Registration number: 02906593

Northern Powergrid (Northeast) plc

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2020

Northern Powergrid (Northeast) plc

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Northern Powergrid (Northeast) plc

Company Information

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Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2020

The directors present the annual reports and financial statements for the year ended 31 December 2020 of Northern Powergrid (Northeast) plc (the "Company"), which have been drawn up and presented in accordance with the Companies Act 2006. The Company was reregistered as a public limited company on 4 June 2020.

BUSINESS MODEL

The Company is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group") and is as an authorised distributor under the Electricity Act 1989 and holds an electricity distribution licence granted by the Secretary of State. In addition, the Company owns all of the shares of Northern Electric Finance plc (together, the "Group"), a company that acts as the issuer of long-term debt securities. As the Company is the largest contributor to the Group in terms of revenue, the Strategic Report concentrates on the performance and progress of the Company throughout the reporting year.

As a distribution network operator ("DNO"), the Company is regulated by the Office of Gas and Electricity Markets ("Ofgem"), which in turn, is governed by the Gas and Electricity Markets Authority ("GEMA"). Ofgem requires the DNOs to operate within a regulatory framework known as a price control, the purpose of which is to protect the interests of end consumers by setting an upper limit on the amount the DNOs can charge for the use of their networks. The completion of the 2019/20 Regulatory Year (on 31 March 2020) which occurred during the financial year, represented the end of year five of the current RIIO-ED1 price control, which became effective on 1 April 2015 and is due to end on 31 March 2023 (the "ED1 period").

The principal activity of the Company is the distribution of electricity to approximately 1.6 million customers connected to its electricity distribution network (the "Network") within its distribution services area in the northeast of England, which extends from North Northumberland, south to York and west to the Pennines. The Company's Network includes over 41,000 kilometres of overhead and underground cables and over 27,000 substations. Electricity is received from National Grid's transmission system and from generators connected directly to the Network, and then distributed at voltages of up to 132 kilovolts.

The majority of revenue generated by the Company is controlled by a distribution price control formula which is set out in the electricity distribution licence. The price control formula does not directly constrain profits from year-to-year but is a control on revenue that operates independently of a significant portion of the Company's costs. Allowed revenue is recovered from electricity suppliers via the application of Distribution use of System charges. These charges account for approximately 15% of the electricity end user's overall electricity bill. The Company's opening base allowed revenue (excluding the effects of incentive schemes and any deferred revenues from the prior price control) has been set to remain constant and therefore provides the Company with some stability in terms of its income for each Regulatory Year from 1 April 2016 through to 31 March 2023. Nominal opening base allowed revenues will increase in line with inflation (as measured by the United Kingdom's Retail Prices Index "RPI").

STRATEGY

In common with Northern Powergrid Holdings Company and its subsidiaries, the Group operates a strategy based on six core principles (the "Core Principles"), which comprise Financial Strength, Customer Service, Operational Excellence, Employee Commitment, Environmental Respect and Regulatory Integrity. The Core Principles (which are applied by the Northern Powergrid Group's parent company, Berkshire Hathaway Energy Company ("Berkshire Hathaway Energy")), set out the basis on which the Company and Group generates shareholder value over the longer-term and defines the standards by which the Northern Powergrid Group holds itself accountable. Each Core Principle is defined by a strategic objective which is intrinsically linked to the commitments made in the Company's 2015 to 2023 regulatory well-justified business plan (the "Business Plan").

Submitted to Ofgem in March 2014, the Business Plan described the long-term strategy and commitments that the Company would achieve during the ED1 period in order to deliver sustainable growth with regard to those with whom the Company interacted and served. Developed after a period of consultation with stakeholders, the Business Plan focused on a number of priorities (described throughout the Strategic Report) including minimising costs, improving flood defences, enhancing customer service, prioritising employee safety, supporting vulnerable customers, protecting the environment and transitioning to low carbon technologies. Following the publication of RIIO-ED2 ("ED2") Business Planning guidance by Ofgem in August 2020, the Company commenced the development of its regulatory business plan for the ED2 period (1 April 2023 to 31 March 2028) (the "ED2 Plan"), ahead of submission to Ofgem in December 2021. As part of this process, the Company continues to work with the Customer Engagement Group ("CEG"), which was established for the purpose of providing independent scrutiny and challenge to ensure that customers' interests are adequately reflected in the ED2 Plan.

The delivery of the Business Plan is supported by an annual business plan (the "Annual Plan") which is submitted to the Northern Powergrid Group's shareholder each financial year and is designed to phase progress towards the achievement of each commitment over the duration of the ED1 period. The phasing ensures that the deliverables in both plans can be measured effectively by using a mix of financial and non-financial Key Performance Indicators ("KPI").

The Strategic Report focuses on each Core Principle and the performance of each KPI throughout the year in order to provide a summary of the success in achieving each strategic objective, progress made against certain Business Plan commitments and performance in relation to the Annual Plan.

FINANCIAL STRENGTH

Strategic objective: Strong finances that enable improvement and growth.

KPI	**2020**	**2019**
Operating profit (million)	£125.2	£123.3
Cash from operating activities (million)	£175.8	£173.6
Cash used in investing activities (million)	£178.1	£160.1
Credit Score (Standard and Poor's)	A	A

Business Plan commitment: To build on the efficiencies achieved to date and in doing so, reduce base costs by 3.1% in 2015 to 2023 compared to the previous price control period.

Performance during the year: The Group continued to maintain good control in respect of both its capital and operating costs by effectively managing the financial risks that could have had an adverse impact on its business. Five years through the ED1 period, the Group had implemented efficiencies equivalent to a 3% reduction in base costs relative to the prior regulatory period.

Revenue: The Group's revenue at £355.6 million was £7.7 million higher than the prior year (2019: 347.9 million) primarily due to higher distribution use of system revenues net of the impact of COVID-19 (the “Pandemic”) .

Operating profit and position at the year-end: The Group's operating profit of £125.2 million was £1.9 million more than the previous year (2019: £123.3 million), primarily reflecting higher revenues, offset by higher depreciation and business rates. The statement of financial position on page 30 shows that, as at 31 December 2020 the Group had total equity of £1,119.6 million (2019: £1,079.6 million). The directors consider the Group to have a strong financial position which, when coupled with the preference of its parent Company, Berkshire Hathaway Energy, for operating with lower levels of debt than equivalent companies in the sector, creates a stable base for continued strong performance during the ED1 period.

Finance costs and investments: Finance costs net of investment income at £31.6 million was £1.0 million higher than prior year (2019: £30.6 million) mainly reflecting increased borrowings.

Cash flow: The Group aims to collect from customers and pay suppliers within contracted terms. Any surplus cash held is remitted to Yorkshire Electricity Group plc ("YEG"), a company in the Northern Powergrid Group, and invested accordingly, generating a market rate of return for the Group. Movements in cash flows were as follows:

Cash flow from operating activities at £175.8 million was £2.2 million higher than the previous year mainly due to higher profits before depreciation and amortisation, favourable working capital movements partly offset by higher tax paid.

The net cash used in investing activities at £178.1 million was £18.0 million higher than the previous year, reflecting lower receipt of customer contributions.

The net cash inflow from financing activities at £2.6 million was £16.1 million higher than the £13.5 million outflow in the previous year mainly due to the net movement in borrowings.

Pensions: The Company is a participating employer in the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "DB Scheme"), a defined benefit scheme. Further details of the Company's commitments to the Scheme and the associated deficit repair payments are provided in Note 25 to the financial statements. The Company also participates in the Northern Powergrid Pension Scheme, which is a defined contribution scheme.

Insurance: As part of its insurance and risk strategy, the Northern Powergrid Group has in place insurance policies, which cover risks associated with employees, third party motor and public liability. The Northern Powergrid Group carries appropriate excesses on those policies and is effectively self-insured up to the level of those excesses.

CUSTOMER SERVICE

Strategic objective: Delivering exceptional customer service.

KPI	**2020**	**2019**
Broad Measure of Customer Satisfaction ("BMCS")	91.4%	90%
BMCS Rank (Out of 14)	9	10
BMCS Power Cuts	90.7%	89.6%
BMCS General Enquiries	94.7%	92.3%
BMCS Connections	90.4%	89.4%
Stakeholder Engagement and Customer Vulnerability ("SECV") rank (out of 13) (combined with Northern Powergrid (Yorkshire) plc)	5	3

Business plan commitments: To provide a reliable, better communicated and faster customer service offering through a range of channels to suit stakeholder needs.

Performance during the year: Under the BMCS, an independent market research company carried out telephone surveys with the Company's customers to find out how satisfied they were with services related to unplanned or planned power cuts, quotations and subsequent connections, and general enquiries. The Company recorded an improvement in overall satisfaction scores at 91.4% compared to the prior year (90.0%) which had resulted in an overall BMCS rank of 9 out of 14. The BMCS rank improved by one place year-on-year, demonstrating the incremental progress made across all BMCS categories.

To further enhance the service provided to customers a number of initiatives from the Company's customer service improvement plan were implemented during the year. This included the continued development of the customer relationship management ("CRM") system, the introduction of quote-on-site technology for connections small works and the rollout of a 'Customer First' training programme which was introduced to improve the proactivity and effectiveness of communication with customers.

Activity scheduled to take place during 2021 is to focus on technology enablement including extending the CRM system to include Unplanned Power Cuts, thereby enabling real-time updates to be provided to customers, investing in a new contact centre telephony platform and upgrading the Northern Powergrid Group's external website. The programme of work will be supported by the appointment of regional Customer Service Managers and extending the Customer First training to include all employees and contractors.

Connections to the network

Business Plan commitment: To further implement customer service improvements in support of the commitment to reduce routine, small works end-to-end connections lead times by 30% during the ED1 period, actively facilitate the development of competition from independent connections providers ("ICPs") and deliver the major works service improvement plan as part of the Ofgem Incentive on Connections Engagement ("ICE").

Performance during the year: Reducing end-to-end connections lead times continued to pose a challenge and, as such, work to improve the level of customer service within the small works connections business (measured by the BMCS connections KPI) continued. In support of this, the process whereby one individual assumes responsibility throughout each connections process from creating a quotation on site (using the quote-on-site technology) to the final delivery of the connection itself was further embedded. By continuing to introduce further enhancements, the Company remains confident that whilst a 30% reduction in end-to-end lead times will be challenging, (currently at 19%) it remains achievable by the end of the ED1 period.

The Company continued to comply with the processes set out in Standard Licence Condition 52 and the Competition in Connections Code of Practice. This included the provision of dual quotations, enabling ICPs to self-determine points of connection to the existing network and self-approve designs, and by facilitating the self-connection of new assets to the Company's low and high voltage networks by suitably accredited ICP operatives as a contestable activity.

In relation to the Company's ICE commitments for the 2019/20 regulatory period, the 13 actions included in the service improvement work plan were successfully delivered.

Corporate Responsibility
Business Plan commitment: To build effective relationships with stakeholders whilst maximising the value of contact with customers, especially those who are vulnerable and hard to reach.

Performance during the year: In May 2020, the Company (together with Northern Powergrid (Yorkshire) plc) put forward its SECV submission to Ofgem in respect of work undertaken during the 2019/20 Regulatory Year. The material provided an overview of activities and case studies in areas such as decarbonisation, safety, environment, customer service, reliability and availability. Following the review by Ofgem's panel, the Company achieved fifth place (of 13) in the context of the wider gas distribution, gas transmission and DNO group, a step down from third place in the prior Regulatory Year. In response to the drop in performance, an external assessment of the approach to engagement, fuel poverty provision and support provided to vulnerable customers was undertaken and improvement plans were subsequently established.

During the year, the Company continued to develop its routine engagement activity by enhancing existing relationships with elected representatives at the local council and parliamentary level as well as with civic leaders from Local Enterprise Partnerships, particularly during periods of severe weather and when providing support to vulnerable customers. In addition, virtual one-to-one and group engagement sessions were held (and attended by the CEG) for the purpose of understanding stakeholders' priorities and opinion on the level of necessary investment, in response to the various business plan options as set out in the Company's Emerging Thinking document (published in August 2020). The feedback provided useful insight, enabling the board and senior managers to critically evaluate a range of stakeholder opinions in order to inform and contributed to the development of the ED2 Plan.

The Pandemic challenged the way in which the Company and its partners had traditionally provided support to vulnerable customers at a time when the effects of the Pandemic itself- meant that the demand for assistance increased dramatically, particularly for those customers experiencing financial difficulties. In response, community partners such as Citizens Advice and Green Doctors moved to online models to allow them to continue supporting the most vulnerable in the community and provide advice on issues including energy saving measures, tariff switching, debt and benefits advice and offer emotional support. The Company's Community Partnering Fund (in conjunction with Northern Gas Networks) deployed an additional £50,000 to the resilience funds in Bradford and Newcastle as part of a £1 million wider regional campaign which supported the immediate needs of community groups and small charitable organisations. Funding was also provided to local initiatives concerning fuel and food poverty, promoting education in the science, technology, engineering, and mathematics subjects, public safety campaigns and the services utilised by Priority Services Register customers.

OPERATIONAL EXCELLENCE
Strategic objective: High-quality, efficient operators running a smart reliable energy system.

	2019/20		2018/19	
KPI	**Actual**	**Target**	**Actual**	**Target**
Customer minutes lost	44.1	<57.0	47.6	<59.1
Customer interruptions	47.0	<60.7	54.3	<61.4
	2020		**2019**	
Network investment (million)	£189.7		£190.8	
High voltage restoration time (minutes)	64.0		57.0	

Business Plan commitment: To enhance the reliability of the network in support of the commitment to achieve 8% fewer unplanned power cuts and reduce the average length of unplanned power cuts by 20% during the ED1 period.

Performance during the year: CML and CI are the KPIs set by Ofgem and used by the Company to measure the quality of supply and system performance. Both CML and CI are measured on a regulatory year basis. CML measures the average number of supply minutes lost for every connected customer due to both planned and unplanned power cuts that last for three minutes or longer. CI measures the average number of supply interruptions per every 100 connected customers due to planned and unplanned power cuts that last for three minutes or longer. Performance during the year was better than Ofgem's target for both CML and CI.

In respect of the Business Plan commitments, the Company together with its affiliate (Northern Powergrid (Yorkshire) plc) had achieved 25.5% fewer unplanned power cuts and a reduction of the average length of unplanned power cuts by 34.8% (relative to the prior regulatory period). Progress remains on track to achieve the continuous improvement target of 30% for the number of unplanned power cuts and 20% to 40% for the average duration.

The Company invested £189.7 million during the year through its approved Network investment strategy (2019: £190.8 million), which has been designed to deliver improvements in Network performance and increase resilience. Various major projects were undertaken to reinforce the primary Network, refurbish transformers, rebuild overhead lines, remove and replace oil-filled cables, change deteriorated poles, replace switchgear and install and commission new remote-control points. Whilst certain aspects of routine Network maintenance were rescheduled due to the Pandemic (to ensure operational integrity and uninterrupted Network performance to critical locations such as hospitals), all required maintenance work was completed during the year. This was facilitated by the utilisation of a supply of essential assets, held in stock specifically for such an eventuality.

Further Network enhancements included the continued roll-out of the automatic power restoration system on the high voltage Network. This enabled the restoration of supply in under three minutes following an interruption available to a further 74,257 customers during 2020, taking the total to 1,125,325. At low voltage, in addition to the previous deployment of smart fuses to restore supplies in under three minutes to customers affected by intermittent faults, the implementation of next generation innovative low voltage technology devices continued with the addition of low-cost Network monitoring sensors. The devices enable the detection of developing faults so that they can be proactively managed whilst enabling the gathering of Network condition information.

By the end of the ED1 Period, the Company expects to deliver a more resilient Network and enhanced outputs to customers that exceed those originally targeted in the Business Plan. Specifically, the Company (together with Northern Powergrid (Yorkshire) plc) aims to accommodate additional investment in the region of £6.4 million in upgrading flood defences, £2.1 million in the visual amenity programme (to underground overhead lines in areas of outstanding natural beauty) and a further £50 million on removing fluid and gas filled cables from the Network. The overall forecast remains in line with the allowances for the period and the Company will continue to review those costs to ensure the best outcome for customers.

In relation to high voltage restoration, the Company’s high-voltage restoration performance during the year averaged 64.0 minutes (2019: 57.0 minutes), after allowing for severe weather incidents and other exemptions.

EMPLOYEE COMMITMENT

Strategic objective: High-performing people doing rewarding jobs in a safe and secure workplace.

	2020		2019	
KPI	**Actual**	**Target**	**Actual**	**Target**
Northern Powergrid Group occupational safety and health administration rate	0.13	0.13	0.18	0.22
Preventable vehicle accidents	17	15	18	15
Lost time accidents	0	1	3	1
Medical treatment accidents	2	0	0	1
Operational incidents	4	5	6	5
Northern Powergrid Group absence rate	2.8%		3.5%	

Health and Safety

Business Plan commitment: To deliver world class safety performance and half the accident rate during the ED1 period.

Performance during the year: In common with the Berkshire Hathaway Energy group, the Northern Powergrid Group measures its safety performance in terms of the OSHA rate, which is a measure used in the United States ("US") to capture safety incidents down to minor levels of medical treatment. The Northern Powergrid Group met its target of 0.13 in 2020 by achieving an OSHA rate of 0.13 (2019: 0.18), which equated to three recordable incidents against the goal of three or fewer. The Northern Powergrid Group achieved its best ever safety performance, hitting both its lost time accident and operational incident targets. However, the Company concluded the year with 17 preventable vehicle accidents, missing the target of 15 as a result of a number of minor incidents, for which, mitigation plans are now in place. In respect of the Business Plan commitment, at 31 December 2020, the Company's accident rate had been reduced by 56%, which was ahead of the target to achieve a 50% reduction by 31 March 2023. The Company successfully retained its ISO 45001 accreditation scheme for its health and safety management system.

The challenges posed by the Pandemic in respect of safe working practices and procedures were, and remain, constantly under review by members of the safety team, senior management team, Health and Safety Committee and the Board, in conjunction with trade union representatives. Robust business continuity plans and risk management procedures meant that the Company was adequately prepared for such an event (including purchasing stocks of personal protective equipment) and quickly adapted to new ways of working. All Company facilities were risk assessed and tailored procedures were implemented to ensure the safety of all staff in accordance with the latest government guidance.

The mental health and wellbeing of staff also forms an integral part of the SHIP. Existing support available to employees includes an independent employee assistance service, which is a confidential, self-referral counselling and information service to assist with personal or work-related problems and access to services including counselling and physiotherapy referrals. In response to the effects of the Pandemic on the mental and physical wellbeing of employees, the Company proactively provided guidance and promoted the support available via a targeted 'Wellbeing Wednesday' campaign.

Improving safety performance remains a priority and the way in which this is achieved is set out in the Company's safety and health improvement plan ("SHIP"). During the year, the SHIP focused on more than 50 initiatives in the areas of enhanced engagement, operational performance, risk management, road risk, occupational health and public safety and included the launch of the Institute of Advanced Motorists programme and the upgrade of fleet vehicles with new technology and driver assistance packages as standard.

Employees

Business Plan commitment: To emphasise the importance of leadership and high standards of performance by engaging, collaborating and working with employees and their trade union representatives.

Performance during the year: The Pandemic required the Company to quickly accommodate considerable adjustments to its usual employee working arrangements such as introducing home working, flexibly supporting working parents and ensuring the safety and wellbeing of all employees, particularly those key-workers operating in the field environment. Any required changes or updates were communicated regularly via multiple channels to ensure that all colleagues were able to continue to perform their duties safely and effectively. As outlined above, the Company remains committed to the wellbeing of its staff and is aware that as the Pandemic continues, factors including isolation can have a significant effect. Consequently, regular wellbeing advice covering topics such as mental health, exercise and home working continue to be promoted alongside the standard support services which are available.

Alongside the new measures introduced in the year, the Company continued to ensure that all colleagues had regular meaningful conversations with their line managers and that leadership engagement continued. To accommodate remote working and social distancing requirements, a number of routine training programmes were also made available via e-learning such as Customer First training and the 'Best Welcome' corporate induction.

The Northern Powergrid Group has adopted the Berkshire Hathaway Energy code of business conduct ("Code of Conduct"), which details the commitment to ethics and compliance with the law, provides reporting mechanisms for known or suspected ethical or legal violations, and establishes minimum standards of behaviour expected of all employees. In support of this, a "speaking up" process is in place enabling all employees to raise concerns of unethical acts, malpractice or impropriety (including bribery or corruption), and an anonymous help line operated by an independent company is also available. All colleagues complete an annual online training programme covering the requirements of the Code of Conduct.

During the year, 40 new recruits (2019: 92) joined the Company and Northern Powergrid (Yorkshire) plc's workforce renewal programme. At 31 December 2020, the Company had 1,261 employees (2019: 1,152). Further information concerning how the Northern Powergrid group is supporting gender diversity in the energy industry can be found in the Northern Powergrid Group's gender pay gap report via the Northern Powergrid Group's corporate website.

ENVIRONMENTAL RESPECT
Strategic objective: Leaders in environmental respect and low carbon technologies

	2020		2019	
KPI	**Actual**	**Target**	**Actual**	**Target**
Total oil/fluid lost (litres)	7,205	<11,583	11,660	<12,255
SF6 gas discharges (kg)	16.80	<14.25	16.55	<18.00
Environmental incidents	-	<4	1	<3
Carbon footprint (tonnes)	15,110		15,677	
KWh energy consumed	21,269,487		21,315,793	

Note: KWh energy consumed relates to depot energy and fleet fuel usage.

Business Plan commitment: Deliver Environmental "RESPECT" (Responsibility, Efficiency, Stewardship, Performance, Evaluation, Communication and Training) and in doing so reduce oil and fluid loss by 15% and our business carbon footprint by 10% during the ED1 period.

Performance during the year: The Company operates a United Kingdom Accreditation Service scheme for environmental management and is certified to the environmental management systems standard ISO 14001:2015. The ISO 14001 standard is designed to enhance environmental performance, fulfil compliance obligations and achieve environmental objectives, all of which contribute to the achievement of the Companys's KPIs. A full recertification assessment was carried out in March 2020 and surveillance audits are carried out twice per calendar year, the last one being conducted in October 2020. Continued certification was confirmed following each audit.

The Company's carbon footprint reporting framework is certified under the Certified Emissions Measurement and Reduction Scheme for compliance with ISO 14064-1:2006. The last full audit was undertaken in August 2020, where continued certification was confirmed. Initiatives including the introduction of electric vehicles and continued deployment of a forward looking infra-red camera and an SF6 spectrum imager (which both aid the identification of leaking gas-filled equipment), led to a further improvement in reducing the Company's carbon footprint during the year to 15,110 tonnes (2019: 15,677 tonnes). This improvement (combined with Northern Powergrid (Yorkshire) plc) demonstrated a carbon footprint reduction of 46% at 31 December 2020, well ahead of the original 10% commitment and in line with the 40% stretch target applied for the 2019/20 Regulatory Year.

In support of the target to further reduce oil and fluid loss, the 2020 annual environmental improvement plan included replacing fluid-filled cables and locating cable fluid leaks more quickly which resulted in a total fluid loss of 7,205 litres (2019: 11,660). In relation to the Business Plan commitment, at 31 December 2020, the Company and its affiliate (Northern Powergrid (Yorkshire) plc) had achieved a 41% reduction in oil and fluid loss (relative to 1 April 2015) and in line with achieving a 47% reduction by the end of the ED1 period.

To maintain its strict policy of environmental protection and legal compliance, the Company continues to assess environmental risks and mitigate threats through programmes of work such as fluid-filled cable replacement, undergrounding overhead lines in areas of outstanding natural beauty, installing flood defences, implementing secondary containment in high-risk substations and removing equipment containing polychlorinated biphenyl from the network. Whilst prevention is paramount, in the event the Company's activity does result in a leak or spill, the services of an appointed 24-hour a day environmental response consultancy is used to minimise the effects of any incident. In addition to safeguarding the environment from its direct activity, the Company also operates a habitats programme which is aimed at protecting flora and fauna.

Sustainability

Strategic focus: To help facilitate the United Kingdom's transition to a low-carbon economy in the Company's capacity as a major participant in the United Kingdom energy industry and in terms of its own carbon footprint.

Performance during the year: As the country takes action to make significant reductions in its carbon emissions following the establishment of a net zero carbon emissions target by 2050, the way in which electricity is produced and used is expected to have a substantial impact on the Network over time. The Company laid out its intention to act as a key facilitator in the country’s net zero transition by placing decarbonisation at the heart of its plans for the ED2 period (as set out in the Emerging Thinking document). The Company is actively exploring how best to contribute to the achievement of this target through the decarbonisation of its own operations, including electrifying the fleet and enabling the uptake of low-carbon technology installations for its customers, such as photovoltaic solar panels, electric vehicles and heat pumps. The volume and total capacity of decentralised energy generation has also been growing steadily and, given the greater range of load and generation technologies now connected to the Network, the Company is taking action to develop innovative solutions that will reduce the need for traditional and potentially expensive reinforcement of the Network. In the past year, the Company has continued to market test flexible solutions, whereby customers are invited to support the Network by changing their energy consumption and generation patterns, facilitating a more efficient and greener Network. To understand how to most efficiently prepare the Network for the future needs of its customers, the Company has continued to build on its views of potential pathways to net zero in its region through its publication of Distribution Future Energy Scenarios in December 2020.

From an innovation perspective, the Company continues to run and develop a portfolio of projects in the priority areas of smart meters, digital-enabled customer service and affordability. During the year the Company successfully launched its Silent Power vans following a successful innovation project which enable the dispatch of mobile battery technology vehicles to provide restoration of the electricity supply following a power cut in place of traditional diesel generators. In addition, the collaboration with Northern Gas Networks at the Integrel demonstrator site continued to assess the potential future benefits of integrating both gas and electricity energy systems.

The Company’s climate change adaptation strategy recognises the impact that climate change is anticipated to have on operations, the risks this poses and the proposed actions to mitigate these risks including vegetation management, Network specifications for changing temperatures and improved weather prediction. The installation of flood defences is one such key activity that is already underway and the delivery of the committed programme in the ED1 period remains on track.

REGULATORY INTEGRITY
Strategic objective: Trustworthy, fair and balanced.

KPI: Completion of a quarterly regulatory compliance affirmation process.

Business Plan commitment: To manage the Group's business to the highest behavioural standards and adhere to a policy of strict compliance with all relevant standards, legislation and regulatory conditions.

Performance during the year: In order to assure compliance with distribution licence and other regulatory obligations, the Company operates a regulatory compliance affirmation process, under which ownership of approximately 2,000 regulatory obligations are assigned to around 80 responsible managers. Those responsible managers are required to review compliance with the relevant obligations on a quarterly basis and report on any identified non-compliances or perceived risks which are then addressed by members of the senior management team. To minimise the risk of the Company breaching its licence conditions and other statutory requirements (which could lead to financial penalties), the board reviews the outcomes of each exercise. Each quarterly regulatory compliance affirmation process was completed satisfactorily during the year.

The Company submitted its annual Data Assurance Report to Ofgem in February 2020, which included risk assessments of the regulatory returns to be submitted for the Regulatory Year ahead (April 2020 - March 2021), together with a report detailing the assurance work actually carried out in the year ended 29 February 2020 and the findings of that work.

During the year, activity continued in respect of the ED2 period review process, which was initiated by Ofgem in August 2019. That process is expected to conclude in December 2022, with Ofgem determining the charges that DNOs are able to levy over the ED2 period. In December 2019, Ofgem published its decision on the sector-specific methodology that will be applied to the ED2 period, which focussed mainly on implementing new arrangements to support net zero targets, the operation of a smart and flexible energy system, delivering value for money services and keeping bills low. A decision on the finance aspects of the methodology is expected no earlier than February 2021. The Company is currently preparing its ED2 Plan, the final version of which is due to be submitted to Ofgem in December 2021.

PRINCIPAL RISKS AND UNCERTAINTIES

The Northern Powergrid Group operates a structured and disciplined approach to the management of risk as part of its overall risk management policy and in support of its financial reporting practices. A robust system is in place to facilitate the identification of new opportunities and risks, including those associated with the achievement of the Northern Powergrid Group's strategic objectives and Core Principles. Once identified, key risks and their respective controls and mitigation plans are continually assessed and formally reviewed on a quarterly basis by the Risk Advisory Board ("RAB") in order that they are managed to an acceptable level in accordance with the Northern Powergrid Group's risk appetite. The RAB routinely reports its findings to the board to ensure the directors are sufficiently appraised of the risk exposure associated with the pursuit of the Company and Group's long-term strategy.

Supported by the internal audit function, the risk management programme includes regular reviews of the crisis management, disaster recovery and major incident plans. To determine the level of disaster preparedness and responsiveness against threats to business continuity, risk management plans and processes are periodically tested. This self-evaluation approach is reinforced by that of the Berkshire Hathaway Energy group, which benchmarks risk management activities across its business units and shares significant lessons learned. In an unprecedented year as a result of the Pandemic, the business continuity and disaster recovery plans were fully tested, and whilst adaptation and flexibility was required, operational performance remained resilient and employees continued to perform their duties safely.

Principal Risks

Cyber and Information Security

Unauthorised access or compromise of the Information Technology or Operational Technology networks, resulting in loss of network control and availability. Unauthorised access or loss of large volumes of data or sensitive data.

Mitigation

• Robust cyber security risk mitigation programme is in place.
• Accreditation under the ISO 27001 Information Security standard for operational, customer, employee and financial information.
• Compliant to the Network Information Security Directive and the Basic Cyber Assessment Frameworks.
• Compliance with the Centre for Internet Security Critical Security Controls.
• Monitored by the Information Security Executive Committee and the board.

Regulatory and policy positioning

Decisions taken resulting in negative impacts to our business model.

Mitigation

• The Company's policy position supporting the expanded role of DSO is being set out.
• Innovation projects are in place to develop and demonstrate future technologies and commercial practices.
• The Company engages in a robust regulatory and stakeholder engagement programme, the latter of which is scrutinised by the CEG.
• The Company is actively involved in consultations on the ED2 price controls.

Network resilience

Loss of the operational network due to significant weather events, targeted physical attack or catastrophic asset failure resulting in sustained or widespread loss of essential supply.

Mitigation

• Major incident and crisis management policies, plans and governance arrangements are in place.
• An industry mutual aid agreement exists.
• Network investment ensures grid resilience.
• Grid resilience programme and audits.

Safety

Fatality or serious harm caused to an employee or a third party.

Mitigation

• Overseen by the Health and Safety Committee.
• Clear policies and procedures exist that comply with legislation to ensure the safety of employees and customers.
• Health and safety training is provided to employees on a continuous basis.
• Audit programme and inspection regimes are in place.
• ISO18001 safety management system in place.

Environment
Failure to prevent network assets from having a significant negative impact on the environment.

Mitigation
• Incident response process and robust policies and procedures in place.
• Programme to reduce fluid loss and the Company's business carbon footprint and remove assets containing polychlorinated biphenyl from the network.
• Investment in technology to minimise environmental incidents and 'self-heal' the network.
• Asset inspection programme.
• ISO14001 environmental management system in place.

Resource availability
Access to and availability of skilled resource resulting in an inability to deliver work programmes.

Mitigation
• Mix of direct labour and contracted resource is used.
• Workforce renewal programmes in place to recruit and retain employees.
• Ongoing training and development builds internal capability.
• Employee engagement and health and well-being initiatives are in place.

Efficiency and output performance
Failure to maintain cost and output performance competitiveness in the industry.

Mitigation
• Robust business planning process.
• Financial controls in place including detailed review of actuals against budget, competitive tendering process, and capital expenditure approvals process.
• Monthly executive business performance review.
• Comprehensive "Efficient Output Delivery" programme.

Financial risks
The exposure to interest rate, tax, liquidity and treasury risks.

Mitigation
• Monitored by the treasury department.
• The Group is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest.
• As at 31 December 2020, 100% of the Group's long-term borrowings were at fixed rates and the average maturity for these borrowings was 26 years.
• Financial covenant monitoring is in place.

Brexit
Britain's departure from the European Union.

Mitigation
• Brexit is not considered to be a principal risk to the Company.

Pandemic
Infection rate leads to high staff absence.

Mitigation
• Pandemic mitigation plan in place.
• Geographical distribution of facilities and staff.
• Briefings and advice provided on safety, health and well-being.
• Independent external support and resources available.

At the time of writing this report, the Northern Powergrid Group's response to the coronavirus pandemic remains fully operational. As a provider of a key national infrastructure, the Northern Powergrid Group has robust policies and processes in place to minimise the effect of disruptions to service and has considerable experience of invoking its major incident procedures. The pandemic management plan was developed to provide a dynamic approach to the way in which the Northern Powergrid Group is run so as to ensure essential operations are maintained to normal standards whilst supporting the health and well-being of staff. Staff absence has not risen above normal levels. The Northern Powergrid Group response to the Pandemic is aligned to UK Government advice and formulated with the oversight of the Department for Business, Energy & Industrial Strategy.

The Group's revenue derives principally from regulated electricity distribution and was not materiality affected by the Pandemic. The regulatory regime allows for the recovery of allowed costs in full over the long term. In addition, the Group has reviewed its liquidity levels and has concluded that these remain sufficient. The Group has access to long-term financing from a range of sources, principally the sterling bond market, which has offered funding at rates commensurate with the Companies' strong credit ratings. The Group continues to monitor cash flows and liquidity.

Internal Control
A rigorous internal control environment exists within the Group to support the financial reporting process, the key features of which include regular reporting, a series of operational and financial policies, investigations undertaken by internal audit and a stringent process for ensuring the implementation of internal audit recommendations. In addition, the Group utilises comprehensive business planning procedures, regularly reviews KPIs to assess progress towards its goals, and has a strong internal audit function to provide independent scrutiny. Financial controls include centralised treasury operations and established procedures for the planning, approving and monitoring of major capital expenditure. The RAB monitors the effectiveness of internal controls and reports on its findings to the board and Berkshire Hathaway Energy.

Controls which are applicable to financial decisions are governed via a schedule of delegations of authority which are approved by the board (and applies to the Northern Powergrid Group) for the purpose of enabling the senior management team to make decisions up to certain financial limits, above which point the decision making reverts to the directors. These limits reflect the board's level of risk appetite and are reviewed on an annual basis.

In accordance with Berkshire Hathaway Energy's requirements to comply with the US Sarbanes-Oxley Act, the Group undertakes a quarterly risk control assessment confirming that the effectiveness of the system of internal controls have been reviewed during the year. A self-certification process is in place, in support of this review, whereby certain senior managers are required to confirm that the system of internal control in their area of the business is operating effectively. Consequently, the directors believe that a robust system of risk assessment and management is in place.

The Northern Powergrid Group does not have a specific human rights policy. However, in accordance with the Core Principles, it remains fully committed to operating ethically and responsibly and with fairness and integrity. This is implemented through the policies and procedures it has in place which are applicable to all stakeholder groups and encompasses employees' health, safety and welfare, dealings with customers (particularly those who are vulnerable), the impact of the Northern Powergrid Group on the environment and the contribution to sustainability.

To ensure that the Northern Powergrid Group maintains the highest level of ethical standards in the conduct of its business, Berkshire Hathaway Energy's Code of Conduct has been adopted, further details of which can be found on page 10. The Northern Powergrid Group has robust procedures in place to meet the requirements of the Bribery Act 2010. Every employee must undertake training in respect of the Northern Powergrid Group's anti-corruption and anti-bribery policy each year.

Section 172(1) statement

The information pursuant to Section 414CZA of the Companies Act 2006 has been reported throughout the Strategic Report, Principal Risks and Uncertainties and Directors Report. Consequently, the detail which describes how the directors have had regard to the matters set out in Section 172(1) (a) to (f) when performing their duty under Section 172 can be found on the pages referenced below:

(a) the likely consequences of any decision in the long term; (Page 3)
(b) the interests of the Group's employees; (Pages 9 and 10)
(c) the need to foster the Group's business relationships with suppliers, customers and others; (Page 20)
(d) the impact of the Group's operations on the community and the environment; (Pages 11 and 12)
(e) the desirability of the Group maintaining a reputation for high standards of business conduct; and (Page 10)
(f) the need to act fairly as between members of the Company. The Company has one class of ordinary shares which are all held by YEG, a company owned by the Northern Powergrid Group.

Non-financial information statement

In accordance with Section 414CA(7) of the Companies Act 2006, the directors have elected to set out the information required by Section 414CB (1) to (6) in the group annual report and audited consolidated financial statements of Northern Powergrid Holdings Company, a copy of which can be found on Northern Powergrid Group's corporate website.

Approved by the Board on 29 April 2021 and signed on its behalf by:

T H France
Director

The directors present their report and the consolidated financial statements for the year ended 31 December 2020.

Dividends
During the year, an interim dividend of £25.4 million was paid (2019: £24.6 million). The directors recommend that no final dividend be paid in respect of the year (2019: £nil).

The Company's dividend policy is that dividends will be paid only after having due regard to available distributable reserves, available liquid funds and the financial resources and facilities needed to enable the Company to carry on its business for at least the next year. In addition, the level of dividends is set to maintain sufficient equity in the Company so as not to jeopardise its investment grade issuer credit rating. These strict parameters align with the conditions set out in the distribution licence and are considered carefully by the board so as to ensure that the payment of any dividend does not cause the Company to breach any licence obligations in the future.

Directors of the Company
The directors, who held office during the year and up to the date of signing, were as follows:
T E Fielden (Resigned 15th February 2021)
T H France
P A Jones
A J Maclennan
A R Marshall
P C Taylor

During the year, none of the directors had an interest in any contract which was material to the business of the Company or Group. During the year and up to the date of approval of the Directors Report, an indemnity contained in the Company's (and each company within the Northern Powergrid Group’s) Articles of Association was in force for the benefit of the directors of the Company and as directors of associated companies, which was a qualifying indemnity provision for the purposes of the Companies Act 2006.

Future Developments
The financial position of the Company, as at 31 December 2020, is shown in the statement of financial position on page 30. There have been no significant events since the year end. The directors intend that the Company will continue to implement the Business Plan during the remainder of the ED1 period and by delivering the strategic objectives linked to the Core Principles, the Company will continue to develop its business by efficiently investing in the Network and improving the quality of supply and service provided to customers. There are no plans to change the existing business model of the Company, or any of the companies within the Group.

Research and Development
The Group supports a programme of research that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. During the year, the Company invested £1.4 million (2019: £1.6 million) (Note 5 to the financial statements) in its research and development activities.

Financial Instruments
Details of financial risks are included in the Principal Risks and Uncertainties on page 13 of the Strategic Report and Note 29 to the financial statements on page 84.

As at 31 December 2020 and during the Year it was the Group's policy not to hold any derivative financial instruments.

Employment of Disabled Persons
The Group’s policy is to provide all protected groups, including disabled people, with equality at work in respect of employment, training, career development and promotion, having regard to their aptitudes and abilities. Should any member of staff become disabled during their employment, the Group will make reasonable adjustments, wherever possible

Engagement with Employees
A constitutional framework agreed with trade union representatives exists in respect of employee consultation. The board and senior management team keep employees and trade union representatives informed of and involved as appropriate in developments that may impact them now or in the future. This approach has been chosen as the most effective way of interacting with employees due to the combination of collectively bargained and personal contract holders. In support of this process, the Director of People and Customer Service routinely reports to the board and the Health and Safety Committee to ensure that the views of employees are considered and to facilitate the discussion of and any subsequent decision making in respect of employee related concerns or issues.

Employee engagement continues to show improvement with local action plans augmented by routine communication channels including regular colleague briefings, meaningful conversations between colleagues and their line manager, council meetings with trade union representatives, and utilising the Northern Powergrid Group's intranet.

During the year, the President and Chief Executive Officer and members of the senior management team of the Northern Powergrid Group continued to provide colleagues with updates on the Northern Powergrid Group's response to the Pandemic and financial, organisational, safety and customer service performance through weekly recorded electronic briefings. In addition, group wide text messages were used to quickly disseminate key information concerning the Pandemic or the invoking of major incident responses. Where appropriate, the executive directors and senior leaders engaged with employees during operational and office-based site visits ensuring safety measures were maintained throughout.

In accordance with Section 414C of the Companies Act 2006 further disclosures details concerning the Group’s relationship with employees (including the principal decisions taken during the year) and information concerning greenhouse gas emissions can be found on pages 11, 12 and 13 of the Strategic Report.

Business Relationships

As referenced throughout the Strategic Report, the Company's business model is to provide and maintain a reliable, safe and cost-effective Network. To achieve this objective, the Company delivers its service to fulfil the needs of the stakeholders with whom it interacts, a concept which underpinned the formulation of the Business Plan and will be repeated as the ED2 business plan develops. Consequently, fostering business relationships is a prerequisite of the activity performed by the Company in the pursuit of its goals.

The Group's policy in respect of engaging with stakeholders is governed by the Core Principles and the Code of Conduct. The Core Principle of 'Regulatory Integrity' defines the Northern Powergrid Group's commitment to comply with all laws wherever it does business and the expectation that all employees (including directors) manage their activities in a manner that is compliant with all standards, regulations and corporate policies. In addition, the Code of Conduct requires adherence to the highest level of ethical conduct and fair dealings with all customers, suppliers and competitors.

Relations with suppliers is managed using a supplier registration system which supports a robust and transparent procurement process and ensures strict compliance with the prevention of slavery and human trafficking. As a consequence, the system allows the Group to make informed decisions which align with its values when awarding contracts. When considering suppliers, the board advocates prompt payment practices which are reviewed regularly by the internal audit function and the implementation of procedures to reduce the risk of modern slavery in supply chains - as set out in the Group's annual Modern Slavery Act statements.

Customers, whether they are domestic or commercial, are the primary stakeholder group served by the Group and therefore the services offered are all tailored to provide a benefit or enhance an experience. Further detail of the Group's relationship with customers, the support programmes provided and the decisions made during the year is discussed on pages 5 to 7. The independent scrutiny and challenge provided by the CEG during the year has helped determine those areas most important to customers and what they expect to be achieved during the ED2 period..

As outlined on page 13, activity in respect of Regulatory Integrity and engagement with Ofgem was prevalent during the year and included participation in various consultations concerning the ED2 period. Given the implications on the Company's long-term strategy, the relationship with Ofgem, the evolving ED2 framework, the transition to DSO as well as the effects of the Pandemic were regular items on the board agenda throughout the year.

CORPORATE GOVERNANCE STATEMENT

The directors have elected to apply the exception set out in Section 1B.1.6R of the Disclosure and Transparency Rules ("DTR").

Audit Committee

The board of Northern Powergrid Holdings Company has established an audit committee for the Northern Powergrid Group under delegated terms of reference which carries out the functions required by DTR 7.1.3 R.

Committee members:

• T E Fielden - Finance Director (resigned 15th February 2021)
• M Knowles - Independent member
• SJ Lockwood - Director of Finance (Interim) (appointed 10th February 2021)
• J Reynolds - Non-executive Director (Chairman)

STATEMENT OF DIRECTORS RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements also comply with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”). 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 Group and of the profit or loss of the Company and Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

• properly select and apply accounting policies;
• present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
• provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
• make an assessment of the Group's ability to continue as a going concern.

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 Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern

A review of the Group's business activities during the year, together with details regarding its future development, performance and position, its objectives, policies and processes for managing its capital, its financial risk management objectives and details of its exposures to trading risk, credit risk and liquidity risk are set out in the Strategic Report, the Report of the Directors and the appropriate notes to the financial statements.

The Northern Powergrid Group is financed both in its operating companies and in other entities within the Northern Powergrid Group, and companies may lend within the Northern Powergrid Group. For that reason, financial health is considered with reference to the Northern Powergrid Group. Those entities with net current liabilities position obtaining a letter of support from Northern Powergrid Holdings Company.

When considering continuing to adopt the going concern basis in preparing the annual reports and financial statements, the directors have taken into account a number of factors, including the following:

• The Group's revenue derives principally from regulated electricity distribution and this was not materiality affected by the Pandemic. The regulatory regime allows for the recovery of allowed costs in full over the long term;
• The Northern Powergrid Group's main subsidiaries, the Company and Northern Powergrid (Yorkshire) plc, are stable electricity distribution businesses operating an essential public service and are regulated by the GEMA. In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that distribution licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
• The Northern Powergrid Group is profitable with strong underlying cash flows. Northern Powergrid Holdings Company, the Company and Northern Powergrid (Yorkshire) plc hold investment grade credit ratings;
• The Northern Powergrid Group is financed by long-term borrowings with an average maturity of 12 years and has access to short-term committed borrowing facilities of £192 million provided by Lloyds Bank plc, National Westminster Bank plc and Santander UK plc;
• The Northern Powergrid Group plans to issue long-term borrowings within the next 12 months and benefits from strong investment-grade credit ratings which allow access to a range of financing options. Recent successful bond issues by the Northern Powergrid Group and by other issuers in the weeks immediately prior to the date of these accounts suggest that the Northern Powergrid Group’s bonds remain attractive to investors; The Northern Powergrid Group has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Northern Powergrid Group has sufficient resources to settle its liabilities as
they fall due for at least the 12 months from the date of these accounts. The directors have had discussions with the bank who have indicated that they would continue to provide the short-term facilities to the Northern Powergrid Group for the foreseeable future on acceptable terms; and
• Consideration was also given to the obligations contained in the Company's and Northern Powergrid (Yorkshire) plc’s distribution licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Company and Company and Northern Powergrid (Yorkshire) plc will have sufficient financial and operational resources available for the continuation of business for a period of at least 12 months. The board determined any material variations to the assumptions used when providing those certificates were unlikely within the eight-year period or beyond.

Consequently, after making enquiries, including detailed considerations of the impact of the coronavirus pandemic, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements

Directors' responsibility statement pursuant to DTR 4

Each of the directors as at the date of the annual reports and financial statements, whose names and functions are set out on page 19 in the Directors Report confirms that, to the best of their knowledge:

• the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
• the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
• the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company and Group's position and performance, business model and strategy.

Disclosure of information to the auditor

• Each director has taken 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. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditor

Deloitte LLP will continue in office in accordance with the provisions in Section 487 of the Companies Act 2006 and has indicated its willingness to do so.

Approved by the Board on 29 April 2021 and signed on its behalf by:

T H France
Director

Independent Auditor's Report to the Members of Northern Powergrid (Northeast) plc

Opinion

In our opinion the financial statements of Northern Powergrid (Northeast) plc (the 'parent Company') and its subsidiaries (the 'Group'):

• give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
• have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
• have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

• the consolidated income statement;
• the consolidated statement of comprehensive income;
• the consolidated and parent Company statements of financial position;
• the consolidated and parent Company statements of changes in equity;
• the consolidated cash flow statement;
• the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity 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 under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent Company for the year are disclosed in note 9 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report to the Members of Northern Powergrid (Northeast) plc (continued)

Summary of our audit approach
-Key Audit Matters

The key audit matter that we identified in the current year was;

• Accounting for capital spend - overhead model.

-Materiality

The materiality that we used for the Group financial statements was £4.7m which was determined on the basis of pre-tax profit earned during the year.

-Scoping

Our scope provides full scope audit coverage of 100% of the Group's revenue, 95% profit before tax as well as 99% of net assets. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. There is only one location from which the company operates.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

• assessing financing facilities including nature of facilities, repayment terms and covenants
• evaluating the linkage to business model and medium-term risks
• assessing assumptions used in the forecasts, including forecasted information relating to next price control review RIIO-ED2
• calculating the amount of headroom in the forecasts, specifically relating to cash and covenants on borrowings
• performing sensitivity analysis, and;
• evaluating sophistication of the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts prepared by management.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

-Key audit matter description;

Total additions to property, plant and equipment in the year in Northern Powergrid (Northeast) Plc were £192m (2019: £194m) with the majority of the additions to the Company’s electricity distribution system, as disclosed in Note 11 to the financial statements. These additions include £39m capitalised overheads (2019: £41m). A portion of overheads are capitalised to the extent that it is porbable that future economic benefits assoicated with the asset will flow to the Company and the cost of the item can be measured reliably in accordance with IAS 16 and the Company’s policies. The allocation of overheads to capital results from analysis of the costs incurred and their relevant cost drivers, this is reviewed anually.

The calculation of capitalised overheads remains an area at risk of potential bias due to the level of subjectivity in the percentage of overheads capitalised, which also creates a potential fraud risk. In particular, the key risk that management’s judgement in the percentage amounts capitalised are not reflective of the capital spend and as such PPE could be material misstated as a consequnce. This is as disclosed in Note 2, including the note relating to critical judgements in applying accounting policies.

How the scope of our audit responded to the key audit matter;

• We have obtained an understanding of relevant controls surrounding accounting for capital spend;

• We have analysed the capital spend and the overhead allocation percentages in the year and compared these to prior years to identify any unusual and relevant fluctuations. We have also analysed current policies in place and assessed their suitability in line with IAS 16, along with reviewing the approach management takes towards assessing capitalised overheads and any change introduced in the current year; and

• We have performed testing of the total overheads including within the allocation model which are subsequently capitalised based on management’s assessment of percentage allocation.

-Key observations

Based on the work performed, and the evidence obtained, we have concluded that management’s overhead capitalisation judgement is reasonable, with policies applied being appropriate and consistent with the requirements of IAS 16.

Our application of materiality

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

-Materiality
Group financial statements - £4.7m
Parent company financial statements - £4.65m

-Basis for determining materiality
Group financial statements - 5% pre-tax profit earned during the year
Parent company financial statements - 5% pre-tax profit earned during the year.

-Rationale for the benchmark applied
Group financial statements - Stakeholders are interested in the financial performance of the Group. As the material subsidiaries of the Group are trading entities, pre-tax profit earned during the year has been determined as an appropriate measure of financial performance for the Group
Parent company fiancial statements - As a trading entity, profit is a key driver of the value of the Company.

Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

-Performance Materiality
Group financial statements - 70% of group materiality
Parent company financial statements - 70% of parent Company materiality

-Basis and rationale for determining performance materiality
In determining performance materiality, we have considered the following:
• our risk assessment, including our assessment of the group's overall control environment and whether we consider it appropriate to rely on controls; and
• the low number of uncorrected misstatements in prior year statutory audits of the material subsidiaries

Error reporting threshold

We agreed with the Board of Directors that we would report to the Committee all audit differences in excess of £0.2m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditor's Report to the Members of Northern Powergrid (Northeast) plc (continued)

An overview of the scope of our audit

-Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including internal controls and assessing the risks of material misstatement at the Group level. The operations of the Group are focused within the electricity distribution business of the United Kingdom.

The focus of our audit work was on the main regulated business, Northern Powergrid (Northeast) Plc, which is the Parent Company. Due to the Coronavirus pandemic, all audit work has been completed in a remote environment. The only subsidiary within the Group is Northern Electric Finance Plc. This subsidiary is a financing company within which are number of bonds, listed on the London Stock Exchange. Our audit scope provides full scope audit coverage of 100% of the Group's revenue, 95% profit before tax as well as 99% of net assets.

A component materiality was used to perform the audit work for all component entities and for FY20 this ranged from £0.4m to £4.65m. Component materiality is used to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the Group financial statements exceeds materiality for the Group financial statements as a whole.

At the Group level, we have tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no risks of material misstatement of the aggregate financial information not subjected to audit procedures.

The audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.

-Our consideration of the control environment

We involved our IT specialists to assess key controls over the Group's IT systems. These include controls within the Oracle and Durabill systems integral to key business cycles. We have not relied on controls over any business cycle, due to control deficiencies within the Group's IT systems. We have therefore adopted a fully substantive audit approach.

Independent Auditor's Report to the Members of Northern Powergrid (Northeast) plc (continued)

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent 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 the directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

-Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:
• the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
• results of our enquiries of management, internal audit and the Board about their own identification and assessment of the risks of irregularities;
• any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
o identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
o detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
o the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
• the matters discussed among the audit engagement team and relevant internal specialists, including tax, IT and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: accounting for capital spend-overhead model, given that this involves key and complex judgement by management. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These include the Group's operating licence regulated by the Gas and Electricity Markets Authority (GEMA).

-Audit response to risks identified
As a result of performing the above, we identified Accounting for capital spend - overhead model as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

• reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
• enquiring of management, the Board and legal counsel concerning actual and potential litigation and claims;
• performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
• reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and Ofgem; and
• in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements
-Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

• the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
• the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
-Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

• we have not received all the information and explanations we require for our audit; or
• adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
• the parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of Northern Powergrid (Northeast) plc (continued)

-Directors’ remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors’ remuneration have not been made.

We have nothing to report in respect of this matter.

Other matters which we are required to address
-Auditor tenure
Following the recommendation of the Board of Directors, we were appointed by the Board of Northern Powergrid Holding Company in 1998 to audit the financial statements for the year ending 31 December 1998 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 23 years, covering the years ending 31 December 1998 to 31 December 2020.

-Consistency of the audit report with the additional report to the Board of Directors
Our audit opinion is consistent with the additional report to the Board of Directors we are required to provide in accordance with ISAs (UK).

-Consolidated prior year comparative information.
This is the first year that consolidated financial statements have been prepared. Therefore, we have not audited the corresponding consolidated amounts for the prior year.

Use of our report
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.

Anthony Matthews
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Anthony Matthews FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP, Statutory Auditor

London
United Kingdom

29 April 2021

Northern Powergrid (Northeast) plc

Consolidated Income Statement for the Year Ended 31 December 2020

	Note	2020 £ 000	2019 £ 000
Revenue	3	355,646	347,861
Cost of sales		(15,639)	(15,425)
Gross profit		340,007	332,436
Distribution costs		(128,456)	(124,572)
Administrative expenses		(86,331)	(84,548)
Operating profit	5	125,220	123,316
Other (losses) / gains		88	708
Finance income		92	175
Finance costs		(31,673)	(30,786)
Profit before tax		93,727	93,413
Income tax expense	10	(28,389)	(17,013)
Profit for the year		65,338	76,400
Profit/(loss) attributable to:			
Owners of the company		65,338	76,400

Northern Powergrid (Northeast) plc

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2020

	2020 £ 000	2019 £ 000
Profit for the year	65,338	76,400
Total comprehensive income for the year	65,338	76,400
Total comprehensive income attributable to:		
Owners of the Company	65,338	76,400

Northern Powergrid (Northeast) plc

(Registration number: 02906593)
Consolidated Statement of Financial Position as at 31 December 2020

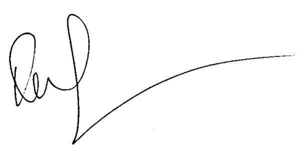
	Note	31 December 2020 £ 000	31 December 2019 £ 000
Assets			
Non-current assets			
Property, plant and equipment	11	2,682,545	2,578,029
Right of use assets	12	13,027	11,916
Intangible assets	13	51,219	52,289
		2,746,791	2,642,234
Current assets			
Inventories	15	18,158	19,661
Trade and other receivables	16	52,351	51,497
Income tax asset	10	2,884	-
Cash and cash equivalents	17	251	-
		73,644	71,158
Total assets		2,820,435	2,713,392
Equity and liabilities			
Equity			
Share capital	18	(200,000)	(200,000)
Retained earnings		(919,587)	(879,648)
Equity attributable to owners of the company		(1,119,587)	(1,079,648)
Non-current liabilities			
Long term lease liabilities	21	(8,973)	(7,738)
Loans and borrowings	20	(810,219)	(515,675)
Provisions	22	(55)	(55)
Deferred revenue	24	(641,727)	(637,700)
Deferred tax liabilities	10	(101,374)	(91,234)
		(1,562,348)	(1,252,402)

Northern Powergrid (Northeast) plc

(Registration number: 02906593)
Consolidated Statement of Financial Position as at 31 December 2020 (continued)

	Note	31 December 2020 £ 000	31 December 2019 £ 000
Current liabilities			
Current portion of long term lease liabilities	21	(4,321)	(4,354)
Trade and other payables	23	(79,309)	(88,493)
Loans and borrowings	20	(26,237)	(255,284)
Income tax liability	10	-	(6,145)
Deferred revenue	24	(27,629)	(26,280)
Provisions	22	(1,004)	(786)
		(138,500)	(381,342)
Total liabilities		(1,700,848)	(1,633,744)
Total equity and liabilities		(2,820,435)	(2,713,392)

Approved by the Board on 29 April 2021 and signed on its behalf by:



T H France
Director

Northern Powergrid (Northeast) plc

(Registration number: 02906593)
Statement of Financial Position as at 31 December 2020

	Note	31 December 2020 £ 000	31 December 2019 £ 000
Assets			
Non-current assets			
Property, plant and equipment	11	2,682,545	2,578,029
Right of use assets	12	13,027	11,916
Intangible assets	13	51,219	52,289
Investments in subsidiaries, joint ventures and associates	14	50	50
		2,746,841	2,642,284
Current assets			
Inventories	15	18,158	19,661
Trade and other receivables	16	52,351	51,628
Income tax asset	10	2,894	-
Cash and cash equivalents	17	251	-
		73,654	71,289
Total assets		2,820,495	2,713,573
Equity and liabilities			
Equity			
Share capital	18	(200,000)	(200,000)
Retained earnings		(921,424)	(881,401)
Total equity		(1,121,424)	(1,081,401)
Non-current liabilities			
Long term lease liabilities	21	(8,973)	(7,738)
Loans and borrowings	20	(810,214)	(515,670)
Provisions	22	(55)	(55)
Deferred revenue	24	(641,727)	(637,700)
Deferred tax liabilities	10	(101,374)	(91,208)
		(1,562,343)	(1,252,371)

(Registration number: 02906593)
Statement of Financial Position as at 31 December 2020 (continued)

	Note	31 December 2020 £ 000	31 December 2019 £ 000
Current liabilities			
Current portion of long term lease liabilities	21	(4,321)	(4,354)
Trade and other payables	23	(79,304)	(88,421)
Loans and borrowings	20	(24,470)	(253,780)
Income tax liability	10	-	(6,180)
Deferred revenue	24	(27,629)	(26,280)
Provisions	22	(1,004)	(786)
		(136,728)	(379,801)
Total liabilities		(1,699,071)	(1,632,172)
Total equity and liabilities		(2,820,495)	(2,713,573)

The Directors have taken the exemption offered under section 408 of the Act from publishing a separate statement of profit or loss. The Company reported a profit for the financial year ended 31 December 2019 of £65.2 million (2019: £76.5 million)

Approved by the Board on 29 April 2021 and signed on its behalf by:

T H France
Director

Northern Powergrid (Northeast) plc

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2020

	Share capital £ 000	Retained earnings £ 000	Total £ 000	Total equity £ 000
At 1 January 2020	200,000	879,649	1,079,649	1,079,649
Profit for the year	-	65,338	65,338	65,338
Total comprehensive income	-	65,338	65,338	65,338
Dividends	-	(25,400)	(25,400)	(25,400)
At 31 December 2020	200,000	919,587	1,119,587	1,119,587

	Share capital £ 000	Retained earnings £ 000	Total £ 000	Total equity £ 000
At 1 January 2019	200,000	827,848	1,027,848	1,027,848
Profit for the year	-	76,400	76,400	76,400
Total comprehensive income	-	76,400	76,400	76,400
Dividends	-	(24,600)	(24,600)	(24,600)
At 31 December 2019	200,000	879,648	1,079,648	1,079,648

Northern Powergrid (Northeast) plc

Statement of Changes in Equity for the Year Ended 31 December 2020

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2020	200,000	881,402	1,081,402
Profit for the year	-	65,422	65,422
Total comprehensive income	-	65,422	65,422
Dividends	-	(25,400)	(25,400)
At 31 December 2020	200,000	921,424	1,121,424

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2019	200,000	829,467	1,029,467
Profit for the year	-	76,534	76,534
Total comprehensive income	-	76,534	76,534
Dividends	-	(24,600)	(24,600)
At 31 December 2019	200,000	881,401	1,081,401

The notes on pages 46 to 102 form an integral part of these financial statements.

Northern Powergrid (Northeast) plc

Consolidated Statement of Cash Flows for the Year Ended 31 December 2020

	Note	2020 £ 000	2019 £ 000
Cash flows from operating activities			
Profit for the year		65,338	76,400
Depreciation and amortisation	5	97,349	95,066
Depreciation on right of use assets		4,889	4,326
Amortisation of deferred revenue		(26,284)	(25,731)
Profit on disposal of property plant and equipment	4	(88)	(708)
Finance income	6	(92)	(175)
Finance costs	6	31,673	30,786
Income tax expense	10	28,389	17,013
		201,174	196,977
Decrease/(increase) in inventories	15	1,503	(6,792)
Increase in trade and other receivables	16	(855)	(91)
Increase in trade and other payables	23	1,033	520
Increase/(decrease) in provisions	22	218	(122)
Cash generated from operations		203,073	190,492
Income taxes paid		(27,278)	(16,844)
Net cash flow from operating activities		175,795	173,648
Cash flows used in investing activities			
Acquisitions of property plant and equipment		(190,356)	(190,953)
Proceeds from sale of property plant and equipment		88	708
Acquisition of intangible assets	13	(9,145)	(8,963)
Receipt of customer contributions		21,214	38,916
Interest received		92	113
Dividend income	6	-	62
Net cash flows used in investing activities		(178,107)	(160,117)
Cash flows used in financing activities			
Movement in intercompany loans		(89,384)	(17,165)
Movement in short-term borrowing		(284)	(43,716)
Proceeds from issue of bonds		294,353	147,377
Repayment of long-term external borrowing		(139,000)	(40,000)
Payments to finance lease creditors		(4,798)	(4,150)
Interest expense on leases		(410)	(443)
Interest paid		(32,514)	(30,834)
Dividends paid	26	(25,400)	(24,600)
Net cash flows from/(used in) financing activities		2,563	(13,531)

The notes on pages 46 to 102 form an integral part of these financial statements.

Consolidated Statement of Cash Flows for the Year Ended 31 December 2020 (continued)

	Note	2020 £ 000	2019 £ 000
Net increase in cash and cash equivalents		251	-
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		251	-

Northern Powergrid (Northeast) plc

Statement of Cash Flows for the Year Ended 31 December 2020

	Note	2020 £ 000	2019 £ 000
Cash flows (used in)/from operating activities			
Profit for the year		65,422	76,534
Depreciation and amortisation	5	97,349	95,066
Depreciation on right of use assets		4,889	4,326
Amortisation of deferred revenue		(26,284)	(25,731)
Profit on disposal of property plant and equipment	4	(88)	(708)
Finance income	6	(88)	(171)
Finance costs	6	31,589	30,629
Income tax expense		28,405	17,040
		201,194	196,985
Decrease/(increase) in inventories	15	1,503	(6,792)
(Increase)/decrease in trade and other receivables	16	(854)	41
Increase in trade and other payables	23	1,099	449
Increase/(decrease) in provisions	22	218	(122)
Cash generated from operations		203,160	190,561
Income taxes paid		(27,313)	(16,843)
Net cash flow (used in)/from operating activities		175,847	173,718
Cash flows from investing activities			
Acquisitions of property plant and equipment		(190,355)	(190,957)
Proceeds from sale of property plant and equipment		88	708
Acquisition of intangible assets	13	(9,145)	(8,963)
Receipt of customer contributions		21,214	38,915
Interest received		88	109
Dividend income	6	-	62
Net cash flows from investing activities		(178,110)	(160,126)
Cash flows used in financing activities			
Interest expense on leases		(410)	(443)
Movement in intercompany loans		(189,596)	130,262
Interest paid		(32,351)	(30,948)
Proceeds from long term borrowing draw downs		294,353	-
Repayment of long-term external borrowings		(39,000)	(40,000)
Repayment from short-term borrowing		(284)	(43,716)
Payments to finance lease creditors		(4,798)	(4,147)
Dividends paid	26	(25,400)	(24,600)
Net cash flows used in financing activities		2,514	(13,592)

The notes on pages 46 to 102 form an integral part of these financial statements.

Northern Powergrid (Northeast) plc

Statement of Cash Flows for the Year Ended 31 December 2020 (continued)

	Note	2020 £ 000	2019 £ 000
Net increase in cash and cash equivalents		251	-
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		251	-

The notes on pages 46 to 102 form an integral part of these financial statements.

1 General information

The company is a private company limited by share capital, incorporated in England and Wales and domiciled in United Kingdom.

The address of its registered office is:
Lloyds Court
78 Grey Street
Newcastle upon Tyne
Tyne and Wear
NE1 6AF
United Kingdom

These financial statements were authorised for issue by the Board on 26 April 2021.

2 Accounting policies

Statement of compliance

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards as issued by the IASB.

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with adopted IFRSs and under historical cost accounting rules.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

2 Accounting policies (continued)

Going concern

A review of the Company's business activities during the year, together with details regarding its future development, performance and position, its objectives, policies and processes for managing its capital, its financial risk management objectives and details of its exposures to trading risk, credit risk and liquidity risk are set out in the Strategic Report, the Report of the Directors and the appropriate notes to the financial statements.

When considering continuing to adopt the going concern basis in preparing the annual reports and financial statements, the directors have taken into account a number of factors, including the following:

• The Company is a stable electricity distribution business operating an essential public service and is regulated by GEMA. In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
• The Company is profitable with strong underlying cash flows and holds investment grade credit ratings;
• The Company is financed by long-term borrowings with an average maturity of 26 years and has access to borrowing facilities provided by Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc;
• The Northern Powergrid Group plans to issue long-term borrowings within the next 12 months and early indications from our relationship banks suggest there is an active market with appetite to invest; and

2 Accounting policies (continued)

Critical Judgements in applying accounting policies
The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying the Northern Powergrid Group's accounting policies and that have the most significant effect on amounts recognised in the consolidated financial statements:

Split of operating and capital expenditure and the allocation of overheads to property, plant and equipment

The allocation of overheads to property, plant and equipment which results in higher capital expenditure and a reduction in operating costs. Costs are capitalised where it is probable that future economic benefits associated with the asset will flow to the enterprise; and the cost of the item can be reliably measured.

The allocation of overheads to capital is derived from a detailed analysis of the costs and their relevant cost drivers, which is reviewed on an annual basis. There has been no change in the methodology since the prior year.

The amounts of overheads capitalised in the year was £38.6 million (2019: £40.5 million), this was a decrease from 55.2% to 53.9%.

Key sources of estimation uncertainty
In the preparation of financial statements in conformity with IFRS the Directors did not identify any key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

2 Accounting policies (continued)

Changes in accounting policy
New standards and amendments effective from 1 January 2020

- Amendments to IFRS 3 -definition of a business;
- Amendments to IAS 1 (presentation of financial statements) and IAS 8 (accounting policies, changes in accounting estimates and errors) - Definition of material;
- Amendments to References to the Conceptual Framework in IFRS Standards; and
- Amendments to IFRS 9, IAS 39, and IFRS 7 - Interest rate benchmark reform

These amendments have had no material impact on the financial statements including the comparatives.

Effective for periods beginning on or after 1 June 2020

-Amendment to IFRS 16 - COVID 19 related rent concessions

This amendment is not expected to have a material impact on the financial statements.

Revenue recognition

Recognition

The group earns revenue from the provision of services relating to Revenue from a contract to provide services is recognised by the following means:
- Distribution use of system income is recognised on a per GWh basis;
- Customer contributions for connections are amortised over the life of the corresponding asset;
- Meter asset provision are recognised over time;
- Intercompany recharges for services provided are based on costs incurred; and
- Other revenue includes assessment and design fees and disconnections from the network, these are recognised by reference to the proportion of total costs of providing the service.

This revenue is recognised in the accounting period when the services are rendered at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to customers.

The principles in IFRS are applied to revenue recognition criteria using the following 5 step model:

1. Identify the contracts with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

2 Accounting policies (continued)

Fee arrangements

Below are details of fee arrangements and how these are measured and recognised, for revenue from the provision of services:

- For regulated fees the revenue for the service is recognised on the basis of agreed charging methodologies on a per GWh basis.
- For fixed fee for connection the revenue is recognised over the life of the corresponding asset.
- For fixed fee arrangements from services revenue is recognised based on the stage of completion and performance obligations met for actual services provided as a proportion of the total fixed fee agreed in the contract.
- For fee for service (time) revenue is recognised by time performed on the contract to the year end date using contractual rates specified in the contract.

The main performance obligations in contracts consist of the provision of a distribution network to electricity suppliers. For these contracts, through the distribution and connection use of system agreement (DCUSA) the delivery of performance obligations are measured at the balance sheet date by the number of GWh distributed by the system.

Finance income and costs policy

Finance income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are 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.

All other borrowing costs are recognised in profit or loss in the period which they are incurred.

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the group operates and generates taxable income.

2 Accounting policies (continued)

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and on unused tax losses or tax credits in the group. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Property, plant and equipment
Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Assets in the course of construction are carried at cost, less any recognised impairment loss. Costs include professional fees, and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation on these assets, on the same basis as other assets, commences when the assets are commissioned. Assets are derecognised when they are disposed of profit or loss on disposal is recognised in other gains on the statement of profit or loss.

Depreciation
Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives. Depreciation is recognised on a straight line basis as follows:

Asset Class	**Depreciation Rate**
Distribution system;	
- Generation assets	15 years
- Metering equipment	up to 5 years
- Information Technology equipment	up to 10 years
- Land	not depreciated
- Other system assets	45 years
Buildings;	
- Freehold	up to 60 years
- Leasehold	lower of lease period or 60 years
Nop Operational Land	not depreciated
Furniture, fittings and equipment	up to 10 years

2 Accounting policies (continued)

Intangible assets
An internally generated intangible asset arising from development is recognised if the conditions set out in IAS 38 relating to the recognition of intangible assets are met. The amount initially recognised for internally-generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria.

Amortisation
Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
Software development costs	up to 10 years

Derecognition
An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in the profit or loss when the asset is derecognised.

Investments
Investments in securities are classified on initial recognition as available-for-sale and are carried at fair value, except where their fair value cannot be measured reliably, in which case they are carried at cost, less any impairment.

Unrealised holding gains and losses other than impairments are recognised in other comprehensive income. On maturity or disposal, net gains and losses previously deferred in accumulated other comprehensive income are recognised in income.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade receivables
Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

2 Accounting policies (continued)

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined using an average price basis.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Borrowings
All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Provisions
Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors’ best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

2 Accounting policies (continued)

Leases
For lessees, all leases will be recorded on the balance sheet as liabilities, at the present value of the future lease payments, along with an asset reflecting the right to use the asset over the lease term. Short-term leases (a lease that, at the commencement date has a lease term of 12 months or less) and low value leases will be excluded.

The Company applies IFRS 16 to all leases (except as noted below) which include buildings, Land and fleet vehicles. The right-of-use assets are initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Subsequently, the assets are measured under the fair value method. The corresponding lease liability is initially measured at present value of all lease payments over the lease term and can be restated if the terms or other criteria of the contract change. These values can be found in the Statement of Financial Position.

The Company has taken practical expedients as per below:

- For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes personal computers, small items of office furniture and telephones), the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within ‘administrative expenses’ in the Statement of Profit or Loss.
- -Applies single discount rate to a portfolio of leases;
- -Uses hindsight to determine the lease term when contract contains options to extend or terminate the lease; and
- -Adjusts right of use asset by provision for onerous leases as an alternative to performing an impairment review.

The weighted average lessee’s incremental borrowing rate applied to determine the present value of the lease liabilities during the current period was 2.43% (2019:3.48%)

The Company recognises deprecation of right-of-use assets (within administration expenses) and interest on lease liabilities (within finance costs) in the Statement of Profit and Loss. Within the Statement of cash flow, the Company separates the total amount of cash paid between the principal portion and the interest, both of which are presented within financing activities.

Right-of-use assets are depreciated over the shorter of the useful life of the asset or the lease term. For information regarding the depreciation charge per class of asset and carrying value, please refer to Note 12 Right of use assets.

Impairment of non-financial assets
At the balance sheet date, the Company reviews the carrying amounts of its tangible and intangible 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 to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Where the recoverable amount is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

2 Accounting policies (continued)

Share capital
Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends
Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

Defined benefit pension obligation
The Company contributes to the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "DB Scheme"), a defined benefit scheme that shares risk between various entities under common control. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities and accordingly the Company financial statements account for the Northern Powergrid Group of the ESPS as if it were a defined contribution scheme.

Contributions to the Northern Powergrid Group of the ESPS are charged to the statement of profit or loss or capitalised as part of property, plant and equipment/ intangibles. The capital costs of ex-gratia and supplementary pensions are normally charged to the statement of profit or loss in the period in which they are granted.

The Company also participates in a defined contribution scheme. Contributions payable to the defined contribution scheme are charged to the statement of profit or loss in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

2 Accounting policies (continued)

Financial instruments (post January 2018)

Initial recognition
Financial assets and financial liabilities comprise all assets and liabilities reflected in the statement of financial position, although excluding property, plant and equipment, investment properties, intangible assets, deferred tax assets, prepayments, deferred tax liabilities and employee benefits plan.

The group recognises financial assets and financial liabilities in the statement of financial position when, and only when, the group becomes party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and financial liabilities classified as fair value through profit or loss (“FVTPL”) are recognised on the trade date, i.e. the date on which the group commits to purchase or sell the financial assets or financial liabilities. All regular way purchases and sales of other financial assets and financial liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

Subsequent to initial measurement, financial assets and financial liabilities are measured at either amortised cost or fair value.

Classification and measurement
Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:-

Financial assets are classified into one of the following three categories:-
· financial assets at amortised cost;
· financial assets at fair value through other comprehensive income (FVTOCI); or
· financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:-
· financial liabilities at amortised cost; or
· financial liabilities at fair value through the profit or loss (FVTPL).

The classification and the basis for measurement are subject to the group’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:-

2 Accounting policies (continued)

Financial assets at amortised cost
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:-
· the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
· the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of the above two criteria is not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

If a financial asset meets the amortised cost criteria, the group may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

Financial assets at fair value through other comprehensive income (FVTOCI)
A financial asset is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVPTL:-
· the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
· the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investments that is not held for trading, the group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the statement of income.

Financial assets at fair value through the profit or loss (FVTPL)
Financial assets not otherwise classified above are classified and measured as FVTPL.

Financial liabilities at amortised cost
All financial liabilities, other than those classified as financial liabilities at FVTPL, are measured at amortised cost using the effective interest rate method.

Financial liabilities at fair value through the profit or loss
Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

2 Accounting policies (continued)

Derecognition

Financial assets

The group derecognises a financial asset when;
- the contractual rights to the cash flows from the financial asset expire,
- it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received is recognised as a gain or loss in the profit or loss.

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as FVTOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the group is recognised as a separate asset or liability.

The group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

When the group derecognises transferred financial assets in their entirety, but has continuing involvement in them then the entity should disclose for each type of continuing involvement at the reporting date:

(a) The carrying amount of the assets and liabilities that are recognised in the entity’s statement of financial position and represent the entity’s continuing involvement in the derecognised financial assets, and the line items in which those assets and liabilities are recognised.

(b) The fair value of the assets and liabilities that represent the entity’s continuing involvement in the derecognised financial assets;

(c) The amount that best represents the entity’s maximum exposure to loss from its continuing involvement in the derecognised financial assets, and how the maximum exposure to loss is determined

(d) The undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee for the transferred assets

Financial liabilities

The group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

2 Accounting policies (continued)

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial asset are deemed to expire. In this case the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

Financial liabilities

If the terms of a financial liabilities are modified, the group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual obligations from the cash flows from the original financial liabilities are deemed to expire. In this case the original financial liabilities are derecognised and new financial liabilities are recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial liabilities. In this case, the group recalculates the gross carrying amount of the financial liabilities and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

2 Accounting policies (continued)

Impairment of financial assets

Measurement of Expected Credit Losses

The group recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVPTL, namely:

- Financial assets that are debt instruments
- Accounts and other receivables
- Financial guarantee contracts issued; and
- Loan commitments issued.

The group classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the group recognises an allowance based on the 12-month ECL.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the group recognises an allowance for the lifetime ECL.

Stage 3: for credit-impaired financial instruments, the group recognises the lifetime ECL.

The group measures loss allowances at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:

- debt securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- other financial instruments on which the credit risk has not increased significantly since their initial recognition.

The group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

A 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are probable within 12 months from the reporting date.

Provisions for credit-impairment are recognised in the statement of income and are reflected in accumulated provision balances against each relevant financial instruments balance.

2 Accounting policies (continued)

Evidence that the financial asset is credit-impaired include the following;

- Significant financial difficulties of the borrower or issuer;
- A breach of contract such as default or past due event;
- The restructuring of the loan or advance by the group on terms that the group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for the security because of financial difficulties; or
- There is other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

For trade receivables, the group applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are not recoverable:

• when there is a breach of financial covenants by the debtor; and
• information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full.

Accounting estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of certain financial assets, liabilities, income and expenses.

The use of estimates and assumptions is principally limited to the determination of provisions for impairment, the valuation of financial instruments and as explained in more detail below:-

Provisions for impairment

In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

2 Accounting policies (continued)

Fair value of financial assets and liabilities

Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

3 Revenue

The analysis of the group's revenue for the year from continuing operations is as follows:

	2020 £ 000	2019 £ 000
Distribution use of system revenue	299,312	292,587
Work for related parties	23,314	24,592
Deferred revenue amortisation	26,284	25,731
Other revenue	6,736	4,951
	355,646	347,861

Segmental Analysis

IFRS 8 - Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the President and Chief Executive Officer of the Northern Powergrid Group in order to allocate resources to these segments and to assess their performance.

In practice, the President and Chief Executive Officer allocates resources and assesses performance based upon the aggregate results of the Company and Northern Powergrid (Yorkshire) plc, another distribution network operator in the Northern Powergrid Group, suggesting that no segmental reporting is required.

Revenue, profit before tax and net assets are attributable to electricity distribution. Revenue is all in respect of sales to United Kingdom customers and all Non-Current assets are held in the United Kingdom.

4 Other gains and losses

The analysis of the group's other gains and losses for the year is as follows:

	2020 £ 000	2019 £ 000
Loss (gain) on disposal of property, plant and equipment	88	708

5 Operating profit

Arrived at after charging/(crediting)

	2020 £ 000	2019 £ 000
Depreciation expense	87,134	85,787
Depreciation on right of use asset	4,889	4,326
Amortisation expense	10,215	9,279
Research and development	1,407	1,594
Amortisation of deferred revenue	(26,284)	(25,731)
Loss allowance on trade and other receivables	1,072	701

Amortisation expense is included within adminstation costs in the statement of profit or loss on page 36.

6 Finance income and costs

	2020 £ 000	2019 £ 000
Finance income		
Interest income on financial assets measured at amortised cost	60	109
Dividend income from equity investments designated at FVTPL	-	62
Other finance income measured at amortised cost	32	4
Total finance income	92	175
Finance costs		
Interest on bank overdrafts and borrowings	(26,100)	(25,280)
Borrowing costs included in cost of qualifying asset	1,112	1,860
Interest paid to group undertakings	(6,275)	(6,923)
Interest expense on leases	(410)	(443)
Total finance costs	(31,673)	(30,786)
Net finance costs	(31,581)	(30,611)

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.16% (2019: 5.06%) to expenditure on such assets.

7 Staff costs

The aggregate payroll costs for the group and company (including directors' remuneration) were as follows:

	2020 £ 000	2019 £ 000
Salaries	54,933	53,466
Social security costs	6,170	5,905
Defined benefit pension costs	26,501	25,779
Defined contribution pension costs	3,524	3,047
	91,128	88,197
Less charged to plant, property and equipment	(41,954)	(39,872)
	49,174	48,325

The monthly average number of persons employed by the group and company (including directors) during the year, analysed by category was as follows:

	2020 No.	2019 No.
Technical	361	352
Industrial	458	447
Administration	227	204
Other departments	129	126
	1,175	1,129

8 Directors' remuneration

The directors' remuneration for the year was as follows:

	2020 £ 000	2019 £ 000
Remuneration	1,094	1,222

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2020 No.	2019 No.
Accruing benefits under defined benefit pension scheme	-	-
Accruing benefits under money purchase pension scheme	4	4

In respect of the highest paid director:

	2020 £ 000	2019 £ 000
Short-term employee benefits	365	373
Long-term benefits	357	425
	722	798

	2020 £ 000	2019 £ 000
Short-term employee benefits	437	439
Defined benefit	5	29
Defined contribution	51	44
Other long-term benefits	121	213
	614	725

9 Auditors' remuneration

	2020 £ 000	2019 £ 000
Fees payable to the auditor for audit of the Company's annual accounts	158	124
Other audit services	51	46
	209	170

Other services relate to non statutory audit services including regulatory reporting, apprentice levy and pensions.

10 Income tax

Tax charged/(credited) in the income statement

	2020 £ 000	2019 £ 000
Current taxation		
UK corporation tax	18,753	18,074
UK corporation tax adjustment to prior periods	(504)	120
	18,249	18,194
Deferred taxation		
Arising from origination and reversal of temporary differences	9,664	(569)
Arising from changes in tax rates and laws	-	23
Deferred tax adjustment to prior periods	476	(635)
Total deferred taxation	10,140	(1,181)
Tax expense in the income statement	28,389	17,013

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2019 - Lower than the standard rate of corporation tax in the UK) of 19% (2019 - 19%)

The differences are reconciled below:

	2020 £ 000	2019 £ 000
Profit before tax	93,727	93,413
Corporation tax at standard rate	17,808	17,748
(Decrease)/increase in current tax from adjustment for prior periods	(504)	120
Effect of income and expenses not deductible/taxable in determining taxable profit	(257)	(243)
Increase/(Decrease) in deferred tax from adjustment for prior periods	476	(635)
Deferred tax expense relating to changes in tax rates or laws	10,778	142
Increase from changes in tax provisions due to legislation	-	23
Other tax effects for reconciliation between accounting profit and tax expense/(income)	88	(142)
Total tax charge	28,389	17,013

10 Income tax (continued)

Finance Bill 2020 was enacted in July 2020 and as a result, the rate of corporation tax has been held at 19% as the Finance Bill 2020 effectively removed the proposed reduction to 17% which was included within Finance Bill 2016. As a result, deferred tax balances have been re-measured at the 19% rate and this remeasurement has given rise to an increased deferred tax liability of £10.8m which is reflected within the above tax charge.

In addition, the March 2021 Budget announced that the Corporation Tax Rate will increase from 19% to 25% from 1 April 2023. As this has not been enacted by the balance sheet date, balances as at 31 December 2020 continue to be measured at 19%, the amended tax rate would cause an estimated increase of £32.0 million in the deferred tax liability.

There is no uncertainty over the acceptable income tax treatment. Should any uncertainties arise the Group will apply adopted amendments to IFRIC 23.

Deferred tax

Group

Deferred tax movement during the year:

	At 1 January 2020 £ 000	Recognised in income £ 000	At 31 December 2020 £ 000
Accelerated tax depreciation	91,883	10,533	102,416
Other items	(649)	(393)	(1,042)
Net tax liabilities	91,234	10,140	101,374

Deferred tax movement during the prior year:

	At 1 January 2019 £ 000	Recognised in income £ 000	At 31 December 2019 £ 000
Accelerated tax depreciation	92,727	(844)	91,883
Other items	(312)	(337)	(649)
Net tax liabilities	92,415	(1,181)	91,234

Other comprises provisions and employee expenses deductible for tax on a paid basis and claims for hold over relief.

10 Income tax (continued)

Company

Deferred tax movement during the year:

	At 1 January 2020 £ 000	Recognised in income £ 000	At 31 December 2020 £ 000
Accelerated tax depreciation	91,883	10,533	102,416
Other	(675)	(367)	(1,042)
Net tax liabilities	91,208	10,166	101,374

Deferred tax movement during the prior year:

	At 1 January 2019 £ 000	Recognised in income £ 000	At 31 December 2019 £ 000
Accelerated tax depreciation	92,727	(844)	91,883
Other	(369)	(306)	(675)
Net tax liabilities	92,358	(1,150)	91,208

Other comprises provisions and employee expenses deductible for tax on a paid basis and claims for hold over relief.

11 Property, plant and equipment

Group and Company

	Non - Operational Land and buildings £ 000	Distribution system £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation				
At 1 January 2019	4,191	3,162,093	44,623	3,210,907
Additions	-	190,823	3,499	194,322
Disposals	-	(12,556)	(78)	(12,634)
At 31 December 2019	4,191	3,340,360	48,044	3,392,595
At 1 January 2020	4,191	3,340,360	48,044	3,392,595
Additions	-	190,335	1,316	191,651
Disposals	-	(9,985)	-	(9,985)
At 31 December 2020	4,191	3,520,710	49,360	3,574,261
Depreciation				
At 1 January 2019	2,667	703,155	35,591	741,413
Charge for year	252	81,433	4,102	85,787
Eliminated on disposal	-	(12,556)	(78)	(12,634)
At 31 December 2019	2,919	772,032	39,615	814,566
At 1 January 2020	2,919	772,032	39,615	814,566
Charge for the year	252	83,305	3,578	87,135
Eliminated on disposal	-	(9,985)	-	(9,985)
At 31 December 2020	3,171	845,352	43,193	891,716
Carrying amount				
At 31 December 2020	1,020	2,675,358	6,167	2,682,545
At 31 December 2019	1,272	2,568,328	8,429	2,578,029

11 Property, plant and equipment (continued)

Expenditure recognised in the carrying amount of property, plant and equipment in the course of construction

	31 December 2020 £ 000	31 December 2019 £ 000
Distribution system	202,298	205,711

Contractual commitments for the acquisition of property, plant and equipment

	31 December 2020 £ 000	31 December 2019 £ 000
Distribution system	30,600	31,200

12 Right of use assets

Group and Company

	Fleet £ 000	Property £ 000	Land £ 000	Total £ 000
Cost or valuation				
Additions	8,373	1,468	6,401	16,242
At 31 December 2019	8,373	1,468	6,401	16,242
At 1 January 2020	8,373	1,468	6,401	16,242
Additions	4,031	46	1,923	6,000
Disposals	(287)	(131)	-	(418)
At 31 December 2020	12,117	1,383	8,324	21,824
Depreciation				
Charge for year	1,691	286	2,349	4,326
At 31 December 2019	1,691	286	2,349	4,326
At 1 January 2020	1,691	286	2,349	4,326
Charge for the year	2,259	254	2,376	4,889
Eliminated on disposal	(287)	(131)	-	(418)
At 31 December 2020	3,663	409	4,725	8,797
Carrying amount				
At 31 December 2020	8,454	974	3,599	13,027
At 31 December 2019	6,682	1,182	4,052	11,916

13 Intangible assets

Group and Company

	Internally generated software development costs £ 000
Cost or valuation	
At 1 January 2019	102,903
Additions	8,963
At 31 December 2019	111,866
At 1 January 2020	111,866
Additions	9,145
At 31 December 2020	121,011
Amortisation	
At 1 January 2019	50,298
Amortisation charge	9,279
At 31 December 2019	59,577
At 1 January 2020	59,577
Amortisation charge	10,215
At 31 December 2020	69,792
Carrying amount	
At 31 December 2020	51,219
At 31 December 2019	52,289

During the year the amount of contractual commitments for the acquisition of intangible assets amounted to £4.5 million (2019: £2.5 million).

14 Investments

Summary of the Company investments

	31 December 2020 £ 000	31 December 2019 £ 000
Investments in subsidiaries	50	50

Subsidiaries

	£ 000
Cost or valuation	
At 1 January 2019	50
At 31 December 2019	50
At 1 January 2020	50
At 31 December 2020	50
Provision	
Carrying amount	
At 31 December 2020	50
At 1 January 2019	50

Group subsidiaries

Details of the group subsidiaries as at 31 December 2020 are as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held 2020	2019
Northern Electric Finance plc +	Finance company	Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF England and Wales	100%	100%

All above investments are held as ordinary shares
+ indicates accounted for using the equity method

14 Investments (continued)

Group associates

Details of the group associates as at 31 December 2020 are as follows:

Name of associate	Principal activity	Registered office	Proportion of ownership interest and voting rights held 2020	2019
ElectraLink Limited +	Data transfer network operator	Northumberland House, 303-306 Holborn, WC1V 7JZ, England and Wales	6.2%	6.2%
MRA Service Company Limited +	Governance of the electricity industry's Master Registration Agreement	8 Fenchurch Place, London, EC3M 4AJ, England and Wales	0.39%	0.39%
DCUSA Limited +	Governance of Distribution Connection and Use of System Agreement	Northumberland House, 303-306 Holborn, WC1V 7JZ, England and Wales	1.69%	1.69%
Smart Energy Code Company Ltd +	Governance of smart metering energy agreement	8 Fenchurch Place, London, EC3M 4AJ	0.34%	0.34%

All above investments are held as ordinary shares
+ indicates accounted for using the equity method

15 Inventories

	Group		Company	
	31 December 2020 £ 000	31 December 2019 £ 000	31 December 2020 £ 000	31 December 2019 £ 000
Inventory	17,870	19,445	17,870	19,445
Work in progress	288	216	288	216
	18,158	19,661	18,158	19,661

16 Trade and other receivables

	Group		Company	
	31 December 2020 £ 000	31 December 2019 £ 000	31 December 2020 £ 000	31 December 2019 £ 000
Distribution use of system receivables	53,617	48,319	53,617	48,319
Trade receivables	(284)	3,604	(284)	3,471
Provision for impairment of trade receivables	(3,123)	(2,129)	(3,123)	(2,129)
Net trade receivables	50,210	49,794	50,210	49,661
Accrued income	75	29	75	29
Prepayments	2,066	1,674	2,066	1,938
	52,351	51,497	52,351	51,628

16 Trade and other receivables (continued)

The average credit period on receivables is 30 days. Interest is charged on overdue distribution use of system receivables.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The loss allowance has not been split out into detailed analysis.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

As the Group's historical credit loss experience shows significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is distinguished between Distribution Use of System ("DUoS") receivables, non-damages receivables, and damages receivables.

Movement in the loss allowance

	31 December 2020 £ 000	31 December 2019 £ 000
At 1 January	2,129	1,465
Amounts utilised/written off in the year	(78)	(37)
Amounts recognised in the statement of profit or loss	1,072	701
At 31 December	3,123	2,129

The loss allowance is made on amount due net of VAT which would be recoverable from Her Majesty's Revenue and Customs when the debt is written off.

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £2.3 million (2019: £1.9 million), which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

16 Trade and other receivables (continued)

Distribution Use of System Receivables

The customers served by the Group’s distribution network are supplied predominantly by a number of electricity supply businesses (circa 250) with RWE NPower plc accounting for approximately 14% of distribution revenues in 2020 (2019: 16%) and British Gas plc accounting for approximately 11% of distribution revenues in 2020 (2019: 11%). Ofgem set out a framework known as Credit Cover which sets credit limits for each supply business based on its credit rating (taken from a credit agency) or if no score is available then they can build up their credit limit through good payment history. In addition, suppliers can provide other forms of collateral to cover their value at risk (measured as being equivalent to 45 days usage) or if their credit rating alone is not sufficent to cover their value at risk. Acceptable collateral typically is provided in the form of a parent company guarantee, letter of credit, cash or an escrow account. Included within other payables are customer cash deposits of which there was £2.1m as at 31st December 2020 (2019: £1.1m).

Ofgem has indicated that, provided the Group has implemented credit control, billing and collection processes in line with best practice guidelines and can demonstrate compliance with the guidelines or is able to satisfactorily explain departure from the guidelines, any bad debt losses arising from supplier default will be recovered through an increase in future allowed income. Losses incurred to date have not been material. Included in the Group's use of system (“UoS”) receivables are debtors with a carrying value of £1.6m, which have been placed into administration and have therefore been provided in full at the year end (2019: £1.2m).

The following table details the age of DUoS receivables:

2020	Not due £ 000	Current £ 000	1-3 months £ 000	3-6 months £ 000
Total balance	29,114	21,975	110	2,357
Less specific provisions	-	(152)	(109)	(1,326)
Balance on which ECL made	29,114	21,823	1	1,031
Expected credit loss	0.00	0.00	0.00	0.00

2019	Not due £ 000	Current £ 000	1-3 months £ 000	3-6 months £ 000
Total balance	27,283	19,896	79	1,061
Less specific provisions	-	(68)	(76)	(1,057)
Balance on which ECL made	27,283	19,828	3	4
Expected credit loss	0.00	0.00	0.00	0.00

16 Trade and other receivables (continued)

Other Trade Receivables

In determining the recoverability of the trade and other receivables, the Company considers any change in the credit quality of the trade and other receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk, other than in relation to DUoS receivables, is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Non Damages

2020	Not due £ 000	Current £ 000	1-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	260	323	144	87	156
Less specific provisions	-	-	-	-	-
Balance on which ECL made	260	323	144	87	156
Lifetime ECL	0%	0%	0%	50%	50%
Expected credit loss	0.00	0.00	0.00	43.73	78.10

2019	Not due £ 000	Current £ 000	1-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	248	96	270	103	117
Less specific provisions	-	-	-	-	-
Balance on which ECL made	248	96	270	103	117
Lifetime ECL	0%	0%	0%	15%	20%
Expected credit loss	0.00	0.00	0.00	15.45	23.40

Damages

2020	1-6 months £ 000	6-12 months £ 000	1-2 years £ 000	2-3 years £ 000	Over 3 years £ 000
Total balance	788	205	617	69	37
Less specific provisions	(183)	(54)	(430)	(22)	-
Balance on which ECL made	605	151	187	47	37
Lifetime ECL	20%	25%	30%	40%	80%
Expected credit loss	120.92	37.82	56.09	18.70	29.80

16 Trade and other receivables (continued)

2019	1-6 months £ 000	6-12 months £ 000	1-2 years £ 000	2-3 years £ 000	Over 3 years £ 000
Total balance	797	547	483	358	192
Less specific provisions	(39)	(66)	(33)	(324)	(133)
Balance on which ECL made	758	481	450	34	59
Lifetime ECL	10%	10%	15%	30%	60%
Expected credit loss	75.80	48.10	67.50	10.20	35.40

16 Trade and other receivables (continued)

Significant Increase in Credit Risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on a financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment the Company considers historical experience as well as forward-looking information that is available without undue cost or effort. Forward-looking information includes the future prospects of the industries in which the Company's debtors operate obtained from economic expert reports, financial analysts, government bodies, relevant think-tanks and other similar organisations. In particular the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

• existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
• an actual or expected significant deterioration in the operating results of the debtor;
• significant increases in credit risk on other financial instruments of the same debtor; and
• an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Sales of goods and services comprise all income streams which are not classified as DUoS income. Examples of non-DUoS income streams would be service alterations/disconnections, assessment and design fees, and recovery of amounts for damage caused by third parties to the distribution system. The average credit period on sales of goods and services is 30 days. Interest is not generally charged on the trade receivables paid after the due date.

17 Cash and cash equivalents

	Group		Company	
	31 December 2020 £ 000	31 December 2019 £ 000	31 December 2020 £ 000	31 December 2019 £ 000
Cash at bank	251	-	251	-

18 Share capital

Allotted, called up and fully paid shares

	31 December 2020		31 December 2019	
	No. 000	£ 000	No. 000	£ 000
Ordinary Share Capital of £1 each	200,000	200,000	200,000	200,000

The group has 300 million shares authorised for issue. The group has one class of ordinary shares which carries no right to fixed income.

19 Reserves

Group

	Retained earnings £ 000
At 1 January 2020	879,649
Profit for the year	65,338
Total comprehensive income	65,338
Dividends	(25,400)
At 31 December 2020	919,587

	Retained earnings £ 000
At 1 January 2019	827,848
Profit for the year	76,400
Total comprehensive income	76,400
Dividends	(24,600)
At 31 December 2019	879,648

Company

	Retained earnings £ 000
At 1 January 2020	881,402
Profit for the year	65,422
Total comprehensive income	65,422
Dividends	(25,400)
At 31 December 2020	921,424

19 Reserves (continued)

	Retained earnings £ 000
At 1 January 2019	829,467
Profit for the year	76,534
Total comprehensive income	76,534
Dividends	(24,600)
At 31 December 2019	881,401

20 Loans and borrowings

	Group		Company	
	31 December 2020 £ 000	31 December 2019 £ 000	31 December 2020 £ 000	31 December 2019 £ 000
Non-current loans and borrowings	810,219	515,675	810,214	515,670
Current loans and borrowings	26,237	255,284	24,470	253,780
	836,456	770,959	834,684	769,450

20 Loans and borrowings (continued)

Group

	Book value		Fair value	
	31 December 2020 £ 000	31 December 2019 £ 000	31 December 2020 £ 000	31 December 2019 £ 000
Short term loan	6	291	6	291
Intercompany short term loan	15,813	105,197	15,813	105,197
Northern Electric Finance plc 2020 – 8.875%	-	101,695	-	101,849
Northern Electric Finance plc 2035- 5.125%	153,279	153,194	225,276	213,560
Northern Powergrid Holdings Company 2037 – 5.9%	100,016	100,016	164,723	155,207
Northern Electric Finance plc 2049 – 2.75%	149,978	149,920	194,134	163,477
European Investment Bank 2027 – 2.564%	120,128	120,128	134,428	128,780
Northern Powergrid (Northeast) plc 2062 1.875% Bond	297,469	-	338,377	-
European Investment Bank 2020 – 4.386%	-	40,518	-	40,520
	836,689	770,959	1,072,757	908,881

Company

	Book value		Fair value	
	31 December 2020 £ 000	31 December 2019 £ 000	31 December 2020 £ 000	31 December 2019 £ 000
Short-term loan	6	291	6	291
Intercompany short term loan- Yorkshire Electricity Group plc	17,360	106,723	17,360	106,723
Northern Electric Finance plc 2020 - 8.875%	-	101,849	-	101,849
Northern Electric Finance plc 2035 - 5.125%	50,030	49,946	75,135	71,230
Northern Powergrid Holdings Company 2037 - 5.9%	100,016	100,016	164,723	155,207
Northern Electric Finance plc 2037 - 5.125%	99,884	100,014	153,081	143,753
European Investment Bank 2027 - 2.564%	120,128	120,128	134,428	128,780
Northern Electric Finance plc 2049 - 2.8%	150,024	149,965	195,895	165,091
Northern Powergrid (Northeast) plc 2062 1.875% Bond	297,469	-	338,377	-
European Investment Bank 2020 - 4.386%	-	40,518	-	40,520
	834,917	769,450	1,079,005	913,444

21 Lease Liabilities

Group and company

Lease commitments

Operating lease commitments relate to fleet vehicles from Vehicle Lease and Service Ltd, a joint venture, with terms of up to 7 years and operational and non-operational land and buildings with terms of up to 50 years.

Maturity analysis - contractual undiscounted cash flows:

	31 December 2020 £ 000	31 December 2019 £ 000
Within one year	4,638	4,692
In two to five years	7,289	7,993
In over five years	2,770	161
Total lease payment	14,697	12,846
Unearned interest	(1,403)	(754)
Total lease liability	13,294	12,092

The total cash outflow for leases during the year was £5.2m (2019: £4.6m). Within the cash outflow is lease expense of £4.8m (2019: £4.2m)

22 Provisions

Group and Company

	Legal proceedings £ 000	Other provisions £ 000	Total £ 000
At 1 January 2020	407	434	841
Additional provisions	865	383	1,248
Provisions used	(643)	(387)	(1,030)
At 31 December 2020	629	430	1,059
Non-current liabilities	-	55	55
Current liabilities	629	375	1,004

22 Provisions (continued)

Claims: Provision has been made to cover costs arising from utility damages, public liability, and motoring legal proceedings, which are not externally insured. Settlement is expected substantially within 12 months.

Other: Primarily consists of a provision for future safe disposal of transformers which contain oil contaminated with Polychlorinated Biphenyls (PCBs) and for an amount to cover claims made under Section 74 of the New Road and Street Works Act 1991. Costs are expected to be incurred over the next 5 years.

23 Trade and other payables

	Group		Company	
	31 December 2020 £ 000	31 December 2019 £ 000	31 December 2020 £ 000	31 December 2019 £ 000
Trade payables	2,395	2,126	2,395	2,126
Accrued expenses	7,055	8,362	7,050	8,291
Social security and other taxes	5,847	4,651	5,847	4,651
Other payables	3,494	3,634	3,494	3,634
Payments on Account	35,938	45,323	35,938	45,323
Capital Accruals	24,580	24,397	24,580	24,396
	79,309	88,493	79,304	88,421

The group's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in note 29 "Financial risk review".

24 Deferred Revenue

Group and Company

	31 December 2020 £ 000	31 December 2019 £ 000
Opening balance	663,980	652,349
Additions	31,660	37,362
Amortisation	(26,284)	(25,731)
	669,356	663,980

	31 December 2020 £ 000	31 December 2019 £ 000
Current	27,629	26,280
Non-current	641,727	637,700
	669,356	663,980

Deferred revenue relates to customer contributions towards distribution system assets. The Company's policy is to credit the customer contribution to revenue on a straight-line basis, in line with the useful life of the distribution system assets.

25 Pension and other schemes

Defined contribution pension scheme
The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £3.5 million (2019: £3.0 million). The pension cost for 2021 is expected to be £3.6 million.

Defined benefit pension scheme
The Company operates a defined benefit pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £26.5 million (2019: £25.8 million). The pension cost for 2021 is expected to be £26.5 million.

During the year ended 31 December 2020, the Group participated in a scheme which is part of the Northern Powergrid Group of the Electricity Supply Pension scheme (the "DB Scheme"). The defined benefit sections of the scheme are contracted out of the State Second pension Scheme and provide benefits based on a member's final permissible salary. The assets of the defined benefit sections are held in a separate trustee-administered fund. Contributions to these sections are assessed in accordance with the advice of an independent qualified actuary. The defined benefit sections of the scheme have been closed to new entrants from 1997. The scheme is a plan for related companies within the Group where risks are shared. The overall costs of the scheme have been recognised in the Northern Powergrid Holdings Group financial statements according to IAS 19 (revised). Each of the participating companies accounts on the basis of contributions paid by that company. The Group accounts for the difference between the aggregate IAS 19 (revised) cost of the scheme and the aggregate contributions paid. The scheme is governed by a Trustee Company in accordance with a Trust Deed and Rules. It is also subject to regulation from the Pensions Regulator and relevant UK legislation. This regulatory framework requires the Trustees of the scheme and the Group to agree upon the assumptions underlying the funding target, and the necessary contributions as part of each triennial valuation. The last actuarial valuation of the scheme had an effective date of March 2019. The investment strategy of the scheme, which aims to meet liabilities as they fall due, is to invest plan assets in a mix of equities, other return seeking assets and liability driven investments to maximise the return on plan assets and minimise risks associated with lower than expected returns on plan assets. Trustees are required to regularly review investment strategy. As it is not possible to identify the Group's share of the net assets and liabilities of the scheme on a consistent and reasonable basis due to the high volume of members/pensioners and the historic interaction between Group companies, and there is no contractual agreement or stated policy for charging to individual Group entities, the assets and liabilities are fully accounted for within the financial statements of Northern Powergrid Holdings Company.

Further details of the Group defined benefit scheme are disclosed in the consolidated financial statements of the Northern Powergrid Holdings Company financial statements.

26 Dividends

	31 December 2020 £ 000	31 December 2019 £ 000
Interim dividend of 12.7p (2019 - 12.3p) per ordinary share	25,400	24,600

27 Reconciliation of liabilities arising from financing activities

Group

	At 1 January 2020 £ 000	Financing cash flows £ 000	Non-cash changes New finance leases £ 000	Other changes £ 000	At 31 December 2020 £ 000
Borrowings	770,959	65,686	-	44	836,689
Lease liabilities	12,092	(5,208)	6,410	-	13,294
	783,051	60,478	6,410	44	849,983

	At 1 January 2019 £ 000	Financing cash flows £ 000	Non-cash changes New finance leases £ 000	Other changes £ 000	At 31 December 2019 £ 000
Borrowings	723,149	46,495	-	1,315	770,959
Lease liabilities	-	-	12,092	-	12,092
	723,149	46,495	12,092	1,315	783,051

27 Reconciliation of liabilities arising from financing activities (continued)

Company

	At 1 January 2020 £ 000	Financing cash flows £ 000	Non-cash changes New finance leases £ 000	Other changes £ 000	At 31 December 2020 £ 000
Borrowings	769,450	65,707	-	(240)	834,917
Lease liabilities	12,092	(5,208)	6,410	-	13,294
	781,542	60,499	6,410	(240)	848,211

	At 1 January 2019 £ 000	Financing cash flows £ 000	Non-cash changes New finance leases £ 000	Other changes £ 000	At 31 December 2019 £ 000
Borrowings	721,718	46,545	-	1,187	769,450
Lease liabilities	-	-	12,092	-	12,092
	721,718	46,545	12,092	1,187	781,542

28 Classification of financial and non-financial assets and financial and non-financial liabilities

Group

The classification of financial assets and financial liabilities by accounting categorisation for the period ending 31 December 2020 was as follows:

	Financial assets at amortised cost £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets			
Non-current assets			
Property, plant and equipment	-	-	2,682,545
Right of use assets	-	-	13,027
Intangible assets	-	-	51,219
	-	-	2,746,791
Current assets			
Inventories	-	-	18,158
Trade and other receivables	52,342	-	9
Income tax asset	2,884	-	-
Cash and cash equivalents	251	-	-
	55,477	-	18,167
Total assets	55,477	-	2,764,958
Liabilities			
Non-current liabilities			
Long term lease liabilities	-	(8,973)	-
Loans and borrowings	-	(810,219)	-
Provisions	-	-	(55)
Deferred revenue	-	(641,727)	-
Deferred tax liabilities	-	-	(101,374)
	-	(1,460,919)	(101,429)

28 Classification of financial and non-financial assets and financial and non-financial liabilities (continued)

	Financial assets at amortised cost £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Current liabilities			
Current portion of long term lease liabilities	-	(4,321)	-
Trade and other payables	-	(79,309)	-
Loans and borrowings	-	(26,237)	-
Deferred revenue	-	(27,629)	-
Provisions	-	-	(1,004)
	-	(137,496)	(1,004)
Total liabilities	-	(1,598,415)	(102,433)

28 Classification of financial and non-financial assets and financial and non-financial liabilities (continued)

The classification of financial assets and financial liabilities by accounting categorisation for the period ending 31 December 2019 was as follows:

	Financial assets at amortised cost £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets			
Non-current assets			
Property, plant and equipment	-	-	2,578,029
Right of use assets	-	-	11,916
Intangible assets	-	-	52,289
	-	-	2,642,234
Current assets			
Inventories	-	-	19,661
Trade and other receivables	51,488	-	9
	51,488	-	19,670
Total assets	51,488	-	2,661,904
Liabilities			
Non-current liabilities			
Long term lease liabilities	-	(7,738)	-
Loans and borrowings	-	(515,675)	-
Provisions	-	-	(55)
Deferred revenue	-	(637,700)	-
Deferred tax liabilities	-	-	(91,234)
	-	(1,161,113)	(91,289)
Current liabilities			
Current portion of long term lease liabilities	-	(4,354)	-
Trade and other payables	-	(88,493)	-
Loans and borrowings	-	(255,284)	-
Income tax liability	-	(6,145)	-
Deferred revenue	-	(26,280)	-
Provisions	-	-	(786)
	-	(380,556)	(786)
Total liabilities	-	(1,541,669)	(92,075)

28 Classification of financial and non-financial assets and financial and non-financial liabilities (continued)

Company

The classification of financial assets and financial liabilities by accounting categorisation for the period ending 31 December 2020 was as follows:

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets				
Non-current assets				
Property, plant and equipment	-	-	-	2,682,545
Right of use assets	-	-	-	13,027
Intangible assets	-	-	-	51,219
Investments in subsidiaries, joint ventures and associates	-	50	-	-
	-	50	-	2,746,791
Current assets				
Inventories	-	-	-	18,158
Trade and other receivables	52,342	-	-	9
Income tax asset	2,894	-	-	-
Cash and cash equivalents	251	-	-	-
	55,487		-	18,167
Total assets	55,487	50	-	2,764,958
Liabilities				
Non-current liabilities				
Long term lease liabilities	-	-	(8,973)	-
Loans and borrowings	-	-	(810,214)	-
Provisions	-	-	-	(55)
Deferred revenue	-	-	(641,727)	-
Deferred tax liabilities	-	-	-	(101,374)
	-	-	(1,460,914)	(101,429)

28 Classification of financial and non-financial assets and financial and non-financial liabilities (continued)

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Current liabilities				
Current portion of long term lease liabilities	-	-	(4,321)	-
Trade and other payables	-	-	(79,304)	-
Loans and borrowings	-	-	(24,470)	-
Deferred revenue	-	-	(27,629)	-
Provisions	-	-	-	(1,004)
	-	-	(135,724)	(1,004)
Total liabilities	-	-	(1,596,638)	(102,433)

28 Classification of financial and non-financial assets and financial and non-financial liabilities (continued)

The classification of financial assets and financial liabilities by accounting categorisation for the period ending 31 December 2019 was as follows:

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets				
Non-current assets				
Property, plant and equipment	-	-	-	2,578,029
Right of use assets	11,916	-	-	-
Intangible assets	-	-	-	52,289
Investments in subsidiaries, joint ventures and associates	-	50	-	-
	11,916	50	-	2,630,318
Current assets				
Inventories	-	-	-	19,661
Trade and other receivables	50,052	-	-	1,576
	50,052	-	-	21,237
Total assets	61,968	50	-	2,651,555
Liabilities				
Non-current liabilities				
Long term lease liabilities	-	-	(7,738)	-
Loans and borrowings	-	-	(515,670)	-
Provisions	-	-	(55)	-
Deferred revenue	-	-	(637,700)	-
Deferred tax liabilities	-	-	(91,208)	-
	-	-	(1,252,371)	-

28 Classification of financial and non-financial assets and financial and non-financial liabilities (continued)

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Current liabilities				
Current portion of long term lease liabilities	-	-	(4,354)	-
Trade and other payables	-	-	(88,421)	-
Loans and borrowings	-	-	(253,780)	-
Income tax liability	-	-	(6,180)	-
Deferred revenue	-	-	(26,280)	-
Provisions	-	-	(786)	
	-	-	(379,801)	-
Total liabilities	-	-	(1,632,172)	-

29 Financial risk review

This note presents information about the group's exposure to financial risks and the group's management of capital.

Capital Management
The Northern Powergrid Group manages its capital centrally to ensure that entities in the Northern Powergrid Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Northern Powergrid Group's overall strategy remains unchanged from 2019.

The capital structure of the Company consists of net debt (borrowings as detailed in Note 20) offset by equity of the Company (comprising issued capital, reserves and retained earnings as detailed in Notes 18 and 19).

The Company has no externally imposed capital requirements.

The covenants associated with the 2035 bonds issued by Northern Electric Finance plc, a wholly-owned subsidiary of the Company, include restrictions on the issuance of new indebtedness and the making of distributions dependent on the scale of the ratio of Senior Total Net Debt to Regulatory Asset Value ("RAV"). The definition of Senior Total Net Debt excludes any subordinated debt and any debt incurred on a non-recourse basis. In addition, it excludes interest payable, any fair value adjustments and unamortised issue costs.

The Company's Senior Total Net Debt as at 31 December 2020 totalled £835.8m. Using the RAV value as at March 2021, as outlined by Ofgem in its electricity distribution price control financial model published in November 2020, and adjusting for the effects of movements in the value of the Retail Price Index gives an approximation for the RAV value as at 31 March 2021 of £1,486.0m. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 56.2% (2019: 52.6%).

During the year all obligations under the various debt convents have been complied with.

29 Financial risk review (continued)

Credit risk

The group's definition of credit risk is Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

The risk is mitigated by the group by The Group's income is primarily generated from use of system revenue from electricity suppliers; suppliers are credit checked by independent ratings agencies. Impaired income from DUoS will be recovered in future periods through system charges and is therefore of no material risk to the Group.

Group

2020	Notes	Gross carrying amount £ 000	Loss allowance £ 000	Net carrying amount £ 000
Trade and other receivables	16	55,474	(3,123)	52,351
Equity investments at FVTPL		-	-	-
2019				
Trade and other receivables	16	53,626	(2,129)	51,497
Equity investments at FVTPL		-	-	-

Company

2020	Notes	Gross carrying amount £ 000	Loss allowance £ 000	Net carrying amount £ 000
Trade and other receivables	16	55,474	(3,123)	52,351
Equity investments at FVTPL		50	-	50
2019				
Trade and other receivables	16	53,757	(2,129)	51,628
Equity investments at FVTPL		50	-	50

29 Financial risk review (continued)

For trade receivables the Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Note 16 includes further details on the loss allowance for these assets.

The carrying amount of the Company’s financial assets at FVTPL as disclosed in Note 28 best represents their respective maximum exposure to credit risk. The Company holds no collateral over any of these balances.

Liquidity risk

Ultimate responsibility of liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Company's short, medium, and long-term funding and liquidity management requirements. The Company manages liquidity by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities

The Company has access to a £75 million revolving credit facility provided by Lloyds Bank plc, National Westminster Bank plc, and Santander UK plc. This facility was amended and restated in October 2019 for a period of three years, with two 1 year extension options. During the year the Company exercised it’s option to extend the expiry date by 1 year to October 2023. In addition, the Company has access to further short-term borrowing facilities provided by YEG and to a £19 million overdraft facility provided by Lloyds Bank plc, which is reviewed annually, these borrowings are repayable on demand.

At 31 December 2020, the Company had available £94.0m (2019: £94.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

29 Financial risk review (continued)

Maturity analysis for financial liabilities and financial assets

The following table sets out the remaining contractual maturities of the group's financial liabilities and financial assets by type.

Group

2020 Non-derivative liabilities	Less than 3 month £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
Non-interest bearing	41,827	-	-	-	41,827
Variable Interest Rate Liabilities	15,189	-	-	-	15,189
Fixed Interest Rate Liabilities	-	26,414	105,657	1,280,954	1,413,025
Total	57,016	26,414	105,657	1,280,954	1,470,041

2019 Non-derivative liabilities	Less than 3 month £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
Non-interest bearing	43,098	-	-	-	43,098
Variable Interest Rate Liabilities	105,488	-	-	-	105,488
Fixed Interest Rate Liabilities	40,709	129,664	83,157	793,618	1,047,148
Total	189,295	129,664	83,157	793,618	1,195,734

Company

2020 Non-derivative liabilities	Less than 3 month £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
Non-interest bearing	41,827	-	-	-	41,827
Variable interest rate liabilities	17,366	-	-	-	17,366
Fixed interest rate liabilities	-	26,489	105,957	1,293,004	1,425,450
Total	59,193	26,489	105,957	1,293,004	1,484,643

29 Financial risk review (continued)

2019 **Non-derivative liabilities**	**Less than 3 month** **£ 000**	**3 months - 1 year** **£ 000**	**1-5 years** **£ 000**	**More than 5 years** **£ 000**	**Total** **£ 000**
Non-interest bearing	43,098	-	-	-	43,098
Variable interest rate liabilities	107,007	-	-	-	107,007
Fixed interest rate liabilities	40,709	129,739	92,332	796,868	1,059,648
Total	190,814	129,739	92,332	796,868	1,209,753

Market risk

The group's definition of market risk is Market risk is the risk of loss arising from movements in market variables such as interest rates, exchange rates and commodity prices. Risks are mitigated by utilising appropriate risk management products. The group manage this by The Group's policy on interest rate risk is designed to limit the Group's exposure to floating interest rates. Consistent with this policy, at 31 December 2020 the Group had 99% (2019: 99%) of net debt at fixed rates. Short-term loans and inter-company short term loans is charged at a floating rate of LIBOR plus 0.20%, thus exposing the Company to cash flow interest rate risk. A 1% movement in interest rates would subject the Company to an approximate change in interest costs of £0.7m per year. This is considered to be an acceptable level of risk. All other loans are at fixed interest rates and expose the Company to fair value interest rate risk.

30 Related party transactions

Summary of transactions with joint ventures

Vehicle Lease and Service Limited is a joint venture of Northern Electric plc and provides vehicle fleet and servicing for the Northern Powergrid Group. Income constitutes recharges for use of management personnel and purchases are lease and servicing payments for fleet vehicles.

Summary of transactions with other related parties

Other subsidiaries of the Northern Powergrid Group. Included within these amounts are:

- Integrated Utility Services and Integrated Utility Services (Eire) that provide engineering contracting resource;
- Northern Electric Plc that provides use of staff and resources;
- Northern Powergrid (Yorkshire) plc that provides and receives mutual support through use of staff and resources which are then recharged;
- Northern Powergrid Metering that is recharged for the use of staff;
- Northern Electric Finance Plc that provides loan financing;
- Northern Powergrid Holdings Company that provides loan financing; and
- Yorkshire Electricity Group plc that operates the group intercompany treasury account.

30 Related party transactions (continued)

Income and receivables from related parties - Group and Company

2020	**Sales to related parties £ 000**	**Purchases from £ 000**
Northern Powergrid (Yorkshire) Plc	22,961	10,523
Northern Powergrid Metering Limited	43	-
Integrated Utility Services Eire	9	1,533
Integrated Utility Services Limited	298	4,574
Northern Electric Plc	9	4,953
Vehicle Lease and Service Limited	21	4,940
CE Gas Ltd	4	-
	23,345	26,523

2019	**Sales to related parties £ 000**	**Purchases from £ 000**
Northern Powergrid (Yorkshire) Plc	22,746	10,700
Northern Powergrid Metering Limited	41	-
Integrated Utility Services Eire	-	1,491
Integrated Utility Services Limited	313	4,375
Northern Electric Plc	-	4,929
Vehicle and Lease Services Limited	18	4,868
	23,118	26,363

Loans from related parties - Group

2020	**Other related parties £ 000**
At start of period	205,213
Repaid	(90,301)
At end of period	114,912

2019	**Other related parties £ 000**
At start of period	222,378
Repaid	(17,165)
At end of period	205,213

30 Related party transactions (continued)

Loans from related parties - Company

2020	Subsidiary £ 000	Other related parties £ 000
At start of period	401,774	206,723
Repaid	(100,000)	(90,303)
Net Interest	(1,978)	-
Impairment	142	-
At end of period	299,938	116,420

2019	Subsidiary £ 000	Other related parties £ 000
At start of period	251,728	223,844
Advanced	147,411	-
Repaid	-	(17,121)
Net Interest	2,635	-
At end of period	401,774	206,723

31 Parent and ultimate parent undertaking

The company's immediate parent is Northern Electric plc.

The ultimate parent is Berkshire Hathaway, Inc. These financial statements are available upon request from 3555 Farnam Street, Omaha, Nebraska 68131

Relationship between entity and parents

The parent of the largest group in which these financial statements are consolidated is Berkshire Hathaway, Inc, incorporated in United States.

The address of Berkshire Hathaway, Inc is:
3555 Farnam Street, Omaha, Nebraska 68131

The parent of the smallest group in which these financial statements are consolidated is Northern Electric plc, incorporated in United Kingdom.

The address of Northern Electric plc is:
Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF