SP TRANSMISSION PLC
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2023

Registered No. SC189126

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SP TRANSMISSION PLC
STRATEGIC REPORT

The directors present their Strategic Report on SP Transmission plc ("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 SC189126, is the ownership of the electricity transmission network within the Central and Southern Scotland area. In accordance with the British Electricity Trading and Transmission Arrangements, National Grid ESO operates the Great Britain transmission system, including balancing of generation and demand in Scotland. The Company retains network ownership and all associated responsibilities including development of the network. 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 Energy Networks Holdings Limited ("SPENH"), the holding company of the Scottish Power Energy Networks Holdings Limited group ("SPENH Group" or "Energy Networks"). Scottish Power Limited ("SPL") is the United Kingdom ("UK") holding company of the Scottish Power Limited Group ("ScottishPower") of which the Company is a member.

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

The Company is a transmission network owner. The electricity transmission network consists of the high-voltage electricity wires that transport electricity from power stations to distribution system entry points or, in certain cases, direct to end-users' premises via a national network of high-voltage assets.

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

STRATEGIC OUTLOOK

Operating review

In April 2023, the Company moved into the third year of the five-year RIIO-T2 (Revenue = Incentives + Innovation + Outputs) price control period and the Company is still on track to deliver its agreed outputs during the remainder of the price control period.

The publication of the National Grid ESO's Holistic Network Design ("HND") identified a need for strategic investments of more than £5 billion in the Company's transmission projects in South and Central Scotland by 2030. The Company continues to develop plans to deliver these significant investments which are key enablers to net zero targets.

In July 2022, Ofgem approved the Final Needs Case for the multibillion-pound Eastern High Voltage Direct Current ("HVDC") link project. A multi-disciplinary project delivery team has been established to drive the project forward from design through to construction and operation. In August 2023, the Company acquired 50% of the issued share capital in Eastern Green Link 1 Limited, a recently incorporated company, to establish an incorporated joint arrangement with National Grid Electricity Transmission plc to deliver the project and submitted a Project Assessment document to Ofgem. Ofgem formed a positive 'minded to' position in terms of project allowances in November 2023 with the signing of significant contracts for the HVDC converter stations and cable taking place around the same time.

Values in action

As a network operator serving communities across Scotland, the Company has a critical role to play in supporting regional and national decarbonisation ambitions. The Company is focused on providing a business in direct alignment with the priorities of customers and stakeholders to tackle climate change, and deliver the infrastructure and services required to achieve net zero. The Company's journey to a net zero future is already well underway with anticipated target date of 2035 which is in advance of both the Scottish and UK Government's targets of 2045 and 2050 respectively.

STRATEGIC OUTLOOK *continued*

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

Furthermore, the Company is supporting societal decarbonisation by enabling low-carbon generation to be connected to the network. The Company is a major enabler on the UK journey to net zero and this is embedded in Ofgem's price control mechanisms including reductions in the Company's carbon footprint through investment in low-loss transformers.

2023 Performance

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

	Revenue (Note (a))		Operating profit (Note (a))		Capital investment (Note (b))	
	2023	2022	**2023**	2022	**2023**	2022
Financial key performance indicators ("KPIs")	**£m**	£m	**£m**	£m	**£m**	£m
SP Transmission plc	**518.3**	389.6	**305.6**	212.0	**422.0**	218.4

(a) Revenue and Operating profit are presented in the Income statement on page 23.

(b) Represents additions to Property, plant and equipment, reassessment of decommissioning assets within Property, plant and equipment, and additions to Intangible assets. Refer to Note 3 on page 32. Additions to intangible assets totalled £1.8 million in the year. 2022 Capital investment of £235.9 million as previously reported has been restated to reflect reassessment of decommissioning assets recorded within Property, plant and equipment in the prior year which totalled £(17.5) million. The financial statements in the current and prior year are unaffected by the restatement of the KPI.

Allowable transmission revenues have increased under RIIO-T2 by £128.7 million reflecting increased use of system charges from network investment.

Operating profit increased by £93.6 million mainly as a result of the increased allowable revenue pricing noted above which was partly offset by increased operating costs and provisioning.

The Company's capital expenditure increased by £203.6 million reflecting higher transmission related investment to facilitate net zero targets. Higher levels of investment are expected to continue to facilitate UK net zero targets as the Company progresses through RIIO-T2.

Under the Interruptions Incentive Scheme of the RIIO Regulatory regime, the Company is incentivised based on its performance against annual targets for the reliability of the transmission network. The Annual Reliability of Supply measure, provided by the system operator, National Grid ESO, is the Non-financial KPI of the Company. As the Company is required to prepare regulatory financial performance reporting for the years ending 31 March, reporting of this Non-financial KPI is aligned to the regulatory year end. The Company's Annual Reliability of Supply measure for the year ended 31 March 2023 was 99.99% (2022 99.99%).

Statement of financial position

Net assets of the Company increased by £80.8 million in the year to £983.8 million. This primarily reflects the impact of the statutory profit of £167.6 million offset by dividends of £85.9 million paid to the parent.

Property, plant and equipment increased in the year by £321.2 million to £3,703.9 million. This is primarily due to additions of £421.9 million to facilitate net zero targets offset by a total depreciation charge in the year of £100.6 million.

Current trade and other receivables increased by £100.1 million to £126.7 million. This is primarily due to an increase in loans receivable from Iberdrola Group companies.

Current trade and other payables increased by £144.8 million to £382.1 million. This is primarily due to an increase in capital payables and accruals.

Total loans and other borrowings rose by £147.6 million to £1,922.8 million primarily due to an increase in loans due to Iberdrola Group companies.

Outlook for 2024 and beyond

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

STRATEGIC OUTLOOK *continued*

A key focus for 2024 will be the targeted delivery of increased activity for the next year of RIIO-T2 including increased staff resourcing and placement of key contracts.

FINANCIAL INSTRUMENTS

The Company's financial instruments include Trade and other receivables, Loans receivable from Iberdrola Group companies, Cash, Trade and other payables and Loans and other borrowings. The Company has exposure to credit risk and treasury risk (comprising both liquidity and market risk) arising from these financial instruments.

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. Credit risk from Iberdrola Group companies is considered to be low as no Iberdrola Group company has a credit rating lower than BBB+ (in line with S&P Global Ratings).

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). The Company's liquidity position and short-term financing activities are integrated and aligned with both ScottishPower's and Iberdrola's. ScottishPower operates and manages a centralised cash management model within the UK, with liquidity being managed at a ScottishPower level.

Both liquidity and market risk 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 which comprise long-term loans and the on-demand facility with SPUK. Additional short-term cover is provided by the undrawn committed revolving credit facility arrangement with SPUK for £250.0 million (Refer to Note 9(g)).

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 on pages 3 to 5.

RISK	RESPONSE
Regulatory and political 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.
Specific areas: ***Price controls*** Failure to deliver the Company's transmission outputs agreed with Ofgem in the price control under the RIIO framework.	Mitigating actions include formulating detailed investment, resource, outage, contingency plans supported by an extensive procurement strategy and having a funding strategy in place to support delivery. Good communication and coordination of activities across the business is integral to success, complemented by a comprehensive monitoring regime that provides early warning of potential issues.
UK general election A UK general election will take place on 4 July 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*

RISK	RESPONSE
Global financial market volatility Impacts arising from market and regulatory reactions to events including global conflicts. As well as positive or negative changes in the UK economy, including increased volatility on the value of Sterling and foreign currencies.	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 adheres to a ScottishPower treasury risk management policy to mitigate financial risks.
Climate change 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, or that climate change has a significant impact on the Company's assets.	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; • sourcing material resources responsibly, cutting waste and encouraging reuse and recycling; and • protecting natural habitats and restoring biodiversity.
Health and safety 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.
Recruitment and retention of staff Increased and appropriate resources with the correct capabilities are required to grow the Company. The increased retiral rate and challenging RIIO-T2 programme requires substantial recruitment in the coming years.	Extensive focus on retention and strategic workforce planning in order to build key capabilities and future skills with targeted learning and development opportunities. Design and implementation of appropriate retention enhancement strategies. Increased size and skill set of the ScottishPower recruitment team.
Supply chain Interruption due to post-lockdown inabilities to restart efficient supply chains, made worse by global conflicts, higher costs due to commodity prices, increased risk of supplier failure due to the deterioration of industrialised economies and excess demand over supply.	Identifying potential shortages, delays and gaps in the supply of products, equipment and labour. The supply chain is advised by the ScottishPower Procurement department in conjunction with advice from the Scottish Power Compliance, Legal and Risk departments. The upward pressure on costs due to the macroeconomic environment is managed, and strategies, such as hedging and expanding the Company's supplier base, are developed and implemented. The risk is spread through supply chain engagement.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

RISK	RESPONSE
Cyber security 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.
Project delivery Failure to deliver large and complex projects on time and within budget.	The Company has a strong track record in delivering large-scale engineering projects with significant experience from developing numerous major projects. Project delivery is supported by the use of established and experienced suppliers and advisors, along with robust financial management including appropriate foreign exchange hedging and funding strategy. Continue constructive engagement with Ofgem on plan deliverability and regulatory regime around HND projects.
Reduced security of supply Reduced security of supply due to potential asset failures alongside decreased generation capacity. Reduced security of supply has the potential to disrupt many of the Company's customers, in both the Company's licence areas and beyond.	Risk-based asset investment programme in place, business continuity and emergency planning well established including Electricity System Restoration Strategic spares policy in place. Continuing engagement with Ofgem on the resilience of the British network.
Risks of interruptions to net zero timescales Network operators are key facilitators to governments' net zero ambitions and the failure of the Company to respond to customers' changing requirements through the low-carbon transition (for example EVs, distributed generation and storage) could result in a failure to meet these targets.	Mitigating actions influencing developments at industry forums, undertaking scenario modelling of the impact of low-carbon technologies, considering technical and commercial innovation projects and engaging with key stakeholders.

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 believes strongly that effective and meaningful engagement with stakeholders 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, is set out on pages 6 to 9.

Key stakeholders

ScottishPower, and therefore Energy Networks and 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, institutions, organisations and groups. All of them, with their decisions and opinions, influence the Company, and they 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

The Company employs 518 employees, working across a range of roles. The employees make a real difference in determining how successfully the Company operates. The creativity, innovation and individuality of the Company's employees enables it 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 organisation goes beyond having legally compliant policies and practices; it includes a focus on creating an innovative, integrated organisation where people feel valued, inspiring them to perform at their best.

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

Details of the following areas in relation to employee engagement which apply fully to the Company are provided in the most recent Annual Report and Accounts of SPL:

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

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: https://www.scottishpower.com / 'Sustainability'/ 'Sustainable business'/'ScottishPower's Modern Slavery Statement'.

ENGAGING WITH STAKEHOLDERS *continued*

ENERGY CUSTOMERS

Customers have every right to expect a good experience when they interact with the Company – whatever the reason. The Company is committed to delivering this, and to improving year-on-year against the standard industry-wide metrics.

Understanding and responding to its customers' needs is not only deep-rooted in the Company's culture but is also essential to meeting the goals it has developed with stakeholders to guide its future plans. As part of the RIIO-T2 transmission price control business plan, the Company is committed to improving the quality of service provided to its customers as measured through the Quality of Connections survey, more commonly known as the 'Moments that Matter'. For the second year of RIIO-T2 (Regulatory year 2022/23) customers rated the Company at 8.2, against a benchmark of 7.7.

Power cut support services

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

Engaging with stakeholders

To ensure the Company's strategy continues to be fit for purpose, Energy Networks enlists AccountAbility, an independent company, who own the global standard for stakeholder engagement (AA100000SE), to conduct a full health check audit of engagement strategy and processes. This is done to support a programme of continuous improvement and the development of high-quality stakeholder engagement practices.

Energy Networks achieved 89% in the 2023 AccountAbility audit; obtaining the highest categorisation possible ('Advanced'). This represents an overall improvement of 23% since the first audit in 2018. The Company will continue to refine and develop strategy and initiatives in respect of both stakeholder engagement and consumer vulnerability. Examples include creating Strategic Optimiser teams to act as a conduit between local authorities and the technical optioneering for low carbon technology, offering significant time and cost efficiencies, through local authorities having access to expert electricity network knowledge and the launch of a new Customer Relationship Management system.

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

Maintaining a reliable supply of electricity

Society rightly expects to consistently receive a reliable supply of electricity at the flick of a switch, which is why the Company strived to exceed its regulatory price control commitments. The Company serves its customers with 99.99% reliability protecting the most vulnerable and ensuring supply to critical sites such as hospitals, nursing homes, water treatment works and food supply businesses.

Ensuring a just transition

Energy Networks published its own Just Transition Strategy in 2023, setting out the steps it will take to embed the principles of a fair and equitable transition into everything it does.

ENGAGING WITH STAKEHOLDERS *continued*

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.

The Company has continued its engagement with the UK Government, Ofgem and other stakeholders on the RIIO-T2 price control, highlighting the need for appropriate levels of ambition towards achieving net zero and appropriate incentive mechanisms for network investment.

The Company has contributed to the wider external debate about the government and regulatory measures required to tackle the critical backlog in network connections for new renewables projects. The Company welcomed Ofgem's decision to proceed with the introduction of the Accelerated Strategic Network Investment ("ASTI") regulatory framework and is working to take forward vital new transmission infrastructure on the East Coast of the UK under this scheme.

In interactions with the UK Government and the devolved administrations the Company has highlighted the need to streamline the planning and consenting process for major new energy infrastructure projects, including updating the National Policy Statements governing planning applications in England and Wales. The Company also welcomed the Government's 'Transmission Acceleration Action Plan', published in November 2023 in response to the Winser report from the UK Government's first Electricity Networks Commissioner. This plan sets out reforms which aim to halve the time taken to build new transmission infrastructure from around 14 years to seven years. Alongside this, the UK Government published jointly with Ofgem a 'Connections Action Plan' setting out reforms which the Government estimates will reduce overall connection delays from five years to six months and could free up over 100 GW of capacity.

Strategic transmission projects (including ASTI)

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

Strategic connections development

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

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.

ENGAGING WITH STAKEHOLDERS *continued*
As part of ScottishPower, whose mission it is to create a better future, quicker, the Company is always looking for new suppliers and contractors, and for ways to improve its working relationships with existing suppliers and contractors. 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. The Company has built in cyber security checks and monitoring as part of its tendering and supply chain relationships.

Engagement with the supply chain is always a critical activity for the Company but continues to become more important as the Company adapts to the current geopolitical and macroeconomic challenges in addition to the post-pandemic recovery and Brexit transition, which have also impacted the supply chain. Refer to the 'Principal risks and uncertainties' section for further details.

COMMUNITY AND ENVIRONMENT

Community
The Company continually strives to be a trusted, respected and integrated part of the community, by operating with integrity, transparency, and working closely within the community to build relationships. The Company is committed to being a good neighbour throughout all of its operations to ensure the benefits are realised in local areas by helping to create local employment and enabling improvements to local infrastructure and services.

Community liaison
As the Company progresses the significant volume of activity involved around its key infrastructure during the RIIO-T2 price control period, the importance of ensuring local communities and indeed, all stakeholders are made aware of proposals and projects taking place at the Company's substations and overhead lines in their areas has never been greater. The Company prioritises building and maintaining close relationships with local communities across Central and Southern Scotland as it delivers work with each major project being assessed as to how it might potentially impact the community. The community liaison team speak with local residents and business in advance of work commencing with contact details being provided should the need arise at any stage. Elected members in the form of community councils and ward councillors who play a central role in communities are also advised of activities.

Supporting local communities
The Company enjoys providing support to communities and its engagement takes place in a variety of ways. The Company attends agricultural shows across its area with its events trailer. The Company has been involved in a large number of careers events and science, technology, engineering and mathematics inputs at schools which are always well received and a group of senior pupils from Lesmahagow High School enjoyed visiting the extension project at Coalburn Substation in South Lanarkshire to learn about the network and see first-hand the cluster of work planned around the substation.

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

One notable example of waste avoidance and reuse of assets was the Mossmorran 132 kilovolts ("kV") switchgear replacement project. Following an inspection, the concrete foundations were found to be in a condition that they could be refurbished and reused. The foundations were cleaned, repaired, and treated with an epoxy layer providing shielding from the elements, adding around 40 years to the lifespan of the concrete. This avoided the need to demolish and transfer the waste off site, reducing the potential carbon emissions from the works. By refurbishing the existing assets, 247m3 of concrete was reused and 106 tCO2e was saved, equivalent to the running of 39 households for one year.

INNOVATION
The Company's RIIO-T2 Innovation Strategy focusses on the key energy transition challenges expected to be faced by the Company's transmission network and reiterates the Company's commitment to its customers and stakeholders. The Innovation Strategy comprises four 'Innovation Clusters' which have been mapped against the ENA's 'Innovation Themes': 'Network Modernisation', 'Network Flexibility', 'System Security and Stability', and 'Digitalisation of Power Network'. These clusters are driving the Company's innovation delivery ensuring it develops a balanced Network Innovation Allowance portfolio.

SECTION 172 STATEMENT

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

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

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

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

The delivery of the strategy of the SPENH Group, of which the Company is a member, requires the 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 believe strongly that effective and meaningful engagement with stakeholders and employees is key to promoting the success of the Company. Details of the key stakeholders of the Company, and how they engage with them are as follows:

- **Customers:** details of how the Company engages with its customers are explained in the 'Energy customers' sub-section of the Strategic Report, on page 7. 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 Energy Networks, and so the Company, engages with its employees are set out in in the 'People' sub-section of the Strategic Report, on page 6. 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' sub-section of the Strategic Report, on page 9. 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 Energy Networks, and so the Company, engages with its suppliers are set out in the 'Suppliers and contractors' sub-section of the Strategic Report, on pages 8 and 9. 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 Energy Networks, and so the Company, engages with governments and regulators are set out in the 'Government and regulators' sub-section of the Strategic Report, on page 8. 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 6.

SECTION 172 STATEMENT *continued*

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

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

ON BEHALF OF THE BOARD

Scott Mathieson
Director
19 **June 2024**

SP TRANSMISSION PLC
DIRECTORS' REPORT

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

INFORMATION CONTAINED WITHIN THE STRATEGIC REPORT

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

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

RESULTS AND DIVIDEND

The net profit for the year amounted to £167.6 million (2022 £137.4 million). A dividend of £85.9 million was paid during the year (2022 £337.0 million).

CORPORATE GOVERNANCE

Statement regarding the corporate governance arrangements of the SPENH Group

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

The ultimate parent of the Company is Iberdrola, S.A., whose shares are listed on all four stock markets in Spain. The Company, which has as its direct parent company SPENH and is part of the SPENH Group, does not apply a corporate governance code on the basis that it, as part of the SPENH Group, has adopted the rules and principles of the SPENH Group as they have been set by the board of directors of SPENH ("the SPENH Board"), in accordance with its terms of reference and the Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation ("the Group Governance Framework"), all of which are based on widely recognised good governance recommendations ("the SPENH Group corporate governance system"). Those rules and principles of the SPENH Group corporate governance system that applied to the Company as part of the SPENH Group during 2023 are set out as follows:

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

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

Details of the Scottish Power Limited Board ("SPL Board") and the Scottish Power Limited Audit and Compliance Committee ("SP ACC") are included, given their scope of purview for ScottishPower, including the Company, in accordance with the Group Governance Framework, and the inter-ACC coordination requirements under their respective Terms of Reference, and the General Framework for Relations of Coordination and Information among the Audit Committees of Iberdrola, S.A. and its Group.

Corporate governance system

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

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

Board composition

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

Vicky Kelsall	
Scott Mathieson	
Alison McGregor	
Suzanne Fox	(resigned 31 January 2023)
Pearse Murray	
Rt Hon. Charles Hendry	(appointed 31 January 2023)

CORPORATE GOVERNANCE *continued*

There is no separate Appointments Committee within the SPENH Group. Instead, appointment matters relevant to the SPENH Group and the Company are dealt with in accordance with an internal group procedure for approving proposed appointments or removals of directors at companies in which the Iberdrola Group holds an interest, and reviewed by the Iberdrola, S.A. Appointments Committee ("IAC"). The IAC has a function to report on the process of selection of directors and senior managers of the Iberdrola Group companies.

Purpose and values

The structure of the Company, and the SPENH Group, is set out in the Strategic Report. During 2023, the Board has taken into account the purpose and values of the Iberdrola Group and the Code of Ethics which are published on www.spenergynetworks.co.uk under 'Corporate Governance'. These documents define and promote the purpose, values and culture of the Company and the SPENH Group.

Director responsibilities

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

The SPENH Board has the necessary autonomy to carry out the day-to-day management and effective administration of Energy Networks, as well as responsibility for its ordinary control.

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

Opportunity and risk

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

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

During 2023, the governance structure was supported by the risk policies of the SPENH Group. Its business risk assessment team and independent risk management function supported the Board in the execution of due diligence and risk management, as described in the 'Principal risks and uncertainties' section of the Strategic Report.

Remuneration

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

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

Stakeholders

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

Administrative, management and supervisory bodies

SPL Board

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

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

CORPORATE GOVERNANCE *continued*
The directors of the SPL Board were:

José Ignacio Sánchez Galán	Chairman, internal, non-executive director
Professor Sir James McDonald	Vice-chairman, external, non-executive director
Keith Anderson	Chief Executive Officer ("CEO")
Wendy Jacqueline Barnes	External, non-executive director
Iñigo Fernández de Mesa Vargas	External, non-executive director
Professor Dame Anne Glover	External, non-executive director
Rt Hon. Claire O'Neill (resigned 17 January 2023)	External, non-executive director
Daniel Alcain López	Internal, non-executive director
Gerardo Codes Calatrava	Internal, non-executive director
José Sainz Armada	Internal, non-executive director

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

José Ignacio Sánchez Galán	Attended five meetings
Professor Sir James McDonald	Attended five meetings
Keith Anderson	Attended five meetings
Wendy Jacqueline Barnes	Attended four meetings
Iñigo Fernández de Mesa Vargas	Attended five meetings
Professor Dame Anne Glover	Attended four meetings
Rt Hon. Claire O'Neill	Attended no meetings
Daniel Alcain López	Attended five meetings
Gerardo Codes Calatrava	Attended five meetings
José Sainz Armada	Attended five meetings

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

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

The SP ACC's responsibilities include:

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

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

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

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

*Resigned 17 January 2023.

SP TRANSMISSION PLC
DIRECTORS' REPORT *continued*

CORPORATE GOVERNANCE *continued*

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

Matters considered by the SP ACC during 2023

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

ScottishPower Management Committee ("SPMC")

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

SPENH Board

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

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

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

*Resigned 31 January 2023.
**Appointed 31 January 2023.

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

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

SPENH Audit and Compliance Committee ("SPENH ACC")

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

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

CORPORATE GOVERNANCE *continued*

The SPENH ACC's responsibilities include:

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

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

Significant financial statement reporting issues

During the year the SPENH ACC reviewed and considered regulatory inquiries.

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

Alison McGregor	Chair, external, non-executive director	Attended five meetings
Suzanne Fox*	External, non-executive director	Attended no meetings
Rt Hon. Charles Hendry**	External, non-executive director	Attended four meetings
Mónica Grau Domene	Internal, non-executive director	Attended five meetings

*Resigned 31 January 2023.
**Appointed 31 January 2023.

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 their 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.

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

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

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

Disclosure of information to auditor

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

- so far as 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 ended 31 December 2024.

ON BEHALF OF THE BOARD

Scott Mathieson
Director
19 **June 2024**

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

1 Our opinion is unmodified

We have audited the financial statements of SP Transmission plc ("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 the related notes, including the accounting policies in Note 2.

In our opinion the financial statements:

- give a true and fair view of the state of 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 11 January 2018. The period of total uninterrupted engagement is for the seven financial years ended 31 December 2023. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2022), in arriving at our audit opinion above, together with our key audit procedures to address that matter and, as required for public interest entities, our results from those procedures; the matter below is included because it was the area that required the greatest audit effort. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Capital expenditure
(£421.9 million; 2022 £235.9 million)

Refer to page 27 (accounting policy) and page 32 (financial disclosures).

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

Our response – We assessed the Company's capitalisation policy for compliance with relevant accounting standards. Our procedures included:

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

Test of details: We critically assessed the capital nature of a statistical sample of additions to property plant and equipment in the year. We assessed the adequacy of the Company's disclosures of its capitalisation policy.

Our results – We found the accounting treatment and related disclosures for capital expenditure to be acceptable.

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

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

Materiality for the financial statements as a whole was set at £19.2 million (2022 £18 million), determined with reference to a benchmark of total assets, of which it represents 0.5% (2022 0.5%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual accounts balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 75% (2022 75%) of materiality for the financial statements as a whole, which equates to £14.4 million (2022 £13.5 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the SPENH Audit Committee any corrected or uncorrected identified misstatements exceeding £0.96 million (2022 £0.9 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

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

4 Going concern

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

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.

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

Identifying and responding to risks of material misstatement due to fraud

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

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

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

5 Fraud and breaches of laws and regulations – ability to detect *continued*
As required by auditing standards and taking into account any potential pressures to meet profit targets, recent revisions to guidance and our overall knowledge of the control environment, we performed procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition because, the Company's revenues consist entirely of routine, non-complex transactions which are subject to systematic processing and do not require significant judgements.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to revenue or cash where the other side of the entry was to an unexpected account.

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

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including form and content) including related companies legislation, distributable profits legislation, pensions legislation in respect of multi-employer defined benefit pension schemes, tax legislation and regulatory requirements governing certain revenue streams and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's licenses to operate. We identified the following areas as those most likely to have such an effect: GDPR compliance, health and safety legislation, fraud, corruption and bribery legislation, employment and social security legislation including minimum wage and pension auto-enrolment, environmental protection legislation, Ofgem regulations and distance selling regulations, recognising the regulated nature of the Company's activities. This includes the Ofgem related matters disclosed in Note 20, for which we assessed disclosures against our understanding from inspection of relevant correspondence between the Company and Ofgem. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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

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

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

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

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

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

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

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

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

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

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

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

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or 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.

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

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

Gordon Herbertson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St. Vincent Street
Glasgow
G2 5AS
20 June 2024

SP TRANSMISSION PLC
STATEMENT OF FINANCIAL POSITION
at 31 December 2023

	Notes	2023 £m	2022 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		**1.7**	-
Property, plant and equipment		**3,703.9**	3,382.7
Property, plant and equipment in use	3	3,071.8	3,025.1
Property, plant and equipment in the course of construction	3	632.1	357.6
Right-of-use assets	4	**11.0**	10.3
Investments in joint venture	5	-	-
Derivative financial instruments		**0.1**	-
TOTAL NON-CURRENT ASSETS		**3,716.7**	3,393.0
CURRENT ASSETS			
Inventories		**1.4**	1.0
Current trade and other receivables	6	**126.7**	26.6
Current tax asset		**35.1**	0.8
Derivative financial instruments		**0.2**	-
Cash		**2.3**	1.3
TOTAL CURRENT ASSETS		**165.7**	29.7
TOTAL ASSETS		**3,882.4**	3,422.7
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**983.8**	903.0
Share capital		385.0	385.0
Hedge reserve		(0.9)	-
Retained earnings		599.7	518.0
TOTAL EQUITY		**983.8**	903.0
NON-CURRENT LIABILITIES			
Non-current deferred income	7	**188.7**	177.7
Non-current provisions	8	**11.9**	13.2
Non-current bank borrowings and other financial liabilities		**1,905.2**	1,557.7
Loans and other borrowings	9	1,903.5	1,557.7
Derivative financial instruments		1.5	-
Other financial liabilities		0.2	-
Non-current lease liabilities	4	**10.7**	10.0
Non-current trade and other payables		**0.6**	0.8
Deferred tax liabilities	10	**359.3**	299.7
TOTAL NON-CURRENT LIABILITIES		**2,476.4**	2,059.1
CURRENT LIABILITIES			
Current deferred income	7	**5.4**	4.7
Current provisions	8	**14.0**	-
Current bank borrowings and other financial liabilities		**19.4**	217.5
Loans and other borrowings	9	19.3	217.5
Other financial liabilities		0.1	-
Current lease liabilities	4	**1.3**	1.1
Current trade and other payables	11	**382.1**	237.3
TOTAL CURRENT LIABILITIES		**422.2**	460.6
TOTAL LIABILITIES		**2,898.6**	2,519.7
TOTAL EQUITY AND LIABILITIES		**3,882.4**	3,422.7

Approved by the Board and signed on its behalf on 19 June 2024:

Scott Mathieson
Director

The accompanying Notes 1 to 24 are an integral part of the Statement of financial position at 31 December 2023.

SP TRANSMISSION PLC
INCOME STATEMENT
for the year ended 31 December 2023

	Notes	**2023** **£m**	2022 £m
Revenue	12	518.3	389.6
GROSS MARGIN		**518.3**	389.6
Staff costs	13	(5.8)	(3.5)
External services		(72.5)	(47.0)
Other operating results		8.3	7.2
Net operating costs		**(70.0)**	(43.3)
Taxes other than income tax	14	**(42.6)**	(36.5)
GROSS OPERATING PROFIT		**405.7**	309.8
Net expected credit losses on trade and other receivables		0.1	(0.1)
Depreciation and amortisation charge, allowances and provisions	15	(100.2)	(97.7)
OPERATING PROFIT		**305.6**	212.0
Finance income	16	3.9	2.0
Finance costs	17	(80.5)	(40.6)
PROFIT BEFORE TAX		**229.0**	173.4
Income tax	18	(61.4)	(36.0)
NET PROFIT FOR THE YEAR		**167.6**	137.4

Net profit for both years is wholly attributable to the equity holder of SP Transmission plc.

All results relate to continuing operations.

The accompanying Notes 1 to 24 are an integral part of the Income statement for the year ended 31 December 2023.

SP TRANSMISSION PLC
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2023

	2023 £m	2022 £m
NET PROFIT FOR THE YEAR	**167.6**	137.4
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to the Income statement:		
Cash flow hedges:		
Change in the value of cash flow hedges	**(1.2)**	-
Tax relating to cash flow hedges	**0.3**	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**(0.9)**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**166.7**	137.4

Total comprehensive income for both years is wholly attributable to the equity holder of SP Transmission plc.

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

	Share capital (Note (a)) £m	Hedge reserve (Note (b)) £m	Retained earnings (Note (c)) £m	Total £m
At 1 January 2022	385.0	-	717.6	1,102.6
Profit for the year attributable to the equity holder of the Company	-	-	137.4	137.4
Dividends	-	-	(337.0)	(337.0)
At 1 January 2023	385.0	-	518.0	903.0
Profit for the year attributable to the equity holder of the Company	-	-	167.6	167.6
Changes in the value of cash flow hedges	-	(1.2)	-	(1.2)
Tax on items relating to cash flow hedges	-	0.3	-	0.3
Dividends	-	-	(85.9)	(85.9)
At 31 December 2023	**385.0**	**(0.9)**	**599.7**	**983.8**

(a) At 31 December 2023, the Company had 385,000,000 allotted, called up and fully paid ordinary shares of £1 each (2022 385,000,000). 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 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 24 are an integral part of the Statement of comprehensive income, and the Statement of changes in equity for the year ended 31 December 2023.

SP TRANSMISSION PLC
NOTES TO ACCOUNTS
31 December 2023

1 BASIS OF PREPARATION

A COMPANY INFORMATION

SP Transmission plc, registered company number SC189126, 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 rounded to the nearest hundred thousand unless otherwise indicated. The Accounts are prepared on the historical cost basis.

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 advantage of the FRS 101 disclosure exemptions has been taken:

- the preparation of a Statement of cash flows and the related notes (applied for the first time in the financial statements for the year ended 31 December 2023);
- disclosures in respect of deferred tax assets and liabilities related to Pillar Two model rules income taxes;
- comparative period reconciliations for property, plant and equipment;
- 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'.

The Company has one operating segment.

Where the company is party to a joint operation the financial statements include the Company's share of the joint operation's assets, liabilities, profit or loss or other comprehensive income on a line-by-line basis.

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 the ownership of the electricity transmission network in the Central and Southern Scotland area within the group headed by SPUK ("the SPUK Group"), 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, SPL, 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 both the base case and 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.

1 BASIS OF PREPARATION *continued*

SPUK has indicated its intention to continue to make available such funds as are needed by the Company, and that it does not intend to seek repayment of the amounts due within the twelve months from the date of the approval of these financial statements, which, at 31 December 2023, amounted to £70.0 million. 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.

C ACCOUNTING STANDARDS

C1 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 may 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 uncertainty and other judgement made by management are set out below.

SIGNIFICANT ESTIMATION UNCERTAINTY

Useful lives of Property, plant and equipment – Transmission and other network related facilities

The useful economic lives of property, plant and equipment are estimated based on management experience. When management identifies that actual useful economic lives differ materially from the estimates used, they are adjusted prospectively. This estimation uncertainty creates a risk of a material adjustment to the asset lives, and therefore the depreciation charge in the next financial year. Management has determined that this significant estimation uncertainty applies to transmission facilities (excluding offshore underground cables) and other network related facilities, which principally comprise communications equipment and other technical installations. The depreciation charge on these facilities for the year is £92.5 million and the deferred income relating to the transfer of assets from customers, which is released to revenue over the life of the associated assets, is £4.9 million.

Had the estimated useful economic lives of these facilities been five years longer, this would have resulted in the depreciation charge being £16.5 million lower, and the transfer of assets from customers in deferred income released to revenue £0.7 million lower. Had the estimated useful economic lives of these facilities been ten years longer, this would have resulted in the depreciation charge being £26.2 million lower, and the transfer of assets from customers in deferred income released to revenue £1.3 million lower.

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

NON-SIGNIFICANT JUDGEMENT

Consideration of climate change

The impact of climate change, including risks identified in the Strategic Report on page 4, 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 PROPERTY, PLANT AND EQUIPMENT
B LEASED ASSETS
C IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND LEASED ASSETS
D INVESTMENT IN JOINT ARRANGEMENTS
E FINANCIAL INSTRUMENTS
F REVENUE
G RETIREMENT BENEFITS
H DECOMMISSIONING COSTS
I TAXATION

A PROPERTY, PLANT AND EQUIPMENT

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

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

	Years
Transmission facilities	40
Other items of property, plant and equipment	5 - 50

B LEASED ASSETS

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

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

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

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

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 lease liability comprise fixed payments (including in-substance fixed payments); variable lease payments that depend on an index or a rate initially measured using the index or rate at the commencement date; lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless the Company is reasonably certain not to do so.

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

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

The Company has elected not to recognise right-of-use assets and lease liabilities for certain short-term leases that have a lease term of twelve months or less, and leases of intangible assets. The Company recognises any lease payments associated with such leases as an expense on a straight-line basis over the lease term.

C IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND LEASED ASSETS

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

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

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.

D INVESTMENTS IN JOINT ARRANGEMENTS

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

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

The Company recognises its interest in a joint venture as an investment and accounts for that investment using the equity method and initially recognised at cost and adjusted thereafter for the post-acquisition change in the share of its net assets. The Company recognises, in relation to its interest in a joint operation, its share of the assets, liabilities, income, and expenses relating to its interests in the joint operation on a line-by-line basis.

E 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.

E1 FINANCIAL ASSETS

E1.1 CLASSIFICATION

Financial assets are classified as measured at amortised cost. The Company's business model for managing financial assets refers to how it manages them in order 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 and should be 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.

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

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

E1.2 RECOGNITION AND MEASUREMENT

(a) Initial recognition and measurement

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

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

(b) Subsequent measurement and gains and losses

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

(c) Derecognition

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

E2 FINANCIAL LIABILITIES

E2.1 CLASSIFICATION

Financial liabilities are classified as measured at amortised cost.

E2.2 RECOGNITION AND MEASUREMENT

(a) Initial recognition and measurement

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

(b) Subsequent measurement and gains and losses

Financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in the Income statement. 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.

(c) Derecognition

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

F 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. All revenue arises from operations within the UK.

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

(a) Electricity transmission

The Company provides the service of making its transmission network available to the Great Britain system operator. This performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits of the Company's performance as it makes the transmission network available. Revenue is recognised in an amount to which the Company has a right to invoice based on the amount of allowed revenue for the year, and recognised over time based on the billable volumes and the rate agreed in the regulatory price control. As allowed revenues are set in advance, some of the underlying components are forecast which will be trued up in future periods based on actual performance (such as incentives). Any over or under recoveries resulting from these changes will be reflected in the calculation of the subsequent years' allowed revenues as set out in the regulatory framework. No accounting adjustments are therefore made for over or under recoveries in the year that they arise as they are contingent on future events (being the transmission of electricity in a future period). Invoices are typically raised and settled on a monthly basis and, therefore, there are no related IFRS 15 contract assets or contract liabilities at the end of the year.

(b) Transfers of assets from customers

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

G RETIREMENT BENEFITS

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

H DECOMMISSIONING COSTS

Provision is made, on a discounted basis, for the estimated decommissioning costs of certain non-current assets. Capitalised decommissioning costs are depreciated over the useful lives of the related assets. The unwinding of the discount is included within Finance costs in the Income statement. The discount rate for each provision is based on UK treasury bonds with maturities which are similar to the expected decommissioning date. The future estimated costs are based on the value of the costs at the reporting date, uplifted for inflation to the end of the useful economic life of the underlying asset, then discounted.

I 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 settled or the asset realised based on tax rates and laws enacted, or substantively enacted, at the reporting date.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Income statement 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.

3 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 December 2023	Transmission facilities £m	Other items of property, plant and equipment in use (Note(i)) £m	Plant in the course of construction (Note(ii)) £m	Total £m
Cost:				
At 1 January 2023	3,892.4	85.9	357.6	4,335.9
Additions	-	0.1	421.8	421.9
Reassessment of decommissioning costs	(1.7)	-	-	(1.7)
Transfers from plant in the course of construction to plant in use	149.0	-	(149.0)	-
Transfers from inventories	-	-	0.6	0.6
Disposals	(16.3)	(0.1)	-	(16.4)
Impairment reversal	-	-	1.1	1.1
At 31 December 2023	**4,023.4**	**85.9**	**632.1**	**4,741.4**
Depreciation:				
At 1 January 2023	913.6	39.6	-	**953.2**
Depreciation for the year	97.5	3.1	-	**100.6**
Disposals	(16.2)	(0.1)	-	**(16.3)**
At 31 December 2023	**994.9**	**42.6**	-	**1,037.5**
Net book value:				
At 31 December 2023	**3,028.5**	**43.3**	**632.1**	**3,703.9**
At 1 January 2023	2,978.8	46.3	357.6	3,382.7

The net book value of property plant and equipment at 31 December 2023 is analysed as follows:

	2023 £m	2022 £m
Property, plant and equipment in use	**3,071.8**	3,025.1
Property, plant and equipment in the course of construction	**632.1**	357.6
	3,703.9	3,382.7

(i) Other items of property, plant and equipment in use principally comprises land and communications equipment.
(ii) Plant in the course of construction principally comprises transmission facilities in the course of construction.
(iii) The cost of fully depreciated property, plant and equipment still in use at 31 December 2023 was £43.1million (2022 £44.6 million).
(iv) Included within the cost of property, plant and equipment as at 31 December 2023 are assets in use not subject to depreciation, being land of £23.2 million (2022 £23.2 million).

(b) Capital commitments

	2023 £m	2022 £m
Less than one year	**534.9**	37.7
One to two years	**260.8**	208.7
Two to three years	**310.3**	121.8
Three to four years	**132.2**	54.7
Four to five years	**35.6**	17.9
More than five years	**47.0**	1.6
	1,320.8	442.4

4 LEASING

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

(a) Nature of leases

Land

The Company holds agreements to lease land and for the assignment of rights to use land, primarily relating to operational assets, with typical lease terms running between six and 40 years.

4 LEASING *continued*

Some land leases contain extension options exercisable by the Company at the end of the non-cancellable contract period or an agreed point before that date for up to five years. 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 between five and eight years, primarily being pool vehicles to mobilise its operational staff and other specialist vehicles. Certain vehicle leases are considered short-term and the Company has elected not to recognise right-of-use assets and lease liabilities for these leases.

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	Land £m	Vehicles £m	Total £m
Cost:				
At 1 January 2022		10.3	2.0	12.3
Additions		0.2	0.7	0.9
Adjustments for changes in liabilities	(i)	0.3	0.1	0.4
At 31 December 2022		10.8	2.8	13.6
Depreciation:				
At 1 January 2022		1.2	1.2	2.4
Charge for the year		0.4	0.5	0.9
At 31 December 2022		1.6	1.7	3.3
Net book value:				
At 31 December 2022		9.2	1.1	10.3
At 1 January 2022		9.1	0.8	9.9

Year ended 31 December 2023	Note	Land £m	Vehicles £m	Total £m
Cost:				
At 1 January 2023		10.8	2.8	13.6
Additions		0.3	0.7	1.0
Adjustments for changes in liabilities	(i)	-	0.9	0.9
Disposals		(0.1)	-	(0.1)
At 31 December 2023		**11.0**	**4.4**	**15.4**
Depreciation:				
At 1 January 2023		1.6	1.7	3.3
Charge for the year		0.4	0.7	1.1
At 31 December 2023		**2.0**	**2.4**	**4.4**
Net book value:				
At 31 December 2023		**9.0**	**2.0**	**11.0**
At 1 January 2023		9.2	1.1	10.3

(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.

4 LEASING *continued*

(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	1.5	1.3
One to five years	3.4	2.9
More than five years	12.5	12.2
Total undiscounted lease liabilities at 31 December	**17.4**	16.4
Finance cost	(5.4)	(5.3)
Total discounted lease liabilities	**12.0**	11.1
Analysis of total lease liabilities		
Non-current	10.7	10.0
Current	1.3	1.1
Total	**12.0**	11.1

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

(d) Amounts recognised in Income statement

	Note	**2023 £m**	2022 £m
Interest on lease liabilities		**(0.4)**	(0.3)
Expenses relating to short-term leases	(i)	**(1.3)**	(1.9)

(i) This charge relates to leases for vehicles and other equipment which are considered short-term. Future commitments relating to the portfolio of short-term leases entered into for the next financial year are not expected to be materially different from the expense charged in the year.

(e) Total cash outflows for leases

	2023 £m	2022 £m
Total cash outflow for leases	**(2.6)**	(2.8)

5 INVESTMENTS

(a) Movements in Investments in joint venture

	£
At 1 January 2022,1 January 2023 and 31 December 2023	**50**

(b) Joint arrangements

The table below sets out details of the joint arrangements of the Company at 31 December. All entities are direct holdings.

Joint arrangements	**Principal activities**	Notes	**Country of incorporation**	**Equity interest in ordinary shares 2023**	2022
Joint venture					
NGET/SPT Upgrades Limited	Operation of offshore Western HVDC Transmission link	(i), (ii)	England and Wales	**50%**	50%
Joint operation					
Eastern Green Link 1 Limited	Development of offshore Eastern HVDC Transmission link	(i), (iii)	England and Wales	**50%**	-

(i) The registered address of each joint arrangement is 1-3 Strand, London, WC2N 5EH, England.

(ii) This direct investment in 100% of the 'B' ordinary shares represents 50% of the joint venture's total issued share capital.

(iii) Eastern Green Link 1 Limited was incorporated on 4 July 2023 and, on 22 August 2023, the Company acquired 50% of its share capital for a total consideration of £50. It is a joint operation of the Company which is structured through a separate entity (refer to Note 2D). The Company has joint control over this company through a shareholder agreement which has the effect of giving the controlling parties rights to the assets of the arrangement and obligations for its liabilities. Therefore, the arrangement is considered to be a joint operation.

6 CURRENT TRADE AND OTHER RECEIVABLES

	Notes	2023 £m	2022 £m
Receivables due from Iberdrola group companies and joint ventures		**0.9**	0.5
Receivables due from Iberdrola group companies - loans	(a)	**99.9**	9.5
Receivables due from Iberdrola group companies - interest		**-**	0.7
Trade receivables (including accrued income)		**14.7**	6.7
Other tax receivables		**11.2**	9.2
	(b)	**126.7**	26.6

(a) Current loans due from Iberdrola Group companies are receivable on demand with interest linked to the Bank of England base rate.
(b) Current trade and other receivables includes £1.2 million (2022 £6.5 million) of IFRS 15 receivables.

7 DEFERRED INCOME

Year ended 31 December 2022	At 1 January 2022 £m	Disposals £m	Receivable during year £m	Released to Income statement £m	At 31 December 2022 £m
Transfer of assets from customers	164.5	(0.1)	22.2	(4.2)	182.4

Year ended 31 December 2023	At 1 January 2023 £m	Receivable during year £m	Released to Income statement £m	**At 31 December 2023 £m**
Transfer of assets from customers	182.4	16.6	(4.9)	**194.1**

Analysis of total deferred income	Note	2023 £m	2022 £m
Non-current		**188.7**	177.7
Current		**5.4**	4.7
	(a)	**194.1**	182.4

(a) Transfer of assets from customers is an IFRS 15 contract liability.

8 PROVISIONS

Year ended 31 December 2022	At 1 January 2022 £m	New provisions £m	Reassessment of decommissioning costs £m	Unwinding of discount £m	At 31 December 2022 £m
Provisions	30.3	0.1	(17.5)	0.3	13.2

Year ended 31 December 2023	At 1 January 2023 £m	New provisions (Note (a)) £m	Reassessment of decommissioning costs £m	Unwinding of discount £m	**At 31 December 2023 £m**
Provisions	13.2	14.0	(1.7)	0.4	**25.9**

Analysis of total provisions	2023 £m	2022 £m
Non-current	**11.9**	13.2
Current	**14.0**	-
	25.9	13.2

(a) From time to time, the Company is party to various legal claims, actions and complaints, including open inquiries with authorities in relation to compliance with licences, laws and regulations. The Company is currently involved in such matters and is working proactively with the relevant parties to reach a satisfactory conclusion.

9 LOANS AND OTHER BORROWINGS

Instrument	Notes	Interest rate*	Maturity	2023 Current £m	2023 Non-current £m	2022 Current £m	2022 Non-current £m
Loans with Iberdrola Group companies - SPUK		3.57%	20 December 2023	-	-	44.0	-
Loans with Iberdrola Group companies - SPUK	(a), (b)	2.821%	31 March 2025	-	70.0	70.0	70.0
Loans with Iberdrola Group companies - SPUK	(b)	SONIA + 3.365%	28 January 2029	-	210.0	-	210.0
Loans with Iberdrola Group companies - SPUK		SONIA + 0.78%	22 December 2030	-	450.0	-	450.0
Loans with Iberdrola Group companies - SPUK		3.60%	9 June 2032	-	400.0	-	300.0
Loans with Iberdrola Group companies - SPUK		5.67%	21 June 2033	-	250.0	-	-
Loans with Iberdrola Group companies - Other	(a)	SONIA + CAS + 0.78%	20 December 2027	-	180.0	90.0	180.0
Loans payable to Iberdrola Group companies				-	**1,560.0**	204.0	1,210.0
£350 million euro-sterling bond	(c), (d), (e)	2.00%	13 November 2031	(0.3)	343.5	(0.3)	347.7
Loans payable to external counterparties				**(0.3)**	**343.5**	(0.3)	347.7
Accrued interest due to Iberdrola Group companies				**18.7**	-	12.9	-
Accrued interest due to external counterparties				**0.9**	-	0.9	-
				19.3	**1,903.5**	217.5	1,557.7

*SONIA – Sterling Overnight Index Average; CAS - Credit Adjustment Spread.

(a) These loans are repayable in equal instalments on a biennial basis.

(b) Under the conditions of this long-term loan agreement, the Company has an option, without fee or penalty, to make a repayment in whole or in part, of the then outstanding loan principal, plus accrued interest thereon, by providing written notice at least five business days before the intended repayment date.

(c) This bond contains a 'loss of licence' covenant that will require repayment of the outstanding amount should the Company lose its transmission licence.

(d) This bond will be redeemed at its principal amount on 13 November 2031 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the Company at a higher redemption price (as determined by a financial advisor appointed by the Company and Fiscal Agent) giving 30 to 60 days' notice. The carrying value of the bond includes finance costs of £(0.3) million (2022 £(0.3) million).

(e) The Company has external debt that contains loan covenants. None of these covenants require covenant ratios to be calculated. A future breach of covenants may require the Company to repay the loan earlier than indicated in the above table. Under the agreements, the covenants are monitored on a regular basis by the ScottishPower treasury function and regularly reported to management to ensure compliance with agreements.

(f) Loans are repayable in full on maturity unless otherwise stated.

(g) In July 2020, the Company entered into an intra-group committed revolving credit facility arrangement with SPUK for £250.0 million, with an expiry date of February 2025. Therefore, at the date of signing these Accounts, the Company has £250.0 million of undrawn committed facilities available.

10 DEFERRED TAX

Deferred tax is provided in the accounts as follows:

	Property, plant and equipment £m	Derivative financial instruments £m	Other temporary differences £m	Total £m
At 1 January 2022	286.0	-	(0.1)	285.9
Charge/(credit) to the Income statement	13.9	-	(0.1)	13.8
At 1 January 2023	299.9	-	(0.2)	299.7
Charge to the Income statement	59.8	-	0.1	59.9
Recorded in the statement of comprehensive income	-	(0.3)	-	(0.3)
At 31 December 2023	**359.7**	**(0.3)**	**(0.1)**	**359.3**

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

11 CURRENT TRADE AND OTHER PAYABLES

	Note	2023 £m	2022 £m
Payables due to Iberdrola group companies		**52.3**	44.2
Trade payables		**25.2**	25.4
Other taxes and social security		**8.9**	8.4
Payments received on account		**57.3**	37.8
Capital payables and accruals		**235.7**	119.4
Other payables		**2.7**	2.1
	(a)	**382.1**	237.3

(a) Current trade and other payables includes £57.3 million (2022 £37.8 million) of IFRS 15 contract liabilities.

12 REVENUE

	2023	2022
	£m	£m
Electricity transmission	**513.4**	385.4
Transfers of assets from customers	**4.9**	4.2
	518.3	389.6

13 EMPLOYEE INFORMATION

(a) Staff costs

	2023	2022
	£m	£m
Wages and salaries	**33.6**	27.9
Social security costs	**3.6**	3.1
Pension and other costs	**4.7**	5.4
	41.9	36.4
Capitalised staff costs	**(36.1)**	(32.9)
	5.8	3.5

(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	**75**	67
Operations	**443**	391
Total	**518**	458

(c) Pensions

The Company's contributions payable in the year were £4.2 million (2022 £5.2 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%.

14 TAXES OTHER THAN INCOME TAX

	2023	2022
	£m	£m
Property taxes	**42.6**	36.5

15 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2023	2022
	£m	£m
Property, plant and equipment depreciation charge	**100.6**	97.0
Right-of-use asset depreciation charge	**1.1**	0.9
Intangible asset amortisation charge	**0.1**	-
Charges and provisions, allowances and impairment of assets	**(1.1)**	0.2
	100.7	98.1
Capitalised right-of-use asset depreciation	**(0.5)**	(0.4)
	100.2	97.7

16 FINANCE INCOME

	2023	2022
	£m	£m
Interest on bank and other deposits	**0.2**	0.1
Interest receivable from Iberdrola Group companies	**3.7**	1.8
Foreign exchange gains	**-**	0.1
	3.9	2.0

17 FINANCE COSTS

	2023	2022
	£m	£m
Interest on amounts due to Iberdrola Group companies	**75.8**	32.6
Interest on other borrowings	**6.4**	7.3
Unwinding of discount on provisions	**0.4**	0.3
Interest on lease liabilities	**0.4**	0.3
Foreign exchange losses	**-**	0.1
	83.0	40.6
Capitalised interest	**(2.5)**	-
	80.5	40.6

18 INCOME TAX

	2023	2022
	£m	£m
Current tax:		
UK Corporation Tax charge on profits for the year	**5.9**	21.2
Adjustments in respect of prior years	**(4.4)**	1.0
Current tax for the year	**1.5**	22.2
Deferred tax:		
Origination and reversal of temporary differences	**51.7**	12.1
Adjustments in respect of prior years	**4.9**	(2.1)
Impact of tax rate change on current year charge	**3.3**	3.8
Deferred tax for the year	**59.9**	13.8
Income tax for the year	**61.4**	36.0

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

	2023	2022
	£m	£m
Corporation Tax at 23.5% (2022 19%)	**53.8**	32.9
Adjustments in respect of prior years	**0.5**	(1.1)
Impact of tax rate change on current year tax	**3.3**	3.8
Non-deductible expenses and other permanent differences	**3.8**	0.4
Income tax for the year	**61.4**	36.0

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.

19 DIVIDENDS

	2023	2022	**2023**	2022
	pence per ordinary share	pence per ordinary share	**£m**	£m
Interim dividend paid	**22.3**	87.5	**85.9**	337.0

(a) The Company plan to pay a dividend to shareholders every year.

20 CONTINGENT LIABILITIES

From time to time, regulators, including Ofgem, open inquiries with the Group in relation to compliance with licenses, laws and regulations. The Company is also party to various other legal claims, actions and complaints, certain of which may involve material amounts. Where the outflow of resources is considered probable, and a reasonable estimate can be made of the amount of the present obligation, a provision is recognised for these amounts. Where an outflow is not probable, but is possible, or a reasonable estimate of the present obligations cannot be made, a contingent liability exists. The Company currently believes that resolution of these matters will not have a materially adverse effect on the accounts.

21 DEBT GUARANTEE

As part of the exercise to achieve legal separation of SPUK's businesses pursuant to the provision of the Utilities Act 2000, the Company and other subsidiary companies of SPUK have provided guarantees to external lenders of SPUK for debt existing in that company at 1 October 2001. The value of debt guaranteed by these companies, which was still outstanding at 31 December 2023 was £587.7 million (2022 £797.3 million).

22 FINANCIAL COMMITMENTS

	2023	2022
	£m	£m
Less than one year	**5.2**	2.6
One to two years	**0.6**	2.7
Two to three years	**-**	1.3
	5.8	6.6

23 RELATED PARTY TRANSACTIONS

(a) Directors' remuneration

The total remuneration of the directors that provided qualifying services to the Company are shown below. As these directors are remunerated for their work for Energy Networks, it has not been possible to apportion the remuneration specifically in respect of services to this company. Of the six (2022 seven) directors who held office during the year, four (2022 five) were remunerated by other ScottishPower companies during the year.

	2023	2022
	£000	£000
Aggregate remuneration in respect of qualifying services	**1,250**	1,268
Number of directors who exercised share options	**1**	2
Number of directors who received shares under a long-term incentive scheme	**2**	3
Number of directors accruing retirement benefits under a defined benefit scheme	**2**	2

	2023	2022
Highest paid director	**£000**	£000
Aggregate remuneration	**607**	557
Accrued pension benefit	**-**	110

(i) The highest paid director received shares under a long-term incentive scheme during the prior only.
(ii) The highest paid director exercised share options during the prior year only.

(b) Immediate and ultimate parent company

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

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

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

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

24 AUDITOR'S REMUNERATION

	2023	2022
	£000	£000
Audit of the Annual accounts	**241**	204
Audit-related assurance services	**20**	6
	261	210