2024, Ofgem announced that three suppliers, including the Company, had met these conditions and could restart this activity. The Company continues to engage with Ofgem on all aspects, including the recovery of additional debt created as a result of the moratorium and the new rules which extend the group of customers who are deemed not suitable for prepayment, notwithstanding the temporary additional bad debt-related allowance that has already been announced from 1 April 2024 for twelve months.

The suspension of involuntary prepayment installations has limited the options available to the Company to recover debt. It has also had a significant impact on the Company's ability to secure difficult to recover debt on a reasonable repayment plan as from February 2023 until January 2024, the Company could not use prepayment meters without customer consent which, in the absence of suspension, is the last resort of the debt journey. The adverse impact of the temporary suspension and the introduction of the licence conditions for 'involuntary' (i.e. without consent) prepayment installations has yet to be fully determined. The Company continues to lobby Ofgem to ensure that any adverse costs resulting from these actions are recovered in a fair and reasonable manner.

Smart solutions, smart metering and hydrogen

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

Additionally, the Company continues to make significant efforts to support the smart meter rollout and meet its regulatory targets. As at December 2023, smart meters accounted for 57.0% of relevant meters in the Company's portfolio. For further information please refer to the 'Non-financial key performance indicators' section of the Strategic Report.

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

Values in action

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

STRATEGIC OUTLOOK *continued*
2023 Performance

	Revenue (Note (a))		Operating profit/(loss) (Note (a))		Capital investment (Note (b))	
	2023	2022	**2023**	2022	**2023**	2022
Financial key performance indicators	**£m**	£m	**£m**	£m	**£m**	£m
ScottishPower Energy Retail	**7,610.6**	6,346.4	**525.6**	(323.1)	**48.1**	39.4

(a) Revenue and Operating profit/(loss) are presented on the income statement on page 22.
(b) Capital investment for 2023 is presented within Notes 3 and 4 on page 34 and includes capitalised customer contract costs.

The Company's revenue increased by £1,264.2 million to £7,610.6 million in 2023. This is predominantly driven by domestic revenues, reflecting higher energy prices due to an increased price cap.

The Company's operating profit has increased by £848.7 million to a profitable position of £525.6 million in 2023. In 2022, the Customer business' retail gross margins were adversely impacted as the price cap methodology did not allow suppliers to fully recover high energy costs. In the first half of 2023, gross margins benefitted from specific price cap allowances which facilitated recovery of these prior year losses. In addition, limited energy cost market liquidity has resulted in an inability to perfectly match the commodity cost element of the quarterly price cap tariff with resulting timing impacts across 2022 (adverse) and 2023 (favourable). These two factors have contributed an estimated £686 million of the year-on-year improvement.

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

Capital investment has increased by £8.7 million primarily due to continued investment in IT billing systems, including upgrades to allow improved interaction with smart meters and increases in cyber security spend.

Statement of financial position
Net liabilities of the Company decreased by £434.2 million in the year to £54.2 million primarily due to the impact of the statutory profit of £434.6 million.

Current trade and other receivables decreased by £264.1 million in the year to £1,471.9 million primarily due to the winding down of government support schemes as well as a reduction in loans receivable from Iberdrola Group companies.

Current trade and other payables decreased by £869.2 million in the year to £1,628.7 million primarily due to a reduction in amounts owed to Iberdrola Group companies as well as the winding down of government support schemes.

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

*Gigawatt hours ("GWh")
(a) Reduced demand driven by customer behaviour and milder weather, in addition to lower customer numbers and the continued withdrawal from the I&C market.
(b) Based on the Citizens Advice Domestic Energy Suppliers' Customer Service Report. Rankings reflect the Company's position relative to the other 'Big Seven' energy companies. The Company has continued to invest in its customer service teams with a key focus on improving its timely management and resolution of complaints, coupled with an overall focus on service quality across all of its advisors.
(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 31 December.

STRATEGIC OUTLOOK *continued*

Outlook for 2024 and beyond

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

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

Whilst the Company is experiencing less volatility in wholesale market prices than it has over the past couple of years, there is still some uncertainty surrounding the competitive product market. The Company recognises that many suppliers are now selling fixed-rate products, albeit there is not as many available to consumers as there previously had been. Additionally, pricing strategies appear less aggressive than what the market has seen historically.

The Company has concentrated on 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 public charging networks for both 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 Company is committed to developing a green hydrogen economy. In 2024, the Company expect to take final investment decisions ("FIDs") on both the Whitelee and Cromarty green hydrogen facilities, which have both been awarded government funding from HAR1, subject to various factors including positive outcome in both planning applications. When constructed, these projects will be among the UK's first and largest green hydrogen production facilities, supporting the decarbonisation of industry and heavy transport with clean green fuel.

Financial instruments

As at 31 December 2023 the Company's financial instruments include Trade and other receivables, Cash, Derivative financial instruments and Trade and other payables. The Company is therefore exposed to credit risk and treasury risk (comprising both liquidity and market risk) arising from these financial instruments. Throughout 2023, the Company was also exposed to energy market risk associated with fluctuations in the market price of electricity and gas.

Credit risk

Credit risk is the risk that a counterparty will not meet its contractual obligations under a financial instrument or customer contract, leading to a financial loss. The credit risk management strategy adopted for significant types of financial asset are as follows:

- Exposure to credit risk in the supply of electricity and gas arises from the potential that customers default on their invoiced payables. Both domestic and business customers' creditworthiness is reviewed from a variety of internal and external information sources including customer payment history and credit checks. 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 'Financial Instruments' ("IFRS 9"), a forward-looking provisioning methodology has been utilised to ensure that external factors are appropriately mitigated. Details of the Company's provisioning methodology and the significant estimation uncertainty associated with it are included in Note 2.
- Credit risk from balances with banks and financial institutions is managed by ScottishPower's treasury department in accordance with Iberdrola's cash investment procedure. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty by the Corporate Risk Management department.
- The Company provides funding in the form of interest-bearing on demand loans to other Iberdrola Group companies. Credit risk from Iberdrola Group companies is considered to be low as the Company is part of the Iberdrola Group's centralised treasury function and no Group company has a credit rating lower than BBB+ (in line with S&P Global Ratings).

STRATEGIC OUTLOOK *continued*

Treasury risk

Liquidity risk is the risk that the Company will have insufficient funds to meet its liabilities and market risk is the risk of loss that results from changes in market rates (e.g. interest rates). Both are managed by ScottishPower's Treasury department who are responsible for arranging banking facilities on behalf of the Company. The Company produces short-term rolling cash flow requirements and if necessary any required funding is obtained via credit facilities already in place.

Energy market risk

ScottishPower's Energy Wholesale business ("Energy Wholesale") is responsible for managing exposure to the UK wholesale electricity and gas markets for both the Company and ScottishPower's Renewable production business. Energy Wholesale do this via trading strategies that utilise derivative financial instruments which 'lock in' energy prices which are ultimately passed on to the Company. This approach has contributed to the Company's navigation of the volatile energy markets.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

REGULATORY AND POLITICAL RISK	
RISK	RESPONSE
Compliance with regulatory obligations especially in the context of sudden changes of policy, or interventions outside established regulatory frameworks.	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained, and public backing is secured for the necessary investment in the UK energy system. Providing stakeholders with evidence of the risks of ad hoc intervention in markets.
Structural uncertainty resulting from regulatory market interventions including review of price cap allowance and changes in the licence conditions for use of prepayment in the debt journey.	Engagement with key industry stakeholders including both Ofgem and various government departments regarding the requirement for suppliers to recover all costs, and the need to make fundamental changes to the market to ensure efficient suppliers can recover costs in the future particularly focused on increased bad debt costs. Engagement includes responding to consultations, and proactively lobbying key stakeholders providing evidence on the Company's costs and preferred regulatory amendments.
The potential for non-compliance with the UK Government's mandate to complete the rollout of smart metering to customers in accordance with prescribed timescales.	Dedicated project team focused on ensuring adequate business processes and systems are developed. The team is responsible for ensuring the rollout capability is secured to enable deployment of meters.
A UK general election is likely to take place during 2024, with energy policy expected to be an important area of debate. A new government would seek to deliver manifesto commitments which may result in regulatory and policy changes.	Constructive and transparent engagement with all appropriate stakeholders to understand the nature and scope of any proposed changes, and to ensure that risks and opportunities arising from these are managed appropriately.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

GLOBAL FINANCIAL MARKET VOLATILITY	
RISK	**RESPONSE**
Impacts arising from market and regulatory reactions to events including global conflicts. As well as positive or negative changes in the UK economy, including: movement in the market price of electricity and gas.	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained, and public backing is secured for the necessary investment in the UK energy system. Providing stakeholders with evidence of the risks of ad hoc intervention in markets. In addition to monitoring ongoing developments, the Company has specific procedures in place to manage these key market risks. • The mitigation of energy market risk is coordinated strategically by ScottishPower via the use of derivative financial instruments taken out largely by other ScottishPower companies to hedge volatility of wholesale energy.

CLIMATE CHANGE	
RISK	**RESPONSE**
The risk that the Company's investments or operations have a significant impact on the environment and on national and international targets to tackle climate change.	The Company is committed to reducing its environmental footprint and responding to the risks and opportunities of climate change by: • reducing emissions to air, land and water and preventing environmental harm; • identifying and managing climate risks and opportunities, implementing adaptation measures where required; • minimising energy consumption and use of natural and human-made resources; and • sourcing material resources responsibly, cutting waste and encouraging reuse and recycling; and protecting natural habitats and restoring biodiversity.

HEALTH AND SAFETY	
RISK	**RESPONSE**
A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.	The Company has certified management systems in place to deliver activities as safely as possible. A ScottishPower Health and Safety function exists and provides specialist services and support for the Company in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes is established, which aims to ensure not only continuing legal compliance but also to drive towards best practice in all levels of health and safety operations.

PRINCIPAL RISKS AND UNCERTAINTIES ***continued***

CYBER SECURITY	
RISK	**RESPONSE**
The Company operates within an environment where there is the presence of sophisticated and opportunistic cyber security threat actors motivated to identify and take advantage of flaws and weaknesses in the Company's cyber security defences. The Company, in alignment with UK Regulation, takes the protection of its Data very seriously. The Company, as part of ScottishPower, continues to invest significantly in its people, processes, and technologies to enhance its capabilities to prevent, detect and respond to security threats. The main risks are: • Operational technology used to manage the production, management and distribution of energy or physical safety systems (fire protection, CCTV, alarm reception centres). • IT that enables the Company to operate critical services. • The confidentiality, integrity, and availability of key information assets. • Other cyber security risks impacting reputation.	The Company, as part of ScottishPower, continues to focus on enterprise security risks through enhanced internal governance, complemented by the adoption of a 'three lines of defence' model with clear roles and responsibilities established. This has involved the appointment of a ScottishPower Chief Information Security Officer as well as the creation of a Business Information Security Officer for the division. These risks are managed in accordance with the basic principles defined in internal cyber security rules promoting the safe handling of data, use of IT and communications systems, use of operational technology systems and assets, and other cyber assets, reinforcing detection, prevention, defence, and response capabilities against possible attacks. The Iberdrola Group, of which the Company is a part, currently has specific insurance against cyber risks, under the terms allowed by the insurance market, which is revised and updated periodically in view of the rapid evolution and wide variety of cyber risks.

MARKET POSITION	
RISK	**RESPONSE**
Impact of competition on the Company's market share and profitability.	Constantly managing the Company's operating cost base to ensure that its profitability is protected and focusing on growth through organic and other acquisition opportunities. Focus on deepening relationship with customers through increased product holding and other value-add features and benefits, designed to improve customer engagement and retention, and growth in capacity of the Company's sales channels.

COST OF LIVING CRISIS	
RISK	**RESPONSE**
Increased focus on affordability due to the cost of living crisis creates a greater number of consumers at risk and a greater burden on suppliers to service and support customers. The future level of support offered by the UK Government which deliver benefits to customers struggling with their energy bills may be lower. Increase in the level of overdue debt, driven by the impact of rising bills, high cost of living and deterioration in the economy, impacting on the level of debt write-off required.	The Company, as part of ScottishPower, continues to deliver on improvement actions in relation to vulnerability and affordability. Engagement continues with the UK Government, third parties and Ofgem, on the challenges facing suppliers in supporting customers during the ongoing cost of living crisis, and the need for more targeted consumer protection for the Company's most vulnerable customers. There are measures in place across the Company to manage the key drivers of overdue debt, assess and implement remedial and preventative action, and to establish key metrics to monitor progress in reducing debt levels. Refer to Note 2 for further details.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

The Company continues to monitor and assess the impact of additional security risks as a result of terrorism, war and other world events and will put mitigating actions in place if and when appropriate.

ENGAGING WITH STAKEHOLDERS

The importance of engaging with stakeholders

The Company strongly believes that effective and meaningful engagement with stakeholders, especially its people, is key to promoting its success and values. Meaningful engagement with stakeholder groups supports the ethos of section 172 of the Companies Act 2006 which states that directors should have regard to stakeholder interests when discharging their duty to promote, in good faith, the success of the Company for the benefit of its members as a whole. Details of how the Company engages with its stakeholders, and how these activities influence the Company's operations, are set out below.

Key stakeholders

The Company, has five key stakeholder categories: people; energy customers; government and regulators; suppliers and contractors; and community and environment.

Behind these stakeholders are many people, and institutions, organisations and groups. All of them, with their decisions and opinions, influence the Company, and in turn, are also affected by the Company's activities. In addition, these stakeholders interact with each other, creating a universe of relationships that the Company needs to manage in order to achieve a better understanding of its operating environment and to deliver a more sustainable performance across its activities.

Shareholders are important to the Company. The Company's relationship with its shareholders is governed by the Company's Articles of Association and provisions of the Governance and Sustainability System which apply to the Company and ScottishPower, of which the Company is a member. As the Company is ultimately wholly-owned by Iberdrola, all ultimate shareholder management activities are carried out by Iberdrola in accordance with its own Shareholder Engagement Policy as published at www.iberdrola.com.

PEOPLE

As at 31 December 2023, the Company had 926 employees, working across a range of roles. These employees make a real difference in determining how successfully the Company operates. The creativity, innovation and individuality of the Company's employees enables the Company to build on its future capability to operate effectively in a competitive market and continue to have aspirations which are challenging and rewarding. The Company respects and recognises the importance of individuality as part of its ongoing commitment to promoting a culture where individuality is celebrated.

The Company also understands that being a diverse business goes beyond having legally compliant policies and practices; it includes a focus on creating an innovative, integrated organisation where people feel valued and inspiring them to perform at their best.

In November 2023, 'Workday' became the Company's primary People IT system for managing key people processes across the entire employee journey. Workday supports a host of new processes which will change how the business interacts and develops its people. As such, this will enhance the employee experience.

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

Details of the following areas in relation to employee engagement which apply fully to the Company are provided in the most recent Annual Report and Accounts of Scottish Power UK plc ("SPUK"):

- employment regulation;
- training;
- employee feedback and consultation;
- inclusion and diversity;
- rewards and benefits;
- health and safety; and
- employee health and wellbeing.

ENGAGING WITH STAKEHOLDERS *continued*

Modern Slavery Statement

The term 'modern slavery' covers both slavery and human trafficking. ScottishPower, and so the Company, is committed to human and labour rights and to eliminating modern slavery that could in any way be connected to its business. In accordance with the Modern Slavery Act 2015, ScottishPower has produced its own Modern Slavery Statement, which is subject to annual approval by the board of directors of SPL. This statement is published on the ScottishPower website at: www.scottishpower.com/ 'Sustainability'/ 'Sustainable business'/ 'ScottishPower's Modern Slavery Statement'.

ENERGY CUSTOMERS

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

Customer service

Delivering excellent customer service to customers continues to be the Company's key priority. The Company works hard to ensure that the customer is at the centre of everything it does. The Company continually assesses its processes and customer journeys to help identify and implement improvements where necessary. This is to help ensure that the Company meets all expectations. The Company is relentless in its pursuit to improve the customer experience. In 2023 the Company saw improvements in its key customer services metrics, including average wait times and first-time resolution of customer queries.

The Company continues to focus on delivering customer service through a number of digital channels as well as retaining its traditional telephone channels. Digital tools are the channel of choice amongst most of the customer base with mobile apps now being the most frequently utilised self-service tool, alongside digital online web chats. Building on the Company's success in 2022 when it was recognised for its digital commitment and awarded eCommerce 'App of the Year', the Company took the Silver Award for UK eCommerce 'App of the Year' in 2023 . This recognises the continued improvements and functionality the Company is offering customers via this channel. Customer contact via webchat continues to be a popular channel and volumes continued to grow in 2023 with increased use of automation.

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

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

Customer support

The Company continues to ensure that it supports its vulnerable customers through a wide range of support mechanisms – for both financially and non-financially vulnerable customers. These services include:

- Offering a range of options for customers to get in touch including phone, webchat, and email options. The Company assesses the needs of its customers and adjusts its offering to ensure that it meets its customer needs. This includes extending opening hours including for specific potentially more vulnerable customer groups and over winter periods to make it easier for customers to get in touch.
- Intelligent routing of contacts to specialist support teams to manage customers who are identified as being vulnerable or potentially in need of additional support. This includes Prepayment Off Supply teams, Affordability teams and the 'Extra Care' teams (linked to customers with additional support needs).

ENGAGING WITH STAKEHOLDERS *continued*

- The Company also offers a dedicated phone line for Citizens Advice to get in touch on behalf of customers. In 2023, the Company expanded support for other third parties, ranging from national organisations like National Energy Action to smaller, local charities such as South Seeds, by launching a Third Party Assistance Team. This enhanced support has been positively received and is benefiting customers seeking help from third party organisations, in particular by securing a faster resolution for them.
- To reduce the risk of prepayment customers going off supply, the Company offers periods of 'friendly credit', where the customer will stay on supply, without the need to top up their meter. Where this is not technically possible, the Company offers increased emergency credit.
- Recognising the wider impacts of financial hardship, the Company has included mental health training across all customer service agents, to allow them to respond sensitively to customers who are experiencing such difficulties.
- The Company offers extra help and additional support options under its Priority Services Register for those non-financially vulnerable customers who may find it more challenging to manage their energy account.
- The Company has a range of alternative payment options and tariffs for different customer circumstances and offers flexible repayment schemes for those who have built up debt.
- For customers who may be struggling to manage their energy costs, the Company offers advice on how to reduce energy consumption through simple actions by the customer or via the ECO scheme.
- The Company also provides signposting to third parties who can offer additional guidance and support including in relation to debt advice and energy efficiency advice, to the ScottishPower Hardship Fund and to the Company's Prepayment Voucher Scheme which provides additional non-repayable funding to eligible customers.
- For the most vulnerable customers, the Company also offers a dedicated team of National Community Liaison Officers whose sole purpose is to provide in-home support.

The Company's overall focus is on prompting customers to engage as early as possible so that it can provide the support they need, whether that be within the Company or in ensuring those customers who need broader support than the Company can offer, have direct access to third parties who can provide it.

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

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

Energy efficiency

The delivery of energy efficiency measures continues to be an important responsibility of the Company, and 2023 was the tenth year of delivery of the UK Government's ECO scheme. The ECO scheme is fundamental to improving the fabric of British homes in the pursuit of achieving net zero and focuses on reducing heating costs for the most vulnerable customers and improving the energy efficiency of properties. In July 2022, the ECO4 legislation came into effect with the obligation running until March 2026. The focus of ECO4 is on the most vulnerable households in the least efficient homes (Energy Performance Certificates ("EPC") Bands E, F and G) and targets a whole house improvement project based on a fabric-first approach.

This will see a drop in the number of properties treated, however, the majority of those treated will be improved by a minimum of two EPC bands with multiple measures delivered to each home. Building on the surplus delivery from ECO3, which ensured the supply chain remained active and delivering energy efficiency measures to customer as soon as practicable, the Company's supply chain commenced formal delivery of ECO4 measures in August 2022, but delivery was initially cautious while the supply chain and obligated suppliers adjust to the new requirements of the obligation.

ENGAGING WITH STAKEHOLDERS *continued*

However, the second half of 2023 saw a significant increase in delivery with the Company's supply chain partners delivering almost double the volume of ECO4 savings compared to H1 2023.

In July 2023, the UK Government launched the GBIS. This three-year programme will look to complement ECO4 by delivering single insulation measures such a loft and cavity wall insulation to hundreds of thousands of the least energy efficient homes in the lower Council Tax bands, as well as targeting the most vulnerable homes across the country. The Company expects delivery of this obligation to gather momentum into 2024 as the supply chains adjust to the new obligation.

GOVERNMENT AND REGULATORS

Governments and regulators play a central role in shaping the energy sector. The Company engages with them directly and through trade associations, responding to issues of concern and providing expertise to support policy development. Through this engagement, the Company aims to contribute to the delivery of a UK energy system that functions in the interests of customers now, and in the future, including achievement of the UK and Scottish Governments' net zero decarbonisation targets.

Retail energy prices have now fallen back from their peak in Winter 2022/23, taking the Ofgem price cap below the UK Government's protected Energy Price Guarantee level of £2,500 per annum until June 2023 and £3,000 per annum from July 2023 to March 2024, for a typical household paying by direct debit. Nonetheless, at the end of 2023 energy prices were still around 80% higher than they were three years previously, and many consumers are still facing severe cost of living pressures. The Company continues to work with Ofgem to ensure that the consumers who are struggling to pay their bills receive appropriate support, particularly the most vulnerable. The Company has also worked with Ofgem to improve the design of the price cap so that suppliers can better recover efficiently incurred costs. This has enabled the delayed recovery of costs incurred in 2022, with the result that suppliers are now better placed to achieve the levels of financial resilience that will be required to survive future price shocks.

SUPPLIERS AND CONTRACTORS

As part of ScottishPower, the Company's engagement with its suppliers and contractors is driven by the decisions, policies and procedures in place at a ScottishPower level. The directors of the Company ensure that in applying these ScottishPower decisions, policies and procedures they are meeting their duties to the Company. The Company's suppliers have a key role to play in the delivery of the Company's projects and services that will provide a low-carbon future for the UK. The Company aims to develop and maintain strong relationships across its supply base with a focus on health and safety, quality, cost and sustainability. The Company expects its suppliers to operate to a high standard including working in an ethical and sustainable manner, and the Company has a range of policies that all suppliers must adhere to, including the ScottishPower Code of Ethics.

In 2023, the Company continued to increase its focus on the Environmental, Social and Governance ("ESG") credentials of its main suppliers using the ScottishPower supplier risk management system, Go Supply. This system has provided significant additional insight into ESG factors of the Company's supply chain. The Company also works closely with those suppliers identified as having weaker ESG traits to support their development through improvement plans and guidance.

Engagement with suppliers is always a critical activity for the Company but has become even more important as the Company adapts to the geopolitical and macroeconomic challenges. The Company is facing longer lead times for some equipment and several of its suppliers have also been impacted by labour shortages. The Company have looked to support its supply chain during these challenging times by working collaboratively on forecasting its requirements and it has also established customs brokerage services.

COMMUNITY AND ENVIRONMENT

The Company aims to be a trusted, respected, and fully-intergrated part of the community, by operating with integrity, transparency and working closely within the community to build relationships.

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

ENGAGING WITH STAKEHOLDERS *continued*

The Hydrogen department is working with businesses across the UK to help support their strategic aims to decarbonise their operations. For three years it has supported the Scottish Schools Hydrogen Challenge with the purpose of educating young people about the importance of green hydrogen in tackling the climate emergency.

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

The Company engages regularly with the key industry stakeholders such as Ofgem, Citizens Advice and Ombudsman Services, to keep them fully updated of its community actions.

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

INNOVATION

It is crucial that the Company continues to innovate and drive forward towards a decarbonised smart energy future. By championing innovative technologies, bringing down the costs of decarbonisation and ensuring that no communities are left behind on the road to net zero, the Company continues to lead by example in making sure clean, affordable energy is available to all. The Company's model of open innovation, engagement and collaboration with its partners and other organisations, generate ideas and inspiration which continues to drive its innovation strategy.

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

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

The Company has been developing an industry-leading home energy management system to give customers better control of LCTs and insight on overall energy consumption. The solution will enable customers to automate control and optimisation of their LCTs and monitor home consumption with smart meters offering near real-time visibility of energy usage. This will also provide the opportunity for deeper engagement with customers into the savings that can be achieved through control of their assets based primarily on the greenest and cheapest times of the day for energy prices.

The outcome will provide customers with a product offering that helps them reduce their energy consumption, carbon footprint and save them money on energy costs by maximising usage during these cheaper energy window.

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

SECTION 172 STATEMENT

Statement by the directors in performance of their statutory duties in accordance with section 172 of the Companies Act 2006

The Companies (Miscellaneous) Reporting Regulations 2018 requires the directors of ScottishPower Energy Retail Limited to give a statement which describes how the directors have had regard to the matters set out in section 172(1) of the Companies Act 2006 when discharging their duty under that section.

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

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

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

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

- **Energy customers:** details of how the Company engages with its customers are explained in the 'Energy customers' section of the Strategic Report, on pages 10 to 12. During 2023, the Company's board of directors ("the Board") approved the express adoption by the Company of the ScottishPower Data Protection Policy which applies to the processing of any personal data, including customer data, by the Company.
- **People:** details of how the Company engages with its employees are set out in the 'People' section of the Strategic Report, on pages 9 and 10. During 2023, the Board approved the express adoption by the Company of the Iberdrola People Management Policy, which makes provisions regarding the human resources framework applicable to the Company.
- **Communities and the environment:** details of how the Company engages with communities and considers the environment are set out in the 'Community and environment' section of the Strategic Report, on pages 12 and 13. During 2023, the Board approved the express adoption by the Company of the Iberdrola Stakeholder Engagement Policy which makes provisions regarding the Company's relationship with its stakeholders, including communities.
- **Suppliers and contractors:** details of how the Company engages with its suppliers are set out in the 'Suppliers and contractors' section of the Strategic Report, on page 12. During 2023, the Board approved the express adoption by the Company of the ScottishPower Modern Slavery Policy which makes provisions regarding the Company's supply chain.
- **Government and regulators:** details of how the Company engages with governments and regulators are set out in the 'Government and regulators' section of the Strategic Report, on page 12. During 2023, the Board approved the express adoption by the Company of the ScottishPower Political Engagement Policy which makes provisions regarding compliance with political engagement rules.

In addition, a statement in relation to the Company's interaction with its shareholders is described in the introduction to the 'Engaging with stakeholders' section of the Strategic Report on page 9.

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

SECTION 172 STATEMENT *continued*

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

ON BEHALF OF THE BOARD

Valerie Sim
Director
16 **May 2024**

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

INFORMATION CONTAINED WITHIN THE STRATEGIC REPORT

The directors have chosen to disclose information on the following, required by the Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 15:

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

RESULTS AND DIVIDEND

The net profit for the year was £434.6 million (2022 loss of £258.1 million). No dividend was paid during the current year or prior year.

Board composition

The directors who held office during the year were as follows:
Andrew Ward
Valerie Sim

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

DIRECTORS' INDEMNITY

In terms of the Company's Articles of Association, a qualifying indemnity provision is in force for the benefit of all the directors of the Company and has been in force during the financial year. In addition, the Directors have been granted a qualifying third party indemnity provision, which continues in force.

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101").

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

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

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

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

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

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

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

Each of the directors, whose names and functions are listed above, confirms that to the best of their knowledge:

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

Disclosure of information to auditor

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

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

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

AUDITOR

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

ON BEHALF OF THE BOARD

Valerie Sim
Director
14 May 2024

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

Opinion

We have audited the financial statements of ScottishPower Energy Retail Limited ("the Company") for the year ended 31 December 2023 which comprise the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to other entities of public interest. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Since the entity may need financial support from other group entities if these risks crystallise, we assessed the risk that this support would not be available. We inspected letters received by the directors indicating the group's intention to provide this support, examined financial statements and internally provided projections to assess its ability to provide this support over the period of the audited entity's going concern assessment, and assessed the business reasons why the group may or may not choose to provide this support.

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

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1B2 to be acceptable.

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

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

Fraud and breaches of laws and regulations – ability to detect *continued*
We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates such as the ECL provision. Our forensic specialists assisted us in identifying key fraud risks. This included attending calls with the audit team, holding discussion with the engagement partner, engagement manager, and assisting with designing and executing relevant audit procedures to respond to the identified fraud risk.

On this audit we do not believe there is a fraud risk due to the highly regulated systems in place for the revenue recognised in the year across all customer bases and due to there being no new government schemes introduced in the year.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and others management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

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

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

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

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: GDPR compliance, health and safety legislation, Ofgem regulations, employment law fraud, corruption and bribery legislation and environmental protection legislation. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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

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

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

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

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

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

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects

Directors' responsibilities
As explained more fully in their statement set out on page 16 and 17, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

W. Meredith

William Meredith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St. Vincent Street
Glasgow
G2 5AS
15 May 2024

SCOTTISHPOWER ENERGY RETAIL LIMITED
STATEMENT OF FINANCIAL POSITION
at 31 December 2023

	Notes	2023 £m	2022 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	3	88.3	115.2
Property, plant and equipment		130.4	141.6
Property, plant and equipment in use	4	129.8	141.6
Property, plant and equipment in the course of construction	4	0.6	-
Right-of-use assets	5	0.2	0.1
Non-current trade and other receivables	6	-	9.2
Deferred tax asset	7	-	16.5
TOTAL NON-CURRENT ASSETS		218.9	282.6
CURRENT ASSETS			
Inventories	8	237.8	257.4
Current trade and other receivables	6	1,471.9	1,736.0
Current tax asset		-	64.5
Cash		3.3	7.2
TOTAL CURRENT ASSETS		1,713.0	2,065.1
TOTAL ASSETS		1,931.9	2,347.7
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		(54.2)	(488.4)
Share capital		55.4	55.4
Hedge reserve		(0.4)	-
Retained losses		(109.2)	(543.8)
TOTAL EQUITY		(54.2)	(488.4)
NON-CURRENT LIABILITIES			
Non-current provisions	9	-	4.1
Non-current bank borrowings and other financial liabilities		1.5	-
Derivative financial instruments		0.5	-
Other financial liabilities		1.0	-
Non-current lease liabilities	5	0.1	-
Non-current trade and other payables	10	0.5	1.0
Non-current income tax liabilities		6.2	6.2
Deferred tax liabilities	7	3.8	-
TOTAL NON-CURRENT LIABILITIES		12.1	11.3
CURRENT LIABILITIES			
Current provisions	9	289.5	326.8
Current bank borrowings and other financial liabilities		0.5	-
Other financial liabilities		0.5	-
Current lease liabilities	5	0.1	0.1
Current trade and other payables	10	1,628.7	2,497.9
Current tax liabilities		55.2	-
TOTAL CURRENT LIABILITIES		1,974.0	2,824.8
TOTAL LIABILITIES		1,986.1	2,836.1
TOTAL EQUITY AND LIABILITIES		1,931.9	2,347.7

Approved by the Board and signed on its behalf on 14 May 2024.

Valerie Sim

Valerie Sim
Director

The accompanying Notes 1 to 20 are an integral part of the Statement of financial position as at 31 December 2023.

SCOTTISHPOWER ENERGY RETAIL LIMITED
INCOME STATEMENT
for the year ended 31 December 2023

	Notes	2023 £m	2022 £m
Revenue	11	7,610.6	6,346.4
Procurements		(6,161.3)	(5,979.5)
GROSS MARGIN		**1,449.3**	366.9
Staff costs	12	(62.8)	(71.5)
External services		(423.1)	(391.2)
Other operating results		37.4	49.1
Net operating costs		**(448.5)**	(413.6)
Taxes other than income tax	13	**(181.8)**	(77.8)
GROSS OPERATING PROFIT/(LOSS)		**819.0**	(124.5)
Net expected credit losses on trade and other receivables		(207.0)	(85.5)
Depreciation and amortisation charge, allowances and provisions	14	(86.4)	(113.1)
OPERATING PROFIT/(LOSS)		**525.6**	(323.1)
Dividends received		0.4	-
Finance income	15	32.0	0.5
Finance costs	16	(1.4)	(0.2)
PROFIT/(LOSS) BEFORE TAX		**556.6**	(322.8)
Income tax	17	(122.0)	64.7
NET PROFIT/(LOSS) FOR THE YEAR		**434.6**	(258.1)

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

All results relate to continuing operations.

The accompanying Notes 1 to 20 are an integral part of the income statement for the year ended 31 December 2023.

SCOTTISHPOWER ENERGY RETAIL LIMITED
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2023

	2023 £m	2022 £m
NET PROFIT/(LOSS) FOR THE YEAR	434.6	(258.1)
OTHER COMPREHENSIVE INCOME		
Items that may be subsequently reclassified to the income statement:		
Cash flow hedges:		
Changes in the value of cash flow hedges	-	0.1
Items that will not be reclassified to the income statement:		
Cash flow hedges:		
Changes in the value of cash flow hedges	(0.5)	-
Tax relating to cash flow hedges	0.1	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR	(0.4)	0.1
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	434.2	(258.0)

Total comprehensive income for both years is wholly attributable to the equity holder of ScottishPower Energy Retail Limited.

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

	Share capital (Note (a)) £m	Hedge reserve (Note (b)) £m	Retained (losses)/ earnings (Note (c)) £m	Total £m
At 1 January 2022	55.4	(0.1)	(285.7)	(230.4)
Loss for the year attributable to the equity holder of the Company	-	-	(258.1)	(258.1)
Changes in the value of cash flow hedges	-	0.1	-	0.1
At 1 January 2023	55.4	-	(543.8)	(488.4)
Profit for the year attributable to the equity holder of the Company	-	-	434.6	434.6
Changes in the value of cash flow hedges	-	(0.5)	-	(0.5)
Tax relating to cash flow hedges	-	0.1	-	0.1
At 31 December 2023	55.4	(0.4)	(109.2)	(54.2)

(a) At 31 December 2023, the Company had 55,407,000 allotted, called up and fully paid ordinary shares of £1 each (2022 55,407,000). Holders of these ordinary shares are entitled to dividends as declared from time to time; amounts on the capitalisation of profits and reserves; and notice and attendance at general meetings of the Company, with every member entitled to one vote on a show of hands and on a poll one vote for every share held.

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

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

The accompanying Notes 1 to 20 are an integral part of the Statement of comprehensive income and the Statement of changes in equity for the year ended 31 December 2023.

1 BASIS OF PREPARATION

A COMPANY INFOMATION

ScottishPower Energy Retail Limited, registered company number SC190287, is a private company limited by shares, incorporated in Scotland and its registered address is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD.

B BASIS OF PREPARATION

B1 BASIS OF PREPARATION OF THE ACCOUNTS

The Company is required by law to prepare Accounts and to deliver them to the Registrar of Companies. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2. Monetary amounts are presented in pounds Sterling and are rounded to the nearest hundred thousand unless otherwise indicated. The Accounts are prepared on the historical cost basis apart from certain financial liabilities which are measured at fair value.

The Accounts have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"). In preparing these financial statements, the Company has applied the recognition, measurement and disclosure requirements of international accounting standards ("IAS") as adopted by the UK ("UK-adopted IAS") in conformity with the requirements of the Companies Act 2006 including newly effective IAS for the year ended 31 December 2023 (refer to Note 1C). In applying FRS 101, the Company has made amendments where necessary in order to comply with the Companies Act 2006 and has set out below where FRS 101 disclosure exemptions have been taken:

- the preparation of a Statement of cash flows and the related notes;
- comparative period reconciliations for intangible assets and property, plant and equipment;
- disclosures in respect of deferred tax assets and liabilities related to Pillar Two model rules income taxes;
- certain disclosures regarding revenue;
- disclosures in respect of transactions with wholly-owned subsidiaries of Iberdrola, S.A.;
- disclosures in respect of capital management;
- the effects of new, but not yet effective, IAS pronouncements; and
- disclosures in respect of the compensation of key management personnel.

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

B2 GOING CONCERN

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The principal activity of the Company is to undertake the retail sale of electricity and gas within the group headed by SPUK, the Company's intermediate parent company. The Company's cash flows are therefore dependent on the continuation, volume, and pricing of those operations and have been considered as part of the SPUK Group's cash flow forecasts, on which the directors of the SPUK Group have performed an assessment of reasonably possible downsides.

To meet its working capital requirements, the Company participates in a UK centralised treasury function operated by the Company's intermediate parent company, Scottish Power Limited, the parent company of SPUK. ScottishPower's treasury function works closely with Iberdrola to manage the Company's funding requirements. There has been no indication that these arrangements may change.

The directors have performed a going concern assessment which indicates that, in reasonably possible downsides, the Company will require additional funds, through funding from SPUK, to meet its liabilities as they fall due for at least twelve months from the date of approval of these financial statements, the going concern assessment period.

As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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

1 BASIS OF PREPARATION *continued*

C IMPACT OF NEW IAS

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

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

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

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND PRINCIPAL ACCOUNTING POLICIES

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

SIGNIFICANT ESTIMATION UNCERTAINTIES

Expected credit losses ("ECLs") on trade receivables

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

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

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

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

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

Accrued 'unbilled' revenue

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

The estimated value of energy delivered to customers is included within billed revenue (where an estimated reading is included within an issued invoice) and unbilled revenue (where no invoice has been issued). Gross unbilled revenue included within the Statement of financial position at 31 December 2023 is £770.6 million (2022 £965.6 million). This is before applying customer credit balances of £1,051.0 million (2022 £1,157.5 million), a £27.9 million (2022 £28.0 million) provision in respect of ECLs and a £75.8 million (2022 £20.8 million) provision in relation to energy volumes which have still to reach final settlement. For further details on ECLs, refer to Notes 2 and 6.

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

NON SIGNIFICANT JUDGEMENT

Consideration of climate change

The impact of climate change, including risks identified in the Strategic Report on page 7, on the financial statements has been considered. No material impact on the judgements and estimates made in the preparation of the financial statements has been identified. This consideration focussed on the Company's going concern position, including the cash flow forecasts prepared for the directors' assessment referred to in Note 1B2.

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

PRINCIPAL ACCOUNTING POLICIES

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

A INTANGIBLE ASSETS
B PROPERTY, PLANT AND EQUIPMENT
C LEASED ASSETS
D IMPAIRMENT OF INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND LEASED ASSETS
E RETIREMENT BENEFITS
F FINANCIAL INSTRUMENTS
G RENEWABLES OBLIGATION CERTIFICATES
H ONEROUS CONTRACTS
I REVENUE
J PROCUREMENTS
K OTHER OPERATING RESULTS
L FOREIGN CURRENCIES
M TAXATION
N GOVERNMENT SUPPORT SCHEMES

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

A INTANGIBLE ASSETS

(a) Computer software

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

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

In all cases, maintenance costs are expensed as incurred.

(b) Customer contract costs

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

B PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and depreciated on a straight-line basis over the estimated operational lives of the assets once commissioned. Property, plant and equipment includes capitalised employee costs and other directly attributable costs. Reviews of the estimated remaining lives and residual values of property, plant and equipment are undertaken annually. Residual values are assessed based on prices prevailing at each reporting date.

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

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

C LEASED ASSETS

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

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

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

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

the use of the asset if either they have the right to operate the asset or they designed the asset in a way that predetermines how and for what purposes it will be used.

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

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

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

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

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

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

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

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

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

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

E RETIREMENT BENEFITS

ScottishPower provides pensions through two defined benefit schemes and one defined contribution retirement benefit scheme in the UK. ScottishPower Energy Retail Limited is a participating company in these group arrangements, and the contributions for the defined benefit schemes are based on pension costs across all the participating companies. The Company is unable to identify its share of the underlying assets and liabilities in the defined benefit schemes, as the scheme administrators do not calculate these separately for each of the various companies participating in the schemes and therefore treats these schemes as if they were defined contribution schemes. The amount charged to the income statement in respect of pension costs is the contributions payable in the year.

F FINANCIAL INSTRUMENTS

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

F1 FINANCIAL ASSETS

F1.1 CLASSIFICATION

Financial assets are classified as being measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The classification of financial assets depends on the Company's business model for managing them to generate cash flows.

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

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

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

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

F1.2 RECOGNITION AND MEASUREMENT

(a) Initial recognition and measurement

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

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

(b) Subsequent measurement and gains and losses

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

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

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

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

(c) Derecognition

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

(d) Impairment of financial assets

(i) Measurement of ECLs

Disclosures relating to impairment of financial assets are provided in Note 6. The Company recognises an allowance for ECLs for all debt instruments not classified as FVTPL. ECLs are a probability-weighted estimate of credit losses. The Company has adopted the simplified ECL model for its trade receivables and the general ECL model for all other financial assets measured at amortised cost.

In applying the simplified model, loss allowances for trade receivables are measured at an amount equal to lifetime ECL. The Company has segmented its trade receivables between those relating to energy customer debt and those within the rest of the Iberdrola Group. For each grouping, the Company has established a provision matrix that is based on its historical credit loss experience, adjusted for, where possible, forward-looking factors specific to the debtors and the economic environment in which they operate (refer to Note 6 for further details).

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

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

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

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

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

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

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

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

(ii) Credit-impaired financial assets

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

F2 FINANCIAL LIABILITIES

F2.1 CLASSIFICATION

Financial liabilities are classified as measured at amortised cost.

F2.2 RECOGNITION AND MEASUREMENT

(a) Initial recognition and measurement

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

(b) Subsequent measurement and gains and losses

Financial liabilities classified as FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in the income statement.

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees, or costs that are an integral part of the effective interest rate. The effective interest charge is included as Finance costs in the income statement. This subsequent measurement technique does not apply where the loan or borrowing is a hedged item in an effective fair value hedging relationship.

(c) Derecognition

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

F2.3 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

G RENEWABLES OBLIGATION CERTIFICATES

The Company participates in the Renewables Obligation ("RO") scheme administered by Ofgem. As there are no specific rules under IAS dealing with their treatment, the Company classifies Renewables Obligation Certificates ("ROCs") as inventories because they are a direct input cost to the process of supplying customers. ROCs are recognised at their acquisition cost and charged to the income statement as the obligations arise.

The Company recognises liabilities in respect of its obligations to deliver ROCs at the value at which they were initially recorded on the Statement of financial position. Any estimated shortfall in the liability is calculated based on the relevant buyout price at the reporting date. ROCs surrendered to meet the RO utilises the related provision.

H ONEROUS CONTRACTS

An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises of both the incremental costs of and also an allocation of other costs that directly relate to fulfilling that contract.

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

I REVENUE

The Company recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods and services.

(a) Supply of electricity and gas

The Company's performance obligations are the supply of electricity and/or gas to customers. Both these performance obligations are satisfied over time as the customer simultaneously receives and consumes the benefits of the Company's performance as it supplies electricity and gas. The Company has a right to consideration in an amount that corresponds directly with the value to the customer of the Company's performance to date. Therefore, in line with IFRS 15, revenue is recognised in the amount to which the Company has a right to invoice based on the volume of units supplied during the year and the tariff agreed with the customer.

The Company participated in various government support schemes designed to support energy customers in GB through the current cost of living crisis. The EPG scheme (which commenced on 1 October 2022 and ran until 31 March 2024) required suppliers to charge a reduced tariff to domestic customers where their contractual tariff exceeded a government-set rate. The EBRS scheme also commenced on 1 October 2022 but ended on 31 March 2023 and was replaced by the similar EBDS scheme which ran from 1 April 2023 until 31 March 2024. These later schemes required suppliers to apply a capped discount to the bills of non-domestic customers where their contractual rate exceeded the government-set rate. Therefore, the revenue recognised for the duration of these schemes was in line with IFRS 15 and based on the volume of units supplied to customers and the reduced or discounted tariff as determined by the scheme rules.

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

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

Government support has been received by the Company to fund the EPG, EBRS and EBDS schemes. Government grants are assistance by government in the form of transfers of resources in return for past or future compliance with certain conditions relating to the operating activities of the entity. Such grants are recognised in the Income statement on a systematic basis over the periods in which the costs for which the grants are intended to compensate are expensed; where the income receivable is compensation for expenses or losses already incurred, the grant income is recognised in the Income statement in the period in which it becomes receivable. All three schemes are considered to be a government grant with the income received being recognised in line with the energy consumption by each eligible customer throughout the scheme periods. The income recognised in line with IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' ("IAS 20") has been recorded in Revenue – Revenue received from government support schemes in the Income statement as the funding is support for lost customer revenue. There is no difference in the timing of the recognition of this revenue under IAS 20 compared to under IFRS15 had the schemes not be in place. As the grant funding is paid in arrears, the amounts due from the UK Government has been accrued within Other receivables – Receivables in respect of government support schemes on the Statement of financial position until paid.

(b) Other revenues

Other revenues, comprises various revenue streams which are all individually immaterial, including revenues in relation to the Smart Solutions business. For each revenue stream, revenue is recognised based on the consideration specified in the relevant contract with the customers, to the extent that it is highly probable that a significant reversal in the amount

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

of cumulative revenue recognised will not occur in the future. As relevant for each revenue stream, and in line with the performance obligations in each contract, the Company recognises revenue either at a specific point in time or over a period of time based on when control is transferred to the customer.

J PROCUREMENTS

Procurements are principally the cost of electricity and gas purchased in relation to energy supply, and related direct costs and services for the of use of the energy network. Costs are recorded on an accruals basis.

K OTHER OPERATING RESULTS

Other operating results is principally comprised of recharges of Company activities to other Iberdrola Group companies.

L FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the spot rate at the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date, with exchange gains and losses recognised in Finance income and costs in the Income statement.

M TAXATION

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

Deferred tax is the tax expected to be payable, or recoverable, on the difference between the carrying amounts of assets and liabilities in the Statement of financial position and the corresponding tax bases used in the computation of taxable profits (temporary differences) and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, unused tax losses or credits can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the period in which the liability is expected to be settled, or the asset realised, based on tax rates and laws enacted, or substantively enacted, at the reporting date. Deferred tax is charged to the Income statement, except where it relates to items charged or credited to equity (via the Statement of comprehensive income), in which case the deferred tax is also recognised in equity and is shown in the Statement of comprehensive income.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or shown in the Statement of comprehensive income. For income tax arising on dividends, the related tax is recognised in the Income statement, Statement of other comprehensive income, or in equity consistently with the transactions that generated the distributable profits.

N GOVERNMENT SUPPORT SCHEMES – ENERGY BILLS SUPPORT SCHEME AND ALTERNATIVE FUEL PAYMENT SCHEMES

The Company participated in the EBSS and Alternative Fuel Payment ("AFP") schemes which were designed to support energy customers in GB through the cost of living crisis, running alongside the EPG and EBRS schemes discussed at Note 2I above. The EBSS was effective from 25 September 2022 and required suppliers to provide £400 to domestic electricity customers between October 2022 and March 2023. The Domestic AFP scheme, which was effective from 25 January 2023 and ran for one year, required suppliers to provide £200 to domestic users of alternative fuels who they had a contractual relationship with. The equivalent AFP scheme for non-domestic users of alternative fuels was effective from 8 February 2023 and ran for one year and required suppliers to provide a payment of £150. The Company generally received funding from the UK Government in advance of the payments being made to customers. The funds were recorded as Other payables – Payables in respect of government support schemes until the customer payments were made. Income was recognised as Revenue – Revenue received from government support schemes in the Income statement upon making the customer payment. In line with IFRS 15, the consideration payable to the customer was recorded as a reduction to Revenue. Where customer payments were made in advance of the government funding being received, the costs were recorded as prepaid scheme obligation costs. The Company was restricted in how it could use the cash received from the UK Government and held a ring-fenced bank account in relation to the EBSS. The restrictions did not change the nature of the assets, only the purpose for which they could be used, thus the funds were considered as a component of Cash equivalents.

3 INTANGIBLE ASSETS

Year ended 31 December 2023	Note	Computer software £m	Customer contract costs £m	Total £m
Cost:				
At 1 January 2023		326.4	214.0	540.4
Additions	(a)	21.5	21.0	42.5
Disposals		(1.3)	(86.5)	(87.8)
At 31 December 2023		**346.6**	**148.5**	**495.1**
Amortisation:				
At 1 January 2023		300.5	124.7	425.2
Amortisation for the year		15.3	54.1	69.4
Disposals		(1.3)	(86.5)	(87.8)
At 31 December 2023		**314.5**	**92.3**	**406.8**
Net book value:				
At 31 December 2023		**32.1**	**56.2**	**88.3**
At 1 January 2023		25.9	89.3	115.2

(a) Included within computer software additions is £0.1 million (2022 £1.1 million) from internal development.
(b) The cost of fully amortised computer software still in use at 31 December 2023 was £289.6 million (2022 £278.9 million).
(c) Computer software includes SaaS cloud arrangements with a carrying value of £1.9 million (2022 £nil).

4 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment in use

Year ended 31 December 2023	Smart meters and measuring devices £m	Other facilities (Note (i)) £m	Other items of property, plant and equipment in use (Note (ii)) £m	Plant in the course of construction £m	Total £m
Cost:					
At 1 January 2023	10.8	203.4	23.3	-	237.5
Additions	0.1	4.8	0.1	0.6	5.6
At 31 December 2023	**10.9**	**208.2**	**23.4**	**0.6**	**243.1**
Depreciation:					
At 1 January 2023	9.1	75.6	11.2	-	95.9
Depreciation for the year	0.4	15.4	1.0	-	16.8
At 31 December 2023	**9.5**	**91.0**	**12.2**	**-**	**112.7**
Net book value:					
At 31 December 2023	**1.4**	**117.2**	**11.2**	**0.6**	**130.4**
At 1 January 2023	1.7	127.8	12.1	-	141.6
The net book value of property plant and equipment at 31 December 2023 is analysed as follows:					
Property, plant and equipment in use	1.4	117.2	11.2	-	129.8
Property, plant and equipment in the course of	-	-	-	0.6	0.6
	1.4	117.2	11.2	0.6	130.4

(i) Other facilities comprises smart meter infrastructure assets.
(ii) Other items of property, plant and equipment principally comprises land and buildings, and IT equipment.
(iii) The cost of fully depreciated property, plant and equipment still in use at 31 December 2023 was £16.3 million (2022 £13.8 million).
(iv) Included within the cost of property, plant and equipment at 31 December 2023 are assets in use not subject to depreciation, being land, of £0.2 million (2022 £0.2 million).

(b) Capital commitments

The Company had £0.5 million (2022 £2.0 million) of capital commitments at 31 December 2023 expected to be settled within one year in both the current and prior year.

5 LEASES

The Company leases buildings and vehicles. Information about leases for which the Company is a lessee is presented below.

(a) Nature of leases

Buildings

The Company leases buildings primarily for office space. The leases have terms of between 22 and 24 years. Certain leases have options to terminate subject to a notice period typically of up to one month.

Some leases of buildings contain extension options exercisable by the Company at the end of the non-cancellable contract period or an agreed point before that date. Where practicable, the Company seeks to include extension options in leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. At lease commencement, the Company will assess whether it is reasonably certain to exercise the extension options and reassesses this if there is a significant event or change in circumstances within its control.

Vehicles

The Company leases vehicles with lease terms of four to six years, primarily being pool vehicles to mobilise its operational staff.

Other information

The Company has not committed to any leases that have not yet commenced. The Company has no contracts containing residual value guarantee, no leases subject to significant restrictions or covenants and no sale and leaseback transactions.

(b) Right-of-use assets

Year ended 31 December 2022	Note	Buildings £m	Vehicles £m	Total £m
Cost:				
At 1 January 2022		0.4	0.7	1.1
Adjustments for changes in liabilities	(i)	0.1	-	0.1
At 31 December 2022		0.5	0.7	1.2
Depreciation:				
At 1 January 2022		0.3	0.4	0.7
Charge for the year		0.2	0.2	0.4
At 31 December 2022		0.5	0.6	1.1
Net book value:				
At 31 December 2022		-	0.1	0.1
At 1 January 2022		0.1	0.3	0.4

5 LEASES *continued*

Year ended 31 December 2023	Note	Buildings £m	Vehicles £m	Total £m
Cost:				
At 1 January 2023		0.5	0.7	1.2
Adjustments for changes in liabilities	(i)	0.2	0.1	0.3
At 31 December 2023		**0.7**	**0.8**	**1.5**
Depreciation:				
At 1 January 2023		0.5	0.6	1.1
Charge for the year		0.1	0.1	0.2
At 31 December 2023		**0.6**	**0.7**	**1.3**
Net book value:				
At 31 December 2023		**0.1**	**0.1**	**0.2**
At 1 January 2023		-	0.1	0.1

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

(c) Lease liabilities

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

	2023 £m	2022 £m
Less than one year	0.2	0.1
One to five years	0.1	-
Total undiscounted lease liabilities at 31 December	**0.3**	**0.1**
Finance cost	(0.1)	-
Total discounted lease liabilities	**0.2**	**0.1**

Analysis of total lease liabilities	2023 £m	2022 £m
Non-current	0.1	-
Current	0.1	0.1
Total	**0.2**	**0.1**

Details of ScottishPower's, and therefore the Company's, risk management strategy for liquidity risks inherent in its lease liability are described in the Financial Instruments section of the Strategic Report.

(d) Total cash outflow for leases

	2023 £m	2022 £m
Total cash outflow for leases	(0.3)	(0.3)

6 TRADE AND OTHER RECEIVABLES

	Notes	2023 £m	2022 £m
Current trade and other receivables:			
Receivables due from Iberdrola group companies - trade and other	(a)	**21.8**	21.7
Receivables due from Iberdrola group companies - loans	(b)	**407.2**	570.1
Receivables due from Iberdrola group companies - interest		**29.3**	0.2
Trade receivables (including unbilled revenue)	(c)	**944.6**	995.6
Prepayments		**0.6**	1.1
Receivables in respect of government support schemes	(d)	**38.9**	122.0
Other receivables	(a)	**29.5**	25.3
	(e)	**1,471.9**	1,736.0

Non-current trade and other receivables:		
Other receivables	**-**	9.2

(a) The Company utilises forms of collateral, externally and internally with ScottishPower companies, to manage its credit exposure in respect of the provision of network services. All collateral posted is settled in cash. At 31 December 2023, the Company posted cash collateral of £42.5 million (2022 £38.1 million) and posted letters of credit of £28.3 million (2022 £15.7 million).

(b) Current loans due from Iberdrola Group companies are receivable on demand with interest linked to the Bank of England base rate ("Base").

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

(d) At 31 December 2023, the Company had receivables due from the UK Government of £35.0 million (2022 £52.5 million), £2.2 million (2022 £60.7 million) and £1.7 million (2022 £nil) relating to the EPG, EBRS and EBDS schemes respectively. At December 31 2022 this balance also included £8.8 million of prepaid EBSS obligation costs relating to payments made to certain customers in advance of the year end.

(e) The following table provides information about IFRS 15 contract balances included within Trade and other receivables.

	2023 £m	2022 £m
IFRS 15 Receivables	**964.8**	973.7

£201.2 million (2022 £82.1 million) of impairment losses were recognised during the year on IFRS 15 Receivables arising from the Company's contracts with customers.

7 DEFERRED TAX

Deferred tax recognised in the Accounts is as follows:

	Note	Property, plant and equipment £m	Derivative financial instruments £m	Trading losses £m	Other temporary differences £m	Total £m
At 1 January 2022		4.6	-	-	(0.4)	4.2
Credit to the income statement		(1.0)	-	(18.9)	(0.8)	(20.7)
At 1 January 2023		3.6	-	(18.9)	(1.2)	(16.5)
Charge to the income statement		0.5	-	18.9	1.0	20.4
Recorded in the Statement of comprehensive income		-	(0.1)	-	-	(0.1)
At 31 December 2023	(a)	**4.1**	**(0.1)**	**-**	**(0.2)**	**3.8**

(a) Legislation was enacted on 10 June 2021 under the Finance Act 2021 that increased the UK Corporation tax rate to 25% from 1 April 2023. Accordingly, the deferred tax balances at 31 December 2023 have been provided at 25%, to reflect the rate that the temporary differences are expected to reverse at.

(b) At 31 December 2023, the Company had unutilised capital losses of £15.1 million (2022 £15.1 million). No deferred tax asset was recognised in either year due to the unpredictability of suitable future profit streams against which these losses may be utilised.

8 INVENTORIES

	Notes	2023 £m	2022 £m
ROCs	(a)	**236.8**	256.8
Other inventories		**1.0**	0.6
	(b)	**237.8**	257.4

(a) ROCs surrendered in the year are used to settle the provision for the Renewables Obligation. Refer to Note 2G and Note 9.
(b) Inventories with a value of £382.3 million (2022 £426.6 million) were recognised as an expense in the year.

9 PROVISIONS

Year ended 31 December 2022	Notes	At 1 January 2022 £m	New provisions £m	Utilised during year £m	Released during year £m	At 31 December 2022 £m
Reorganisation and restructuring	(a)	4.8	5.3	(5.8)	(1.5)	2.8
Renewables Obligation	(b)	344.7	434.1	(452.1)	-	326.7
Onerous contracts	(c)	60.0	-	(60.0)	-	-
Other	(d)	1.4	-	-	-	1.4
		410.9	439.4	(517.9)	(1.5)	330.9

Year ended 31 December 2023	Notes	At 1 January 2023 £m	New provisions £m	Utilised during year £m	Released during year £m	**At 31 December 2023 £m**
Reorganisation and restructuring	(a)	2.8	-	(2.7)	(0.1)	**-**
Renewables Obligation	(b)	326.7	388.7	(432.5)	-	**282.9**
Other	(d)	1.4	5.3	-	(0.1)	**6.6**
		330.9	394.0	(435.2)	(0.2)	**289.5**

Analysis of total provisions	2023 £m	2022 £m
Non-current	**-**	4.1
Current	**289.5**	326.8
	289.5	330.9

(a) The opening provision in 2022 related to a restructuring programme that launched in 2021 and increased during 2022 to reflect various factors impacting upon operational performance and overall future profitability of the Company. The majority of the provision was utilised or released during 2022 with the remaining balance being fully utilised or released in 2023.
(b) The provision for Renewables Obligation at 31 December 2023 principally represents the value of ROCs for 2023 expected to be delivered in 2024. The utilisation of £432.5 million in the year represents the ROCs surrendered to meet the annual RO. The provision is not discounted. Refer to Note 2G for the accounting policy.
(c) The provision at 1 January 2022 of £60.0 million, relating to retail energy onerous contracts was fully utilised by 31 December 2022. At 31 December 2022, those contracts were no longer onerous as the economic benefits expected to be received from them exceeded the unavoidable costs of meeting the obligations under the contracts.
(d) The provisions at both 31 December 2023 and 31 December 2022 are not individually material to warrant separate disclosure.

10 TRADE AND OTHER PAYABLES

	Notes	2023 £m	2022 £m
Current trade and other payables			
Payables due to Iberdrola group companies and joint ventures		762.8	1,548.0
Trade payables		224.0	170.2
Other taxes and social security		77.4	112.3
Payments received on account		1.5	0.5
Capital payables and accruals		21.8	23.2
Payables in respect of government support schemes	(a)	-	174.1
Other payables	(b), (c)	541.2	469.6
	(d)	1,628.7	2,497.9

	Notes	2023 £m	2022 £m
Non-current trade and other payables			
Other payables	(c)	0.5	1.0

(a) This balance primarily reflected funds received from the UK Government in relation to the EBSS which had not yet been paid to customers.

(b) The Company utilises forms of external collateral to manage its credit exposure in respect of business customer accounts. All collateral held is settled in cash. At 31 December 2023, the Company held cash collateral of £1.4 million (2022 £3.9 million) and letters of credit of £5.3 million (2022 £5.3 million).

(c) Included within Other payables is a balance of £533.3 million (£459.8 million) relating to net DD customer credits (comprising customer credits of £894.6 million (2022 £885.4 million) in excess of £426.7 million (2022 £442.8 million) of unbilled receivables) and a £65.4 million (2022 £17.2 million) provision in relation to energy volumes which have still to reach final settlement.

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

	2023 £m	2022 £m
Contract liabilites	534.8	634.4

Contract liabilities consists of direct debit customer payments that are in excess of the associated units of energy delivered and final customer credits. The amount of contract liabilities recognised as income in the year is £436.8 million (2022 £85.4 million). This £351.4 million increase is primarily due to the unwind of unbilled DD and credits.

11 REVENUE

Disaggregation of revenue

	Notes	2023 £m	2022 £m
Supply of electricity	(a), (b)	4,467.4	4,234.8
Supply of gas	(a), (b)	1,709.9	1,511.8
Revenue received from government support schemes	(c)	1,426.2	591.5
Other		7.1	8.3
	(d)	7,610.6	6,346.4

(a) As explained in Accrued 'unbilled' revenue as part of Note 2 and Note 21, Revenue from the supply of electricity and gas includes an estimate of the units supplied to customers between the date of their last meter reading and the year end.

(b) Revenue received for the year ended 31 December 2023 in respect of the EBSS and domestic and non-domestic AFP schemes (accounted for under IFRS 15) was £509.1 million (2022 £498.5 million), £39.7 million (2022 £nil), and £4.8 million (2022 £nil) respectively. All revenue received in respect of government schemes accounted for under IFRS 15 is offset by an an equal amount paid to the customer.

(c) Revenue received for the year ended 31 December 2023 in respect of the EPG, EBRS, and EBDS schemes (accounted for as government grants) was £1,322.8 million (2022 £513.6 million), £91.3 million (2022 £77.9 million), and £12.1 million (2022 £nil) respectively.

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

12 EMPLOYEE INFORMATION

(a) Staff costs

	2023 £m	2022 £m
Wages and salaries	48.4	51.9
Social security costs	5.0	5.6
Pension and other costs	9.5	15.1
Total staff costs	**62.9**	72.6
Capitalised staff costs	(0.1)	(1.1)
Charged to the income statement	**62.8**	71.5

(b) Employee numbers

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

	Average 2023	Average 2022
Administrative staff	523	635
Operations	402	522
Total	**925**	1,157

(c) Retirement benefits

The Company's contributions payable in the year were £7.2 million (2022 £15.2 million). The Company contributes to ScottishPower's defined benefit and defined contribution schemes in the UK and the contributions payable in the year reflect the contributions payable in respect of active participants in the group schemes who are employed by the Company. Full details of these schemes are provided in the most recent Annual Report and Accounts of SPUK, the intermediate holding company and the sponsoring company of the retirement benefit schemes. As at 31 December 2023, the surplus in ScottishPower's defined benefit schemes in the UK amounted to £123.2 million (2022 £240.0 million). The employer contribution rate for these schemes in the year ended 31 December 2023 was 52.9-53.4%.

13 TAXES OTHER THAN INCOME TAX

	Note	2023 £m	2022 £m
Other taxes	(a)	**181.8**	77.8

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

14 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2023 £m	2022 £m
Property, plant and equipment depreciation charge	**16.8**	16.6
Right-of-use asset depreciation charge	**0.2**	0.4
Intangible asset amortisation charge	**69.4**	96.1
	86.4	113.1

15 FINANCE INCOME

	2023 £m	2022 £m
Interest on bank and other deposits	**2.1**	-
Interest receivable from Iberdrola Group companies	**29.8**	0.4
Foreign exchange gains	**0.1**	0.1
	32.0	0.5

16 FINANCE COSTS

	2023 £m	2022 £m
Interest on bank loans and overdrafts	0.9	-
Interest on other borrowings	0.3	-
Interest on lease liabilities	0.1	-
Foreign exchange losses	0.1	0.2
	1.4	0.2

17 INCOME TAX

	2023 £m	2022 £m
Current tax:		
UK Corporation Tax for the year	62.2	(46.4)
Adjustments in respect of prior years	39.4	2.4
Current tax for the year	101.6	(44.0)
Deferred tax:		
Origination and reversal of temporary differences	69.8	(14.7)
Adjustments in respect of prior years	(49.5)	(2.6)
Impact of tax rate change on current year charge	0.1	(3.4)
Deferred tax for the year	20.4	(20.7)
Income tax for the year	122.0	(64.7)

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

	2023 £m	2022 £m
Corporation Tax at 23.5% (2022 19%)	130.8	(61.3)
Adjustments in respect of prior years	(10.1)	(0.2)
Impact of tax rate change on current year tax	0.1	(3.4)
Non-deductible expenses and other permanent differences	1.2	0.2
Income tax for the year	122.0	(64.7)

Legislation was enacted on 10 June 2021 under the Finance Act 2021 that increased the UK Corporation tax rate to 25% from 1 April 2023. Accordingly, the deferred tax balances at 31 December 2023 have been provided at 25%, to reflect the rate that the temporary differences are expected to reverse at.

18 FINANCIAL COMMITMENTS

2023	2024 £m	2025 £m	2026 £m	2027 £m	2028 £m	2029 and thereafter £m	Total £m
Other contractual commitments	18.6	-	-	-	-	-	18.6

2022	2023 £m	2024 £m	2025 £m	2026 £m	2027 £m	2028 and thereafter £m	Total £m
Other contractual commitments	30.8	0.4	-	-	-	-	31.2

19 RELATED PARTY TRANSACTIONS

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

	2023	2022
	Other Iberdrola Group companies	Other Iberdrola Group companies
	£m	£m
Types of transaction		
Sales and rendering of services	-	0.5
Purchases and receipt of services	(252.2)	(468.8)
Balances outstanding		
Trade and other receivables	0.6	0.5
Trade and other payables	(32.8)	(50.6)

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

(b) Directors' remuneration

The remuneration of the directors that provided qualifying services to the Company is shown below. As these directors are remunerated for their work for the group headed by SPRHL, it has not been possible to apportion the remuneration specifically in respect of services to this company. Both (2022 both) of the directors who served during the year were remunerated directly by the Company.

	2023	2022
	£000	£000
Aggregate remuneration in respect of qualifying services	658	559
Number of directors who exercised share options	2	2
Number of directors who received shares under a long-term incentive scheme	2	2
Number of directors accruing retirement benefits under a defined benefit scheme	2	2

	2023	2022
Highest paid director	£000	£000
Aggregate remuneration	471	388
Accrued pension benefit	82	77

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

(c) Immediate and ultimate parent company

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

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

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

The Company has no other related undertakings in addition to the parent undertakings as disclosed above.

20 AUDITOR'S REMUNERATION

	2023	2022
	£m	£m
Audit of the Annual accounts	0.7	0.6