



**SP DISTRIBUTION PLC**  
**ANNUAL REPORT AND ACCOUNTS**  
**for the year ended 31 December 2022**

Registered No. SC189125



**SP DISTRIBUTION PLC**  
**ANNUAL REPORT AND ACCOUNTS**  
**for the year ended 31 December 2022**

**CONTENTS**

<b>STRATEGIC REPORT</b>	<b>1</b>
<b>DIRECTORS' REPORT</b>	<b>12</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>18</b>
<b>STATEMENT OF FINANCIAL POSITION</b>	<b>22</b>
<b>INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME</b>	<b>23</b>
<b>STATEMENT OF CHANGES IN EQUITY</b>	<b>24</b>
<b>STATEMENT OF CASH FLOWS</b>	<b>25</b>
<b>NOTES TO ACCOUNTS</b>	<b>26</b>

## **SP DISTRIBUTION PLC STRATEGIC REPORT**

The directors present their Strategic Report on SP Distribution plc ("the Company") for the year ended 31 December 2022. This includes an overview of the Company's structure, strategic outlook including 2022 performance, and principal risks and uncertainties.

### **INTRODUCTION**

The principal activity of the Company, registered company number SC189125, is the ownership of the electricity distribution network within the Central Belt and South of Scotland. The network is used to distribute electricity, which has been transmitted to grid supply points, for electricity supply companies for onward sales to their customers. This activity will continue for the foreseeable future.

The ultimate parent of the Company is Iberdrola, S.A. ("Iberdrola") which is listed on the Madrid stock exchange. 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 Manweb plc and SP Transmission plc, 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 Distribution Network Operator ("DNO"). The electricity distribution networks are regional grids that transport electricity at a lower voltage from the national transmission grid and embedded generators and connect to industrial, commercial and domestic users.

The Company is a natural monopoly and is governed 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 year basis from April to March. Therefore, the majority of the Company's performance and key deliverables are measured and reported on this basis.

### **STRATEGIC OUTLOOK**

#### **Operating review**

The eight-year RIIO-ED1 (Revenue = Incentives + Innovation + Outputs) price control ended in March 2023 and, subject to confirmation from Ofgem in early Autumn, the Company has delivered its main outputs and has performed in line, or ahead of, targets in its approach to safety, reliability and availability, and customer service. This includes investment in incremental green recovery projects in the drive towards net zero. The financial consequence of the Company's RIIO-ED1 performance for the year ended 31 March 2023, will be confirmed by Ofgem later in 2023.

Following extensive discussion with Ofgem, recovery of supplier of last resort payments to suppliers were included in distribution use of systems tariffs charged from April 2022. Distribution revenues included £50.9 million in respect of this and there is an equal and opposite value within Procurements resulting in a broadly neutral cash and earnings profile for 2022.

On 30 November 2022, Ofgem published its Final Determination on the Energy Networks' RIIO-ED2 final business plan, setting out its decision approving the Company's business case for £1.5 billion of investment in its distribution grid between 2023 and 2028. Ofgem have now adopted the licence modifications required to give effect to the Final Determination.

#### **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 its 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 underway. In the previous regulatory year (April 2021 to March 2022), Energy Networks reduced its distribution business carbon footprint by nearly 33% (excluding losses). This reduction excludes losses which is measured as the difference of 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 technologies, such as electric vehicles ("EVs") and heat pumps, to be connected to its network.

## SP DISTRIBUTION PLC

### STRATEGIC REPORT *continued*

#### STRATEGIC OUTLOOK *continued*

Energy Networks, and therefore 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.

Storm Arwen in November 2021 was the worst storm in recent years, described as a 1-in-40 year event. However, Energy Networks' staff worked hard during the storm to restore 88% of customers who lost power within 24 hours and 96% of customers within 48 hours. In 2022, former UK Energy Minister Rt Hon Charles Hendry CBE led a review of Energy Networks' operational response to Storm Arwen, with a particular focus on the rural communities worst affected. This has helped to inform the actions the Company will take to improve its future performance in extreme weather events. There are mechanisms for exceptional events within the price controls that mitigate financial risks to the Company.

#### 2022 Performance

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

	Revenue*		Operating profit*		Capital investment**	
	2022	2021	2022	2021	2022	2021
Financial key performance indicators	£m	£m	£m	£m	£m	£m
SP Distribution plc	533.7	458.6	204.7	178.0	185.9	177.1

\* Revenue and Operating profit are presented in the Income statement and statement of comprehensive income on page 23.

\*\* 2022 Capital investment is presented within Note 3 and 4 on pages 33 and 34.

Revenue is £75.1 million higher than the prior year. Distribution revenues include £50.9 million in relation to Supplier of Last Resort ("SoLR") levies. There is an equal and opposite value within Procurements. Underlying distribution revenues are £24.2 million higher than the prior year mainly reflecting collection of an under-recovery from prior years.

Operating profit increased by £26.7 million to £204.7 million in 2022, largely due to the increase in underlying distribution revenues described above.

The Company's capital investment has increased by £8.8 million, primarily due to investment to facilitate net zero targets. Higher levels of investment are expected to continue to facilitate UK net zero targets as the Company progresses into RIIO-ED2.

The Company is required to prepare regulatory financial performance reporting for years ending 31 March. Reporting of key performance indicators is aligned to the regulatory year end. Consequently, the latest available data for the last regulatory year for the Company has been disclosed in the table below, with the exception of distributed energy which is reported for the years ending 31 December.

	Notes	Actual	Target	Actual	Target
		2022	2022	2021	2021
Distributed energy (GWh)	(a)	15,626	N/A	16,215	N/A
Customer interruptions ("CI")	(b)	37.2	50.0	43.4	50.2
Customer minutes lost ("CML")	(c)	27.1	40.5	30.2	41.1

(a) Gigawatt hours ("GWh").

(b) Customer interruptions are reported as the number of customers, per 100 customers, that are affected during the year by power cuts that last three minutes or more.

(c) Customer minutes lost is reported as the average number of minutes that a customer is without power during a year due to power cuts that last for three minutes or more.

#### Statement of financial position

Net assets of the Company decreased by £178.5 million in the year to £692.7 million. This reflects the impact of the statutory profit of £128.5 million offset by dividends of £307.0 million paid to the parent.

Property, plant and equipment increased in the year by £88.7 million to £3,326.9 million. This is primarily due to investment in distribution and other facilities of £185.6 million offset by a depreciation charge in the year of £123.5 million.

Total loans and other borrowings rose by £216.3 million to £1,561.4 million due to an increase in long-term loans due to Iberdrola Group companies.

#### Outlook for 2023 and beyond

A key focus for 2023 is the targeted delivery of regulatory outputs for the close out of RIIO-ED1 and the commencement of RIIO-ED2.

The Company will continue to implement the delivery plan for the increased volume of activity in RIIO-ED2. This plan includes increased recruitment in key areas coupled with external contract placement.

## SP DISTRIBUTION PLC

### STRATEGIC REPORT *continued*

#### STRATEGIC OUTLOOK *continued*

RIO-ED2 will be particularly significant for the decarbonisation of transport and domestic heating. The work outlined in Energy Networks', and therefore the Company's, plan will kick-start the much-needed growth in these low-carbon technologies with over 670,000 EVs, 370,000 domestic heat pumps, and an additional 5 GW of low-carbon electricity generation connected through the five-year investment period. Within the next ten years, Energy Networks expects the number of EVs it supplies on its two distribution networks to increase by over 1.5 million with EV charging potentially doubling the demand of a domestic property. Through various innovation projects that the Company has carried out, it has identified a key strategic role that it can play in the design and siting of cost-effective EV charging infrastructure. The Company will also play a key role in the decarbonisation of heat. Heat in buildings is responsible for a fifth of the UK's greenhouse gas emissions and Energy Networks has forecast up to 1.1 million heat pump installations by 2030 across its two distribution licence areas.

#### LIQUIDITY AND CASH MANAGEMENT

##### Cash and net debt

Net cash flows from operating activities decreased by £1.3 million to £298.7 million for the year, as detailed on page 25. As detailed in the table below, net debt increased by £232.3 million to £1,558.5 million. Cash decreased by £1.4 million. Net loans payable to Iberdrola Group companies increased by £229.3 million and external loans payable increased by £0.3 million. Lease liabilities increased by £0.3 million and accrued interest rose by £1.0 million.

	Notes	2022 £m	2021 £m
<b>Analysis of net debt</b>			
Cash	(a)	1.6	3.0
Loans receivable from Iberdrola Group companies	(b)	64.4	78.7
Loans payable to Iberdrola Group companies	(c)	(1,200.0)	(985.0)
External loans payable	(c)	(349.0)	(348.7)
Lease liabilities	(d)	(63.1)	(62.8)
Accrued interest	(c)	(12.4)	(11.4)
<b>Net debt</b>		<b>(1,558.5)</b>	<b>(1,326.2)</b>

(a) As detailed on the Statement of financial position on page 22.

(b) As detailed in Note 6 on page 37.

(c) As detailed in Note 12 on page 39.

(d) As detailed in Note 5 on page 36.

##### Capital and debt structure

The Company is funded by a combination of debt and equity in accordance with the directors' objectives of establishing an appropriately funded business consistent with the requirements of the Utilities Act 2000 and the objectives of the Iberdrola Group. All of the equity is held by the Company's immediate parent undertaking, SPENH.

##### Financial instruments

In the current year the Company's financial instruments include Trade and other receivables, Loans and interest receivables due 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. The credit risk management strategy adopted for significant types of financial asset are as follows:

- Credit risk in respect of customers is mitigated by contracting with multiple counterparties and limiting exposure to individual counterparties to clearly defined limits based upon the risk of counterparty default.
- Credit risk from balances with banks and financial institutions is managed by ScottishPower's treasury department in accordance with Iberdrola's cash investment procedure. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty by the Corporate Risk Management department.
- The Company provides funding in the form of interest-bearing on demand loans to other Iberdrola Group companies. Credit risk from Iberdrola Group companies is considered to be low as the Company is part of the Iberdrola Group's centralised treasury function and no Group company has a credit rating lower than BBB+ (in line with Standards & Poors' external credit ratings).

## SP DISTRIBUTION PLC

### STRATEGIC REPORT *continued*

#### LIQUIDITY AND CASH MANAGEMENT *continued*

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 company 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 Scottish Power UK plc ("SPUK"). Additional short-term cover is provided by the undrawn committed revolving credit facility arrangement with SPUK for £250.0 million (Refer to Note 12 (xii)).

#### PRINCIPAL RISKS AND UNCERTAINTIES

To deliver its strategy, ScottishPower, and therefore the Company, conducts 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 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 4 to 6.

REGULATORY AND POLITICAL RISKS	
RISK	RESPONSE
Compliance with regulatory obligations especially in the context of sudden change of policy, or interventions outside established regulatory frameworks with potential financial penalties for non-compliance.	Positive and transparent engagement with all appropriate stakeholders in all key regulatory matters 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.
Failure to deliver the distribution outputs agreed with Ofgem in the price control under the RIIO framework.	Mitigating actions include formulating detailed investment, resource, outage and contingency plans supported by an extensive procurement strategy and having a funding strategy in place to support delivery. Good communication and co-ordination of activities across the business is integral to success, complemented by a comprehensive monitoring regime that provides early warning of potential issues.
CLIMATE CHANGE RISK	
RISK	RESPONSE
The risk that the Company's investments or operations have a significant impact on the environment and on national and international targets to tackle climate change or that climate change has a significant impact on the Company's assets.	<p>The Company is committed to reducing its environmental footprint by:</p> <ul style="list-style-type: none"> <li>• identifying and managing climate risks and opportunities, and implementing adaptation measures where required;</li> <li>• reducing emissions to air, land and water and preventing environmental harm;</li> <li>• minimising energy consumption and use of natural and human-made resources;</li> <li>• sourcing material resources responsibly, cutting waste and encouraging re-use and recycling;</li> <li>• investment in green energy network infrastructure projects under the RIIO framework; and</li> <li>• protecting natural habitats and restoring biodiversity.</li> </ul>

**SP DISTRIBUTION PLC**  
**STRATEGIC REPORT** *continued*

**PRINCIPAL RISKS AND UNCERTAINTIES** *continued*

<b>GLOBAL FINANCIAL MARKET VOLATILITY RISK</b>	
<b>RISK</b>	<b>RESPONSE</b>
Impacts arising from market and regulatory reactions to events including the Ukraine war. As well as positive or negative changes in the UK economy, these could include increased volatility on the value of Sterling and foreign currencies.	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 (comprising foreign currency, liquidity and interest rate risk) to mitigate financial risks. This is discussed further within the 'Financial instruments' section on pages 3 and 4.
<b>HEALTH AND SAFETY RISK</b>	
<b>RISK</b>	<b>RESPONSE</b>
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.
<b>RECRUITMENT AND RETENTION OF STAFF RISK</b>	
<b>RISK</b>	<b>RESPONSE</b>
Increased and appropriate resources with the correct capabilities are required to grow the business.  The increased retiral rate and challenging RIIO-ED2 programme requires substantial recruitment in the coming years.	Maintain strategic work force planning and implementation for the Company, with particular emphasis on future skills, key capabilities and resourcing for growth opportunities, as well as best use of trainee programmes.
<b>CYBER SECURITY RISKS</b>	
<b>RISK</b>	<b>RESPONSE</b>
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 and the provision of its essential services very seriously.  The main risks are: <ul style="list-style-type: none"> <li>• Risks related to operational technology used to manage the production, management and distribution of energy, or physical safety systems (fire protection, CCTV, alarm reception centres).</li> <li>• Risks related to information technology ("IT") that enables the Company to operate critical services.</li> <li>• Risks related to the confidentiality, integrity, and availability of key information assets.</li> <li>• Other cyber security risks impacting reputation.</li> </ul>	<p>The Company continues to focus on its enterprise security risks through enhanced internal governance, complemented by the adoption of a three lines of defence model with clear roles and responsibilities established across ScottishPower and therefore the Company.</p> <p>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.</p> <p>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.</p> <p>The Iberdrola Group currently has specific insurance against cyber risks, under the terms allowed by the insurance market, which is revised and updated periodically in view of the rapid evolution and wide variety of cyber risks.</p>

**SP DISTRIBUTION PLC**  
**STRATEGIC REPORT *continued***

**PRINCIPAL RISKS AND UNCERTAINTIES *continued***

<b>SUPPLY CHAIN RISK</b>	
<b>RISK</b>	<b>RESPONSE</b>
Interruption to supply chains due to the Ukraine war, higher costs due to commodity prices, increased risk of supplier failure due to the deterioration of industrialised economies and excess demand over supply.	Identifying potential shortages and gaps in the supply of products, equipment and labour. The supply chain for the Company is monitored by the ScottishPower Procurement department in conjunction with advice from the ScottishPower Compliance, Legal and Risk departments. The upward pressure on costs due to the macroeconomic environment is managed, and strategies are developed and implemented. The risk is spread through supply chain engagement.

<b>PROJECT DELIVERY RISK</b>	
<b>RISK</b>	<b>RESPONSE</b>
Failure to deliver large and complex projects on time and within budget.	<p>The Company has a strong track record in delivering large scale engineering projects with significant experience from developing numerous projects. Project delivery is supported by the use of established and experienced suppliers and advisors, along with robust financial management including an appropriate funding strategy.</p> <p>Continue constructive engagement with Ofgem on plan deliverability and regulatory regime around projects.</p>

<b>REDUCED SECURITY OF SUPPLY RISK</b>	
<b>RISK</b>	<b>RESPONSE</b>
<p>Reduced security of supply due to potential asset failures.</p> <p>Reduced security of supply has the potential to disrupt many of the Company's customers, in both its own licence area and beyond.</p>	<p>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 Great Britain's resilience.</p>

<b>RISK OF INTERRUPTIONS TO NET ZERO TIMESCALES</b>	
<b>RISK</b>	<b>RESPONSE</b>
The Company is a key facilitator to governments' net zero ambitions and the failure of the Company to respond to customers' changing requirements through the low-carbon transition (e.g. EVs, distributed generation and storage) could result in a failure to meet these targets.	Mitigating actions influencing developments at industry forums, undertaking scenario modelling of the impact of low-carbon technologies, considering technical and commercial innovation projects, engaging with key stakeholders and owning a clear Distribution System Operator ("DSO") vision.

<b>CUSTOMER SERVICE PERFORMANCE RISK</b>	
<b>RISK</b>	<b>RESPONSE</b>
Failure to protect the Company's customer service performance. This has the potential to severely damage the Company's reputation as one of the UK's top DNOs for customer satisfaction and adversely impact its performance against its regulated customer satisfaction financial incentive.	Well-established customer service processes to respond to power loss, including storm readiness. Priority Service Register to protect vulnerable customers in the event of power loss. Implementation of a single emergency number to route customer queries.

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.



## **SP DISTRIBUTION PLC**

### **STRATEGIC REPORT *continued***

#### **ENGAGING WITH STAKEHOLDERS**

##### **The importance of engaging with stakeholders**

The Company strongly believes that effective and meaningful engagement with stakeholders, especially employees, is key to promoting its success and values. Meaningful engagement with stakeholder groups supports the ethos of section 172 of the Companies Act 2006 which states that directors should have regard to stakeholder interests when discharging their duty to promote, in good faith, the success of the Company for the benefit of its members as a whole. Details of how the Company engages with its stakeholders, and how these activities influence the Company's operations, are set out on pages 7 to 10.

##### **Key stakeholders**

ScottishPower, and therefore Energy Networks and the Company, has five key stakeholder categories: employees, 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](http://www.iberdrola.com).

##### **EMPLOYEES**

The Company employs 733 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'>.

## **SP DISTRIBUTION PLC**

### **STRATEGIC REPORT *continued***

#### **ENGAGING WITH STAKEHOLDERS *continued***

##### **CUSTOMERS**

The Company recognises the importance of the current cost of living crisis and the impact it is having, particularly on those who are most vulnerable. The Company has an important role to play in supporting its communities through the energy transition and moreover, ensuring that it goes above and beyond for its communities and that no one is left behind. The Company is aware that the energy crisis has been hitting its customers hard, especially those who are already in fuel poverty. That is why the Company works with local partners to provide a range of financial and social support services beyond power cuts.

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. The Company's commitment to its customers is reflected in its customer service scores which continue to trend above Ofgem's target of 8.2. In the regulatory year 2021/22, the Company achieved a customer satisfaction score of 9.17 out of 10.

##### **Power cut support services**

Where possible, Energy Networks, and therefore the Company, takes all steps necessary to prevent customer detriment tied to a power cut. When a power cut does occur, the Company works tirelessly to get customers back on supply and, while it does this, proactively offers a range of services designed to meet different types of customers' needs. These services include winter welfare packs, hot food and generator provision. Customers who feel they may need extra support during a power cut can join the Company's Priority Services Register, enabling quick and easy access to twelve support services. This includes dedicated support, provision of hotels and company to vulnerable customers after twelve hours during exceptional events. In 2021/22 Energy Networks delivered 111,147 power cut support services.

##### **Customer needs tracking tool**

The Company introduced this tool in 2020 which tracks its vulnerable customers' personal and diverse needs, allowing it to understand them and ensure that its support services and processes satisfy them. The Company's training programme, 'Making a Difference', focuses on vulnerability and the challenges these customers face day-to-day. It explores how an outage, fault or work delivered by the Company could impact customers and demonstrates how the Company's processes, conversations, and support options help its customers and communities when needed.

##### **Stakeholder engagement strategy**

The Company aims to ensure that its stakeholders' views are considered in everything that it does. It aligns its stakeholder engagement strategy with the Stakeholder Engagement Standard AA1000 set by AccountAbility. Energy Networks achieved 85% in the 2022 AccountAbility audit, achieving the highest categorisation possible ('Advanced'). This represents an overall improvement of 19% since the first audit in 2018. The Company continues to work closely to identify the needs of vulnerable customers and stakeholders as measured by Ofgem stakeholder engagement incentive. The scores for the stakeholder engagement incentive for the regulatory year 2021/22 was 5.29 out of 10 for the Company. This compares to 7.08 in 2020/21 reflecting a challenging year for the utilities industry due to increased prices.

##### **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 continues to strive to exceed its RIIO-ED1 regulatory price control commitments and will continue to do so as it enters into the RIIO-ED2 period. This year has continued to see unprecedented challenges for the energy sector. Energy Networks, and therefore the Company, has continued to serve its distribution customers with 99.99% reliability levels for 30p per day, protecting the most vulnerable and ensuring supply to critical sites such as hospitals, nursing homes, water treatment works and food supply businesses.

#### **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 also continued its engagement with the UK Government, Ofgem and other stakeholders on the RIIO-ED2 price control, highlighting the need for appropriate levels of ambition towards achieving net zero and appropriate incentive mechanisms for network investment. On 30 November 2022, Ofgem published its Final Determination on the Company's business plan for the RIIO-ED2 price control, approving £1.5 billion worth of spending to help the Company ready the UK for an electric future. (Refer to 'Operating review' and 'Outlook for 2023 and beyond' sections of the Strategic Report for further details.)

## **SP DISTRIBUTION PLC**

### **STRATEGIC REPORT *continued***

#### **ENGAGING WITH STAKEHOLDERS *continued***

##### **SUPPLIERS AND CONTRACTORS**

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

The Company 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.

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. The Company is experiencing cost pressures due to high global commodity prices along with increasing freight and labour costs (refer to the 'Principal risks and uncertainties' section for further details).

##### **COMMUNITY AND ENVIRONMENT**

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.

##### **Supporting local communities to achieve net zero**

Within the next ten years alone, the Company expects the number of EVs in its distribution network area to increase to over 1.5 million vehicles, and with this, the requirement for EV charging will double the demand of electricity in domestic properties. The Company is working closely with its stakeholders to ensure a joined-up approach that supports their individual needs and helps facilitate the significant impact on its network. The Company is working with all 32 Scottish councils to support their decarbonisation plans. This year, the Company has hosted six workshops on EV charger installation and offered training for all local authorities. The Company is a key enabler to the decarbonisation of heat, but the concurrent increases in heat pumps means demand will increase beyond existing network limits. The Company is taking learnings from its innovative Heat-Up project to support the Scottish Government in producing a framework to support network solutions to facilitate the uptake of heat technologies.

Given the criticality of the climate emergency, the Company is helping its communities across Scotland to embrace their low energy solutions in a way that is beneficial for local needs. Community energy is playing a crucial role in achieving net zero by increasing participation and embedding behaviour change. Community energy organisations are a critical part of the future energy system and in ensuring a just transition. The Company is leading the way in community energy through supporting the planning and development of key projects, aimed at supporting its local communities' journey to net zero. The Company established a number of partnership projects and collaborations with local community energy groups, building on work in this area, gaining wider stakeholder insight and building this into its plans.

##### **Community engagement – keeping communities safe**

Energy Networks, and therefore the Company, consistently delivers clear and useful information on electrical safety through safety campaigns, and attendance at events. It has reached over 100,000 individuals through its Powerwise website aimed at electrical safety for children over a five-year period. It has also reached over 94,900 children through Fixed Safety Education Centres as well as carrying out over 300 'Crucial Crew' events where attendance has been upwards of 40,000 pupils. The Company participates in numerous regional agricultural shows. In addition, the Company supports the National Farmers Union and National Forestry Industry through regular meetings promoting safety; awareness of the Company's assets; recurring incidents; supported training and awareness sessions. The Company also promotes and circulates any ongoing safety campaigns it has in relation to electrical safety.

## **SP DISTRIBUTION PLC**

### **STRATEGIC REPORT *continued***

#### **ENGAGING WITH STAKEHOLDERS *continued***

##### **Supporting the vulnerable in the community**

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

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

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

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

#### **INNOVATION**

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

The Company is working with numerous third parties to realise innovation projects that help tackle some of the UK's biggest and most complex challenges in the push towards the UK achieving its net zero emissions targets.

#### **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 Distribution 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.

## SP DISTRIBUTION PLC

### STRATEGIC REPORT *continued*

#### SECTION 172 STATEMENT *continued*

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

- **Customers:** details of how the Company engages with its customers are explained in the 'Customers' sub-section of the Strategic Report, on page 8. During the year, the Company's board of directors ("the Board"), received and noted the Company's most up-to-date and available customer service scores.
- **Employees:** details of how Energy Networks, and so the Company, engages with its employees are set out in the 'Employees' sub-section of the Strategic Report, on page 7. During the year, the Board considered and approved the adoption by the Company of ScottishPower's 2021 Modern Slavery Statement.
- **Communities and the environment:** details of how Energy Networks, and so 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 the year, the Board considered the impact of Storm Arwen on customers and communities in the prior year.
- **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 page 9. During the year, the Board noted the impact of Covid-19 and Brexit on Energy Networks', and the Company's, supply chains.
- **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 the year, the Board noted that Energy Networks, and so the Company, had continued its engagement with governments, Ofgem and other stakeholders on the RIIO-ED2 price controls.

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 7.

The directors, both individually and together as a board, consider that the decisions taken during the year ended 31 December 2022 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  
22 June 2023

## **SP DISTRIBUTION PLC DIRECTORS' REPORT**

The directors present their report and audited Accounts for the year ended 31 December 2022.

### **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 Company's business;
- information in relation to innovation activities; and
- information on employee regulations and policies.

### **STREAMLINED ENERGY AND CARBON REPORTING**

The Company is exempt under section 20A of Part 7A of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 from the requirements to present disclosures concerning greenhouse gas emissions, energy consumption and energy efficiency action as such disclosures relating to the SPL Group, of which the Company is a part, are presented in the most recent Annual Report and Accounts of SPUK.

### **RESULTS AND DIVIDEND**

The net profit for the year amounted to £128.5 million (2021 £51.7 million). A dividend of £307.0 million was paid during the year (2021 £100.0 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, as required.

The ultimate parent of the Company is Iberdrola, S.A., which is listed on the Madrid stock exchange. 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 2022 are set out as follows:

The terms of reference of the SPENH Board are published on [www.spenergynetworks.co.uk](http://www.spenergynetworks.co.uk) under 'Corporate Governance'.

The Group Governance Framework is published on [www.scottishpower.com](http://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.

## **SP DISTRIBUTION PLC**

### **DIRECTORS' REPORT *continued***

#### **CORPORATE GOVERNANCE *continued***

##### **Board composition**

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

Vicky Kelsall	(appointed 26 August 2022)
Frank Mitchell	(resigned 26 August 2022)
Scott Mathieson	
Alison McGregor	
Suzanne Fox	(appointed 2 February 2022)
Professor Dame Anne Glover	(resigned 20 March 2022)
Craig Arthur	

Suzanne Fox resigned on 31 January 2023. Rt Hon. Charles Hendry was appointed as a director on 31 January 2023.

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 2022, the Board has taken into account the purpose and values of the Iberdrola Group and the Code of Ethics which are published on [www.spenenergynetworks.co.uk](http://www.spenenergynetworks.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.spenenergynetworks.co.uk](http://www.spenenergynetworks.co.uk) under 'Corporate Governance'.

During 2022, 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.

## SP DISTRIBUTION PLC

### DIRECTORS' REPORT *continued*

#### CORPORATE GOVERNANCE *continued*

##### 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 nine other directors as at 31 December 2022. José Ignacio Sánchez Galán is also the Executive Chairman of Iberdrola.

The directors of the SPL Board were:

José Ignacio Sánchez Galán	Chairman, internal, non-executive director
Lord Kerr of Kinlochard GCMG	Vice-chairman, external, non-executive director (resigned as Vice-chairman and director 21 March 2022)
Professor Sir James McDonald	Vice-chairman, external, non-executive director (appointed Vice-chairman 21 March 2022)
Keith Anderson	Chief Executive Officer
Wendy Jacqueline Barnes	External, non-executive director
Iñigo Fernández de Mesa Vargas	External, non-executive director
Professor Dame Anne Glover	External, non-executive director (appointed 21 March 2022)
Rt Hon. Claire O'Neill	External, non-executive director (appointed 21 March 2022)
Daniel Alcáin López	Internal, non-executive director
Gerardo Codes Calatrava	Internal, non-executive director
José Sainz Armada	Internal, non-executive director

Rt Hon. Claire O'Neill resigned on 17 January 2023.

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

José Ignacio Sánchez Galán	Attended six meetings
Lord Kerr of Kinlochard GCMG	Attended two meetings
Professor Sir James McDonald	Attended six meetings
Keith Anderson	Attended six meetings
Wendy Jacqueline Barnes	Attended six meetings
Iñigo Fernández de Mesa Vargas	Attended six meetings
Professor Dame Anne Glover	Attended four meetings
Rt Hon. Claire O'Neill	Attended four meetings
Daniel Alcáin López	Attended six meetings
Gerardo Codes Calatrava	Attended six meetings
José Sainz Armada	Attended six 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 reporting processes for ScottishPower;
- monitoring the effectiveness of ScottishPower's internal control, internal audit, compliance and risk management systems;
- 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 re-appointment 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'.



## SP DISTRIBUTION PLC

### DIRECTORS' REPORT *continued*

#### CORPORATE GOVERNANCE *continued*

##### *Membership and attendance*

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

Director	Notes	SP ACC attendance
Professor Sir James McDonald, (Chairman, external, non-executive director)	(i)	Attended one meeting
Iñigo Fernández de Mesa Vargas (Chairman, external, non-executive director)	(ii)	Attended five meetings
Wendy Jacqueline Barnes (External, non-executive director)	(iii)	Attended four meetings
Rt Hon. Claire O'Neill (External, non-executive director)	(iv)	Attended three meetings
Daniel Alcaín López (Internal, non-executive director)		Attended five meetings

(i) Resigned 20 March 2022.

(ii) Appointed Chairman 21 March 2022.

(iii) Appointed 21 March 2022.

(iv) Appointed 21 March 2022 and resigned on 17 January 2023

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 2022*

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 for the activities of ScottishPower. In accordance with the corporate governance arrangements of ScottishPower 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 ScottishPower 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 Chief Executive Officer ("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 2022. The directors and their attendance at SPENH Board meetings held during the period under review (five meetings), are shown below:

Director	Notes	SPENH Board attendance
Elena León Muñoz (Chair, internal, non-executive director)		Attended five meetings
Frank Mitchell (CEO)	(i)	Attended three meetings
Vicky Kelsall (CEO)	(ii)	Attended two meetings
Professor Dame Anne Glover (External, non-executive director)	(iii)	Attended one meeting
Alison McGregor (External, non-executive director)		Attended five meetings
José Ignacio Sánchez-Galán García-Tabernero (Internal, non-executive director)	(iv)	Attended two meetings
Suzanne Fox (External, non-executive director)	(v)	Attended five meetings
Mónica Grau Domene (Internal, non-executive director)		Attended five meetings

(i) Resigned 26 August 2022.

(ii) Appointed 26 August 2022.

(iii) Resigned 20 March 2022.

(iv) Resigned 20 June 2022. Re-appointed 21 December 2022.

(v) Appointed 1 February 2022 and resigned on 31 January 2023.

Rt Hon. Charles Hendry was appointed as an external, non-executive director on 31 January 2023.

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](http://www.spenergynetworks.co.uk) under 'Corporate Governance'.

## SP DISTRIBUTION PLC

### DIRECTORS' REPORT *continued*

#### CORPORATE GOVERNANCE *continued*

##### **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](http://www.spenergynetworks.co.uk) under 'Corporate Governance'.

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.

The SPENH ACC's responsibilities include:

- monitoring the financial and non-financial reporting processes for the SPENH Group;
- monitoring the effectiveness of the SPENH Group's internal control, internal audit, compliance and risk management systems;
- 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 re-appointment of the auditor and the associated terms of reference.

The issues that the SPENH ACC specifically addressed are detailed in its report which is published on [www.spenergynetworks.co.uk](http://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 (further details are provided in Note 23).

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

Director	Notes	SPENH ACC attendance
Alison McGregor (Chair, external, non-executive director)		Attended five meetings
Suzanne Fox (External, non-executive director)	(i)	Attended four meetings
Professor Dame Anne Glover (External, non-executive director)	(ii)	Attended one meeting
Mónica Grau Domene (Internal, non-executive director)		Attended five meetings

(i) Appointed 21 March 2022 and resigned on 31 January 2023.

(ii) Resigned 20 March 2022.

Rt Hon. Charles Hendry was appointed as an external, non-executive director on 31 January 2023.

#### **DIRECTORS' INDEMNITY**

In terms of the Company's Articles of Association, a qualifying third party indemnity provision is in force for the benefit of all the directors of the Company and of associated companies and has been in force during the financial year.

#### **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 accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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.

**SP DISTRIBUTION PLC**  
**DIRECTORS' REPORT *continued***

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

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 complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information relating to the Company that is included on the ScottishPower website. Legislation in the UK governing the preparation and dissemination of the financial statements differs 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 ending 31 December 2023.

**ON BEHALF OF THE BOARD**



**Scott Mathieson**  
**Director**  
**22 June 2023**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SP DISTRIBUTION PLC**

### **1 Our opinion is unmodified**

We have audited the financial statements of SP Distribution plc ("the Company") for the year ended 31 December 2022 which comprise the Statement of financial position, Income statement and statement of comprehensive income, Statement of changes in equity, Statement of cash flows, 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 Company's affairs as at 31 December 2022 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 six financial years ended 31 December 2022. 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 listed 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 matters (unchanged from 2021), in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

#### **Capital expenditure**

(£185.9 million; 2021 £177.1 million)

Refer to page 28 (accounting policy) and page 34 (financial disclosures).

**The risk – Accounting Treatment** - The Company continues to undertake major capital projects, including significant enhancements to the distribution 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 judgemental 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 including the judgement involved in assessing expenditure as capital.

**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 DISTRIBUTION 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 £18.0 million (2021 £16.0 million); determined with reference to a benchmark of total assets, of which it represents 0.50% (2021 0.46%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 75% (2020 75%) of materiality for the financial statements as a whole, which equates to £13,500,000 (2021 £12,000,000). 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 £0.9 million (2021 £0.8 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").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were the impact of a reduction in energy volumes which would lead to reduced revenue in the period and the impact of any inability to secure funds to meet committed capital expenditure: it is important to note however that the company's normal practice is to secure funding in advance of entering large capital commitments. It is important to note however that any such reductions in volumes would only create a short-term cash flow impact as under the Company's regulatory mechanism, the shortfall would be recoverable through allowable revenues in future periods.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively.

Our procedures also included critically assessing assumptions in the Directors' initial downside scenarios relevant to liquidity. Furthermore, we assessed the ability and intent of the parent company to continue to support the company should any such support be required.

We considered whether the going concern disclosure in Note 1 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 1 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:

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

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

- 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.

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 unusual accounts.

#### *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 Company'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 noncompliance throughout the audit.

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

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including form and content), related companies legislation, distributable profits legislation and 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 Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation 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 23, 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.

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

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 strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

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

- adequate accounting records have not been kept by the Company, 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 other irregularities (see below), 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, other irregularities 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](http://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

23 June 2023

**SP DISTRIBUTION PLC**  
**STATEMENT OF FINANCIAL POSITION**  
**at 31 December 2022**

	Notes	2022 £m	2021 £m
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	3	0.2	-
Property, plant and equipment		3,326.9	3,238.2
Property, plant and equipment in use	4	3,121.6	3,037.8
Property, plant and equipment in the course of construction	4	205.3	200.4
Right-of-use assets	5	60.5	60.7
Non-current trade and other receivables	6	0.2	0.2
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,387.8</b>	<b>3,299.1</b>
<b>CURRENT ASSETS</b>			
Inventories	7	19.7	12.3
Current trade and other receivables	6	162.8	163.5
Cash		1.6	3.0
<b>TOTAL CURRENT ASSETS</b>		<b>184.1</b>	<b>178.8</b>
<b>TOTAL ASSETS</b>		<b>3,571.9</b>	<b>3,477.9</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Of shareholders of the parent		692.7	871.2
Share capital	8, 9	300.0	300.0
Retained earnings	9	392.7	571.2
<b>TOTAL EQUITY</b>		<b>692.7</b>	<b>871.2</b>
<b>NON-CURRENT LIABILITIES</b>			
Non-current deferred income	10	690.3	657.9
Non-current provisions	11	1.4	1.6
Non-current loans and other borrowings	12	1,469.3	1,249.0
Non-current lease liabilities	5	56.7	56.6
Non-current trade and other payables	13	0.2	0.1
Deferred tax liabilities	14	268.5	267.0
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>2,486.4</b>	<b>2,232.2</b>
<b>CURRENT LIABILITIES</b>			
Current deferred income	10	24.1	23.0
Current provisions	11	0.4	0.4
Current loans and other borrowings	12	92.1	96.1
Current lease liabilities	5	6.4	6.2
Current trade and other payables	13	266.4	245.2
Current income tax liabilities		3.4	3.6
<b>TOTAL CURRENT LIABILITIES</b>		<b>392.8</b>	<b>374.5</b>
<b>TOTAL LIABILITIES</b>		<b>2,879.2</b>	<b>2,606.7</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,571.9</b>	<b>3,477.9</b>

Approved by the Board and signed on its behalf on 22 June 2023:



Scott Mathieson  
Director

The accompanying Notes 1 to 26 are an integral part of the Statement of financial position at 31 December 2022.



**SP DISTRIBUTION PLC**  
**INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2022**

	Notes	2022 £m	2021 £m
Revenue	15	533.7	458.6
Procurements		(74.2)	(26.7)
<b>GROSS MARGIN</b>		<b>459.5</b>	<b>431.9</b>
Net staff costs	16	(14.4)	(13.7)
External services		(85.7)	(89.2)
Other operating results		10.6	12.4
<b>Net operating costs</b>		<b>(89.5)</b>	<b>(90.5)</b>
<b>Taxes other than income tax</b>	17	<b>(37.0)</b>	<b>(36.6)</b>
<b>GROSS OPERATING PROFIT</b>		<b>333.0</b>	<b>304.8</b>
Net expected credit losses on trade and other receivables		(0.9)	(3.5)
Depreciation and amortisation charge, allowances and provisions	18	(127.4)	(123.3)
<b>OPERATING PROFIT</b>		<b>204.7</b>	<b>178.0</b>
Finance income	19	3.0	1.1
Finance costs	20	(46.9)	(36.4)
<b>PROFIT BEFORE TAX</b>		<b>160.8</b>	<b>142.7</b>
Income tax	21	(32.3)	(91.0)
<b>NET PROFIT FOR THE YEAR</b>		<b>128.5</b>	<b>51.7</b>

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

Net profit for both years comprises total comprehensive income.

All results relate to continuing operations.

The accompanying Notes 1 to 26 are an integral part of the Income statement and statement of comprehensive income for the year ended 31 December 2022.

**SP DISTRIBUTION PLC**  
**STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 31 December 2022**

	Share capital £m	Retained earnings £m	Total £m
At 1 January 2021	300.0	619.5	919.5
Total comprehensive income for the year	-	51.7	51.7
Dividends	-	(100.0)	(100.0)
At 1 January 2022	300.0	571.2	871.2
Total comprehensive income for the year	-	128.5	128.5
Dividends	-	(307.0)	(307.0)
<b>At 31 December 2022</b>	<b>300.0</b>	<b>392.7</b>	<b>692.7</b>

The accompanying Notes 1 to 26 are an integral part of the Statement of changes in equity for the year ended 31 December 2022.

**SP DISTRIBUTION PLC**  
**STATEMENT OF CASH FLOWS**  
**for the year ended 31 December 2022**

	2022 £m	2021 £m
Cash flows from operating activities		
Profit before tax	160.8	142.7
Adjustments for:		
Depreciation, amortisation and impairment	127.1	122.2
Change in provisions	(0.2)	0.3
Transfer of assets from customers	(23.8)	(23.2)
Net finance income and costs	43.9	35.3
Net losses on disposal/write-off of non-current assets	0.4	0.4
Changes in working capital:		
Change in trade and other receivables	(14.5)	(2.7)
Change in inventories	(34.6)	(14.5)
Change in trade and other payables	19.9	20.7
Assets received from customers (deferred income)	50.7	37.8
Income taxes paid	(31.0)	(19.0)
<b>Net cash flows from operating activities (i)</b>	<b>298.7</b>	<b>300.0</b>
Cash flows from investing activities		
Interest received	2.1	0.7
Investments in intangible assets	(0.3)	-
Investments in property, plant and equipment	(173.0)	(163.3)
Decrease in amounts due from Iberdrola Group companies - current loans receivable	14.3	-
<b>Net cash flows from investing activities (ii)</b>	<b>(156.9)</b>	<b>(162.6)</b>
Cash flows from financing activities		
Decrease in amounts due to Iberdrola Group companies - current loans payable	(85.0)	(140.8)
Increase in amounts due to Iberdrola Group companies - non-current loans payable	300.0	145.0
Dividends paid to the Company's equity holder	(307.0)	(100.0)
Interest paid	(43.9)	(35.5)
Payments of lease liabilities	(5.5)	(5.1)
Interest paid on lease liabilities	(1.8)	(1.8)
<b>Net cash flows from financing activities (iii)</b>	<b>(143.2)</b>	<b>(138.2)</b>
<b>Net decrease in cash and cash equivalents (i)+(ii)+(iii)</b>	<b>(1.4)</b>	<b>(0.8)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>3.0</b>	<b>3.8</b>
<b>Cash and cash equivalents at end of year</b>	<b>1.6</b>	<b>3.0</b>
Cash and cash equivalents at end of year comprises:		
Statement of financial position cash	1.6	3.0
<b>Statement of cash flows cash and cash equivalents</b>	<b>1.6</b>	<b>3.0</b>

The accompanying Notes 1 to 26 are an integral part of the Statement of cash flows for the year ended 31 December 2022.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS**  
**31 December 2022**

**1 BASIS OF PREPARATION**

**A COMPANY INFORMATION**

SP Distribution plc, registered company number SC189125, is a private company limited by shares, incorporated in Scotland and its registered office 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 2022 (refer to Note 1C). In applying FRS 101, the Company has made amendments where necessary in order to comply with the Companies Act 2006.

In previous accounting periods, the Company prepared its financial statements in accordance with UK-adopted IAS. The Accounts for the year to 31 December 2022 are the Company's first financial statements prepared in accordance with FRS 101. In the transition from UK-adopted IAS to FRS 101, the Company has made no measurement or recognition adjustments, and there has been no impact on the reported financial position, performance or cash flows of the Company as a result of this transition.

In these Accounts, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- certain disclosures regarding revenue;
- comparative period reconciliations for intangible assets and property, plant and equipment;
- reconciliation of movements of liabilities to cash flows arising from financing activities;
- 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.

**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 distribution network within the Central Belt and South of Scotland. The Company is a member of the group headed by SPUK, the Company's intermediate parent company, which is itself a subsidiary of Iberdrola, the ultimate parent undertaking. The Company's cash flows are therefore dependent on the continuation 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.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 December 2022**

**1 BASIS OF PREPARATION *continued***

The directors have performed a going concern assessment which indicates that, after taking account of the capital investment of £549 million, in both the base case and in the scenarios of reasonably possible downsides, including lower distribution volumes and possible storm costs, the Company will require additional funds, through funding from SPUK, to meet its liabilities as they fall due for at least one year from the date of approval of these financial statements.

SPUK has indicated its intention to make available such funds as are needed by the Company, in the event this is required. 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 one year from the date of approval of the financial statements and, therefore, have prepared these 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 2022.

For the year ended 31 December 2022, the Company has applied the following amendments for the first time:

Standard	Note
• Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts - Cost of Fulfilling a Contract'	(a)
• Amendments to IFRS 3 'Business Combinations: Reference to the Conceptual Framework'	(a)
• Amendments to IAS 16 'Property, Plant and Equipment: Proceeds before Intended Use'	(a)
• Annual Improvements to IFRS Standards 2018-2020 Cycle	(a)

(a) The application of these 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**

In determining and applying accounting policies, judgement and estimation is often required in respect of items which have a significant effect on the reported amounts of assets, liabilities, income and expenses recognised in the financial statements. Management considers significant judgements and estimates to be those with a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year due to the inherent uncertainty regarding estimates and assumptions. As at 31 December 2022, the Company applied no such significant judgements or estimates.

**NON-SIGNIFICANT JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES**

**Consideration of climate change**

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

- the Company's going concern position, including the cash flow prepared for the directors' assessment referred to in Note 1B2; and
- the risk of increased cost of capital for investments in technologies or business models that are deemed to be unrelated in the fight against climate change has been considered in terms of the potential impact on the cash flows and value-in-use calculations within an impairment test.

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.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 December 2022**

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

**PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies applied in preparing the Accounts are set out below.

- A INTANGIBLE ASSETS (COMPUTER SOFTWARE)**
- B PROPERTY, PLANT AND EQUIPMENT**
- C LEASED ASSETS**
- D IMPAIRMENT OF INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND LEASED ASSETS**
- E FINANCIAL INSTRUMENTS**
- F INVENTORIES**
- G REVENUE**
- H PROCUREMENTS**
- I OTHER OPERATING RESULTS**
- J RETIREMENT BENEFITS**
- K TAXATION**

**A INTANGIBLE ASSETS (COMPUTER SOFTWARE)**

The costs of acquired computer software, such as licences, are capitalised on the basis of the costs incurred to acquire, and bring to use, the specific software. Amortisation of acquired computer software is on a straight-line basis over their operational lives, which is generally up to five years.

**B PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment is stated at cost and depreciated on a straight-line basis over the estimated operational lives of the assets once commissioned. Property, plant and equipment includes capitalised employee costs, 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. 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.

	<b>Years</b>
Distribution facilities	40
Meters and measuring devices	3 - 22
Other items of property, plant and equipment	4 - 50

**C 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.

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.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 December 2022**

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

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.

**C1 LESSEE**

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 and statement of comprehensive income.

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 and statement of comprehensive income.

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.

In the Statement of cash flows, the Company includes the payment of lease liabilities and interest paid on lease liabilities within Cash flows from financing activities; variable lease payments which are not dependent on an index or rate are included in Cash flows from operating activities.

**C2 LESSOR**

When the Company acts as a lessor, it determines at inception whether each lease is a finance or operating lease. The Company classifies leases as finance leases whenever the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the lessee. All other leases are classified as operating leases.

When the Company is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately; classifying the sub-lease with reference to the right-of-use asset arising from the head lease, not the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

The Company recognises operating lease payments received as income on a straight-line basis over the lease term as part of Other operating results.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 December 2022**

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

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

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

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Any impairment is recognised in the Income statement and statement of comprehensive income 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.

**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 classification of financial assets depends on the Company's business model for managing them to generate cash flows.

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

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

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

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

**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 and statement of comprehensive income. Any gain or loss on derecognition is also recognised in the Income statement and statement of comprehensive income.



**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 December 2022**

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

**(c) Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is 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.

**(d) Impairment of financial assets**

**(i) Measurement of Expected Credit Losses ("ECLs")**

The Company recognises an allowance for ECLs for all financial assets. ECLs are a probability-weighted estimate of credit losses. The Company has adopted the simplified ECL model for its trade receivables and the general ECL model for all other financial assets measured at amortised cost:

In applying the simplified model, loss allowances for trade receivables are measured at an amount equal to a lifetime ECL. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for, where possible, forward-looking factors specific to the debtors and the economic environment. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and those the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

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

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

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

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

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

The Company considers a financial asset to be in default when:

- internal or external information indicates that the Company is unlikely to receive the outstanding contractual amount in full (before taking into account any credit enhancements held by the Company); or
- the financial asset is more than 90 days past due.

**(ii) Credit-impaired financial assets**

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

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 December 2022**

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

**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 and statement of comprehensive income. Any gain or loss on derecognition is also recognised in the Income statement and statement of comprehensive income. 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 and statement of comprehensive income.

**(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 and statement of comprehensive income.

**F INVENTORIES**

Inventories, which comprise plant maintenance spares, are valued at the lower of cost and net realisable value. Cost includes all directly attributable costs incurred in bringing the inventories to their present location and condition.

**G 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.

**(a) Electricity distribution**

The Company provides the service of making its distribution network available to customers. This performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits of the Company's performance as it makes the distribution network available. The Company has a right to consideration in an amount that corresponds directly with the value to the customer of the Company's performance to date. Therefore, revenue is recognised in the amount to which the Company has a right to invoice based on the amount of allowed revenue for the year set by the regulatory price control. Due to the nature of the electricity settlements industry process, revenue includes unbilled income recognised as a receivable relating to units transferred over the network but not yet invoiced at the end of the year. Invoices are raised one month in arrears and are typically settled within one month.

**(b) 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. As the cash contributions received from customers relate to underlying business activities, they are recorded as Cash flows from operating activities in the Statement of cash flows.

**H PROCUREMENTS**

Procurement costs principally comprise use of system charges from the system operator, National Grid. Costs are recorded on an accruals basis.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS** *continued*  
**31 December 2022**

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

**I OTHER OPERATING RESULTS**

Other operating results is principally comprised of recharges, primarily in relation to the Company's unregulated income. The line item also includes compensation and rebates received, lease income, and gains/losses on disposal of non-current assets.

**J RETIREMENT BENEFITS**

ScottishPower operates two defined benefit schemes and one defined contribution retirement benefit scheme in the UK. SP Distribution 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 and statement of comprehensive income in respect of pension costs is the contributions payable in the year.

**K 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 and statement of comprehensive income.

**3 INTANGIBLE ASSETS**

	Computer software £m
<b>Year ended 31 December 2022</b>	
<b>Cost:</b>	
At 1 January 2022	-
Additions	0.3
<b>At 31 December 2022</b>	<b>0.3</b>
<b>Amortisation:</b>	
At 1 January 2022	-
Amortisation for the year	0.1
<b>At 31 December 2022</b>	<b>0.1</b>
<b>Net book value:</b>	
<b>At 31 December 2022</b>	<b>0.2</b>
At 1 January 2022	-

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 December 2022**

**4 PROPERTY, PLANT AND EQUIPMENT**

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

	Distribution facilities	Meters and measuring devices	Other items of property, plant and equipment in use (Note (i))	Plant in the course of construction (Note (ii))	Total
Year ended 31 December 2022	£m	£m	£m	£m	£m
<b>Cost:</b>					
At 1 January 2022	4,544.8	131.8	32.2	200.4	4,909.2
Additions	6.7	1.3	2.0	175.6	185.6
Transfers from plant in the course of construction to plant in use	197.7	-	0.2	(197.9)	-
Transfers from inventories (Note (iii))	-	-	-	27.2	27.2
Disposals	(15.9)	(13.7)	(0.1)	-	(29.7)
<b>At 31 December 2022</b>	<b>4,733.3</b>	<b>119.4</b>	<b>34.3</b>	<b>205.3</b>	<b>5,092.3</b>
<b>Depreciation:</b>					
At 1 January 2022	1,542.9	118.1	10.0	-	1,671.0
Depreciation for the year	115.5	6.5	1.5	-	123.5
Disposals	(15.3)	(13.7)	(0.1)	-	(29.1)
<b>At 31 December 2022</b>	<b>1,643.1</b>	<b>110.9</b>	<b>11.4</b>	<b>-</b>	<b>1,765.4</b>
<b>Net book value:</b>					
<b>At 31 December 2022</b>	<b>3,090.2</b>	<b>8.5</b>	<b>22.9</b>	<b>205.3</b>	<b>3,326.9</b>
At 1 January 2022	3,001.9	13.7	22.2	200.4	3,238.2
The net book value of property plant and equipment at 31 December 2022 is analysed as follows:					
Property, plant and equipment in use	3,090.2	8.5	22.9	-	3,121.6
Property, plant and equipment in the course of construction	-	-	-	205.3	205.3
	<b>3,090.2</b>	<b>8.5</b>	<b>22.9</b>	<b>205.3</b>	<b>3,326.9</b>

- (i) The category Other items of property, plant and equipment in use principally comprises other technical installations, communications facilities and land.
- (ii) The category Plant in the course of construction principally comprises distribution facilities in the course of construction.
- (iii) Transfers from inventories represents £27.2 million (2021 £15.7 million) of capitalised spare parts.
- (iv) The cost of fully depreciated property, plant and equipment still in use at 31 December 2022 was £154.9 million (2021 £169.5 million).
- (v) Included within the cost of property, plant and equipment as at 31 December 2022 are assets in use not subject to depreciation, being land of £9.2 million (2021 £9.2 million).
- (vi) Included in Other items of property, plant and equipment in use at 31 December 2022 are assets with a carrying value of less than £0.1 million (2021 £0.1 million) which the Company leases to third parties via operating leases.

**(b) Capital commitments**

	2022						Total
	2023 £m	2024 £m	2025 £m	2026 £m	2027 £m	2028 and thereafter £m	
Contracted but not provided	48.0	21.9	-	-	-	-	69.9

  

	2021						Total
	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 and thereafter £m	
Contracted but not provided	59.4	0.8	-	-	-	-	60.2

**(c) Research and development expenditure**

The amount of research and development expenditure recognised as an expense during the year was £nil (2021 £0.1 million).

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 December 2022**

**5 LEASING**

**5A LESSEE**

The Company leases many assets including land, vehicles and buildings. 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 from between two and 40 years. Certain agreements contain the right to extend the terms by up to seven years and for most contracts can be terminated with between one months' and twelve months' notice.

*Vehicles*

The Company leases vehicles with lease terms of between 18 months and eight years, primarily being pool vehicles to mobilise its operational staff and other specialist vehicles. Certain agreements contain the right to extend the terms by up to one year; others can be terminated without notice. Other vehicle leases are considered short-term and the Company has elected not to recognise right-of-use assets and lease liabilities for these leases.

*Buildings*

The Company leases buildings primarily as operational depots. The leases typically have terms of up to 15 years. Certain leases have options to extend the term from one to five years at the end of the term.

*Other equipment*

The Company leases operating plant, with lease terms ranging from 13 to 37 years. Certain agreements have rights to extend the term by one to two years and others can be terminated without notice. Certain plant leases for generators and temporary site security systems are considered short-term and the Company has elected not to recognise right-of-use assets and lease liabilities for these leases.

*Variable lease payments*

Certain leases for land and buildings contain variable lease payments that are based on the building services supplied or radio hill site usage. The fixed annual payments for the year were £7.3 million compared to variable payments made of £0.1 million. The Company expects the relative proportions of fixed and variable lease payments to remain broadly consistent in future years.

*Extension options*

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

*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.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS** *continued*  
**31 December 2022**

**5 LEASING** *continued*

**5A LESSEE** *continued*

**(b) Right-of-use assets**

		Land £m	Vehicles £m	Buildings £m	Other equipment £m	Total £m
<b>Year ended 31 December 2021</b>	<b>Note</b>					
<b>Cost:</b>						
At 1 January 2021		54.7	13.2	5.1	0.2	73.2
Additions		2.2	2.0	-	-	4.2
Adjustments for changes in liabilities	(i)	(0.3)	0.3	-	0.3	0.3
Disposals		(0.2)	-	-	-	(0.2)
<b>At 31 December 2021</b>		<b>56.4</b>	<b>15.5</b>	<b>5.1</b>	<b>0.5</b>	<b>77.5</b>
<b>Depreciation:</b>						
At 1 January 2021		4.7	5.4	0.8	0.2	11.1
Charge for the year		2.5	2.8	0.4	-	5.7
<b>At 31 December 2021</b>		<b>7.2</b>	<b>8.2</b>	<b>1.2</b>	<b>0.2</b>	<b>16.8</b>
<b>Net book value:</b>						
<b>At 31 December 2021</b>		<b>49.2</b>	<b>7.3</b>	<b>3.9</b>	<b>0.3</b>	<b>60.7</b>
<b>At 1 January 2021</b>		<b>50.0</b>	<b>7.8</b>	<b>4.3</b>	<b>-</b>	<b>62.1</b>
<b>Year ended 31 December 2022</b>	<b>Note</b>					
<b>Cost:</b>						
At 1 January 2022		56.4	15.5	5.1	0.5	77.5
Additions		1.7	2.7	-	-	4.4
Adjustments for changes in liabilities	(i)	0.3	0.2	1.0	-	1.5
<b>At 31 December 2022</b>		<b>58.4</b>	<b>18.4</b>	<b>6.1</b>	<b>0.5</b>	<b>83.4</b>
<b>Depreciation:</b>						
At 1 January 2022		7.2	8.2	1.2	0.2	16.8
Charge for the year		2.5	2.9	0.6	0.1	6.1
<b>At 31 December 2022</b>		<b>9.7</b>	<b>11.1</b>	<b>1.8</b>	<b>0.3</b>	<b>22.9</b>
<b>Net book value:</b>						
<b>At 31 December 2022</b>		<b>48.7</b>	<b>7.3</b>	<b>4.3</b>	<b>0.2</b>	<b>60.5</b>
<b>At 1 January 2022</b>		<b>49.2</b>	<b>7.3</b>	<b>3.9</b>	<b>0.3</b>	<b>60.7</b>

(i) Adjustments for changes in liabilities are movements in the right-of-use asset resulting from remeasurement of the associated lease liability to reflect changes to the lease payments due to any reassessment or lease modifications.

(ii) There are no right-of-use assets measured at revalued amounts.

**(c) Lease liabilities**

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

	<b>2022</b> £m	2021 £m
Less than one year	7.4	7.2
One to five years	20.0	19.5
More than five years	57.8	58.2
<b>Total undiscounted lease liabilities at 31 December</b>	<b>85.2</b>	<b>84.9</b>
Finance cost	(22.1)	(22.1)
<b>Total discounted lease liabilities</b>	<b>63.1</b>	<b>62.8</b>
<b>Analysis of total lease liabilities</b>		
Non-current	56.7	56.6
Current	6.4	6.2
<b>Total</b>	<b>63.1</b>	<b>62.8</b>

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

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 December 2022**

**5 LEASING *continued***

**5A LESSEE *continued***

**(d) Amounts recognised in Income statement and statement of comprehensive income**

	Note	2022 £m	2021 £m
Interest on lease liabilities		(1.9)	(1.9)
Variable lease payments not included in the measurement of lease liabilities		(0.1)	(0.1)
Expenses relating to short-term leases	(i)	(2.4)	(1.4)

(i) This charge relates to leases for vehicles and plant and equipment. Future commitments relating to the portfolio of short-term leases are expected to be similar to the expense charged in the year.

**(e) Amounts recognised in the Statement of cash flows**

	2022 £m	2021 £m
Payments of lease liabilities	(5.5)	(5.1)
Interest paid on lease liabilities	(1.8)	(1.8)
Payments for variable lease components	(0.1)	(0.1)
Payments for short-term leases	(2.3)	(1.2)
Total cash outflow for leases	(9.7)	(8.2)

**5B LESSOR**

The Company has contracts to lease land and buildings which have been classified as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. These leases have terms of up to two years.

Lease income recognised by the Company during 2022 was £1.1 million (2021 £0.8 million). No income relating to variable lease payments that do not depend on an index or rate has been recognised.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted payments to be received after the reporting date:

	2022 £m	2021 £m
Less than one year	0.5	0.8
One to two years	0.1	0.7
<b>Total undiscounted lease payments</b>	<b>0.6</b>	<b>1.5</b>

**6 TRADE AND OTHER RECEIVABLES**

	Notes	2022 £m	2021 £m
<b>Current receivables:</b>			
Receivables due from Iberdrola Group companies - trade	(a)	15.7	13.5
Receivables due from Iberdrola Group companies - loans	(b)	64.4	78.7
Receivables due from Iberdrola Group companies - interest		1.3	0.4
Trade receivables (including accrued income)	(a)	72.2	61.8
Prepayments		-	0.1
Other tax receivables (including rates prepayments)		9.2	9.0
		<b>162.8</b>	<b>163.5</b>
<b>Non-current receivables:</b>			
Prepayments		0.2	0.2
		<b>0.2</b>	<b>0.2</b>

(a) Trade and other receivables includes £82.3 million (2021 £72.9 million) of IFRS 15 receivables. £0.9 million (2021 £3.3 million) of net expected credit losses were recognised during the year on receivables and contract assets arising from the Company's contracts with customers.

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

(c) Information about the Company's exposure to credit and market risks, and impairment losses for trade receivables are included in the 'Financial instruments' section of the Strategic Report and Note 2E.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 December 2022**

**7 INVENTORIES**

	Notes	2022 £m	2021 £m
Inventories	(a), (b)	19.7	12.3

(a) Inventories with a value of £1.9 million (2021 £1.8 million) were recognised as an expense during the year.

(b) Inventories with a value of £0.1 million (2021 £0.1 million) were written off during the year.

**8 SHARE CAPITAL**

	2022 £m	2021 £m
<b>Allotted, called up and fully paid shares:</b>		
300,000,000 ordinary shares of £1 each (2021 300,000,000)	300.0	300.0

The holder of these ordinary shares is 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.

**9 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY**

	Share capital £m	Retained earnings (Note (a)) £m	Total £m
At 1 January 2021	300.0	619.5	919.5
Profit for the year attributable to equity holder of the Company	-	51.7	51.7
Dividends	-	(100.0)	(100.0)
At 1 January 2022	300.0	571.2	871.2
Profit for the year attributable to equity holder of the Company	-	128.5	128.5
Dividends	-	(307.0)	(307.0)
<b>At 31 December 2022</b>	<b>300.0</b>	<b>392.7</b>	<b>692.7</b>

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

**10 DEFERRED INCOME**

	At 1 January 2021 £m	Disposals £m	Receivable during year £m	Released to Income statement £m	At 31 December 2021 £m
Year ended 31 December 2021	658.6	(0.2)	45.7	(23.2)	680.9
	At 1 January 2022 £m	Disposals £m	Receivable during year £m	Released to Income statement £m	At 31 December 2022 £m
Year ended 31 December 2022	680.9	(0.2)	57.5	(23.8)	714.4

	2022 £m	2021 £m
<b>Analysis of total deferred income</b>		
Non-current	690.3	657.9
Current	24.1	23.0
	(a) 714.4	680.9

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



**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS** *continued*  
**31 December 2022**

**11 PROVISIONS**

		At 1 January 2021 £m	New provisions £m	Released during year £m	At 31 December 2021 £m
<b>Year ended 31 December 2021</b>	<b>Notes</b>				
Environmental	(a)	0.2	-	(0.2)	-
Decommissioning costs	(b)	0.4	-	-	0.4
Insurance	(c)	1.1	0.8	(0.3)	1.6
		1.7	0.8	(0.5)	2.0
		At 1 January 2022 £m	New provisions £m	Released during year £m	At 31 December 2022 £m
<b>Year ended 31 December 2022</b>	<b>Notes</b>				
Decommissioning costs	(b)	0.4	-	-	0.4
Insurance	(c)	1.6	0.5	(0.7)	1.4
		2.0	0.5	(0.7)	1.8
<b>Analysis of total provisions</b>				<b>2022</b>	<b>2021</b>
				<b>£m</b>	<b>£m</b>
Non-current				1.4	1.6
Current				0.4	0.4
				1.8	2.0

- (a) The provision for environmental costs related to obligations under the Control of Asbestos at Work Regulations. This provision was released in the year ended 31 December 2021.
- (b) The provision for decommissioning costs is the discounted future estimated costs of decommissioning certain non-current assets. The decommissioning is expected to occur between 2023 and 2038.
- (c) The provision for insurance principally represents the value of claims reserves. The provision is expected to be utilised between 2023 and 2024.

**12 LOANS AND OTHER BORROWINGS**

**(a) Analysis by instrument and maturity**

Instrument	Notes	Interest rate 2022*	Interest rate 2021*	Maturity	2022 £m	2021 £m
Loans with Iberdrola Group companies	(i),(ii)	3.416%	3.416%	21 December 2022	-	85.0
Loans with Iberdrola Group companies	(i),(iii)	2.821%	2.821%	31 March 2025	80.0	80.0
£350 million euro-sterling bond	(iv), (v), (vi)	5.875%	5.875%	17 July 2026	349.0	348.7
Loans with Iberdrola Group companies	(vii), (viii)	SONIA + CAS + 0.78%	LIBOR + 0.78%	20 December 2027	120.0	120.0
Loans with Iberdrola Group companies	(i),(vii),(ix)	SONIA + 1.025%	LIBOR + 1.025%	27 December 2029	350.0	350.0
Loans with Iberdrola Group companies	(vii),(ix)	SONIA + 0.78%	LIBOR + 0.78%	22 December 2030	350.0	350.0
Loans with Iberdrola Group companies	(ix)	3.60%	-	9 June 2032	300.0	-
Accrued interest	(x)				12.4	11.4
					1,561.4	1,345.1
<b>Analysis of total loans and other borrowings</b>					<b>2022</b>	<b>2021</b>
					<b>£m</b>	<b>£m</b>
Non-current					1,469.3	1,249.0
Current					92.1	96.1
					1,561.4	1,345.1

\* SONIA + CAS - Sterling Overnight Index Average plus Credit Adjustment Spread; LIBOR - London Inter-Bank Offer Rate; SONIA - Sterling Overnight Index Average.

- (i) Under the conditions of this 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 SPUK with written notice at least five business days before the intended repayment date.
- (ii) The loan that was repayable in December 2022, was repayable in equal instalments on a biennial basis. The repayment of £85.0 million that was due in 2022 was classified as current in the 2021 analysis above.
- (iii) The loan that is repayable in March 2025, is repayable in equal instalments on a biennial basis. The repayment of £40.0 million that is due in 2023 is classified as current in the 2022 analysis above.
- (iv) This bond contains a 'Loss of licences' covenant that will require repayment of the outstanding amount should the Company lose its relevant licences.
- (v) 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 the agreements.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 December 2022**

**12 LOANS AND OTHER BORROWINGS**

**(a) Analysis by instrument and maturity *continued***

- (vi) The £350 million euro-sterling bond will be redeemed at its principal amount on 17 July 2026 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 bond is shown net of finance costs of (£0.3) million (2021 £(0.3) million), which are classified as current in the analysis above.
- (vii) As of 1 January 2022, all long-term debt instruments which referenced LIBOR were amended to reference SONIA + CAS (where relevant) + margin. This was implemented as a result of the LIBOR cessation from end of 2021. As of 2022, the interest applied is based on SONIA plus the relevant margin.
- (viii) The loan that is repayable in December 2027, is repayable in equal instalments on a biennial basis. The repayment of £40.0 million that is due in 2023 is classified as current in the 2022 analysis above.
- (ix) The loans that are repayable in December 2029, December 2030 and June 2032 are repayable in full at maturity.
- (x) Accrued interest at 31 December 2022 includes amounts due to Iberdrola Group companies of £3.0 million (2021 £2.0 million).
- (xi) Current borrowings as at 31 December 2022 comprise the short-term element of the 2025 loan (refer to footnote (iii) on the previous page), the short-term element of the 2027 loan (refer to footnote (viii) above), accrued interest payable and finance costs due to be amortised within one year which totalled £(0.3) million. Current borrowings as at 31 December 2021 comprised the short-term element of the 2022 loan (refer to footnote (ii) on the previous page), accrued interest payable and finance costs due to be amortised within one year which totalled £(0.3) million.
- (xii) 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.

**13 TRADE AND OTHER PAYABLES**

	Notes	2022 £m	2021 £m
<b>Current trade and other payables:</b>			
Payables due to Iberdrola Group companies - trade		76.1	80.0
Payables due to Iberdrola Group companies- other	(a)	10.4	10.4
Trade payables		63.6	55.1
Other taxes and social security		15.2	13.5
Payments received on account	(b)	66.9	58.5
Capital payables and accruals		20.4	19.0
Other payables	(a)	13.8	8.7
		<b>266.4</b>	<b>245.2</b>
<b>Non-current other payables:</b>			
Other payables		0.2	0.1
		<b>0.2</b>	<b>0.1</b>

- (a) The Company utilises forms of collateral to manage its credit exposure in respect of the provision of network services. All collateral held is settled in cash. At 31 December 2022, the Company held cash collateral of £22.6 million (2021 £17.8 million) of which £10.4 million (2021 £10.4 million) is payable to Iberdrola Group companies.
- (b) Trade and other payables includes £66.9 million (2021 £58.5 million) of IFRS 15 contract liabilities.

**14 DEFERRED TAX**

Deferred tax provided in the Accounts is as follows:

	Note	Property, plant and equipment £m	Other temporary differences £m	Total £m
At 1 January 2021		195.5	(0.1)	195.4
Charge to the Income statement and statement of comprehensive income	(a)	71.6	-	71.6
At 1 January 2022		267.1	(0.1)	267.0
Charge to the Income statement and statement of comprehensive income		1.5	-	1.5
<b>At 31 December 2022</b>		<b>268.6</b>	<b>(0.1)</b>	<b>268.5</b>

- (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 1 January 2021 were increased by £59.6 million to reflect the rate that the temporary differences are expected to reverse at.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 December 2022**

**15 REVENUE**

	2022 £m	2021 £m
Electricity distribution	509.9	435.4
Transfers of assets from customers	23.8	23.2
	<b>533.7</b>	<b>458.6</b>

**16 EMPLOYEE INFORMATION**

**(a) Staff costs**

	Note	2022 £m	2021 £m
Wages and salaries		41.5	38.2
Social security costs		4.7	4.1
Pension and other costs	(i)	10.9	11.8
<b>Total staff costs</b>		<b>57.1</b>	<b>54.1</b>
Less: capitalised staff costs		(42.7)	(40.4)
<b>Charged to the Income statement and statement of comprehensive income</b>		<b>14.4</b>	<b>13.7</b>

(i) Employee costs for the years ended 31 December 2022 and 31 December 2021 include those in respect of one director. The emoluments of all other directors are included within the employee costs of other ScottishPower companies. Details of directors' emoluments are set out in Note 25(a).

**(b) Employee numbers**

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

	Average 2022	Average 2021
Administrative staff	207	201
Operations	526	511
<b>Total</b>	<b>733</b>	<b>712</b>

**(c) Pensions**

The Company's contributions payable in the year were £10.2 million (2021 £11.1 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 2022, the surplus in ScottishPower's defined benefit schemes in the UK amounted to £240.0 million (2021 £192.2 million). The employer contribution rate for these schemes in the year ended 31 December 2022 was 52.9-53.4%.

**17 TAXES OTHER THAN INCOME TAX**

	2022 £m	2021 £m
Property taxes	37.0	36.6

**18 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS**

	2022 £m	2021 £m
Property, plant and equipment depreciation charge	123.5	118.9
Right-of-use asset depreciation charge	6.1	5.7
Intangible asset amortisation charge	0.1	-
Charges and provisions, allowances and impairment of assets	0.3	1.1
	<b>130.0</b>	<b>125.7</b>
Capitalised right-of-use asset depreciation	(2.6)	(2.4)
	<b>127.4</b>	<b>123.3</b>

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 December 2022**

**19 FINANCE INCOME**

	2022	2021
	£m	£m
Interest on bank and other deposits	-	0.1
Interest receivable from Iberdrola Group companies	3.0	1.0
	<b>3.0</b>	<b>1.1</b>

**20 FINANCE COSTS**

	2022	2021
	£m	£m
Interest on amounts due to Iberdrola Group companies	24.3	13.8
Interest on other borrowings	20.9	20.9
Interest on lease liabilities	1.9	1.9
	<b>47.1</b>	<b>36.6</b>
Capitalised interest	(0.2)	(0.2)
	<b>46.9</b>	<b>36.4</b>

**21 INCOME TAX**

	2022	2021
	£m	£m
Current tax:		
UK Corporation Tax charge on profits for the year	27.4	19.5
Adjustments in respect of prior years	3.4	(0.1)
<b>Current tax for the year</b>	<b>30.8</b>	<b>19.4</b>
Deferred tax:		
Origination and reversal of temporary differences	7.0	11.8
Adjustments in respect of prior years	(5.5)	0.2
Impact of tax rate change on opening deferred tax balance	-	59.6
<b>Deferred tax for the year</b>	<b>1.5</b>	<b>71.6</b>
<b>Income tax expense for the year</b>	<b>32.3</b>	<b>91.0</b>

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:

	2022	2021
	£m	£m
Corporation Tax at 19% (2021 19%)	30.6	27.1
Adjustments in respect of prior years	(2.1)	0.1
Impact of tax rate change on opening deferred tax balance	-	59.6
Impact of tax rate change on current year charge	3.2	3.6
Non-deductible expenses and other permanent differences	0.6	0.6
<b>Income tax expense for the year</b>	<b>32.3</b>	<b>91.0</b>

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 1 January 2021 were increased by £59.6 million reflecting the rate that the temporary differences are expected to reverse at.

**22 DIVIDENDS**

	2022	2021	2022	2021
	pence per ordinary share	pence per ordinary share	£m	£m
Interim dividend paid	102.3	33.3	307.0	100.0

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 December 2022**

**23 CONTINGENT LIABILITIES**

**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 2022 was £797.3 million (2021 £765.8 million).

**Regulatory inquiries**

From time to time, Ofgem open inquiries with the Company in relation to compliance with licences, laws and regulations. The Company is currently involved in one such matter and is working proactively with Ofgem to reach a conclusion; the directors consider the probability of a material financial impact to be remote.

**24 FINANCIAL COMMITMENTS**

2022							
	2023	2024	2025	2026	2027	2028 and thereafter	Total
	£m	£m	£m	£m	£m	£m	£m
Contractual commitments	4.0	3.5	-	-	-	-	7.5

  

2021							
	2022	2023	2024	2025	2026	2027 and thereafter	Total
	£m	£m	£m	£m	£m	£m	£m
Contractual commitments	7.1	-	-	-	-	-	7.1

**25 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 seven (2021 five) directors, six (2021 four) were remunerated by other ScottishPower companies during the year.

	2022	2021
	£000	£000
Aggregate remuneration in respect of qualifying services	1,232	1,352
Number of directors who exercised share options	2	2
Number of directors who received shares under a long-term incentive scheme	2	2
Number of directors accruing retirement benefits under a defined benefit scheme	2	2

  

	2022	2021
	£000	£000
Highest paid director		
Aggregate remuneration	557	804
Accrued pension benefit	110	102

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

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 December 2022**

**25 RELATED PARTY TRANSACTIONS *continued***

**(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.

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

**26 AUDITOR'S REMUNERATION**

	<b>2022</b>	<b>2021</b>
	<b>£000</b>	<b>£000</b>
Audit of the Annual accounts	<b>204</b>	<b>141</b>
Audit-related assurance services	<b>6</b>	<b>6</b>
<b>Total</b>	<b>210</b>	<b>147</b>