Registration number: 03476201 (England and Wales)

# Northern Powergrid Holdings Company

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2021

**Northern Powergrid Holdings Company**
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# Northern Powergrid Holdings Company
# Company Information

| | |
|---|---|
| **Directors** | W J Fehrman<br>T H France<br>C D Haack<br>P A Jones<br>J N Reynolds |
| **Company Secretary** | J C Riley |
| **Registered office** | Lloyds Court<br>78 Grey Street<br>Newcastle upon Tyne<br>Tyne and Wear<br>NE1 6AF |
| **Registration number** | 03476201 (England and Wales) |
| **Auditor** | Deloitte LLP<br>Statutory Auditor<br>Newcastle upon Tyne<br>Tyne and Wear<br>United Kingdom |

# Northern Powergrid Holdings Company
# Strategic Report for the Year Ended 31 December 2021

The directors present their annual report and audited consolidated financial statements for the year ended 31 December 2021 of Northern Powergrid Holdings Company (the "Company"), which have been drawn up and are presented in accordance with the Companies Act 2006.

**Business model**

The Company is the parent undertaking for the Northern Powergrid group of companies (the “Group”) and its main subsidiary companies are Northern Powergrid (Northeast) plc ("NPg Northeast"), Northern Powergrid (Yorkshire) plc ("NPg Yorkshire"), Integrated Utility Services Limited, registered in the United Kingdom, ("IUS"), CalEnergy Resources Limited ("CE Resources"), Integrated Utility Services Limited, registered in the Republic of Ireland ("IUS Ireland") and Northern Powergrid Metering Limited ("NPg Metering").

NPg Northeast and NPg Yorkshire (together "Northern Powergrid") are distribution network operators ("DNOs") and hold electricity distribution licences granted by the Secretary of State. Northern Powergrid 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 require 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 2020/21 Regulatory Year (on 31 March 2021) which occurred during the financial year, represented the end of year six 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”).

During the year, Northern Powergrid distributed electricity to approximately 3.9 million customers connected to the electricity distribution networks in the northeast of England and Yorkshire. Northern Powergrid's combined distribution networks include over 17,300 miles of overhead lines, 42,800 miles of underground cables and 770 major substations. Electricity is received from the 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 Northern Powergrid 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 Northern Powergrid’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. Northern Powergrid’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 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”)).

IUS and IUS Ireland provide engineering contracting services, CE Resources holds interests in hydrocarbon permits in Australia, Poland and the United Kingdom, and NPg Metering rents meters to energy suppliers.

As Northern Powergrid is the largest contributor to the Group in terms of revenue and profit, the Strategic Report predominantly concentrates on the performance and progress of those entities throughout the reporting year.

**STRATEGY**

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 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 Group holds itself accountable. Each Core Principle is defined by a strategic objective which is intrinsically linked to the commitments made in Northern Powergrid’s 2015 to 2023 regulatory well-justified business plan (“Business Plan”).

Submitted to Ofgem in March 2014, the Business Plan described the long-term strategy and commitments that Northern Powergrid would achieve during the ED1 period in order to deliver sustainable growth with regard to those with whom Northern Powergrid interacted and served. Developed after a period of consultation with stakeholders, the Business Plan focussed 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. The directors refer to the values established by the Core Principles and the commitments contained within the Business Plan when considering the consequence of decisions they make.

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"), which was submitted to Ofgem on 1 December 2021 (a copy of which can be found on Group's website).

As part of the development of the ED2 Plan, the Company worked 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. Ahead of the implementation of the ED2 Plan on 1 April 2023, the Group will participate in open hearings with Ofgem and interested stakeholders and consultations before Ofgem publishes its final determination in December 2022 (for further detail, see Regulatory Integrity).

The delivery of the Business Plan is supported by an annual business plan (the "Annual Plan") which is submitted to the 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 | 2021 | 2020 |
|---|---|---|
| Operating profit | £382.2m | £363.3m |
| Cash from operating activities | £544.3m | £488.5m |
| Cash used in investing activities | £518.5m | £522.1m |
| Credit Rating (Standard & 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, Northern Powergrid had implemented efficiencies equivalent to a 4% reduction in base costs relative to the prior regulatory period.

**Revenue:** The Group's revenue at £918.3 million was £64.6 million higher than the prior year due to higher distribution system revenues, higher smart metering revenue and higher contracting volumes.

**Operating profit and position at the year-end:** The Group's operating profit of £382.2 million was £18.9 million higher than the previous year, primarily reflecting higher revenues (£64.6 million) offset by higher depreciation (£18.0 million), Storm Arwen costs (£16.0 million) and higher bad debts (£8.4 million). The statement of financial position on pages 46 and 47 shows that, as at 31 December 2021, the Group had total equity of £3,168.3 million (2020: £2,878.9 million). The directors consider the Group to have a strong financial position which, when coupled with the preference of 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.

In April 2022, the Group issued a £350m bond at 3.25% maturing in 2052, the funds will be used for general corporate purposes including the repayment of debt maturities in 2022.

**Other gains:** Other gains at £1.9 million was £35.9 million favourable to the prior year loss of £34.0 million. During the prior year impairment charges of £34.2 million were recorded in relation to hydrocarbon assets (Notes 13 and 14). Profit on disposal of property, plant and equipment increased by £1.7 million compared to the prior year.

**Finance costs and investments:** Finance costs net of investment income at £87.2 million were £10.0 million lower than the prior year due to the full year impact of refinancing carried out in the prior year.

**Taxation:** The effective tax rate in the year was 47.5% (2020: 31.1%). Tax charge for the year was £141.0 million which was higher than the prior year of £68.9 million mainly due to the impact the tax rate change had on the deferred tax balance. Details of the income tax expense are provided in Note 10 to the financial statements.

**Share capital:** There were no changes to the Company's share capital during the year.

**Cash flow:** Movements in cash flows were as follows:

- **Operating activities:** Cash flow from operating activities at £544.3 million was £55.8 million higher than the previous year, primarily due to higher profit before depreciation and amortisation, lower pension deficit repair payments and lower tax paid offset by adverse working capital movements.
- **Investing activities:** Cash flow used in investing activities at £518.5 million was £3.6 million lower than the previous year, mainly due to higher capital deployed on the Saturn Banks project (a 50% non-operated interest in six discovered gas fields and an installed, out-of-commission gas pipeline), partially offset by higher customer contributions and increased proceeds from sale of property, plant and equipment.
- **Financing activities:** Cash outflow from financing activities at £37.4 million was £133.4 million lower than the previous year outflow of £170.8 million, mainly due to a number of large external borrowing repayments in prior year.

**Pensions:** The Group participates in the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "DB Scheme"), a defined benefit scheme. Further details of the Group's commitments to the DB Scheme and the associated deficit repair payments are provided in Note 27 to the financial statements. The Group also participates in the Northern Powergrid Pension Scheme, which is a defined contribution scheme.

**Insurance:** As part of its insurance and risk strategy, the Group has in place insurance policies, which cover risks associated with employees, third party motor and public liability. The 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.

| | **NPg Northeast** | | **NPg Yorkshire** | |
|---|---|---|---|---|
| **KPI** | **2021** | **2020** | **2021** | **2020** |
| Broad Measure of Customer Satisfaction ("BMCS") | 89.4% | 91.4% | 88.4% | 89.3% |
| BMCS Rank (out of 14) | 11 | 9 | 13 | 13 |
| BMCS Power Cuts | 88.9% | 90.7% | 88.4% | 89.9% |
| BMCS General Enquiries | 94.4% | 94.7% | 93.7% | 91.8% |
| BMCS Connections | 87.8% | 90.4% | 86.3% | 88% |

| | **Northern Powergrid** | |
|---|---|---|
| | **2021** | **2020** |
| Stakeholder Engagement and Customer Vulnerability ("SECV") rank (out of 5) | 5 | 3 |

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

**Performance during the year:** Storm Arwen had a significant impact upon a relatively small number of Northern Powergrid's customers, with some households being left without power for prolonged periods. The scale and nature of the event meant that Northern Powergrid's strong levels of customer service was affected, due to the number of customers who needed help, high call volumes and overwhelming website demand. Northern Powergrid recognises the impact going without power can have on its customers and is working with Ofgem to ensure those who were affected are properly compensated and that improvements are made in the future.

The impact of extreme weather events such as Storm Arwen are largely excluded from the Customer Service KPIs. 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. NPg Yorkshire recorded a marginal decline in overall satisfaction scores at 88.4% compared to the prior year (89.3%) maintaining an overall BMCS rank of 13 out of 14. NPg Northeast recorded a decline in overall satisfaction scores at 89.4% compared to the prior year (91.4%) which had resulted in an overall BMCS rank of 11 out of 14 falling two places from the year prior.

To further enhance the service provided to customers a number of initiatives from Northern Powergrid's customer service improvement plan were implemented during the year. This included the continued development of the customer relationship management ("CRM") system, including the roll-out of CRM Go for unplanned power cuts which provides improved real-time customer communication during an outage, the transition to a six region structure within Connections and the continued 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 2022 is to focus on technology enablement including the development of the CRM system to enhance outbound communications in support of the enduring connections solution as a self-serve offering for low carbon technology additional load requests. The deployment of a new contact centre telephony platform and an upgrade to the Group's external website is also due to take place in 2022.

**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 is 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 20/21 regulatory period, the 18 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 2021, Northern Powergrid put forward its SECV submission to Ofgem in respect of work undertaken during the 2020/21 Regulatory Year. The material provided an overview of activities and case studies in areas such as support for vulnerable customers, decarbonisation, safety, environment, customer service, reliability and availability. Following the review by Ofgem's panel, Northern Powergrid achieved fifth place (of five) in the context of the DNOs, a step down from third place in the prior Regulatory Year. In response 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, Northern Powergrid 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 commitments developed and the level of proposed investment set out in the draft and then subsequent ED2 Plan. The feedback, along with an understanding of customers' willingness to accept various proposals provided invaluable insight, enabling the board and senior managers to critically evaluate a range of stakeholder opinions in order to inform the finalisation of the ED2 Plan.

The continuing challenges of the Pandemic and restrictions meant that the way in which Northern Powergrid and its partners provided support to vulnerable customers has continued to be primarily via website and telephone advice and support. This enabled more people to access the services and has continued as part of a hybrid delivery model. Where necessary and safe, partners have looked to deliver face-to-face advice and share energy efficiency advice and tools to those who cannot use online channels. Northern Powergrid's Community Partnering Fund (in conjunction with Northern Gas Networks) funded 15 organisations who deliver a range of services including fuel poverty and energy efficiency advice, electrical and gas safety, help recruit vulnerable customers to the Priority Services Register and support with Pandemic resilience. An additional £50,000 was shared with groups directly working to alleviate food and fuel poverty across the region as a direct result of increasing pressure on households due to rising fuel prices.

**OPERATIONAL EXCELLENCE**

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

| | NPg Northeast | | | |
|---|---|---|---|---|
| | 2020/21 | | 2019/20 | |
| KPI | Actual | Target | Actual | Target |
| Customer minutes lost ("CML") | 36.8 | <55.2 | 44.1 | <57.0 |
| Customer interruptions ("CI") | 45.3 | <60.0 | 47.0 | <60.7 |

| | NPg Yorkshire | | | |
|---|---|---|---|---|
| | 2020/21 | | 2019/20 | |
| KPI | Actual | Target | Actual | Target |
| Customer minutes lost | 40.0 | <54.8 | 42.1 | <56.4 |
| Customer interruptions | 52.4 | <63.0 | 50.8 | <64.1 |

| | NPg Northeast | | NPg Yorkshire | |
|---|---|---|---|---|
| KPI | 2021 | 2020 | 2021 | 2020 |
| High voltage restoration time (minutes) | 51.8 | 64.0 | 53.7 | 54.8 |

| | Northern Powergrid | |
|---|---|---|
| KPI | 2021 | 2020 |
| Network investment | £455.8m | £438.2m |

**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 Northern Powergrid 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 relation to high-voltage restoration, NPg Northeast’s performance during the year averaged 51.8 minutes (2020: 64.0 minutes) and NPg Yorkshire’s performance during the year averaged 53.7 minutes (2020: 55.2 minutes) after allowing for severe weather incidents and other exemptions (as referenced in Customer Service above).

In respect of the Business Plan commitments, Northern Powergrid had achieved 26% fewer unplanned power cuts and a reduction of the average length of unplanned power cuts by 34.5% (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.

Northern Powergrid invested £455.8 million during the year through its approved Network investment strategy (2020: £438.2 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. Routine Network maintenance was completed in addition to work required to support the Pandemic.

Further Network enhancements included the continued roll-out of the automatic power restoration system on the high voltage Network. At low voltage the implementation of next generation innovative low voltage technology devices continued with the addition of low-cost Network monitoring sensors which detect developing faults so that they can be proactively managed whilst gathering of Network condition information. Initiatives were also implemented as a result of the Reliability Improvement Plan including increasing the use of mobile generation to restore supplies and enhancements to vegetation management practices

By the end of the ED1 Period, Northern Powergrid expects to deliver a more resilient Network and enhanced outputs to customers that exceed those originally targeted in the Business Plan. Additional investment in priority areas such as to underground overhead lines in areas of outstanding natural beauty and remove fluid and gas filled cables from the Network has been offset by efficiency savings and the use of new technologies. Additionally, progress has been made on Northern Powergrid's new £53.1 million (at 2012/13 prices) green investment programme that was agreed with Ofgem in early 2021 which will help accelerate progress to net zero and provide vital regional economic stimulus.

## CLIMATE CHANGE ADAPTATION

**Strategic objective:** Operate a highly reliable and resilient Network

| | 2020/21 | | | 2019/20 | | |
|---|---|---|---|---|---|---|
| | **Annual** | **Cumulative** | **Target** | **Annual** | **Cumulative** | **Target** |
| **Flood Defences:** | | | | | | |
| High risk sites protected | | **94%** | **75%** | | **87%** | **63%** |
| Flood defence upgrades | 1 | 125 | | 4 | 124 | |
| Major substation flood defences installed | 12 | 74 | | 20 | 62 | |
| **Vegetation Management:** | | | | | | |
| High voltage network resilient to high winds | **53** | | **585** | **8** | | **487** |
| Vegetation management clearance spans) | 28,246 | | 28,004 | 21,557 | | 20,714 |
| **Collaboration:** | | | | | | |
| Local Resilience Forums (LRFs) | 28 | | 28 | 28 | | 28 |

**Business Plan commitment:** To adapt to the effects of climate change by establishing and maintaining flood defences at all high-risk substations to national standards, delivering a programme of vegetation management and working collaboratively with regional infrastructure providers and local resilience forums.

**Performance during the year:** The climate is changing and, despite international efforts to reduce greenhouse gas emissions, it is expected to continue to change over the course of the century. Northern Powergrid has worked to understand the risks and opportunities presented by climate change and has established initiatives in response such as an industry leading flood mitigation programme and a robust vegetation management programme.

Northern Powergrid has focused on two climate pathways, one which is in line with the 2oC global warming considered in the Paris agreement and the second representing the worst-case scenario of a global mean surface temperature rise of 4.3oC by 2081 to 2100.

By using the latest projections (UKCP18) to carry out a full risk assessment, Northern Powergrid has identified and prioritised key climate related risks and their impact on the Network. Once identified, the key risks were included in the Electricity Networks Association's Climate Change Adaptation Report which, was submitted to the Department for Environment, Food and Rural Affairs ("Defra") in March 2021 on behalf of all gas and electricity network operators. The report then contributed to the National Adaptation Plan and accordingly, the risks were covered in detail in Northern Powergrid's Climate Change Adaptation report submitted to Defra in December 2021 in line with the requirements of the Adaptation Reporting Power under the Climate Change Act 2008 (available to view on the Group's website). In July 2021 Northern Powergrid published its draft Climate Resilience Strategy for 2023 to 2028 in line with the requirements of Ofgem and the final version was published in December 2021 (also available on the Group's website).

Northern Powergrid has followed the approach laid out in the supplementary Green Book Guidance on 'Accounting for the Effects of Climate Change' published by Defra in November 2020 and in response, has developed a climate resilience framework in line with the National Infrastructure Commission's report (Anticipate, React, Recover: Resilient Infrastructure Systems - published in May 2020) detailing its approach to Climate Resilience.

In respect of its routine activity in 2021, Northern Powergrid invested £5.0 million on flood mitigation works and £8.6 million on the continuation of the vegetation management programme.

**Response to storm Arwen**

Northern Powergrid has robust processes and procedures in place in the form of a Major Incident Management Plan (“MIMP”), which is deployed during extreme weather events. Employees are well practiced at operating under MIMP conditions. Nonetheless, storm Arwen was the most significant weather event that Northern Powergrid has faced in more than two decades.

A MIMP was triggered on 26 November 2021, following which, to mitigate the loss of customer supply, switching of the Network commenced and safety response activities were initiated. Whilst initial repairs to the Network were hampered by the strength of the wind, 90% of all affected customers had their power restored by 28 November 2021. However, the severity of the damage caused to the Network in more remote rural locations meant that the last supplies to affected customers were not restored until 8 December 2021.

A full review of the response to storm Arwen has been undertaken with oversight from both Ofgem and the Department for Business, Energy and Industrial Strategy (“BEIS”).

## EMPLOYEE COMMITMENT

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

| | 2021 | | 2020 | |
|---|---|---|---|---|
| **KPI** | **Actual** | **Target** | **Actual** | **Target** |
| Occupational safety and health administration rate ("OSHA") | 0.29 | 0.09 | 0.13 | 0.13 |
| Preventable vehicle accidents | 40 | 28 | 32 | 30 |
| Lost time accidents | 4 | 0 | 0 | 3 |
| Restricted duty accidents | 1 | 0 | 1 | 0 |
| Medical treatment accidents | 2 | 2 | 2 | 0 |
| Operational incidents | 14 | 9 | 9 | 10 |

| KPI | 2021 | 2020 |
|---|---|---|
| Absence rate | 3.3% | 2.8% |

### 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 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 Group failed to meet its target of 0.09 in 2021 having achieved an OSHA rate of 0.29 (2020: 0.13), which equated to seven recordable incidents (four of which were lost time) against the goal of two or fewer. Whilst this was very disappointing, none of the incidents themselves were serious and additional training is to be implemented to reduce the exposure to minor slips, trips and falls - and even dog bites. The Group also had a poor year in terms of preventable vehicle accidents, with forty recorded against a target of twenty eight. This was largely attributed to the lack of passengers acting as ‘spotters’ as a consequence of social distancing in vehicles.

In respect of the Business Plan commitment, at 31 December 2021, the Northern Powergrid’s accident rate had been reduced by 58%, which was ahead of the target to achieve a 50% reduction by 31 March 2023. Northern Powergrid successfully retained its ISO 45001 accreditation scheme for its health and safety management system.

The challenges posed by the Pandemic in relation 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 Group continued to adapt to new ways of working and provide essential safety and personal protective equipment.

All Group facilities were risk assessed and tailored procedures were implemented to ensure the safety of all staff in accordance with the latest government guidance.

Improving safety performance remains a priority and the way in which this is achieved is set out in the Northern Powergrid's safety and health improvement plan ("SHIP"). During the year, the SHIP focused on 50 initiatives in the areas of engagement, training, operational performance, risk management, road risk, occupational health and public safety. The initiatives included the procurement of a telematics solution for our fleet vehicles to replace the existing system and the procurement of a replacement occupational health service provider.

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 continued to provide guidance and promoted the support available via a targeted 'Wellbeing Wednesday' campaign.

### 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 changing circumstances of the Pandemic required the Group to continue to adjust and adapt employee working arrangements. For those that were able, home working continued as did the Group's support offered to working parents or those that were requires to self-isolate. Ensuring the safety and wellbeing of all employees, whether in an office, or for those key-workers operating in the field environment, remained paramount. To help employees understand the frequent changes to government advice, updates were communicated regularly via multiple channels to ensure that all colleagues were able to continue to perform their duties safely and effectively. The Group remains committed not only to the physical health, but to the broader wellbeing of its staff and is aware that for some, the Pandemic has exacerbated mental health issues including isolation and anxiety. Consequently, weekly wellbeing advice has continued to be promoted alongside the standard support services which are available.

Alongside any new measures, Northern Powergrid continued to ensure that all colleagues had regular conversations about their performance with their line managers, and leadership engagement continued. Training was delivered via a number of methods including physically (socially distanced) and online via e-learning such as Customer First training and the 'Best Welcome' corporate induction.

The 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, 38 new recruits (2020: 40) joined Northern Powergrid's workforce renewal programme. At 31 December 2021, the Group had 2,527 employees (2020: 2,596). Further information concerning how the Group is supporting gender diversity in the energy industry can be found in the Group's gender pay gap report via the Group's corporate website.

### ENVIRONMENTAL RESPECT

**Strategic objective:** Leaders in environmental respect and low carbon technologies.

| | 2021 | | 2020 | |
|---|---|---|---|---|
| **KPI** | **Actual** | **Target** | **Actual** | **Target** |
| Total oil/fluid lost (litres) | 30,484 | <29,700 | 31,237 | <29,700 |
| SF6 gas discharges (kg) | 82.83 | <54.0 | 64.1 | <54.0 |
| Environmental incidents | 5 | <5 | 5 | <7 |

| **KPI** | **2021** | **2020** |
|---|---|---|
| Carbon footprint (tonnes) | 30,733 | 31,686 |
| Energy consumed (KWh) | 45,639,293 | 46,846,748 |

| Business carbon footprint | Tonnes | Per km² | Tonnes | Per km² |
|---|---|---|---|---|
| Building electricity use | 1,807 | 0.16 | 1,820 | 0.16 |
| Substation electricity use | 4,555 | 0.43 | 5,373 | 0.14 |
| Fleet fuel use | 4,148 | 0.35 | 4,209 | 0.35 |
| Business fuel use | 1,564 | 0.15 | 1,901 | 0.16 |
| Other (including fugitive emissions) | 2,141 | 0.14 | 1,732 | 0.14 |
| Contractor emissions | 16,518 | 1.38 | 16,537 | 1.28 |
| Total carbon footprint (tonnes) | 30,733 | 2.51 | 31,573 | 2.54 |

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

The chosen business carbon footprint intensity ratio is based on Northern Powergrid's licence area which equals 25,296 km.

The methodology adopted to calculate energy and business carbon footprint data is aligned with international standards, those required by Defra and BEIS and is compliant with ISO 14064-1:2006

**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:** Northern Powergrid and IUS both operate 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 Northern Powergrid'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 2021. Continued certification was confirmed following each audit.

Northern Powergrid'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 2021, where continued certification was confirmed. Remote working and less travel have led to a further reduction in Northern Powergrid's carbon footprint to 30,733 tonnes (2020: 31,573 tonnes). This improvement demonstrated a carbon footprint reduction of 49% at 31 December 2021, well ahead of the original 10% commitment and in line with the forecast of 50% by the end of the ED1 Period.

In support of the target to further reduce oil and fluid loss, the 2021 annual environmental improvement plan included replacing fluid-filled cables and locating cable fluid leaks more quickly resulting in a total fluid loss of Northern Powergrid of 30,484 litres (2020: 31,237). In relation to the Business Plan commitment, at 31 December 2021, Northern Powergrid had achieved a 43% reduction in oil and fluid loss, well ahead of the original 15% commitment and on target to achieve a 49% reduction by the end of the ED1 Period.

To maintain its strict policy of environmental protection and legal compliance, the Group 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 Group'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.

Northern Powergrid takes its environmental responsibilities very seriously and has a proven track record of lowering emissions and minimising the wider environmental impact of Network activity. Reducing the level of internal carbon footprint is a key priority and consequently, plans have been developed to become carbon net neutral by 2040. This includes initiatives such as increasing ultra-low emission or zero emission vehicles to 40% of Northern Powergrid's fleet of vehicles by 2028 and the adoption of science-based targets.

Science-based targets are a set of goals developed to provide a clear route to reducing greenhouse gas emissions. Emissions reduction targets are considered science based if they are consistent with keeping global warming below 1.5°C above pre-industrial levels. Targets are calculated by taking the world's carbon budget (consistent with 1.5°C) and deriving the corresponding reduction required each year to meet that carbon budget. Northern Powergrid's science-based targets were verified by the Science-based Targets Initiative on 23 December 2021.

In respect of Northern Powergrid's wider environmental impact, plans have been developed to achieve zero waste to landfill by 2035 and, to divert 90% of waste from all of Northern Powergrid's operations by 2028. In addition to safeguarding the environment from its direct activity, Northern Powergrid also operates a habitats programme which is aimed at protecting natural habitats and increasing the variety and variability of species and ecosystems at 200 of Northern Powergrid's and its affiliates' major sites.

**Environmental Sustainability**

**Strategic focus:** Enable significant growth in customers connecting low carbon technologies, support all pathways to net zero emissions and significantly reduce our 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. Northern Powergrid 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 investment and actions for the ED2 period.

The volume and total capacity of decentralised energy generation and customer has continued to grow steadily and, given the greater range of load and generation technologies now connected to the Network, Northern Powergrid is developing and actioning innovative solutions that will reduce the need for traditional and potentially expensive reinforcement of the Network. In the past year, Northern Powergrid has continued to engage with the market for flexibility by consulting on investment solutions where there was an option for customers 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, Northern Powergrid 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 May 2021.

From an innovation perspective, Northern Powergrid continues to run and develop a portfolio of projects in the priority areas of smart meters, digital-enabled customer service and affordability. The field trial phase of the Boston Spa Energy Efficiency Trial has commenced which has the potential to deliver a 4% reduction in domestic energy use which in turn gives rise to a £20 saving to customers annually - vital for both decarbonisation and caring for vulnerable customers. The success of the Silent Power vans (which now address 25% of all generator restorations for small faults) has led to the exploration of whether larger, multi-phase, or even high voltage capable units can be developed, while at a smaller scale it is being established if fixed domestic units can be used at single premises to support vulnerable customers.

As Northern Powergrid transitions into the ED2 Period, decarbonisation will continue to become central not only to the Company's strategy, but the way in which Northern Powergrid contributes more broadly to the evolution of the energy industry and the stakeholders with whom it interacts. Northern Powergrid has been progressive in its ambition to reduce its own business carbon footprint. However, more is required and it is acknowledged that Northern Powergrid has a key role to play in facilitating regional decarbonisation by fulfilling the functions of Distribution System Operation (DSO). This means investing in people, processes and systems in order to actively manage the Network and to optimise the use of assets and generated energy in the region.

As part of Northern Powergrid's ED2 Plan submission, a number of strategic objectives shaped the development of the accompanying DSO strategy. This included 'flexibility first', involving deploying flexible solutions as an alternative to Network reinforcement, 'whole system collaboration' in order to engage with the wider market on whole system energy solutions, 'data and digitalisation', to facilitate solutions in areas such as open data, 'openness and transparency', to collaborate in joint planning with our stakeholders and, finally, fostering a 'workplace and workforce fit for the future,' to build regional and national skills.

Collectively, these objectives have been developed to achieve a number of outcomes and benefits, including to enable open energy data sharing, transform the way decisions and plans are made throughout Northern Powergrid, support the development of new flexible energy markets, increase customer and Network flexibility and facilitate a whole system energy system. During the remainder of the ED1 Period, Northern Powergrid will continue to build on the significant activity that has already been undertaken to decarbonise its operations and reduce the impact that it has upon its stakeholders as it prepares for the implementation of the ED2 Plan.

**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, Northern Powergrid operates a regulatory compliance affirmation process, under which ownership of approximately 2,000 regulatory obligations is assigned to 74 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 Northern Powergrid 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.

Northern Powergrid submitted its annual Data Assurance Report to Ofgem in February 2021, which included risk assessments of the regulatory returns to be submitted for the Regulatory Year ahead (April 2021 to March 2022), together with a report detailing the assurance work actually carried out in the year ended 28 February 2021 and the findings of that work.

Ofgem is undertaking its review process to determine the charges that DNOs are able to levy over the next price control period (the ED2 period), which will run from April 2023 to March 2028). This process is following the sector-specific methodology that Ofgem published in December 2020 and March 2021. These decisions indicated the outputs and uncertainty mechanisms that are likely to apply and also set working assumptions for the allowed cost of capital parameters, all of which are subject to finalisation. The process is expected to conclude with final determinations in December 2022, with draft determinations in mid-2022.

In December 2021 Northern Powergrid published and submitted to Ofgem its finalised business plan for the ED2 period. This ED2 Plan involves £661.3 million in annual investment, a 41% increase on the comparable measure over the ED1 period (April 2015 to March 2023). It is now subject to regulatory evaluation by Ofgem as part of its ongoing price review process.

**PRINCIPAL RISKS AND UNCERTAINTIES**

The 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 and emerging opportunities and risks, including those associated with the achievement of the Group's strategic objectives and Core Principles. This includes regular reviews of the macro environment as well as risks that arise from within functional business areas. 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 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 Group's long-term strategy.

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.

**Risks**

**Cyber 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.

*Mitigations:*
- 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.

*Mitigations:*
- Northern Powergrid's policy position supporting the expanded role of DSO was published in December 2021.
- Innovation projects in place to develop and demonstrate future technologies and commercial practices.
- The Company and Group engages in a robust regulatory and stakeholder engagement programme, the latter of which is scrutinised by the CEG.
- The Group 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.

*Mitigations:*
- 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.
- Vulnerable site protocols.
- Climate resilience strategy and framework.

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

*Mitigations:*
- Overseen by the Health and Safety Committee.
- Clear policies and procedures exist that comply with legislation to ensure the safety of the employees and customers.
- Safety Health and Improvement Plan.
- Health and safety training is provided to employees on a continuous basis.
- Enhanced audit programme and inspection regimes are in place.
- ISO45001 safety management system in place.

**Environment**
Failure to prevent Network assets from having a significant negative impact on the climate and environment.

*Mitigations:*

- 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 and maintenance programme.
- Environment improvement plan and Environment Action Plan.
- Path to carbon neutrality by 2040.
- Waste management and habitat protection programmes.
- Science-based targets approved by the Science-based Targets Initiative.
- ISO14001 environmental management system in place.

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

*Mitigations:*
- 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.
- Diversity, equality and inclusion plan.

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

*Mitigations:*
- 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.

*Mitigations:*
- Monitored by the treasury department.
- Northern Powergrid 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 2021, 98% of the Group’s long-term borrowings were at fixed rates and the average maturity for these borrowings was 25 years. The Group uses interest rate swaps to mitigate exposure to uncertain future interest rates.
- Financial covenant monitoring is in place.
- Regulatory revenue adjustments reduce the effect of changes to tax payments as a result of changes to tax legislation or accounting standards.
- Brexit is not considered to be a principal risk to the Group.

**Pandemic**
Infection rate leads to high staff absence and lack of support for priority processes.

*Mitigations:*
- Pandemic mitigation plan in place.
- Crisis management and business recovery procedures.
- Geographical distribution of facilities and staff.
- Briefings and advice provided on safety, health and well-being.
- Independent external support and resources available.
- Response aligned with UK Government advice and formulated with the oversight of BEIS.

**Internal control**
A strong 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 and recommendations for improvements to the board.

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 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 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 Group on the environment and the contribution to sustainability.

To ensure that the 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 9. The Group has robust procedures in place to meet the requirements of the Bribery Act 2010. Every employee must undertake training in respect of the Group's anti-corruption and anti-bribery policy each year.

**Viability statement**

The directors have chosen a period of not less than ten years for the purposes of making this statement. The timeframe corresponds with the ten-year plan that is submitted to the Group's shareholder each year alongside the Annual Plan and which sets out the Group's long term strategy. Given Northern Powergrid's business model, which operates in a stable sector, the directors believe that the Group as a whole is very likely to be viable for longer than the period chosen for the purpose of this statement.

In addition, various factors were contemplated when making an assessment of the Group's prospects including the general stability associated with the regulatory environment, the principal risks and uncertainties facing the Group, the Group's business model and strategy, the effect of the coronavirus pandemic upon the Group, the forecasts developed as part of the Annual Plan, the commitments made in the Business Plan, and the fact that the notice period that GEMA must provide to Northern Powergrid in the event it wishes to revoke either of the electricity distribution licences is twenty five years.

Consideration was also given to the obligations contained in Northern Powergrid's licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that Northern Powergrid 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. Based on the results of their review, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next ten-year period.

**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, Directors Report and Corporate Governance Statement. 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 2)

(b) the interests of the Company's employees; (Page 7 and 8)

(c) the need to foster the Company's business relationships with suppliers, customers and others; (Pages 4, 5, 16 and 17)

(d) the impact of the Company's operations on the community and the environment; (Pages 4-5 and 8-9)

(e) the desirability of the Company maintaining a reputation for high standards of business conduct; and (Page 12)

(f) the need to act fairly between members of the Company.

The Company has one class of ordinary shares which are all held by Berkshire Hathaway Energy U.K. Electric, Inc. (35%), Berkshire Hathaway Energy U.K. Power, Inc. (35%) and Berkshire Hathaway Energy U.K. Inc. (30%) all entities wholly owned by Berkshire Hathaway Energy.

In addition to the existing oversight of operational activity and strategic decision making, during the year the board approved the ED2 Plan ahead of its submission to Ofgem on 1 December 2021. The board actively participated in the development of the ED2 Plan, with individual directors responsible for chairing specialist engagement and oversight panels and taking ownership of strategic sections. The ED2 Plan sets out Northern Powergrid's strategy for the period 2023 to 2028 and includes a number of supporting documents including the Innovation strategy, Environmental Action Plan, Climate Resilience Strategy, Data and Digitalisation Strategy, Diversity, Equality and Inclusion Plan and DSO Strategy, all of which were endorsed by the board.

**Non-financial information statement**

The non-financial reporting information pursuant to Section 414CA of the Companies Act 2006 has been reported throughout the Strategic Report and principal risks and uncertainties. Detail in respect of the relevant policies, risks and associated mitigations and non-financial KPIs can be found on the pages referenced below:

- Business model: page 2;
- Environmental: page 8;
- Employees: pages 7 - 8;
- Social Matters: pages 4 - 5;
- Respect for Human rights: page 16; and
- Anti-Corruption and Anti-bribery matters: pages 8 and 13.

Approved by the Board on 29 April 2022 and signed on its behalf by:

T H France
Director

# Northern Powergrid Holdings Company
# Directors' Report for the Year Ended 31 December 2021

The directors present their annual report and the audited consolidated financial statements consolidated financial statements for the year ended 31 December 2021.

**Dividends**

During the year, an interim dividend of £0.3 million was paid (2020: £0.6 million). The directors recommend that no final dividend be paid in respect of the year (2020: £nil).

The Company and Group 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 and Group 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.

**Directors of the group**

The directors of the Company, who held office during the year and to the date of signing were as follows:

C D Haack
J N Reynolds
P A Jones
T E Fielden (resigned 15 February 2021)
T H France
W J Fehrman

During the year, no director was interested in any contract which was significant in relation to the business of the Company or the Group. During the year and up to the date of approval of the Directors' Report, an indemnity contained in the Company'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 third party indemnity provision for the purposes of the Companies Act 2006.

**Future developments and future outlook**

The financial position of the Group, as at 31 December 2021, is shown in the consolidated statement of financial position on pages 46 and 47. There have been no significant events since the year end and the directors intend that:

- Northern Powergrid 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, Northern Powergrid will continue to develop its business by efficiently investing in the Network and improving the quality of supply and service provided to customers.
- IUS and IUS Ireland will develop its business by concentrating on its core skills of engineering contracting thereby delivering a high standard of service to its existing clients and pursuing opportunities to increase its portfolio of clients.
- NPg Metering will retain its focus on pursuing opportunities in the market for meter asset provision as the smart meter roll-out programme develops.
- CE Resources will continue to look to build value through the management of a portfolio of hydrocarbon projects in Australia, Poland and the United Kingdom.

There are no plans to change the existing business model of any company within the Group.

**Research and development**

Northern Powergrid 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, Northern Powergrid invested £2.2 million (2020: £3.6 million) (Note 5 to the financial statements) in its research and development activities.

**Political donations**

During the year, no contributions were made to political organisations (2020: £nil).

### Financial instruments

*Financial risk management*
Details of financial risks are included in the Principal Risks and Uncertainties on page 17 to 19 of the Strategic Report and in Note 30 to the financial statements.

*Financial derivatives*
As at 31 December 2021 the Group held one derivative financial instrument (2020: one) to mitigate the interest rate risk on a floating interest rate loan. More details on derivative financial instruments are available in Note 31 to the financial statements.

### 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 (and nominated representatives on an interim basis) 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 Group's intranet.

During the year, the President and Chief Executive Officer and members of the Board and senior management team of the Group continued to provide colleagues with updates on the 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 the senior leadership team engaged with employees during operational and office-based site visits and induction and graduation events ensuring safety measures were maintained throughout.

In accordance with Section 414C of the Companies Act 2006 further disclosures detail 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 page 10 to 12 of the Strategic Report.

### Business relationships

As referenced throughout the Strategic Report, the Group's business model is predominantly to provide and maintain a reliable, safe and cost-effective Network. To achieve this objective, the Group 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 Plan commences. Consequently, fostering business relationships is a prerequisite of the activity performed by the Group 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 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 statement.

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 in the Strategic Report (Employee Commitment). 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 in the Regulatory Integrity section of the Strategic Report, engagement with Ofgem was prevalent during the year and included participation in various consultations concerning the ED2 period. Given the implications on the Group'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 Company has sought to apply the UK Corporate Governance Code 2018 (the "Code") and report on the application of the Principles and supporting Provisions in the context of the Group's private ownership structure.

The directors confirm that the governance framework in place is appropriate to the circumstances of the Company and the Group. The framework is agreed with the Group's shareholder, Berkshire Hathaway Energy. The Company and the Group has not complied with Provisions 12, 17, 18 23, 26, 32, 33, 40 and 41. In addition, Provisions 4, 9, 19, 20 and 35 are deemed not to be relevant to the Company's or the Group's circumstances for the reasons explained in the pages that follow. A copy of the Code can be found at https://frc.org.uk/.

## BOARD LEADERSHIP AND COMPANY EXPOSURE

### Strategic Ownership

The board is collectively responsible for generating value for the Group's shareholder and wider society which is achieved through the delivery of a strategy which corresponds to Berkshire Hathaway Energy's six Core Principles. As discussed in the Strategic Report, the strategy is set out in two forms of business plan (the Business Plan and Annual Plan), both of which are approved and monitored by the board and are designed to promote the long-term sustainable success of the Company and the Group whilst achieving the commitments developed to address stakeholder requirements.

For the purpose of scrutinising performance in respect of both business plans, the board review a range of financial and non-financial KPIs which correspond to the Core Principles and have been established to operate within a framework of internal controls. The deliverables set out in the business plans shape the allocation of both financial and operational resource for which the board delegates the responsibility to a single senior management team who have specific functional responsibilities in respect of operations, safety, health and environment, asset management, customer service, business development, policy and markets, regulation, human resources, organisation development, legal and finance.

### Engagement and Values

The Company and Group has an established relationship with its shareholder, reflected by the leadership structure, whereby the President and Chief Executive Officer of the Group reports directly to the President and Chief Executive Officer of Berkshire Hathaway Energy. Frequent interaction and dialogue with Berkshire Hathaway Energy (which is maintained through regular reporting and meetings with the Group's President and Chief Executive Officer and senior management team) ensures that strategic views are understood and aligned, and that appropriate values, standards and a desired culture of integrity, openness and transparency are set. Demonstrated by the adoption of Berkshire Hathaway Energy's 'Core Leadership Expectations', required behaviour and standards include the delivery of quality and improvement (for which all employees are responsible) to developing individuals and teams, building stakeholder relationships and establishing strategic direction (predominantly responsibilities of the senior management team and the board).

As described on page 24, employee engagement (and the investment therein) is implemented through consistent messaging which commences with the induction programme, during which colleagues are introduced to the Group, its business model, strategy and the Core Leadership Expectations. Throughout the year, every employee has regular meetings with line management and communications from the President and Chief Executive Officer in addition to having access to the board and senior leadership team during events (whether virtual or physical), via engagement visits and as a result of rotational working locations. Whilst there is direct exposure, given the Group's large and disparate workforce, the board elect to engage with employees via the senior management team and the reporting hierarchy which is deemed to be very effective. However, to supplement the existing arrangement, the board is planning to engage directly with members of each of the trade unions which represent the workforce.

A number of policies such as the Code of Conduct and Code of Practice and Business Ethics support the employee engagement programme and underpin the onward dissemination of the values, desired culture and expected standards of behaviour to the wider employee population. The board is able to reassure itself that corporate messaging concerning behaviour and culture is provided on an annual basis in the form of training on the aforementioned policies. In addition, the Group's non-executive directors and independent member routinely challenge the executive team on topics that are more difficult to track, including cultural change and diversity. As outlined in the strategic report, in the event employees have concerns regarding behaviour, ethics or compliance related matters, they are able to raise these confidentially via either internal or externally facilitated independent channels.

Throughout the year, the board routinely monitor the effectiveness of engagement with the Group's various stakeholders via updates and bespoke briefings. In addition, the directors participate in direct engagement with the Group's shareholder, Chair of the CEG, the external auditor, employees (as detailed above) as well as various political and regulatory representatives. Further detail concerning the way in which the Company and Group participates in engagement with stakeholders is set out in the Directors' report.

**DIVISION OF RESPONSIBILITIES**

**The role of the President and Chief Executive Officer**

The President and Chief Executive Officer combines the executive responsibility of running the Group's business with the responsibility for the leadership of the Company and Group's various boards of directors, which includes directing the Company and the Group, ensuring its effectiveness and facilitating a constructive and open board culture. The Group's shareholder supports the role undertaken by the President and Chief Executive Officer and, through the shareholder's regular interaction with the President and Chief Executive Officer and input into and oversight of the principles governing to whom the board of the Company (and the wider Group) delegates its authority, ensures no one person has unfettered powers of decision. Chairmen and senior independent non-executive directors are not routinely appointed to the Group's boards.

**Non-executive directors**

The board of the Company comprises four executive directors and one non-executive director. There are two additional non-executive directors appointed to Northern Powergrid. Each of the Group's non-executive directors and Mr Knowles (a member of the Group's audit committee) are considered to be independent. Although the board of the Company (nor that of any other Group company) does not include a balanced number of executive and non-executive directors, the board believes that the combination is appropriate, and it possesses the requisite skills and experience necessary to provide effective leadership, stewardship and control of the Company and the Group. The non-executive directors of the Company and the Group constructively challenge the executive board and senior management team on the delivery of the Company's and the Group's strategic objectives. In accordance with their individual areas of specialism, the non-executive directors chair a number of the Group's board sub-groups, which combined with the guidance and challenge they provide during routine board meetings, gives them additional opportunity to hold the executive directors and senior management team to account.

### Time Commitment and Resources

To facilitate the delivery of their duties, the directors continually update their knowledge of and familiarity with the operations of the Company and the Group. This is supported by robust reporting arrangements, access to the Group's operations and interaction with its staff. Under the direction of the President and Chief Executive Officer, information is provided to the board in a timely manner to enable directors to commit sufficient time to the preparation for and attendance at board meetings. In addition, updates and briefings are circulated during the course of the regular board meeting cycle. The directors are able to utilise the advice and services of the Company Secretary and her team. Upon request, the directors have access to independent professional advice. A register of situational conflicts is held centrally to ensure independent judgment is maintained and time commitment is not jeopardised. Conflicts of interests are declared as a matter of routine pursuant to individual director's duties.

The board meet on a quarterly basis to review business performance, strategic initiatives and operational and risk-related issues. Additional board meetings are held as required. Meetings of the board are chaired by the President and Chief Executive.

**Board committees and sub-groups**

During the year, there were a number of committees and board sub-groups in operation, acting under delegated terms of reference which oversee the Group and report regularly on their activities. Attendance at meetings by the Company's board members and the senior management team during the year was as follows:

| Name | Position | Board meeting | Audit Committee | Health and Safety Committee | RAB | Innovation Advisory Board |
|---|---|---|---|---|---|---|
| P A Jones | President and Chief Executive Officer | 5/7 (Chair) | | 3/3 (Chair) | | 4/4 |
| T E Fielden | Finance Director | 1/1 | | | | |
| T H France | General Counsel | 6/7 | | 2/3 | 1/4 | |
| C D Haack | Senior Vice President and Chief Financial Officer BHE | 1/7 | | | | |
| J N Reynolds | Independent non-executive Director | 7/7 | 2/2 (Chair) | | | |
| J C Riley | Company Secretary | 5/5 | 2/2 | 3/3 | | 4/4 |
| | | | | | | |
| P C Taylor | Independent non-executive Director | 4/5 | | | | 4/4 (Chair) |
| A R Marshall | Independent non-executive Director | 5/5 | | 3/3 | 4/4 (Chair) | |
| M Knowles | Independent member (Audit Committee) | | 2/2 | | 4/4 | |
| A E Bilclough | Director of Field Operations | | | | 4/4 | 4/4 |
| P S Erwin (resigned # 2021) | Policy and Markets Director | | | | 3/4 | 4/4 |
| P Fitton | Head of Information Systems | | | | 3/4 | |
| N M Gill | Director of Risk Management and Project Assurance | | | | 4/4 | |
| A P Jones | Director of Performance and Planning | | | | 3/4 | 2/4 |
| S J Lockwood | Director of Finance - Interim | | | | 1/1 | |
| A J Maclennan | Commercial Director | 5/5 | | 3/3 | 2/4 | 4/4 |
| A J Patterson | Director of Organisation Development | | | | 1/4 | |
| G Pearson | Head of Health, Safety and Training | | | 1/4 | 4/4 | |

The executive directors who hold office at Berkshire Hathaway Energy do not routinely attend board meetings of the Company.

***Health and Safety Committee***

Role: Meets bi-annually to manage the health and safety policy and performance of the Group.

Duties:

- oversee the implementation and review the effectiveness of health and safety policy;
- develop the strategy for managing health and safety issues;
- monitor health and safety performance consider policy changes; and
- report to the board.

***Innovation Advisory Board***
Role: Meets quarterly to monitor the effectiveness of the innovation programme in achieving its objectives.

Duties:

- contribute to the development, review and approval of the Group's innovation strategy;
- keep under review the current portfolio and pipeline of new innovation projects;
- monitor the level of risk associated with the programme; and
- report to the board.

Further detail concerning the Audit Committee and RAB can be found in 'Audit, risk and internal control' below.

**COMPOSITION, SUCCESSION AND EVALUATION**

**Appointments**
Given the nature of the relationship between the Group and its shareholder, a nominations committee has not been established for the purpose of identifying board appointments, or indeed considering the removal of directors. Instead, this function is undertaken by the appropriate representative of Berkshire Hathaway Energy and the President and Chief Executive Officer of the Group. All board appointments are subject to a formal and rigorous process and are considered with due regard to the board's overall composition including the balance of skills and experience ahead of recommendations being put to the board. Succession plans are in place for all board and senior management positions and are reviewed and agreed by the President and Chief Executive Officer of Berkshire Hathaway Energy. Prior to appointment, the commitments already held by directors are considered so as to ensure each individual has sufficient time to discharge their duties.

**Evaluation**
The board of the Company (and that of each Group subsidiary) is subject to thorough evaluation as a consequence of its performance being continually monitored and assessed by Berkshire Hathaway Energy through the delivery of the Annual Plan. In addition, each year, the President and Chief Executive Officer of the Group considers the composition of the board as a whole and its effectiveness in achieving strategic objectives during the annual performance evaluation process. Off cycle reviews of the Group's governance arrangements (including the composition or board and sub-board groups) is also undertaken at regular intervals to ensure its structure remains fit for purpose and evolves to reflect changes to strategic priorities. The Group does not and is not required to undertake external evaluation of its boards.

As a matter of routine, the committees and sub-groups that have been constituted on behalf of the Group have historically been evaluated through the activity delivered in accordance with their terms of reference. In addition, board committees and sub-groups are also subject to the aforementioned off-cycle governance reviews, whereby the scope, purpose, duties and membership are revisited so as to ensure they remain effective, are refreshed as appropriate and have the requisite level of skill and expertise.

The Company's Articles of Association do not require the periodic retirement and re-election of directors. Therefore, the letters of appointment in place for each of the Group's non-executive directors are reviewed regularly allowing for a mutual evaluation of the benefit of individuals remaining in post. The notice period for all board members is less than one year.

**Diversity policy**
The Group has adopted a number of policies (including the policy on diversity at work and the Code of Conduct) that collectively comprise the policy on diversity. Diversity is actively supported through recruitment, educational programmes, employee opportunities and the Global Days of Service charitable support programme. All appointments (which includes board, board committee, and senior management appointments) are based on merit with due regard for diversity, including gender, social and ethnic backgrounds, and cognitive and personal strengths. During the year, Northern Powergrid published its Diversity, Equity and Inclusion plan ("DEI Plan") as part of the ED2 Plan submission (a copy of which can be found on the Group's website). The DEI Plan sets out the way in which Northern Powergrid (although it is also applicable to the wider Group) intends to go beyond gender and ethnicity diversity in order to benefit from a wider range of skills, backgrounds, perspectives and experiences. Further information concerning how the Group is supporting gender diversity in the energy industry can be found in the Group's gender pay gap report via the Group's corporate website.

## AUDIT, RISK AND INTERNAL CONTROL

Each of the Company's and Group's directors is responsible for the management of risk and the internal control environment which is designed to address Berkshire Hathaway Energy's United States Sarbanes-Oxley Act requirement, the key features of which can be found in the Strategic Report. As part of this responsibility, the board has established robust procedures and processes which ensure the effectiveness of both the internal and external audit functions.

**Audit committee**

The audit committee meets twice per year as a minimum to consider the application of corporate reporting, risk management and internal control principles. Membership comprises, an independent non-executive director (chair), an independent member and the Director of Finance. All members are considered to have relevant financial experience. Its duties include:

- carrying out the functions required by DTR 7.1.3R;
- overseeing the RAB;
- monitoring the internal audit plan;
- sub-delegating activities to another person or body as seen fit. At the December 2021 meeting, duties were sub-delegated to Berkshire Hathaway Energy's audit committee; and
- reporting to the board.

**Internal Audit**

The internal audit team operates in an independent and objective manner without interference from the Company or the Group. This provides the flexibility to refocus the scope of the annual internal audit plan to align with changing priorities if required. Internal audit findings including the resilience of internal controls are reported to the board on a quarterly basis in order to keep the directors sufficiently apprised of areas of risk. An external assessment of the activity of the internal audit team confirmed it operates at the highest level in accordance with the Institute of Internal Audit standards.

**External Audit**

An appropriate relationship is maintained with the Group's external auditor to ensure independence and rigour is preserved. The Audit Partner has regular interaction with the Director of Finance and routinely attends two board meetings per year to present the audit plan for the forthcoming year and subsequently disseminate the findings. Deloitte LLP staff have full access to the Group's systems and premises for the purpose of conducting their audit work in a robust and efficient manner. In addition to a series of internal checks and comprehensive reviews, the external audit process supports the verification of the integrity of the annual reports and financial statements and the fair, balanced and understandable assessment of the Company's and the Group's position and prospects being presented.

**RAB**

The RAB is chaired by one of the Group's independent non-executive directors and meets quarterly to ensure effective risk management and internal control processes are in place. Its duties include:

- contributing to the setting of the Group's risk tolerance and appetite;
- keeping under review current business risks and the effectiveness of internal controls;
- overseeing the processes for the identification of emerging risks; and
- reporting to the board, Berkshire Hathaway Energy and the Audit Committee.

Further detail concerning the procedures to manage risk, oversee the internal framework, set the boards risk appetite and the Company's principal risks can be found on pages 16 to 20.

## REMUNERATION

As outlined above, the board has not elected to establish a remuneration committee for the purpose of determining executive directors' and senior managers' compensation. However, this does not reflect a lack of policy or rigour given the process is instead managed by the Group's shareholder. As a consequence, remuneration is strictly aligned to both the Company's and the Group's long-term strategy, the delivery of sustainable growth and Berkshire Hathaway Energy's values as defined by the Core Principles. No individual is involved in determining their own remuneration.

The Company's and the Group's executive directors' and senior managers' remuneration is considered on an annual basis and is explicitly linked to the employee performance evaluation process. Each individual's effectiveness is measured against both personal and Berkshire Hathaway Energy goals with all resulting awards based on merit and linked to the delivery of stretching accountabilities. Only basic salary is pensionable and the notice periods in contract are for less than one year.

Non-executive director remuneration is also reviewed on an annual basis and is reflective of time commitment and level of responsibility. Any increases are made in line with the wider Group's employee population and is subject to continued satisfactory performance.

### DIRECTORS RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual reports 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 have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted 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 of the profit or loss of the company for that period.

In preparing these financial statements, International Accounting Standard 1 requires the directors to:

- 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 Company's and the Group's financial position and financial performance; and
- Make an assessment of the Company's and 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 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 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 company'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 Directors' Report and the appropriate notes to the financial statements.

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

- The Group's main subsidiaries, NPg Northeast and NPg Yorkshire, are stable electricity distribution businesses operating an essential public service and are regulated by the Gas and Electricity Markets Authority ("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 Group is profitable with strong underlying cash flows. The Company, NPg Northeast and NPg Yorkshire hold investment grade credit ratings
- The Northern Powergrid Group is financed by long-term borrowings with an average maturity of 25 years and has access to short-term committed borrowing facilities of £242 million provided by Barclays Bank plc, Lloyds Bank plc, HSBC UK Bank plc and Royal Bank of Canada;
- The Northern Powergrid Group benefits from strong investment-grade credit ratings which allow access to a range of financing options. A successful bond issue by the Northern Powergrid Group in April 2022, demonstrates that the Northern Powergrid Group's bonds remain attractive to investors and there is an active market with strong appetite to invest;
- The Group has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Group has sufficient resources to settle its liabilities as they fall due. The directors have had discussions with the bank who have indicated that they would continue to provide the short-term facilities to the Group for the foreseeable future on acceptable terms.

Consequently, after making enquiries, the directors have a reasonable expectation that the Company and the Group have 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 report and consolidated financial statements, whose names and functions are set out on page in the Directors' Report confirms that, to the best of their knowledge:

- The financial statements, prepared in accordance with applicable UK law and in conformity with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;
- The management report (which is comprised of the Strategic Report and the Directors' 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 it faces; and
- The annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders.

**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 2022 and signed on its behalf by:

T H France
Director

# Northern Powergrid Holdings Company
# Independent Auditor's Report to the Members of Northern Powergrid Holdings Company

### Report on the audit of the financial statements

### Opinion

In our opinion:

- the financial statements of Northern Powergrid Holdings Company (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 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 statement of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows and;
- the related Notes 1 to 33.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom adopted international accounting standards and as applied in accordance with the provisions 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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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.

### Summary of our audit approach

The key audit matters that we identified in the current year were:

- Accounting for capital spend - overhead allocation model; and
- Goodwill impairment; and
- Valuation of defined benefit obligations.

Within this report, key audit matters are identified as follows:

- Newly identified
- Increased level of risk
- Similar level of risk
- Decreased level of risk

**Materiality:** The materiality that we used for the group financial statements was £15.1m which was determined on the basis of income before tax.

**Scoping:** Our scope provides full scope audit coverage of 99% of the group's revenue, 86% of profit before tax as well as 100% of net assets. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

**Significant changes in our approach:** There was no significant change in our approach except for adopting a controls reliance approach for the testing of revenue for the first time in the current year.

**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 group's and parent 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;
- performaing 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's and parent company'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.

***Accounting for capital spend - overhead allocation model***

*Key audit matter description*

Total additions to property, plant and equipment in the year in, within the two distribution subsidiaries of the group, Northern Powergrid (Northeast) plc and Northern Powergrid (Yorkshire) plc were £464m (2020: £443m) with the majority of the additions to the Group's electricity distribution system, as disclosed in Note 11 to the financial statements. These additions include £86m capitalised overheads (2020: £85m). A portion of overheads are capitalised to the extent that it is probable that future economic benefits associated 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 annually.

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 consequence. 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.

***Goodwill impairment***

*Key audit matter description*
Goodwill associated with the Yorkshire distribution network cash generating unit is held at a group level, with an annual impairment review required by International Accounting Standard 36: Impairment of Assets (IAS 36). Management are required to determine if the carrying value of goodwill has fallen below the higher of value in use or fair value less costs to sell of Northern Powergrid (Yorkshire) Plc.

The value multiple rate in the fair value less costs to sell represent the most complex estimates and key judgement areas in which management's impairment modelling relies upon. We identified this as a potential area for management bias due to the level of management judgement involved.

Details regarding the goodwill value of £248.8m (2020: £248.8m) are shown in note 13 to the financial statements and on the face of the Consolidated Statement of Financial Position. It is management's view that no impairment is required.

The assumptions underpinning the impairment review carried out as part of the goodwill assessment is included as a 'key source of estimation uncertainty' in note 2 to the financial statements.

*How the scope of our audit responded to the key audit matter*
*Fair Value Less Costs to Sell Approach*

- We have obtained an understanding of the relevant controls surrounding goodwill impairment calculations under the fair value less costs to sell basis;
- We have challenged the assumptions identified (in particular the value multiple rate) against market indicators and other similar companies, including a recent transaction within the sector and considered its comparability to the circumstances of the Group;
- We considered management's value-in-use calculation for areas of potential contradictory evidence;
- We evaluated management's sensitivity analysis and performed an independent sensitivity analysis on the value multiple rate; and
- We have evaluated management's disclosures made within the financial statements ensuring compliance with IAS 36.

*Key observations*
Based on the work performed above, and the evidence obtained, we have concluded that we concur with management's view that no impairment is required. This is due to the valuation multiple of recent market transactions within the sector supporting the valuation of Northern Powergrid (Yorkshire) Plc and thus the Goodwill balance held by Northern Powergrid Holding Company.

***Valuation of defined benefit obligations***

*Key audit matter description*
The group operates a defined pension scheme, for which key judgement relate to the determination of the present value of the defined benefit obligation. Within this, we also consider consistency with International Accounting Standard 19: Employee benefits (IAS 19). The present value of the funding surplus is £262.2m (2020: £88.1m), with an underlying obligation of £1,480.4m (2020: £1,612.6m). The present value of the defined benefit obligation is derived and is subject to judgement in the assumption setting. Due to the continued settlements in the year for the scheme, there continues to be an additional risk around the valuation modelling of each settlement and the impact to the actuarial assumptions due to the change in the profile of the membership of the scheme. The accounting policy and disclosure is found in note 27 to the financial statement.

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

- We have obtained an understanding of the relevant controls involved in the review of the actuary report at the year-end;
- We have obtained and tested the underlying data and assumptions utilised by management's actuary in the calculation of the pension obligations;
- We challenged the settlement model utilised and tested the underlying data used in the model to derecognise the obligations; and
- We considered the estimates of management's actuary and challenged management's assumptions and judgements for statutory reporting by comparing the assumptions and results to benchmarked figures. We involved our internal specialists in performing this work.

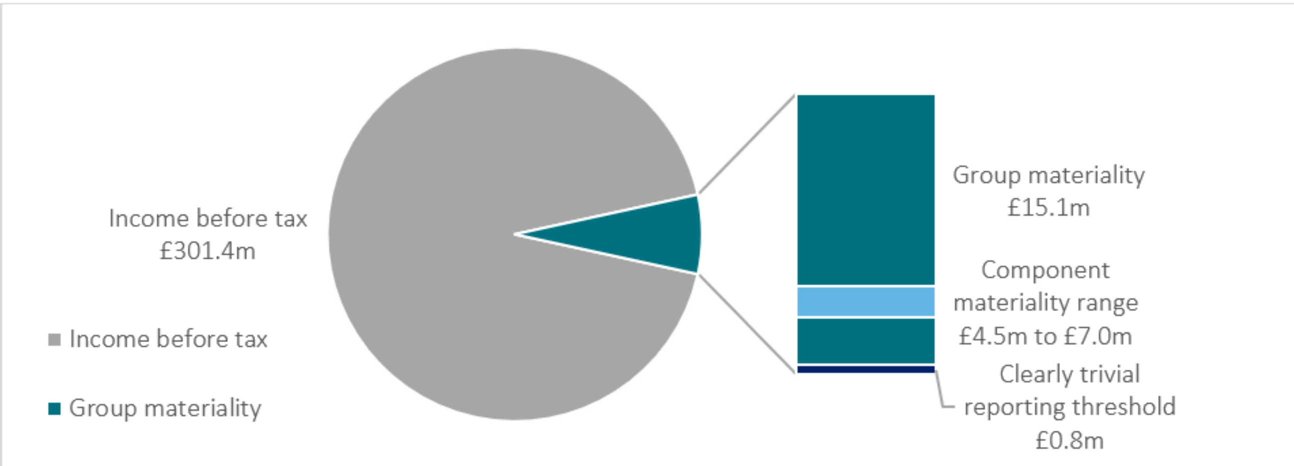
*Key observations*
Based on the work performed above, and the evidence obtained, we conclude that each of the relevant assumptions used by management to estimate the defined benefit obligation are consistent with the requirement of IAS 19. We have also concluded that these assumptions are within a reasonable range when compared to comparable schemes and our internal benchmarks.

**Our application of 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:

**Group financial statements**
- **Materiality:** £15.1m (2020: £11.6m)
- **Basis for determining materiality:** 5% of income before tax (2020: 5% of income before tax)
- **Rationale for the benchmark applied:** The group contains large trading entities. The industry revenue is highly regulated, therefore, there is a focus on income before tax.

**Parent company financial statements**
- **Materiality:** £8.0m (2020: £6.2m)
- **Basis for determining materiality:** Parent company materiality equates to 16.0% of net assets (2020: 16.8%), which is capped at 53.0% of group materiality (2020: 52.9%).
- **Rationale for the benchmark applied:** Total equity shows how much of the value of shareholdings are in the company and as such investor value. The company is not trading and as such incurs no revenue.



**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. Group performance materiality was set at 60% of group materiality for the 2021 audit (2020: 70%). Parent company financial statements performance materiality was set at 60% of parent company materiality for the 2021 audit (2020: 70%). In determining performance materiality, we 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 on the revenue cycle; and
- the volume of uncorrected misstatements in the prior period and control deficiencies identified.

In the prior year, performance materiality was set at 70% of materiality, however given the volume of uncorrected misstatements identified and control deficiencies raised, we have reduced this to 60%.

**Error reporting threshold**

We agreed with the Board of Directors that we would report all audit differences in excess of £0.75m (2020: £0.58m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board of Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

**An overview of the scope of our audit**

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 mainly focused on the United Kingdom in the electricity distribution business, with some overseas assets in the oil and gas industry.

The focus of our audit work was on the main regulated businesses, Northern Powergrid (Northeast) Plc and Northern Powergrid (Yorkshire) plc, with work performed at a combination of the group's offices in the North East and Yorkshire regions, and we have audited the significant sub consolidations in the group. Other sizeable companies within the group include Integrated Utility Services Limited, which provides contracting and maintenance services to the electricity, rail and water industries, and Northern Powergrid Metering Limited which leases smart meters to energy providers. Our audit scope provides full scope audit coverage 99% of the group's revenue (2020: 96%), 86% of profit before tax (2020: 100%) as well as 100% of net assets (2020: 78%).

A component materiality was used to perform the audit work for all component entities for FY21 this ranged from £4.5m to £7.0m (2020: £0.3m to £7.5m). Component materiality is used to reduce to an appropriately low level of 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 was no risk of material misstatement of the aggregated financial information of the remaining components bot subject to audit or audit of specific balances.

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 have performed testing of business process controls across the Group through a combination of tests of inquiry, inspection, observation and re-performance.

We have involved our IT specialists to assess relevant controls over the Group's IT landscape which contains a number of IT systems and tools used to support business processes. These include controls within the Oracle and Durabill systems integral to relevant business cycles. We identified control deficiencies over this system. In response to these deficiencies, the Group mitigated these deficiencies and we performed additional procedures. As a result of these mitigating procedures, we relied on controls over the revenue business cycle in the current year.

**Our consideration of climate-related risks**

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements.

The Group continues to develop its assessment of the potential impacts on the environmental, social and governance ("ESG") related risks, including climate change, as outlined on page 11.

As part pf our audit, we have obtained management's climate-related risk assessment and held discussions with the Group ESG Manager to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements.

We performed our own qualitative risk assessment of the potential impact of climate change on the Group's account balances and classes of transactions and have read the annual report top consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

**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, our procedures included 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:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT, actuarial 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), Goodwill impairment and Valuation of defined benefit pension obligation. 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, pensions legislation, 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 included 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 the following key audit matters related to fraud:

- Accounting for capital spend - overhead allocation model; and
- Goodwill impairment; and
- Valuation of defined benefit pension obligation.

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**

**Opinion on other matter 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 of 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.

*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 Holdings 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 24 years, covering the years ending 31 December 1998 to 31 December 2021.

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

**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

Anthony Matthews FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP, Statutory Auditor
Newcastle upon Tyne
Tyne and Wear
United Kingdom

29 April 2022

## Northern Powergrid Holdings Company
## Consolidated Income Statement for the Year Ended 31 December 2021

| | Note | 2021<br>£ 000 | 2020<br>£ 000 |
|---|---|---|---|
| Revenue | 3 | 918,325 | 853,718 |
| Cost of sales | | (43,767) | (45,939) |
| Gross profit | | 874,558 | 807,779 |
| Distribution costs | | (311,125) | (296,955) |
| Administrative expenses | | (181,239) | (147,531) |
| Operating profit | 5 | 382,194 | 363,293 |
| Other gains/(losses) | 4 | 1,907 | (34,011) |
| Finance income | 6 | 1,612 | 986 |
| Finance costs | 6 | (88,830) | (98,172) |
| Profit before tax | | 296,883 | 232,096 |
| Income tax expense | 10 | (141,039) | (72,073) |
| Profit for the year | | 155,844 | 160,023 |
| **Profit attributable to:** | | | |
| Owners of the Company | | 154,281 | 158,372 |
| Non-controlling interests | | 1,563 | 1,651 |
| | | 155,844 | 160,023 |

The above results were derived from continuing operations.

## Northern Powergrid Holdings Company
## Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2021

| | Note | 2021<br>£ 000 | 2020<br>£ 000 |
|---|---|---|---|
| Profit for the year | | 155,844 | 160,023 |
| **Items that will not be reclassified subsequently to profit or loss** | | | |
| Re-measurements of post-employment benefit obligations (net) | 27 | 130,374 | (28,319) |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Gain/(loss) on cash flow hedges (net) | 20 | 3,950 | (1,998) |
| Foreign currency (losses)/gains | 20 | (446) | 780 |
| | | 3,504 | (1,218) |
| Total comprehensive income for the year | | 289,722 | 130,486 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | 288,159 | 128,835 |
| Non-controlling interests | 21 | 1,563 | 1,651 |
| | | 289,722 | 130,486 |

## Northern Powergrid Holdings Company
## (Registration number: 03476201)
## Consolidated Statement of Financial Position as at 31 December 2021

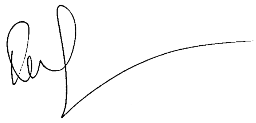
| | Note | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | 7,029,079 | 6,698,650 |
| Right of use assets | 12 | 24,105 | 23,684 |
| Intangible assets | 13 | 297,925 | 300,744 |
| Equity accounted investments | 14 | 3,898 | 3,648 |
| Retirement benefit obligations | 27 | 262,200 | 88,100 |
| Deferred tax asset | 10 | 363 | 334 |
| Trade and other receivables | 16 | 2,702 | 4,598 |
| Other non-current financial assets | | 944 | - |
| | | 7,621,216 | 7,119,758 |
| **Current assets** | | | |
| Inventories | 15 | 20,879 | 19,347 |
| Trade and other receivables | 16 | 165,712 | 151,462 |
| Tax receivable | 10 | 3,130 | 291 |
| Cash and cash equivalents | 17, 22 | 29,125 | 57,221 |
| Restricted cash | 18 | - | 16,758 |
| Contract assets | 3 | 7,593 | 6,214 |
| Other current financial assets | | 204 | - |
| | | 226,643 | 251,293 |
| Total assets | | 7,847,859 | 7,371,051 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 19 | (354,550) | (354,550) |
| Share premium | | 810 | 810 |
| Foreign currency translation reserve | 20 | 1,215 | 769 |
| Cash flow hedging reserve | 20 | (861) | 3,089 |
| Retained earnings | | (2,776,221) | (2,491,566) |
| Equity attributable to owners of the Company | | (3,129,607) | (2,841,448) |
| Non-controlling interests | | (38,723) | (37,482) |
| Total equity | | (3,168,330) | (2,878,930) |
| **Non-current liabilities** | | | |
| Lease liabilities | | (18,551) | (18,632) |
| Loans and borrowings | 22 | (2,074,946) | (2,384,242) |
| Provisions | 24 | (11,986) | (10,486) |
| Deferred revenue | 26 | (1,486,460) | (1,468,599) |
| Deferred tax liabilities | 10 | (359,834) | (239,729) |
| Other non-current financial liabilities | 31 | - | (3,174) |
| | | (3,951,777) | (4,124,862) |

The notes on pages 54 to 126 form an integral part of these financial statements.

## Northern Powergrid Holdings Company
## (Registration number: 03476201)
## Consolidated Statement of Financial Position as at 31 December 2021 (continued)

| | Note | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Lease liabilities | | (6,160) | (5,518) |
| Trade and other payables | 25 | (226,478) | (213,299) |
| Loans and borrowings | 22 | (423,495) | (80,203) |
| Deferred revenue | 26 | (66,261) | (64,687) |
| Provisions | 24 | (5,358) | (2,912) |
| Other current financial liabilities | 31 | - | (640) |
| | | (727,752) | (367,259) |
| Total liabilities | | (4,679,529) | (4,492,121) |
| Total equity and liabilities | | (7,847,859) | (7,371,051) |

Approved by the Board on 29 April 2022 and signed on its behalf by:



T H France
Director

## Northern Powergrid Holdings Company
## (Registration number: 03476201)
## Company Statement of Financial Position as at 31 December 2021

| | Note | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries, joint ventures and associates | 14 | 376,289 | 376,289 |
| Trade and other receivables | 16 | 190,000 | 190,000 |
| | | 566,289 | 566,289 |
| **Current assets** | | | |
| Trade and other receivables | 16 | 219,738 | 117,193 |
| Cash and cash equivalents | 17 | 10,403 | 77,839 |
| | | 230,141 | 195,032 |
| Total assets | | 796,430 | 761,321 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 19 | (354,550) | (354,550) |
| Retained earnings | | (223,000) | (190,180) |
| Total equity | | (577,550) | (544,730) |
| **Non-current liabilities** | | | |
| Loans and borrowings | 22 | (199,134) | (198,398) |
| **Current liabilities** | | | |
| Trade and other payables | 25 | (18,842) | (17,549) |
| Loans and borrowings | 22 | (644) | (644) |
| Income tax liability | | (260) | - |
| | | (19,746) | (18,193) |
| Total liabilities | | (218,880) | (216,591) |
| Total equity and liabilities | | (796,430) | (761,321) |

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 2021 of £32.8m (2020: £61.1 million).

Approved by the Board on 29 April 2022 and signed on its behalf by:

T H France
Director

## Northern Powergrid Holdings Company
## Consolidated Statement of Changes in Equity for the Year Ended 31 December 2021

| | Share capital £ 000 | Share premium £ 000 | Foreign currency translation £ 000 | Cash flow hedging reserve £ 000 | Retained earnings £ 000 | Total £ 000 | Non-controlling interests £ 000 | Total equity £ 000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2021 | 354,550 | (810) | (769) | (3,089) | 2,491,566 | 2,841,448 | 37,482 | 2,878,930 |
| Profit for the year | - | - | - | - | 154,281 | 154,281 | 1,563 | 155,844 |
| Other comprehensive income | - | - | (446) | 3,950 | 130,374 | 133,878 | - | 133,878 |
| Total comprehensive income | - | - | (446) | 3,950 | 284,655 | 288,159 | 1,563 | 289,722 |
| Dividends | - | - | - | - | - | - | (322) | (322) |
| At 31 December 2021 | 354,550 | (810) | (1,215) | 861 | 2,776,221 | 3,129,607 | 38,723 | 3,168,330 |

| | Share capital £ 000 | Share premium £ 000 | Foreign currency translation £ 000 | Cash flow hedging reserve £ 000 | Retained earnings £ 000 | Total £ 000 | Non-controlling interests £ 000 | Total equity £ 000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2020 | 354,550 | (810) | (1,549) | (1,091) | 2,361,513 | 2,712,613 | 36,466 | 2,749,079 |
| Profit for the year | - | - | - | - | 158,372 | 158,372 | 1,651 | 160,023 |
| Other comprehensive income | - | - | 780 | (1,998) | (28,319) | (29,537) | - | (29,537) |
| Total comprehensive income | - | - | 780 | (1,998) | 130,053 | 128,835 | 1,651 | 130,486 |
| Dividends | - | - | - | - | - | - | (635) | (635) |
| At 31 December 2020 | 354,550 | (810) | (769) | (3,089) | 2,491,566 | 2,841,448 | 37,482 | 2,878,930 |

The notes on pages 54 to 126 form an integral part of these financial statements.

## Northern Powergrid Holdings Company
## Company Statement of Changes in Equity for the Year Ended 31 December 2021

| | Share capital<br>£ 000 | Retained earnings<br>£ 000 | Total<br>£ 000 |
|---|---|---|---|
| At 1 January 2021 | 354,550 | 190,180 | 544,730 |
| Profit for the year | - | 32,820 | 32,820 |
| Total comprehensive income | - | 32,820 | 32,820 |
| At 31 December 2021 | 354,550 | 223,000 | 577,550 |

| | Share capital<br>£ 000 | Retained earnings<br>£ 000 | Total<br>£ 000 |
|---|---|---|---|
| At 1 January 2020 | 354,550 | 129,036 | 483,586 |
| Profit for the year | - | 61,144 | 61,144 |
| Total comprehensive income | - | 61,144 | 61,144 |
| At 31 December 2020 | 354,550 | 190,180 | 544,730 |

## Northern Powergrid Holdings Company
## Consolidated Statement of Cash Flows for the Year Ended 31 December 2021

| | Note | 2021 £ 000 | 2020 £ 000 |
|---|---|---|---|
| **Cash flows from/(used in) operating activities** | | | |
| Profit for the year | | 155,844 | 160,023 |
| Depreciation and amortisation | 5 | 284,297 | 267,172 |
| Depreciation on right of use assets | | 6,426 | 5,549 |
| Amortisation of deferred revenue | | (64,318) | (62,261) |
| Profit on disposal of property plant and equipment | 4 | (1,907) | (189) |
| Impairment of hydrocarbon assets | 4 | - | 34,200 |
| Retirement benefit obligation | | (9,000) | (32,000) |
| Finance income | 6 | (1,612) | (986) |
| Finance costs | 6 | 88,830 | 98,172 |
| Income tax expense | 10 | 141,039 | 72,073 |
| | | 599,599 | 541,753 |
| (Increase)/decrease in inventories | 15 | (1,532) | 1,345 |
| (Increase)/decrease in trade and other receivables | 16 | (12,354) | 5,844 |
| Increase in trade and other payables | 25 | 15,445 | 7,469 |
| (Increase)/decrease in contract assets | 3 | (1,379) | 1,918 |
| Increase in provisions | 24 | 3,946 | 3,013 |
| Cash generated from operations | | 603,725 | 561,342 |
| Income taxes paid | | (59,540) | (72,881) |
| Net cash flow from operating activities | | 544,185 | 488,461 |
| **Cash flows from/(used in) investing activities** | | | |
| Acquisitions of property plant and equipment | | (606,258) | (569,329) |
| Proceeds from sale of property plant and equipment | | 4,598 | 858 |
| Acquisition of intangible assets | 13 | (11,661) | (11,736) |
| Receipt of customer contributions | | 93,427 | 58,795 |
| Interest received | | 522 | 160 |
| Dividend income | 6 | 840 | 761 |
| Fixed asset investments | 14 | - | (1,630) |
| Net cash flows used in investing activities | | (518,532) | (522,121) |
| **Cash flows (used in)/generated from financing activities** | | | |
| Proceeds from long-term borrowing | | 218,000 | 324,078 |
| Transaction costs relating to loans and borrowings | | (4,235) | - |
| Repayment of long-term borrowing | | (166,035) | (366,876) |
| Movement of short-term borrowing | | 470 | - |
| Payments to finance lease creditors | | (6,286) | (5,274) |
| Movement in restricted cash | | 16,758 | (2,885) |
| Interest expense on leases | | (716) | (695) |
| Interest paid | | (94,872) | (118,465) |
| Minority interest paid | | (322) | (635) |
| Net cash flows (used in)/generated from financing activities | | (37,238) | (170,752) |
| Net decrease in cash and cash equivalents | | (11,585) | (204,412) |
| Cash and cash equivalents at 1 January | | 40,710 | 245,122 |

The notes on pages 54 to 126 form an integral part of these financial statements.

**Northern Powergrid Holdings Company**
**Consolidated Statement of Cash Flows for the Year Ended 31 December 2021 (continued)**

| | Note | 2021<br>£ 000 | 2020<br>£ 000 |
|---|---|---|---|
| Cash and cash equivalents at 31 December | | 29,125 | 40,710 |

## Northern Powergrid Holdings Company
## Company Statement of Cash Flows for the Year Ended 31 December 2021

| | Note | 2021<br>£ 000 | 2020<br>£ 000 |
|---|---|---|---|
| **Cash flows from/(used in) operating activities** | | | |
| Profit for the year | | 32,820 | 61,144 |
| Finance income | 6 | (47,413) | (76,772) |
| Finance costs | 6 | 15,236 | 15,182 |
| Income tax expense | | (147) | - |
| | | 496 | (446) |
| Increase in trade and other payables | 25 | 1,292 | 2,404 |
| Cash generated from operations | | 1,788 | 1,958 |
| Income taxes received | | 407 | 2,602 |
| Net cash flow from operating activities | | 2,195 | 4,560 |
| **Cash flows from/(used in) investing activities** | | | |
| Movement in intercompany loans | | (102,538) | (104,796) |
| Interest received | | 47,413 | 76,772 |
| Net cash flows (used in)/ from investing activities | | (55,125) | (28,024) |
| **Cash flows from/(used in) in financing activities** | | | |
| Interest paid | | (14,506) | (14,500) |
| Net decrease in cash and cash equivalents | | (67,436) | (37,964) |
| Cash and cash equivalents at 1 January | | 77,839 | 115,803 |
| Cash and cash equivalents at 31 December | | 10,403 | 77,839 |

The notes on pages 54 to 126 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 the United Kingdom.

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

## 2 Accounting policies

**Statement of compliance**
The group financial statements have been prepared in accordance with International Financial Reporting Standards and its interpretations adopted 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 under the historical cost convention as modified by financial instruments recognised at fair value.

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 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 Directors' Report and the appropriate notes to the financial statements.

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

- The Group's main subsidiaries, NPg Northeast and NPg Yorkshire, are stable electricity distribution businesses operating an essential public service and are regulated by the Gas and Electricity Markets Authority (“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 Group is profitable with strong underlying cash flows. The Company, NPg Northeast and NPg Yorkshire hold investment grade credit ratings;
- The Northern Powergrid Group is financed by long-term borrowings with an average maturity of 25 years and has access to short-term committed borrowing facilities of £242 million provided by Barclays Bank plc, Lloyds Bank plc, HSBC UK Bank plc and Royal Bank of Canada;
- The Northern Powergrid Group benefits from strong investment-grade credit ratings which allow access to a range of financing options. A successful bond issue by the Northern Powergrid Group in April 2022, demonstrates that the Northern Powergrid Group’s bonds remain attractive to investors and there is an active market with strong appetite to invest;
- The Group has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Group has sufficient resources to settle its liabilities as they fall due. The directors have had discussions with the bank who have indicated that they would continue to provide the short-term facilities to the Group for the foreseeable future on acceptable terms.

Consequently, after making enquiries, the directors have a reasonable expectation that the Company and the Group have 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.

**Basis of consolidation**
The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 December 2021.

A subsidiary is an entity controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the group.

The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill.

## 2 Accounting policies (continued)

Inter-company transactions, balances and unrealised gains on transactions between the company and its subsidiaries, which are related parties, are eliminated in full.

Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

### 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 Group's accounting policies and that have the most significant effect on amounts recognised in the consolidated financial statements:

- The split of operating and capital expenditure and the allocation of overheads to property, plant and equipment: The allocation of overheads to capital is derived from a detailed analysis of the costs and their cost drivers which is reviewed on annual basis. The percentage allocation of overheads across the work stream categories are obtained from section managers who are asked to provide reasoning and supporting evidence for the allocation. Finance then undertake a financial impact assessment review and the rationale to ensure it complies with IFRS. The amount of overheads capitalised in the year was £86.8 million (2020: £84.8 million) which was an increase from 59% to 62%.

### Key sources of estimation uncertainty

The following are the 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:

- Assumptions used when evaluating long-term pension plans - these assumptions and their possible impacts are disclosed in note 27.
- Impairment of goodwill evaluation - determining whether goodwill is impaired requires an estimation of the fair value of cash generating units to which goodwill has been allocated. The carrying value of goodwill at the Statement of Financial Position date was £248.8m. The coronavirus pandemic does not have a material impact on the assessment of the fair value used as the basis for the goodwill impairment calculations which are set out in note 13.
- Recognition of deferred tax asset in relation to the tax attributes of the oil and gas business - determining on whether the tax attributes of the oil and gas business (as disclosed in Note 10) are recognised as a deferred tax asset under IAS 12 which requires the business to demonstrate that it is probable that future taxable profits should be available in order to offset these losses.

**2 Accounting policies (continued)**

- Impairment of oil and gas assets - determining whether oil and gas assets included in Notes 11, 13 and 14 are impaired requires an estimation of the value in use of the assets. The carrying value after impairment charges of oil and gas assets at the Statement of Financial Position date was £256.9m in relation to property, and equipment (Note 11), £0.2m in relation to intangible assets (Note 13) and £nil in relation to investment in associates (Note 14). The calculation of discounted future net cash flows for oil and gas assets under development or in production are reviewed at least annually and are most sensitive to the following assumptions:

  • Commercial reserves - oil and gas reserves are calculated on an entitlement basis. Estimates of commercial reserves underpin the calculation of depletion and amortisation on a unit of production basis. Estimates of commercial reserves include estimates of the amount of oil and gas in place, assumptions about the reservoir performance over the life of the field and assumptions about commercial factors which, in turn, will be affected by the future oil and gas price.
  • Production volumes - annual estimates of oil and gas reserves are generated internally with input from operator profiles and technical opinion from management. The estimated future production profiles are used in the life of the fields which in turn are used as a basis in the calculation of discounted future net cash flows.
  • Commodity prices - long term assumptions for oil and gas prices are used for future cash flows in accordance with the judgement of senior management.
  • Fixed and variable operating costs - variables operating costs include examples such as pipeline tariffs and treatment charges. Fixed operating costs are based on operator budgets.
  • Capital expenditure - Field development is capital intensive and future capital expenditure has a significant bearing on the value of an oil and gas development asset. In addition, capital expenditure may be required for producing fields to increase production and/or extend the life of the field.
  • Discount rates - Rates used should reflect the current market assessment of risks specific to the oil and gas sector. A rate of 10% has been applied to the assessment as at 31 December 2021.

  A potential change in any of the above assumptions may cause the estimated future net cash flows to be lower than the carrying value, resulting in an impairment loss. The assumptions which would have the greatest impact on recoverable amounts of the fields are production volumes (linked to recoverable reserves) and commodity prices.

  The impairment assessment carried out concluded that no impairment should be recognised for the oil and gas assets. A 20% reduction in the assumed gas price would result in a reduction in the impairment headroom to £8m, the breakeven reduction in gas price for no impairment charge to arise would be 22%.

**New standards and amendments**

*Effective for periods beginning on or after 1 January 2021*
- Amendment to IFRS 16 - COVID-19 related rent concessions;
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest rate benchmark reform.

These amendments did not have a material impact on the financial statements.

The directors have considered new accounting standards issued that are not yet applicable and have noted no material changes are likely to arise.

## 2 Accounting policies (continued)

### Leases

The Group 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 Group 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 Income Statement.
- Applies a 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 1.753% (2020: 2.43%)

The Group recognises deprecation of right-of-use assets (within administration expenses) and interest on lease liabilities (within finance costs) in the Income Statement. 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.

### 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 primarily recognised on a per unit (volumetric i.e. kWh and capacity (kVA)) and fixed (per 'customer' per day) basis;
- Customer contributions for connections are amortised over the life of the corresponding asset;
- This revenue is recognised in the accounting period when control of the product has been transferred, at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to customers.
- Contracting revenue is recognised in line with expenditure;
- Meter asset provision income is accounted for under lease accounting;
- Intercompany recharges for services provided are based on costs incurred; and
- Other revenue includes assessment and design fees and disconnections from the network and 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 use of system income the revenue for the service is recognised on the basis of agreed charging methodologies which is primarily recognised on a per unit (volumetric i.e. kWh and capacity (kVA)) and fixed (per 'customer' per day) basis;
- For fixed price for contracted service 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 stage payment on long-term contracts revenue is recognised by reference to stage of manufacture at the year end date using contractual rates specified in the contract. Revenue on materials is measured at the actual amount of the material used on the contract at the price specified in the contract.

The performance obligations involved in engineering contracting work are accounted for as follows:

- Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion.
- Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.
- Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of the costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.
- When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Other performance obligations include but are not limited to:
- Provision of vehicles over a specified period accounted for under lease accounting;
- Provisions of exploration equipment over a specified period; and
- Passage of milestones and completion of installation of equipment for engineering contracting.

**2 Accounting policies (continued)**

*Contract modifications*
The group’s contracts are often amended for changes in contract specifications and requirements. Contract modification exists when the amendment either creates new or changes the existing enforceable rights and obligations. The effect of a contract modification on the transaction price and the group’s measure of progress for the performance obligation to which it relates, is recognised as an adjustment to revenue in one of the following ways:

a. Prospectively as an additional separate contract:
b. Prospectively as a termination of the existing contract and creation of a new contract;
c. As part of the original contract using a cumulative catch up; or
d. As a combination of b) and c).

The facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract by contract and may result in different accounting outcomes. Judgement is applied in relation to the accounting for such modifications where the final terms or legal contracts have not been agreed prior to the period end as management need to determine if a modification has been approved and if it either creates new or changes existing enforceable rights and obligations of the parties. Depending upon the outcome of such negotiations, the timing and amount of revenue recognised may be different in the relevant accounting periods. Modification and amendments to contracts are undertaken via an agreed formal process. For example, if a change in scope has been approved but the corresponding change in price is still being negotiated, management use their judgement to estimate the change to the total transaction price.

**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.

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.

*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, as follows:

| **Asset class** | **Depreciation method and rate** |
|---|---|
| Distribution system: | |
| - Generation assets | 15 years |
| - Conventional metering equipment | up to 5 years |
| - Information Technology equipment | up to 10 years |
| - Land | not depreciated |
| - Other system assets | 45 years |
| Land and buildings: | |
| - Freehold buildings | up to 60 years |

**2 Accounting policies (continued)**

| | |
|---|---|
| - Leasehold buildings | lower of lease period or 60 years |
| - Non Operational land | not depreciated |
| Furniture, fittings and equipment | up to 10 years |
| Metering equipment | up to 15 years |

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any material changes in those estimates accounted for on a prospective basis. Due to the significance of the Groups's investment in property, plant and equipment, variations in estimates could impact operating results both positively and negatively although, historically, few changes have been required.

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 Group'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.

**Goodwill**
Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Goodwill is not subject to amortisation but is tested for impairment.

Negative goodwill arising on an acquisition is recognised directly in the income statement. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the income statement on disposal.

**Intangible assets 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 | up to 15 years |

**Oil and gas assets**
Exploration and appraisal costs are accounted for on the successful efforts basis. All costs relating to licence and data acquisition, geological and geophysical activity and exploration and appraisal drilling are initially capitalised as intangible oil and gas assets pending determination of the commercial potential of the relevant oil and gas properties. Exploration costs, which are not incurred under a specific licence, are written off in the year incurred. If prospects are subsequently deemed to be unsuccessful on completion of evaluation, the associated costs are charged to the statement of profit or loss in the year in which that determination is made. If the prospects are deemed to be commercially viable, such costs are transferred to tangible oil and gas assets under property, plant and equipment.

Depreciation, depletion and amortisation for oil and gas properties is calculated on a unit-of-production basis, using the ratio of oil and gas production in the period to the estimated quantities of proven and probable reserves at the end of the period plus production in the period, on a field-by-field basis. Proven and probable reserve estimates are based on a number of underlying assumptions including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain. Management uses established industry techniques to generate its estimates and regularly references its estimates against those of joint venture partners or external consultants. However, the amount of reserves that will ultimately be recovered from any field cannot be known with certainty until the end of the field's life.

## 2 Accounting policies (continued)

Where there has been a change in economic or commercial conditions that indicates a possible impairment in a field, the recoverability of the net book value relating to that field, less any provisions for decommissioning costs, is assessed by comparison with the estimated discounted future net cash flows based on management's expectations of future gas and oil prices and future costs. Any impairment identified is charged to the statement of profit or loss as additional depreciation. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the statement of profit or loss.

**Investments in associates and joint ventures**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have the rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting except when classified as held for sale. Investments in associates or joint venture entities are initially recognised at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture, the Group discontinues recognising its share of future losses.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Fixed asset investments are stated at cost less provision or amounts written off for impairment in value.

**Investments in subsidiaries**

Investments in subsidiaries are account for at cost less impairment.

**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. Amounts borrowed under overdraft facilities are included within borrowings on the statement of financial position, however included within cash and cash equivalents on the statement of cash flows.

**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 the average cost method.

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.

**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.

**2 Accounting policies (continued)**

**Financial instruments**

**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 FVTPL.

Financial liabilities are classified into one of the following two categories:
· financial liabilities at amortised cost; or
· financial liabilities at 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:

**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 FVTOCI or 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.

**2 Accounting policies (continued)**

**Financial assets at fair value through other comprehensive income**
A financial asset is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL:
· 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**
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; and

(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.

**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.

**2 Accounting policies (continued)**

*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.

**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 FVTPL, 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.

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.

**2 Accounting policies (continued)**

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 2021 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.

**Derivative financial instruments**
Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

Derivative financial instruments are recognised in the statement of financial position at fair value. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate.

In the statement of financial position, derivative financial instruments with positive fair values (unrealised gains) are included as assets and derivative financial instruments with negative fair values (unrealised losses) are included as liabilities.

**Hedge accounting**
Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities.

The group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the group formally documents the relationship between the hedging instruments and hedge items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting that changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated.

## 2 Accounting policies (continued)

These hedging relationships are discussed below.

*Cash flow hedges*
The group makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, then the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income ("OCI") and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central clearing counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.

**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 is 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.

**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.

- The split of operating and capital expenditure and the allocation of overheads to property, plant and equipment: The allocation of overheads to capital is derived from a detailed analysis of the costs and their cost drivers which is reviewed on annual basis. The percentage allocation of overheads across the work stream categories are obtained from section managers who are asked to provide reasoning and supporting evidence for the allocation. Finance then undertake a financial impact assessment review and the rationale to ensure it complies with IFRS. The amount of overheads capitalised in the year was £86.8 million (2020: £86.2 million).

## 3 Revenue

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

| | 2021<br>£ 000 | 2020<br>£ 000 |
|---|---|---|
| Distribution revenue | 750,676 | 695,986 |
| Amortisation of deferred revenue | 64,318 | 62,261 |
| Contracting revenue | 20,688 | 16,328 |
| Meter asset rental | 81,106 | 76,741 |
| Other revenue | 1,537 | 2,402 |
| | 918,325 | 853,718 |

The tables below represent the internal information provided to the President and Chief Executive Officer of the Group for the purposes of resource allocation and segmental performance appraisal. The Group operates in four principal areas of activity, those of the distribution of electricity, engineering contracting, gas exploration and smart meter rental in the United Kingdom.

Reportable segments are those that meet two or more of the following criteria under IFRS 8:
- Its reported revenue is 10% or more of the combined revenue of all segments;
- The absolute measure of its profit or loss is 10% or more of the combined reported profit; and
- Its assets are 10% or more of the combined assets of all segments.

NPg Northeast and NPg Yorkshire are aggregated into a single operating segment, "Distribution", as they have similar characteristics and are similar in the nature of their products and services, their processes, and the type of customer that utilise their products and services. The distribution segment includes distribution revenue and amortisation of deferred revenue listed above, all other revenue is included in "other" in the segmental analysis.

"Other" comprises engineering contracting, hydrocarbon exploration, smart meter rental and business support units.

## 3 Revenue (continued)

| 2021 | Distribution £ 000 | Other £ 000 | Total £ 000 |
|---|---|---|---|
| Revenue | 814,994 | 103,331 | 918,325 |
| Inter-segment sales | 1,184 | (1,184) | - |
| Total revenue | 816,178 | 102,147 | 918,325 |
| Operating profit | 362,218 | 19,976 | 382,194 |
| Other (losses)/gains | | | 1,907 |
| Finance costs | | | (88,830) |
| Finance income | | | 1,612 |
| Profit before tax | | | 296,883 |
| Capital additions | 472,143 | 142,780 | 614,923 |
| Depreciation and amortisation | 231,492 | 59,231 | 290,723 |
| Amortisation of deferred revenue | (64,318) | - | (64,318) |
| Segment assets | 6,744,153 | 830,935 | 7,575,089 |
| Unallocated corporate assets | | | 272,768 |
| Total assets | | | 7,847,857 |
| Segment liabilities | (1,865,766) | (292,337) | (2,158,103) |
| Unallocated corporate liabilities | | | (2,521,154) |
| Total liabilities | | | (4,679,527) |
| Segment net assets | 4,878,388 | 538,598 | 5,416,986 |
| Unallocated net corporate liabilities | | | (2,248,656) |
| Total net assets | | | 3,168,330 |

**3 Revenue (continued)**

| **2020** | **Distribution £ 000** | **Other £ 000** | **Total £ 000** |
|---|---|---|---|
| Revenue | 758,247 | 95,471 | 853,718 |
| Inter-segment sales | 1,069 | (1,069) | - |
| Total revenue | 759,316 | 94,402 | 853,718 |
| Operating profit | 313,191 | 50,102 | 363,293 |
| Other (losses)/gains | | | (34,011) |
| Finance costs | | | (98,172) |
| Finance income | | | 986 |
| Profit before tax | | | 232,096 |
| Capital additions | 453,246 | 139,470 | 592,716 |
| Depreciation and amortisation | 218,127 | 54,594 | 272,721 |
| Amortisation of deferred revenue | (62,261) | - | (62,261) |
| Segment assets | 6,479,973 | 770,464 | 7,250,436 |
| Unallocated corporate assets | | | 120,614 |
| Total assets | | | 7,371,051 |
| Segment liabilities | (1,822,501) | (127,878) | (1,950,380) |
| Unallocated corporate liabilities | | | (2,541,740) |
| Total liabilities | | | (4,492,120) |
| Segment net assets | 4,657,471 | 642,585 | 5,300,057 |
| Unallocated net corporate liabilities | | | (2,421,127) |
| Total net assets | | | 2,878,930 |

Sales to the E.ON group in 2021 of £171.8 million (2020: £170.7 million) and to British Gas plc in 2021 of £90.9 million (2020: £84.4 million) are included within the Distribution segment.

Contract assets arise where goods or services are transferred to the customer before the customer pays consideration, or before payment is due. All contract assets relate to engineering contracting work within Integrated Utility Services. Contracts in progress at statement of financial position date:

## 3 Revenue (continued)

**Assets recognised from costs to fulfil a contract with customers**

| | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
|---|---|---|
| Contract costs incurred plus recognised profit less recognised losses to date | 37,952 | 35,938 |
| Less: progress billings | (30,359) | (29,724) |
| | 7,593 | 6,214 |

At 31 December 2021, no retentions are held by customers for contract work (2020: £0.4 million).

Advances received from customers for contract work amounted to £nil (2020: £nil).

The Company had no contract assets at 31 December 2021 (2020: £nil).

## 4 Other gains and losses

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

| | 2021 £ 000 | 2020 £ 000 |
|---|---|---|
| Gain on disposal of property, plant and equipment | 1,907 | 189 |
| Impairment of intangible assets | - | (6,900) |
| Impairment of Fixed Asset Investment | - | (27,300) |
| | 1,907 | (34,011) |

## 5 Operating profit

Arrived at after charging/(crediting)

| | 2021 £ 000 | 2020 £ 000 |
|---|---|---|
| Depreciation expense | 269,817 | 256,724 |
| Depreciation on right of use assets | 6,426 | 5,549 |
| Amortisation expense | 14,480 | 10,448 |
| Research and development | 2,206 | 3,627 |
| Trade and other receivables loss allowance | 11,494 | 3,087 |
| Amortisation of deferred revenue | (64,318) | (62,261) |

Amortisation expense is included in administration costs within the statement of profit or loss on page 44.

## 6 Finance income and costs

| | 2021 £ 000 | 2020 £ 000 |
|---|---|---|
| **Finance income** | | |
| Other finance income | 1,612 | 986 |
| **Finance costs** | | |
| Interest on bank overdrafts and borrowings | (96,732) | (103,409) |
| Interest expense on leases | (716) | (695) |
| Borrowing costs included in cost of qualifying asset | 8,618 | 5,932 |
| Total finance costs | (88,830) | (98,172) |
| Net finance costs | (87,218) | (97,186) |

Borrowing costs included in the costs of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 3.28% within NPg Northeast (2020: 4.16%), 3.28% within NPg Yorkshire (2020: 3.40%) and 4.5% within oil and gas assets (2020: 4.5%).

## 7 Staff costs

| | 2021 £ 000 | 2020 £ 000 |
|---|---|---|
| Salaries | 138,068 | 126,512 |
| Social security costs | 15,846 | 14,819 |
| Defined benefit pension cost | 12,760 | 12,000 |
| Defined contribution pension cost | 9,375 | 8,060 |
| | 176,049 | 161,391 |
| Less charged to property plant and equipment | (96,416) | (92,196) |
| | 79,633 | 69,195 |

A large proportion of the Group's employees are members of the DB Scheme, details of which are given in the Employee Benefit Obligations note 27.

The monthly average number of persons employed by the Group (including directors) during the year was as follows:

| | 2021 No. | 2020 No. |
|---|---|---|
| Distribution | 2,388 | 2,292 |
| Engineering contracting | 138 | 143 |
| Hydrocarbon exploration and development | 17 | 17 |
| Other | 14 | 14 |
| | 2,557 | 2,466 |

The Company had no employees in the years ended 31 December 2021 and 31 December 2020.

## 8 Directors' remuneration

The directors' remuneration for the year was as follows:

## 8 Directors' remuneration (continued)

| | 2021 £ | 2020 £ |
|---|---|---|
| **Highest paid** | | |
| Short-term employee benefits | 775,084 | 799,298 |
| Other long-term benefits | 851,543 | 782,841 |
| | 1,626,627 | 1,582,139 |
| **Total** | | |
| Short-term employee benefits | 961,728 | 1,211,807 |
| Post-retirement benefits - defined contribution | 17,930 | 17,238 |
| Other long-term benefits | 964,181 | 946,398 |
| | 1,943,839 | 2,175,443 |
| **Post retirement benefits** | | |
| Directors who are members of a defined contribution scheme | 2 | 3 |
| Directors who are members of a defined benefit scheme | - | - |

| | 2021 £ | 2020 £ |
|---|---|---|
| **Key personnel remuneration** | | |
| Short-term employee benefits | 1,196,078 | 1,081,415 |
| Post-retirement benefits - defined benefit | 47,907 | 10,924 |
| Post-retirement benefits - defined contribution | 171,824 | 112,144 |
| Other long-term benefits | 480,589 | 311,005 |
| | 1,896,398 | 1,515,488 |

Other key personnel includes a number of senior functional managers who, whilst not board directors, have authority and responsibility for planning, directing and controlling activities of the Group.

## 9 Auditor's remuneration

The auditor's remuneration for the year was as follows:

| | 2021 £ 000 | 2020 £ 000 |
|---|---|---|
| Fees payable to the auditor for audit of the Company's annual accounts | 247 | 164 |
| Fees payable to the auditor for audit of the Company's subsidiaries pursuant to legislation | 752 | 832 |
| Total audit fees | 999 | 996 |
| Audit of regulatory reporting | 103 | 103 |
| Other services | 121 | 38 |
| Total auditor's remuneration | 1,223 | 1,137 |

Other services relate to non-statutory audit services including ESEF assurance, apprentice levy assurance, bond issuance and pensions.

## 10 Income tax

Tax charged in the income statement

| | 2021 £ 000 | 2020 £ 000 |
|---|---|---|
| **Current taxation** | | |
| UK corporation tax | 59,227 | 55,373 |
| UK corporation tax adjustment to prior periods | (2,130) | (213) |
| Petroleum revenue tax | (424) | 214 |
| | 56,673 | 55,374 |
| **Deferred taxation** | | |
| Arising from origination and reversal of temporary differences | (35) | (12,966) |
| Deferred tax expense/(credit) from unrecognised temporary difference from a prior period | 1,262 | (228) |
| Deferred tax expense/(credit) relating to changes in tax rates or laws | 83,139 | 29,893 |
| Total deferred taxation | 84,366 | 16,699 |
| Tax expense in the income statement | 141,039 | 72,073 |

## 10 Income tax (continued)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2020 - higher than the standard rate of corporation tax in the UK) of 19.00% (2020 - 19.00%).

The differences are reconciled below:

| | 2021 £ 000 | 2020 £ 000 |
|---|---|---|
| Profit before tax | 296,883 | 232,096 |
| Corporation tax at standard rate | 56,408 | 44,098 |
| Increase in deferred tax due to changes in tax rates or laws | 83,139 | 29,893 |
| Tax effect of result of joint venture entities | (207) | (165) |
| Decrease in current tax from adjustment for prior periods | (2,130) | (213) |
| Permanent differences (including non-taxable dividends) | 293 | (420) |
| Pension contributions recognised in other comprehensive income | (255) | (262) |
| Increase/(decrease) in deferred tax from adjustment for prior periods | 1,262 | (228) |
| Non-deductible interest | 457 | 1,131 |
| Current year and prior year tax losses which are not recognised for deferred tax | 4,621 | 1,100 |
| Recognition of ring-fenced supplement | - | (6,783) |
| Petroleum revenue tax | (345) | 108 |
| Overseas taxes- non taxable foreign exchange | (322) | 400 |
| Release of deferred tax in respect to prior year holdover relief claims due to asset reinvestment | (312) | (1,367) |
| UK:UK transfer pricing adjustments | (456) | (456) |
| Impairment of investment in Baltic Gas assets | - | 5,192 |
| Difference in tax rates arising on ring fence trade | (1,088) | - |
| Other tax effects for reconciliation between accounting profit and tax expense/(income) | (26) | 45 |
| Total tax charge | 141,039 | 72,073 |

Finance Act 2021 was enacted on the 10 June 2021 and the impact of the Finance Act has increased the rate of corporation tax from 19% to 25% from 1 April 2023. As a result, deferred tax balances have been re-measured at the 25% rate and this remeasurement (after taking into account the estimated temporary differences which will reverse at the 19% rate prior to 1 April 2023) has given rise to an increased deferred tax liability of £83.1m which is reflected within the above tax charge.

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 gave rise to an increased deferred tax liability of £29.9m as at 31 December 2020 which is reflected within the prior year tax charge.

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

**10 Income tax (continued)**

Amounts recognised in other comprehensive income

| | Before tax £ 000 | 2021 Tax (expense) benefit £ 000 | Net of tax £ 000 |
|---|---|---|---|
| Gain/(loss) on cash flow hedges (net) | 4,962 | (1,012) | 3,950 |
| Foreign currency translation gains/(losses) | (446) | - | (446) |
| Remeasurements of post employment benefit obligations (net) | 165,100 | (34,726) | 130,374 |
| | 169,616 | (35,738) | 133,878 |

| | Before tax £ 000 | 2020 Tax (expense) benefit £ 000 | Net of tax £ 000 |
|---|---|---|---|
| Gain/(loss) on cash flow hedges (net) | (2,500) | 502 | (1,998) |
| Foreign currency translation gains/(losses) | 780 | - | 780 |
| Remeasurements of post employment benefit obligations (net) | (37,300) | 8,981 | (28,319) |
| | (39,020) | 9,483 | (29,537) |

## 10 Income tax (continued)

### Deferred tax

**Group**
Deferred tax assets and liabilities

Deferred tax movement during the year:

| | At 1 January 2021 £ 000 | Recognised in income £ 000 | Recognised in other comprehensive income £ 000 | At 31 December 2021 £ 000 |
|---|---|---|---|---|
| Accelerated tax depreciation | 297,567 | 104,944 | - | 402,511 |
| Rollover/holdover relief | 3,538 | (544) | - | 2,994 |
| Pension benefit obligations | 8,959 | 9,496 | 36,976 | 55,431 |
| Other items | (3,929) | (1,835) | 1,012 | (4,752) |
| Losses | (66,404) | (29,946) | - | (96,350) |
| Net tax liabilities/(assets) | 239,731 | 82,116 | 37,988 | 359,834 |

Deferred tax movement during the prior year:

| | At 1 January 2020 £ 000 | Recognised in income £ 000 | Recognised in other comprehensive income £ 000 | Recognised on acquisition £ 000 | At 31 December 2020 £ 000 |
|---|---|---|---|---|---|
| Accelerated tax depreciation | 230,555 | 67,012 | - | - | 297,567 |
| Rollover/holdover relief | 6,147 | (2,609) | - | - | 3,538 |
| Pension benefit obligations | 9,078 | 2,699 | (2,818) | - | 8,959 |
| Other items | (2,498) | (929) | (502) | - | (3,929) |
| Losses | (17,743) | (49,474) | - | 813 | (66,404) |
| Net tax assets/(liabilities) | 225,539 | 16,699 | (3,320) | 813 | 239,731 |

The other deferred tax asset of £4.8m (2020:£3.9m) includes the tax benefit on interest accrued on fair value adjustments on borrowings acquired on the acquisition of Yorkshire Power Group Limited, cash flow hedges and employee benefits which are deductible on a paid basis. Within pension benefit obligations the movement in the year represents deferred tax on the movement in retirement benefit obligation/asset. A proportion of the movement has been capitalised in property, plant and equipment.

The losses deferred tax asset of £96.3m (2020: £66.4m) includes a deferred tax asset of £0.3m (2020:£0.1m) in respect of site restoration provisions.

The Group has a net deferred tax asset of £12.3m (2020: £11.4m) included within the deferred tax asset above in relation to the tax attributes of its hydrocarbon exploration projects as at 31 December 2021 which is supported by the financial modelling which has been undertaken in relation to its commercial projects which forecasts that there will be sufficient future taxable profits which will utilise this net deferred tax asset in full.

The Company had no deferred tax liability as at 31 December 2021 (2020: £nil).

A subsidiary included a group relief claim from a Berkshire Hathaway group company for losses of £90.6m within its corporation tax return for the 31 December 2015 and as part of the agreement the parties agreed a discounted payment for these losses. This would give rise to a potential tax asset to recognise in the Group of £6.8m. However, this tax asset has not been recognised to date on the basis the surrendering company was dissolved prior to the formal group relief surrender being made and as a result the surrenderers previous shareholder is currently in ongoing discussions with HM Revenue & Customs to establish and agree a mechanism which will permit a valid group relief surrender of the losses which meets the requirements of the tax legislation. The progress of these discussions is reviewed by the company on a regular basis.

## 11 Property, plant and equipment

### Group

| | Land and buildings £ 000 | Distribution system £ 000 | Metering equipment £ 000 | Oil & gas assets £ 000 | Furniture, fittings and equipment £ 000 | Total £ 000 |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| At 1 January 2020 | 8,229 | 8,114,396 | 526,781 | 76,486 | 98,785 | 8,824,677 |
| Additions | 453 | 438,199 | 26,497 | 111,058 | 4,773 | 580,980 |
| Disposals | - | (22,648) | (12,674) | - | (110) | (35,432) |
| Foreign exchange movements | - | - | - | 451 | - | 451 |
| At 31 December 2020 | 8,682 | 8,529,947 | 540,604 | 187,995 | 103,448 | 9,370,676 |
| At 1 January 2021 | 8,682 | 8,529,947 | 540,604 | 187,995 | 103,448 | 9,370,676 |
| Additions | (278) | 455,812 | 56,998 | 85,060 | 5,672 | 603,264 |
| Disposals | - | (26,476) | (29,238) | - | (1) | (55,715) |
| Foreign exchange movements | - | - | - | (327) | - | (327) |
| At 31 December 2021 | 8,404 | 8,959,283 | 568,364 | 272,728 | 109,119 | 9,917,898 |
| **Depreciation** | | | | | | |
| At 1 January 2020 | 5,141 | 2,101,556 | 245,078 | 14,639 | 83,651 | 2,450,065 |
| Charge for year | 281 | 201,487 | 47,130 | 895 | 6,931 | 256,724 |
| Eliminated on disposal | - | (22,648) | (12,005) | - | (110) | (34,763) |
| At 31 December 2020 | 5,422 | 2,280,395 | 280,203 | 15,534 | 90,472 | 2,672,026 |
| At 1 January 2021 | 5,422 | 2,280,395 | 280,203 | 15,534 | 90,472 | 2,672,026 |
| Charge for the year | 193 | 212,645 | 51,169 | 332 | 5,478 | 269,817 |
| Eliminated on disposal | - | (26,476) | (26,547) | - | (1) | (53,024) |
| At 31 December 2021 | 5,615 | 2,466,564 | 304,825 | 15,866 | 95,949 | 2,888,819 |
| **Carrying amount** | | | | | | |
| At 31 December 2020 | 3,260 | 6,249,552 | 260,401 | 172,461 | 12,976 | 6,698,650 |
| At 31 December 2021 | 2,789 | 6,492,719 | 263,539 | 256,862 | 13,170 | 7,029,079 |

### 11 Property, plant and equipment (continued)

Expenditure recognised in the carrying amount of property, plant and equipment in the course of construction was as follows:

| | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
|---|---|---|
| Distribution system | 426,827 | 420,397 |

Contractual commitments for the acquisition of property, plant and equipment were as follows:

| | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
|---|---|---|
| Distribution system | 71,904 | 98,620 |

### 12 Right of use assets

**Group**

| | Fleet £ 000 | Property £ 000 | Land £ 000 | Total £ 000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At 1 January 2020 | 17,525 | 5,022 | - | 22,547 |
| Additions | 6,931 | 2,331 | 1,923 | 11,185 |
| Disposals | (608) | (286) | - | (894) |
| At 31 December 2020 | 23,848 | 7,067 | 1,923 | 32,838 |
| Additions | 6,431 | 415 | - | 6,846 |
| Disposals | (1,096) | (87) | - | (1,183) |
| At 31 December 2020 | 29,183 | 7,395 | 1,923 | 38,501 |
| **Depreciation** | | | | |
| At 1 January 2020 | 3,594 | 905 | - | 4,499 |
| Charge for year | 4,567 | 955 | 27 | 5,549 |
| Eliminated on disposal | (608) | (286) | - | (894) |
| At 31 December 2020 | 7,553 | 1,574 | 27 | 9,154 |
| Charge for the year | 5,394 | 967 | 64 | 6,425 |
| Eliminated on disposal | (1,096) | (87) | - | (1,183) |
| At 31 December 2020 | 11,851 | 2,454 | 91 | 14,396 |
| **Carrying amount** | | | | |
| At 31 December 2021 | 17,332 | 4,941 | 1,832 | 24,105 |
| At 31 December 2020 | 16,295 | 5,493 | 1,896 | 23,684 |

## 13 Intangible assets

### Group

| | Goodwill £ 000 | Software development £ 000 | Oil & Gas exploration £ 000 | Total £ 000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At 1 January 2019 | 248,843 | 162,266 | 74,639 | 485,748 |
| Additions | - | 9,154 | 2,582 | 11,736 |
| At 31 December 2019 | 248,843 | 171,420 | 77,221 | 497,484 |
| At 1 January 2021 | 248,843 | 171,420 | 77,221 | 497,484 |
| Additions | - | 9,554 | 2,107 | 11,661 |
| Disposals | - | (714) | - | (714) |
| At 31 December 2021 | 248,843 | 180,260 | 79,328 | 508,431 |
| **Amortisation** | | | | |
| At 1 January 2020 | - | 109,837 | 69,555 | 179,392 |
| Amortisation charge | - | 10,279 | 169 | 10,448 |
| Impairment | - | - | 6,900 | 6,900 |
| At 31 December 2020 | - | 120,116 | 76,624 | 196,740 |
| At 1 January 2021 | - | 120,116 | 76,624 | 196,740 |
| Amortisation charge | - | 11,926 | 2,554 | 14,480 |
| Amortisation eliminated on disposals | - | (714) | - | (714) |
| At 31 December 2021 | - | 131,328 | 79,178 | 210,506 |
| **Carrying amount** | | | | |
| At 31 December 2021 | 248,843 | 48,932 | 150 | 297,925 |
| At 31 December 2020 | 248,843 | 51,304 | 597 | 300,744 |

During the year the amount of contractual commitments for the acquisition of intangible assets amounted to £2.9 million (2020: £4.5m).

### 13 Intangible assets (continued)

**Goodwill**

All the goodwill arose on the acquisition of Yorkshire Power Group Limited prior to the adoption of IFRS by the Group. In accordance with the transitional rules on first time adoption, the allocation of goodwill to cash generating units ("CGU") has not been reassessed from that used in the previous UK GAAP accounts.

The Group's distribution activities comprise two cash generating units ("CGUs") with carrying values as follows:

| | 2021<br>£ m | 2020<br>£ m |
|---|---|---|
| Northern Powergrid (Northeast) plc | 2,206 | 2,122 |
| Northern Powergrid (Yorkshire) plc (including Goodwill) | 3,104 | 2,967 |
| | 5,310 | 5,089 |

The carrying values of the CGUs comprise tangible and intangible assets with finite lives and are net of deferred revenues. In addition, the Northern Powergrid (Yorkshire) plc CGU includes goodwill of £248.8m (2020: £248.8m).

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from fair value less costs of disposal calculations with reference to recent market transactions for similar assets. The key assumptions for the calculations are those regarding the premium to RAV.

The RAV premia used to determine the fair value was assessed against the RAV premia implicit in comparable market transactions. The fair value measurement is categorised as Level 2 in the fair value hierarchy.

The current carrying value of the Northern Powergrid (Yorkshire) plc CGU is at 1.50 times premia to RAV and the Northern Powergrid (Northeast) plc CGU is 1.42 times premia to RAV. We have noted a transaction of 1.61 times premia to RAV, which provides an external benchmark that our internal valuation is supportable.. We have utilised an estimated RAV as at 31 December 2021 of £1,558m for Northern Powergrid (Northeast) plc and £2,076m for Northern Powergrid (Yorkshire) plc.

The application of these assumptions did not give rise to an impairment charge in 2021 (2020: £nil).

The sensitivity of changes in the assumptions used in the impairment calculation is:

| RAV premium sensitivity | Variable used | Fair value<br>£ 000 | Headroom/<br>(Impairment)<br>£ 000 |
|---|---|---|---|
| Base Case | | | |
| Northern Powergrid (Northeast) plc | 60% | 2,493,000 | 287,000 |
| Northern Powergrid (Yorkshire) plc | 60% | 3,322,000 | 218,000 |
| | | | |
| Downside 5% RAV premium reduction: | | | |
| Northern Powergrid (Northeast) plc | 55% | 2,415,000 | 209,000 |
| Northern Powergrid (Yorkshire) plc | 55% | 3,218,000 | 114,000 |

## 14 Investments

| | Investment in joint ventures £ 000 | Investment in associate £ 000 | Share in other undertakings £ 000 | Total £ 000 |
|---|---|---|---|---|
| At 1 January 2020 | 3,518 | 25,714 | 21 | 29,253 |
| Additions | - | 1,630 | - | 1,630 |
| Impairment | - | (27,300) | - | (27,300) |
| Profit from investments | 870 | (44) | - | 826 |
| Dividends paid by investments | (761) | - | - | (761) |
| At 31 December 2020 | 3,627 | - | 21 | 3,648 |
| Profit from investments | 1,090 | - | - | 1,090 |
| Dividends paid by investments | (840) | - | - | (840) |
| At 31 December 2021 | 3,877 | - | 21 | 3,898 |

**Summary of the Company investments**

| | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
|---|---|---|
| Investments in subsidiaries | 376,289 | 376,289 |

### 14 Investments (continued)

**Group subsidiaries**

Details of the Group subsidiaries as at 31 December 2021 are as follows:

| Name of subsidiary | Principal activity | Registered office and country of incorporation | Proportion of ownership interest and voting rights held 2021 | 2020 |
|---|---|---|---|---|
| Northern Powergrid UK Holdings* | Holding company | England and Wales | 99% | 99% |
| Yorkshire Power Group Limited | Holding Company | England and Wales | 99% | 99% |
| CalEnergy Gas Limited | Hydrocarbon exploration and development | 3rd floor, 55 Drury Lane, London, WC2B 5SQ, England and Wales | 100% | 100% |
| CalEnergy Gas (Holdings) Limited* | Holding company | England and Wales | 100% | 100% |
| CalEnergy Resources Limited | Holding company | England and Wales | 100% | 100% |
| CalEnergy Resources Poland Sp. zo.o | Hydrocarbon exploration and development | AL. Wilanowska 206 app. 19, 02-765, Warsaw, Poland | 100% | 100% |
| CalEnergy Resources (Australia) Limited | Hydrocarbon exploration and development | 3rd Floor, 55 Drury Lane, London, WC2B 5SQ, England and Wales | 100% | 100% |
| CE Electric Services Limited | Dormant | England and Wales | 100% | 100% |
| Central Powergrid Limited | Dormant | England and Wales | 100% | 100% |
| East PowerGrid Limited | Dormant | England and Wales | 100% | 100% |
| Eastern PowerGrid Limited | Dormant | England and Wales | 100% | 100% |
| Infastructure North Limited | Dormant | England and Wales | 100% | 100% |
| Integrated Utility Services Limited | Engineering contracting services | England and Wales | 100% | 100% |
| Integrated Utility Services Limited | Engineering contracting services | C11 Gateway, Rosemount Business Park, Ballycoolin, Dublin 15, Ireland | 100% | 100% |
| IUS Limited | Dormant | England and Wales | 100% | 100% |
| Midlands PowerGrid Limited | Dormant | England and Wales | 100% | 100% |
| NEDL Limited | Dormant | England and Wales | 100% | 100% |
| North East PowerGrid Limited | Dormant | England and Wales | 100% | 100% |
| North Eastern Powergrid Limited | Dormant | England and Wales | 100% | 100% |
| North PowerGrid Limited | Dormant | England and Wales | 100% | 100% |

**14 Investments (continued)**

| Name of subsidiary | Principal activity | Registered office and country of incorporation | Proportion of ownership interest and voting rights held 2021 | 2020 |
|---|---|---|---|---|
| North West PowerGrid Limited | Dormant | England and Wales | 100% | 100% |
| North Western PowerGrid Limited | Dormant | England and Wales | 100% | 100% |
| Northern Electric Distribution Limited | Dormant | England and Wales | 100% | 100% |
| Northern Electric Finance plc | Finance company | England and Wales | 100% | 100% |
| Northern Electric plc** | Holding company | England and wales | 100% | 100% |
| Northern Electric Properties Limited* | Property holding and management company | England and Wales | 100% | 100% |
| Northern Electric Share Scheme Trustee Limited | Dormant | England and Wales | 100% | 100% |
| Northern Electricity (North East) Limited | Dormant | England and Wales | 100% | 100% |
| Northern Electricity (Yorkshire) Limited | Dormant | England and Wales | 100% | 100% |
| Northern Electricity Limited | Dormant | England and Wales | 100% | 100% |
| Northern Electricity Networks Company (North East) Limited | Dormant | England and Wales | 100% | 100% |
| Northern Electricity Networks Company (Yorkshire) Limited | Dormant | England and Wales | 100% | 100% |
| Northern Electricity Networks Company Limited | Dormant | England and Wales | 100% | 100% |
| Northern Electrics Limited | Dormant | England and Wales | 100% | 100% |
| Northern Energy Funding Company Limited | Dormant | England and Wales | 100% | 100% |
| Northern Metering Services Limited | Dormant | England and Wales | 100% | 100% |
| Northern Powergrid Gas Limited* | Holding company | England and Wales | 100% | 100% |
| Northern Powergrid Limited | Holding company | England and Wales | 100% | 100% |
| Northern Powergrid Metering Limited | Meter asset provider | England and Wales | 100% | 100% |
| Northern Powergrid (Northeast) plc | Distribution of electricity | England and Wales | 100% | 100% |
| Northern PowerGrid (North West) Limited | Dormant | England and Wales | 100% | 100% |
| Northern Powergrid (Yorkshire) plc | Distribution of electricity | England and Wales | 100% | 100% |

**14 Investments (continued)**

| Name of subsidiary | Principal activity | Registered office and country of incorporation | Proportion of ownership interest and voting rights held 2021 | 2020 |
|---|---|---|---|---|
| Northern Power Networks Company (North East) Limited | Dormant | England and Wales | 100% | 100% |
| NewGen Drilling Pty Limited | Hydrocarbon exploration and development | Level 1, 12 St Georges Terrace, Perth, W A 6000, Australia | 100% | 100% |
| Northern Power Networks Company (Yorkshire) Limited | Dormant | England and Wales | 100% | 100% |
| Northern Powergrid Networks Company Limited | Dormant | England and Wales | 100% | 100% |
| Northern Transport Finance Limited | Car finance company | England and Wales | 100% | 100% |
| Northern Utility Services Limited | Dormant | England and Wales | 100% | 100% |
| PowerGrid (Central) Limited | Dormant | England and wales | 100% | 100% |
| PowerGrid (East) Limited | Dormant | England and Wales | 100% | 100% |
| PowerGrid (Eastern) Limited | Dormant | England and Wales | 100% | 100% |
| PowerGrid (Midlands) Limited | Dormant | England and Wales | 100% | 100% |
| PowerGrid (North East) Limited | Dormant | England and Wales | 100% | 100% |
| PowerGrid (North Eastern) Limited | Dormant | England and Wales | 100% | 100% |
| PowerGrid (North West) Limited | Dormant | England and Wales | 100% | 100% |
| PowerGrid (North Western) Limited | Dormant | England and Wales | 100% | 100% |
| PowerGrid (North) Limited | Dormant | England and Wales | 100% | 100% |
| PowerGrid (Northern) Limited | Dormant | England and Wales | 100% | 100% |
| PowerGrid (South East) Limited | Dormant | England and Wales | 100% | 100% |
| PowerGrid (South Eastern) Limited | Dormant | England and Wales | 100% | 100% |
| PowerGrid (South West) Limited | Dormant | England and Wales | 100% | 100% |
| PowerGrid (South Western) Limited | Dormant | England and Wales | 100% | 100% |
| PowerGrid (South) Limited | Dormant | England and Wales | 100% | 100% |
| PowerGrid (Southern) Limited | Dormant | England and Wales | 100% | 100% |
| PowerGrid (West) Limited | Dormant | England and Wales | 100% | 100% |

### 14 Investments (continued)

| Name of subsidiary | Principal activity | Registered office and country of incorporation | Proportion of ownership interest and voting rights held 2021 | 2020 |
|---|---|---|---|---|
| Powergrid (Western) Limited | Dormant | England and Wales | 100% | 100% |
| PowerGrid (Yorkshire) Limited | Dormant | England and Wales | 100% | 100% |
| South East PowerGrid Limited | Dormant | England and Wales | 100% | 100% |
| South Eastern PowerGrid Limited | Dormant | England and Wales | 100% | 100% |
| South PowerGrid Limited | Dormant | England and Wales | 100% | 100% |
| South West PowerGrid Limited | Dormant | England and Wales | 100% | 100% |
| South Western PowerGrid Limited | Dormant | England and Wales | 100% | 100% |
| Southern PowerGrid Limited | Dormant | England and Wales | 100% | 100% |
| West PowerGrid Limited | Dormant | England and Wales | 100% | 100% |
| Western Powergrid Limited | Dormant | England and Wales | 100% | 100% |
| YEDL Limited | Dormant | England and Wales | 100% | 100% |
| Yorkshire Cayman Holding Limited | Dormant | PO Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands | 100% | 100% |
| Yorkshire Electricity Distribution Limited | Dormant | England and Wales | 100% | 100% |
| Yorkshire Electricity Group plc | Finance company | England and Wales | 100% | 100% |
| Yorkshire Power Finance Limited | Finance company | PO Box 309, Ugland House, SOuth Church Street, George Town, Grand Cayman, Cayman Islands | 100% | 100% |
| Yorkshire Powergrid Limited | Dormant | England and Wales | 100% | 100% |
| CalEnergy Resources (UK) Limited | Hydrocarbon exploration and development | England and Wales | 100% | 100% |

**14 Investments (continued)**

The class of shares held in the above subsidiaries are ordinary shares.

*These companies have taken advantage of s479A Companies Act exemption from audit. Their Company registration numbers are:

• Northern Powergrid UK Holdings (03270696);
• CalEnergy Gas (Holdings) Limited (02772202);
• Northern Electric Properties Limited (02522939); and
• Northern Powergrid Gas Limited (04328138).

**The group also owns 69% of the Northern Electric plc cumulative preference shares. The terms of the cumulative preference shares are contained in the Financial Statements of Northern Electric plc.

Unless otherwise stated the registered office of the above companies is: Lloyds Court, 78 Grey Street, Newcastle upon Tyne, Tyne and Wear, NE1 6AF.

Northern Powergrid UK Holdings is a direct subsidiary of the Group. All of the other above companies are indirect subsidiaries. The class of shares related to the above companies are ordinary shares.

**Group associates**

Details of the Group associates as at 31 December 2021 are as follows:

| Name of associate | Principal activity | Registered office | Proportion of ownership interest and voting rights held by the Group 2021 | 2020 |
|---|---|---|---|---|
| Baltic Gas Sp. Z o.o | General partner in Baltic Gas project | ul. Stary Dwor 9, 80-758 Ddansk, Poland | 50% | 50% |
| Baltic Gas Sp. Z o.o. i Wspolnicy Spolka Komandytowa | Hydrocarbon exploration and development | ul. Stary Dwor 9, 80-758 Gdansk, Poland | 49% | 50% |

The class of shares held in the above associates are ordinary shares.

### 14 Investments (continued)

Summarised financial information in respect of the Group's joint venture is set out below:

**Group joint ventures**
Details of the Group joint ventures as at 31 December 2021 are as follows:

| Name of Joint-ventures | Principal activity | Registered office | Proportion of ownership interest and voting rights held by the Group 2021 | 2020 |
|---|---|---|---|---|
| Vehicle Lease and Service Limited | Transport services | Centre for Advanced Industry, 3rd floor, Coble Dene, North Shields, NE29 6DE, England and Wales | 50% | 50% |
| VLS Limited | Dormant | Centre for Advanced Industry, 3rd Floor, Coble Dene, North Shields, NE29 6DE, England and Wales | 50% | 50% |

The class of shares held in the above joint ventures are ordinary shares.

Joint ventures and associates are not strategic to the Group’s activities.

## 14 Investments (continued)

Summarised financial information in respect of the Group's joint venture is set out below:

| | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
|---|---|---|
| Net assets | 7,753 | 7,252 |
| Group's share of net assets | 3,876 | 3,627 |
| Revenue | 19,085 | 17,898 |
| Profit for the year | 1,941 | 1,665 |
| Group's share of profit for the year | 970 | 832 |

## 15 Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2021 £ 000 | 31 December 2020 £ 000 | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
| Raw materials and consumables | 19,638 | 17,870 | - | - |
| Work in progress | 763 | 937 | - | - |
| Vehicle inventory | 478 | 540 | - | - |
| | 20,879 | 19,347 | - | - |

## 16 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2021 £ 000 | 31 December 2020 £ 000 | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
| Distribution use of system receivables | 126,891 | 120,123 | - | - |
| Engineering contracting receivables | 4,551 | 5,454 | - | - |
| Trade receivables | 30,951 | 20,715 | - | - |
| Finance lease receivable | 5,059 | 4,252 | - | - |
| Loss allowance | (16,221) | (9,993) | - | - |
| Net trade receivables | 151,231 | 140,551 | - | - |
| Prepayments | 13,948 | 10,613 | - | - |
| Other receivables | 533 | 298 | 219,738 | 117,193 |
| | 165,712 | 151,462 | 219,738 | 117,193 |
| Non-current trade receivables | 2,702 | 4,598 | 190,000 | 190,000 |
| | 168,414 | 156,060 | 409,738 | 307,193 |

The Company values above relate to intercompany transactions.

The average credit period on receivables is 30 days. No interest is charged on outstanding trade 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.

**16 Trade and other receivables (continued)**

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. None of the trade receivables that have been written off is subject to enforcement activities.

As the Group's historical credit loss experience does shows significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is distinguished as follows:

- Distribution businesses: DUoS receivables, damages receivables, and other receivables;
- Metering: contracted meters, contracted churn, and non-contracted churn; and
- Engineering contracting.

The movement in the loss allowance was as follows:

| | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
|---|---|---|
| At 1 January | 9,993 | 7,131 |
| Amounts utilised/written off in the year | (5,266) | (225) |
| Amounts recognised in the income statement | 11,494 | 3,087 |
| At 31 December | 16,221 | 9,993 |

The increase in the amount recognised in the year follows the failure of a number of electricity supply companies in 2021. Subject to certain conditions mentioned on the following pages, losses arising in relation to Distribution Use of System debts will be recovered through an increase in future allowed income.

**Significant increase in credit risk**

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group 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 Group'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.

## 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 110) with the E.ON group accounting for approximately 23.4% of distribution revenues in 2021 (2020: 25.0%) and British Gas plc accounting for approximately 12.4% of distribution revenues in 2021 (2020: 12.4%). Ofgem under Code Governance arrangements, set out a framework known as Credit Cover within the Distribution Connection and Use of System Agreement (DCUSA), which sets credit limits for each supply business based on its credit rating (taken from a credit agency). 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 sufficient 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.

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 losses arising from supplier default will be recovered through an increase in future allowed income. Losses incurred to date have not been material therefore no ECL has been made on DUoS balances.

The following is the expected credit loss for receivables past due:

| 2021 | Not due £ 000 | Current £ 000 | 1-3 months £ 000 | 3-6 months £ 000 |
|---|---|---|---|---|
| Total balance | 70,822 | 49,533 | 3,904 | 2,632 |
| Less specific provisions | - | (511) | (3,889) | (2,025) |
| Balance eligible for ECL | 70,822 | 49,022 | 15 | 607 |
| Lifetime ECL | 0% | 0% | 0% | 0% |
| Expected credit loss | - | - | - | - |

| 2020 | Not due £ 000 | Current £ 000 | 1-3 months £ 000 | 3-6 months £ 000 |
|---|---|---|---|---|
| Total balance | 65,994 | 48,712 | 257 | 5,005 |
| Less specific provisions | - | (482) | (254) | (2,839) |
| Balance eligible for ECL | 65,994 | 48,230 | 3 | 2,166 |
| Lifetime ECL | 0% | 0% | 0% | 0% |
| Expected credit loss | - | - | - | - |

**Other distribution trade receivables**

Sales of goods and services comprise all income streams which are not classified as UoS income. Examples of non-UoS 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.

The following is the expected credit loss for receivables past due:

**Damages receivables**

| 2021 | 0-6 months £ 000 | 6-12 months £ 000 | 1-2 years £ 000 | 2-3 years £ 000 | Over 3 year £ 000 |
|---|---|---|---|---|---|
| Total balance | 3,283 | 903 | 749 | 584 | 115 |
| Less specific provisions | (406) | (174) | (156) | (406) | (52) |
| Balance eligible for ECL | 2,877 | 729 | 593 | 178 | 63 |
| Lifetime ECL | 20% | 25% | 30% | 40% | 80% |
| Expected credit loss | 575 | 182 | 178 | 71 | 50 |

### 16 Trade and other receivables (continued)

| **2020** | **0-6 months £ 000** | **6-12 months £ 000** | **1-2 years £ 000** | **2-3 years £ 000** | **Over 3 year £ 000** |
|---|---|---|---|---|---|
| Total balance | 1,808 | 514 | 1,164 | 265 | 86 |
| Less specific provisions | (286) | (96) | (629) | (66) | (21) |
| Balance eligible for ECL | 1,522 | 418 | 535 | 199 | 65 |
| Lifetime ECL | 20% | 25% | 30% | 40% | 80% |
| Expected credit loss | 304 | 105 | 161 | 80 | 52 |

## 16 Trade and other receivables (continued)

**Non-damages receivables**

| 2021 | Not due £ 000 | Current £ 000 | 1-6 months £ 000 | 6-12 months £ 000 | Over 1 year £ 000 |
|---|---|---|---|---|---|
| Total balance | 538 | 743 | 1,051 | 368 | 620 |
| Less specific provisions | - | - | - | - | - |
| Balance eligible for ECL | 538 | 743 | 1,051 | 368 | 620 |
| Lifetime ECL | 0% | 0% | 0% | 50% | 88% |
| Expected credit loss | - | - | - | 184 | 546 |

| 2020 | Not due £ 000 | Current £ 000 | 1-6 months £ 000 | 6-12 months £ 000 | Over 1 year £ 000 |
|---|---|---|---|---|---|
| Total balance | 786 | 1,298 | 504 | 322 | 561 |
| Less specific provisions | - | - | - | - | - |
| Balance eligible for ECL | 786 | 1,298 | 504 | 322 | 561 |
| Lifetime ECL | 0% | 0% | 0% | 50% | 50% |
| Expected credit loss | - | - | - | 161 | 281 |

**Meter asset provision**

Included in trade receivables are balances relating to the provision of meters through Northern Powergird Metering Limited. The average credit period on these receivables is 30 days. Interest is not generally charged on receivables paid after the due date.

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 debtor is over 1 year past due. None of the trade receivables that have been written off is subject to enforcement activities.

For receivables where there is no specific provisions, a provision is made for debts past their due date based on lifetime expected credit loss determined by reference to past default experience. The following is the expected credit loss for receivables past due:

**Contracted**

| 2021 | Current £ 000 | 1-3 months £ 000 | 3-6 months £ 000 | 6-12 months £ 000 | Over 1 year £ 000 |
|---|---|---|---|---|---|
| Total balance | 5,926 | 2,365 | - | 7 | - |
| Less specific provisions | - | - | - | (7) | - |
| Balance eligible for ECL | 5,926 | 2,365 | - | - | - |
| Lifetime ECL | 0% | 0% | 100% | 100% | 100% |
| Expected credit loss | - | - | - | - | - |

### 16 Trade and other receivables (continued)

| 2020 | Current £ 000 | 1-3 months £ 000 | 3-6 months £ 000 | 6-12 months £ 000 | Over 1 year £ 000 |
|---|---|---|---|---|---|
| Total balance | 5,306 | 2,977 | 2 | 159 | 565 |
| Less specific provisions | - | - | - | - | (565) |
| Balance eligible for ECL | 5,306 | 2,977 | 2 | 159 | - |
| Lifetime ECL | 0% | 0% | 10% | 50% | 100% |
| Expected credit loss | - | - | | 80 | - |

**Contracted churn**

| 2021 | Current £ 000 | 1-3 months £ 000 | 3-6 months £ 000 | 6-12 months £ 000 | Over 1 year £ 000 |
|---|---|---|---|---|---|
| Total balance | 5,184 | 3,384 | 336 | 449 | 21 |
| Less specific provisions | (27) | (377) | (336) | (449) | (21) |
| Balance eligible for ECL | 5,157 | 3,007 | - | - | - |
| Lifetime ECL | 0% | 30% | 100% | 100% | 100% |
| Expected credit loss | - | 915 | - | - | - |

| 2020 | Current £ 000 | 1-3 months £ 000 | 3-6 months £ 000 | 6-12 months £ 000 | Over 1 year £ 000 |
|---|---|---|---|---|---|
| Total balance | 1,653 | 1,439 | 294 | 95 | 703 |
| Less specific provisions | (11) | (34) | (19) | (95) | (703) |
| Balance eligible for ECL | 1,642 | 1,405 | 275 | - | - |
| Lifetime ECL | 0% | 0% | 10% | 50% | 100% |
| Expected credit loss | - | - | 28 | - | - |

**16 Trade and other receivables (continued)**

**Non-contracted churn**

| 2021 | Current £ 000 | 1-3 months £ 000 | 3-6 months £ 000 | 6-12 months £ 000 | Over 1 year £ 000 |
|---|---|---|---|---|---|
| Total balance | 2,457 | 1,021 | 613 | 170 | 83 |
| Less specific provisions | (28) | (258) | (613) | (170) | (83) |
| Balance eligible for ECL | 2,429 | 763 | - | - | - |
| Lifetime ECL | 0% | 17% | 50% | 100% | 100% |
| Expected credit loss | - | 126 | - | - | - |

| 2020 | Current £ 000 | 1-3 months £ 000 | 3-6 months £ 000 | 6-12 months £ 000 | Over 1 year £ 000 |
|---|---|---|---|---|---|
| Total balance | 931 | 1,029 | 3 | 9 | 1,244 |
| Less specific provisions | (6) | (166) | (3) | (9) | (1,244) |
| Balance eligible for ECL | 925 | 863 | - | - | - |
| Lifetime ECL | 0% | 0% | 10% | 50% | 100% |
| Expected credit loss | - | - | - | - | - |

**Engineering contracting receivables**

The average credit period on Engineering contracting receivables is 30 days. Interest is not generally charged on receivables paid after due date. Included in the Group’s construction contracts balance are debtors with a carrying amount of £2.1 million (2020: £2.0 million), which are past due at the reporting date for which the Group has provided for an irrecoverable amount of £0.1 million (2020: £0.1 million) based on past experience. The Group does not hold and collateral over these balances. The average age of these receivables is 54 days (2020: 51 days).

Included in the Group's construction contracts balance are debtors with a carrying amount of £nil (2020: £nil) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

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.

| 2021 | Current £ 000 | 1-3 months £ 000 | 3-6 months £ 000 | 6-12 months £ 000 | Over 1 year £ 000 |
|---|---|---|---|---|---|
| Total balance | 2,136 | 1,909 | 25 | 123 | 78 |
| Less specific provisions | - | - | - | - | (78) |
| Balance eligible for ECL | 2,136 | 1,909 | 25 | 123 | - |
| Lifetime ECL | 0% | 1% | 10% | 50% | 100% |
| Expected credit loss | - | 19 | 3 | 62 | - |

| 2020 | Current £ 000 | 1-3 months £ 000 | 3-6 months £ 000 | 6-12 months £ 000 | Over 1 year £ 000 |
|---|---|---|---|---|---|
| Total balance | 1,621 | 1,719 | 240 | 49 | 70 |
| Less specific provisions | - | - | (1) | (33) | (87) |
| Balance eligible for ECL | 1,621 | 1,719 | 239 | 16 | (17) |
| Lifetime ECL | 0% | 1% | 10% | 50% | 100% |
| Expected credit loss | - | 17 | 24 | 8 | (17) |

## 16 Trade and other receivables (continued)

**Finance lease receivables**

Northern Transport Finance Limited ("NTFL"), a wholly owned subsidiary, enters into credit finance arrangements for motor vehicles with employees in the Group. All agreements are denominated in sterling. The term of the finance agreements is predominantly three years.

Northern Transport Finance Limited ("NTFL"), a wholly owned subsidiary, enters into credit finance arrangements for motor vehicles with employees in the Group. All agreements are denominated in sterling. The term of the finance agreements is predominantly three years.

The interest rate inherent in the agreements is fixed at the contract date for all of the term of the agreement. The average effective interest rate contracted is approximately 6.5% (2020: 6.5%) per annum. None of these debts are past due and there are no indicators of impairment.

Northern Powergrid Metering Limited, a wholly-owned subsidiary, enters into credit finance arrangements for smart meters with electricity supply companies. All agreements are denominated in sterling. The term of the finance agreements is predominantly ten years. During 2020, these assets were sold and therefore the values contained in the 2020 and 2021 table below relate solely to NTFL.

The interest rate inherent in the agreements is fixed at the contract date for all of the term of the agreement. None of these debts are past due and there are no indicators of impairment.

The directors consider the carrying value of finance lease receivables approximates their fair value. The maximum risk exposure is the book value of these receivables, less the residual value of the leased assets.

| 2021 | Minimum lease payments £ 000 | Interest £ 000 | Present value £ 000 |
|---|---|---|---|
| Within one year | 5,075 | (92) | 4,983 |
| Between one to five years | 3,036 | (334) | 2,702 |
| | 8,111 | (426) | 7,685 |

| 2020 | Minimum lease payments £ 000 | Interest £ 000 | Present value £ 000 |
|---|---|---|---|
| Within one year | 6,021 | (1,769) | 4,252 |
| Between one to five years | 6,281 | (1,683) | 4,598 |
| Over five years | 596 | (596) | - |
| | 12,898 | (4,048) | 8,850 |

## 16 Trade and other receivables (continued)

**Operating lease receivables**

Operating leases relate to the metering assets owned by the Group with lease terms of up to 15 years. The lessee does not have an option to purchase the meters at the expiry of the lease period.

The total future value of minimum lease payments is as follows:

| | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
|---|---|---|
| Within one year | 73,145 | 71,375 |
| In two to five years | 272,860 | 245,350 |
| Over five years | 131,950 | 133,381 |
| | 477,955 | 450,106 |

The prior year split of operating leases had incorrectly shown the values for "in two to five years" and "in over five years" in the wrong order. This has been corrected in the table above.

## 17 Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2021 £ 000 | 31 December 2020 £ 000 | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
| Cash at bank | 24,865 | 24,703 | - | - |
| Other cash and cash equivalents | 4,260 | 32,518 | 10,403 | 77,839 |
| Total included in current assets in the statement of financial position | 29,125 | 57,221 | 10,403 | 77,839 |
| Bank overdraft included in current borrowings in the statement of financial position | - | (16,511) | - | - |
| Cash and cash equivalents in statement of cash flows | 29,125 | 40,710 | 10,403 | 77,839 |

Cash and cash equivalents have a maturity of less than three months, are readily convertible to cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value. Other cash and cash equivalents include short-term investments and intercompany loans that are highly liquid and repayable on demand.

## 18 Restricted cash

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2021 £ 000 | 31 December 2020 £ 000 | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
| Restricted cash | - | 16,758 | - | - |

Due to the refinancing of the loans the requirement to hold a debt service reserve account was removed therefore there is no longer any restricted cash.

## 19 Share capital

**Allotted, called up and fully paid shares**

| | 31 December 2021 No. 000 | 31 December 2021 £ 000 | 31 December 2020 No. 000 | 31 December 2020 £ 000 |
|---|---|---|---|---|
| Ordinary shares of £1 each | 354,550 | 354,550 | 354,550 | 354,550 |

The Company has 400 million shares authorised for issue. The Company has one class of ordinary shares which carries no right to fixed income. Details of the cumulative non-equity preference shares are contained in the loans and borrowings note 22.

## 20 Reserves

**Group**

The changes to each component of equity resulting from items of other comprehensive income for the current year were as follows:

| | Foreign currency translation £ 000 | Cash flow hedging reserve £ 000 | Retained earnings £ 000 | Total £ 000 |
|---|---|---|---|---|
| Loss on cash flow hedges (net) | - | 3,950 | - | 3,950 |
| Foreign currency translation gains | (446) | - | - | (446) |
| Remeasurements of post employment benefit obligations (net) | - | - | 130,374 | 130,374 |
| | (446) | 3,950 | 130,374 | 133,878 |

The changes to each component of equity resulting from items of other comprehensive income for the prior year were as follows:

| | Foreign currency translation £ 000 | Cash flow hedging reserve £ 000 | Retained earnings £ 000 | Total £ 000 |
|---|---|---|---|---|
| Gain on cash flow hedges (net) | - | (1,998) | - | (1,998) |
| Foreign currency translation losses | 780 | - | - | 780 |
| Remeasurements of post employment benefit obligations (net) | - | - | (28,319) | (28,319) |
| | 780 | (1,998) | (28,319) | (29,537) |

### 21 Non-controlling interests

| | Non-controlling interests £ 000 |
|---|---|
| At 1 January 2021 | 37,482 |
| Profit for the year | 1,563 |
| Total comprehensive income | 1,563 |
| Dividends | (322) |
| At 31 December 2021 | 38,723 |

| | Non-controlling interests £ 000 |
|---|---|
| At 1 January 2020 | 36,466 |
| Profit for the year | 1,651 |
| Total comprehensive income | 1,651 |
| Dividends | (635) |
| At 31 December 2020 | 37,482 |

## 22 Loans and borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | £ 000 | £ 000 | £ 000 | £ 000 |
| Non-current loans and borrowings | 2,074,946 | 2,384,242 | 199,134 | 198,398 |
| Current loans and borrowings | 423,495 | 80,203 | 644 | 644 |
| | 2,498,441 | 2,464,445 | 199,778 | 199,042 |

**Group**

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | £ 000 | £ 000 | £ 000 | £ 000 |
| Short-term loans | 283 | 264 | 283 | 264 |
| Bank overdraft | 439 | 16,511 | 439 | 16,511 |
| Bond 2022 - 7.25% | 199,778 | 199,042 | 200,644 | 226,664 |
| Bond 2025 - 2.50% | 151,860 | 151,579 | 156,959 | 164,168 |
| Amortising loan 2026 - 2.9573%* | - | 133,871 | - | 135,348 |
| Amortising loan 2026 - 2.0245%** | - | 29,736 | - | 30,005 |
| Amortising loan 2026 - 2.3012%*** | 212,395 | - | 218,247 | - |
| Bond 2028 - 7,25% | 193,450 | 193,825 | 251,312 | 271,339 |
| Bond 2032 - 4.375% | 151,210 | 151,061 | 184,883 | 202,877 |
| Bond 2035 - 5.125% | 153,366 | 153,279 | 204,175 | 225,276 |
| Bond 2035 - 5.125% | 204,479 | 204,362 | 272,012 | 299,431 |
| European Investment Bank 2022 - 4.133% | 153,782 | 153,764 | 153,791 | 161,955 |
| European Investment Bank 2027 - 2.564% | 250,267 | 250,267 | 262,704 | 280,058 |
| European Investment Bank loan due 2025 - 2.073% | 50,086 | 50,086 | 50,978 | 53,451 |
| Cumulative preference shares | 34,114 | 34,114 | 51,543 | 59,300 |
| 2049 - 2.750% Northern Electric Finance plc | 150,037 | 149,978 | 172,211 | 194,134 |
| 2059 - 2.250%- Northern Powergrid (Yorkshire) plc | 295,337 | 295,237 | 313,467 | 367,740 |
| 2062 - 1.875% - Northern Powergrid (Northeast) plc | 297,558 | 297,469 | 289,945 | 338,377 |
| | 2,498,441 | 2,464,445 | 2,783,593 | 3,026,898 |

* 2026 £136m Amortising Loan is 89% swapped at a fixed rate of 3.0682%, with the remaining 11% floating at 3 month LIBOR plus 2.00%, repaid December 2021.
** 2026 £30m Amortising Loan is a Floating rate loan at 3 month LIBOR plus 2.00%, repaid December 2021.
*** 2026 £218m Amortising Loan is 80% swapped at a fixed rate of 2.4455%, with the remaining 20% floating at SONIA plus 1.55%. Loan is secured by a Fixed and Floating charge over all assets of the Company (excluding smart meters) and limited recourse security over the issued share capital of the Company by the Shareholder.

In April 2022, the Group issued a £350m bond at 3.25% maturing in 2052, the funds will be used for general corporate purposes including the repayment of debt maturities in 2022.

### 22 Loans and borrowings (continued)

**Company**

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | £ 000 | £ 000 | £ 000 | £ 000 |
| 2022- 7.25% | 199,778 | 199,042 | 200,644 | 226,664 |
| | 199,778 | 199,042 | 200,644 | 226,664 |

Within the total financial liabilities, £2,497.7m million relates to external borrowings and preference shares whose fair value is determined with reference to quoted market prices. The directors' estimates of the fair value of internal borrowings are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments. The valuation of liabilities set out above is based on Level 1 inputs.

The terms of the cumulative preference shares:

- entitle holders, in priority to holders of all other classes of shares, to a fixed cumulative preferential dividend of 8.061p (net) per share per annum payable half-yearly in equal amounts on 31 March and 30 September;
- on a return of capital on a winding up, or otherwise, will carry the right to repayment of capital together with a premium of 99p per share and a sum equal to any arrears or accruals of dividend. This right is in priority to the rights of ordinary shareholders;
- carry the right to attend a general meeting of Northern Electric plc and vote if, at the date of the notice convening the meeting, payment of the dividend to which they are entitled is six months or more in arrears, or if a resolution is to be considered at the meeting for the winding-up of Northern Electric plc or abrogating, varying or modifying any of the special rights attaching to them; and
- are redeemable in the event of the revocation by the Secretary of State of Northern Electric plc's Public Electricity Supply Licence at the value given above.

During the year ended 31 December 2001, under the terms of the Northern Electric plc's transfer scheme, as approved by the Secretary of State in accordance with the provisions of the Utilities Act 2000, the Northern Electric plc's Public Electricity Supply Licence was converted into an Electricity Distribution Licence and an Electricity Supply Licence.

More details on the classification of loans and borrowings is available in note 29.

The Group's capital management and exposure to market and liquidity risk, including maturity analysis, in respect of loans and borrowings is disclosed in financial risk review note 30.

## 23 Obligations under leases and hire purchase contracts

**Group**

**Lease liability**

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 100 years.

The total future value of minimum lease payments is as follows:

| | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
|---|---|---|
| Within one year | 6,734 | 6,151 |
| Between two to five years | 15,659 | 15,633 |
| In over five years | 4,595 | 4,947 |
| Total lease payment | 26,988 | 26,731 |
| Unearned interest | (2,277) | (2,581) |
| Total lease liability | 24,711 | 24,150 |

The Company has no lease commitments.

## 24 Provisions

**Group**

| | Claims £ 000 | Abandonment £ 000 | Other £ 000 | Total £ 000 |
|---|---|---|---|---|
| At 1 January 2021 | 1,241 | 7,079 | 5,078 | 13,398 |
| Additional provisions | 1,693 | 1,745 | 2,916 | 6,354 |
| Provisions used | (1,431) | - | (977) | (2,408) |
| At 31 December 2021 | 1,503 | 8,824 | 7,017 | 17,344 |
| Non-current liabilities | - | 8,824 | 3,162 | 11,986 |
| Current liabilities | 1,503 | - | 3,855 | 5,358 |

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

Abandonment provision relates to the decommissioning of the Group's exploration and evaluation assets. The decommissioning is recorded at the Group's share of expected costs to be incurred. It is not expected that these costs will be incurred over the next 12 months. The provision has been estimated using existing technology at current prices.

Other: Relates primarily to Storm Arwen customer related costs, environmental liabilities, wayleave disputes, provision for future safe disposal of transformers which contain oil contaminated with Polychlorinated Biphenyls (PCBs) and holidays in suspense. Settlement is expected substantially after the next 12 months.

Also included within 'other' are pension provisions which relate to the Group's share of expected settlements of liabilities relating to pension deficit repair of Electricity Association Technology Limited ("EATL") and are expected to be settled over a period of approximately eight years. As at 31 December 2021 the provision relating to the EATL is £1.8m (2020: £2.0m). Another item included is a provision to cover the actuarial assessment of the costs of unfunded pension arrangements in respect of former employees. As at 31 December 2021 provision relating to unfunded pensions is £1.5m (2020: £1.5m). This is expected to be realised over the next 20 years.

At 31 December 2021, the Company had no provisions for liabilities and charges (2020: £nil).

## 25 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2021 £ 000 | 31 December 2020 £ 000 | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
| Payments on account | 82,597 | 72,923 | - | - |
| Trade payables | 9,408 | 3,759 | - | - |
| Capital creditors | 53,193 | 65,133 | - | - |
| Accrued expenses | 24,221 | 17,264 | - | - |
| Amounts due to related parties | 20,468 | 18,856 | 17,849 | 16,560 |
| Social security and other taxes | 14,784 | 14,043 | - | - |
| Other payables | 21,807 | 21,321 | 993 | 989 |
| | 226,478 | 213,299 | 18,842 | 17,549 |
| Non-current capital creditors | - | - | - | - |
| | 226,478 | 213,299 | 18,842 | 17,549 |

## 25 Trade and other payables (continued)

The directors consider that the carrying amount of other financial liabilities approximates their fair value, calculated by discounting future cash flows at market rate at the statement of financial position date. The valuation is based on Level 1 inputs. Trade creditors and accruals principally comprise amounts outstanding for trade purchases and on-going costs. Invoices are paid at the end of the month following the date of the invoice. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. The standard payment term for trade payables is net monthly.

The Group's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in the financial risk review note 30.

## 26 Deferred revenue

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2021 £ 000 | 31 December 2020 £ 000 | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
| Opening balance | 1,533,286 | 1,524,136 | - | - |
| Additions | 83,753 | 71,411 | - | - |
| Amortisation | (64,318) | (62,261) | - | - |
| | 1,552,721 | 1,533,286 | - | - |

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2021 £ 000 | 31 December 2020 £ 000 | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
| Current | 66,261 | 64,687 | - | - |
| Non-current | 1,486,460 | 1,468,599 | - | - |
| | 1,552,721 | 1,533,286 | - | - |

Deferred revenue relates to customer contributions towards distribution system assets. The Group'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.

### 27 Pension and other schemes

**Defined benefit pension schemes**
**Electricity Supply Pension Scheme**

The Group contributes to two pension schemes, which it operates on behalf of the participating companies within the Group. Those pension schemes are:
- The Northern Powergrid Group of the ESPS (the "DB Scheme"); and
- The Northern Powergrid Pension Scheme.

The Northern Powergrid Pension Scheme was introduced for new employees of the Group from July 1997 and is a money purchase arrangement accounted for as a defined contribution scheme.

The DB Scheme is a defined benefit scheme for directors and employees, which provides pension and other related retirement benefits based on final pensionable pay. The DB Scheme closed to staff commencing employment with the Group on or after 23 July 1997. Members who joined before this date, including some Protected Persons under The Electricity (Protected Persons) (England and Wales) Pension Regulations 1990, continue to build up future pension benefits.

Under the DB Scheme, employees are typically entitled to annual pensions on retirement at age 63 of one-eightieth of final pensionable salary for each year of service plus an additional tax-free cash lump sum at retirement of three times pension. Benefits are also payable on death and following other events such as withdrawing from active service.

No other post-retirement benefits are provided to members of the DB Scheme.

**Pension regulation**
The UK pensions market is regulated by the Pensions Regulator whose key statutory objectives in relation to UK defined benefit plans are to:
- protect the benefits of members;
- promote and to improve understanding of good administration;
- reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund ("PPF"); and
- minimise any adverse impact on the sustainable growth of an employer.

The Pensions Regulator has various powers including the power to:
- wind up a scheme where winding up is necessary to protect members' interests;
- appoint or remove a trustee;
- impose a schedule of company contributions where trustees and company fail to agree on appropriate contributions; and
- impose contributions where there has been a detrimental action against the scheme.

**Role of Trustees**
The DB Scheme is administered by a board of Trustees which is legally separate from the Company. The assets of the DB Scheme are held in a separate trustee-administered fund. The board of Trustees is made up of Trustees appointed by the Company, as the Principal Employer of the DB Scheme, Trustees elected by the membership and an independent trustee. The Trustees are required by law to act in the interests of all relevant beneficiaries and are responsible in particular for the asset investment strategy plus the day-to-day administration of the benefits payable. They also are responsible for jointly agreeing with the Principal Employer the level of contributions due to the DB Scheme.

**27 Pension and other schemes (continued)**

**Funding requirements**

UK legislation requires that pension schemes are funded prudently (i.e. to a level in excess of the current expected cost of providing benefits). The last actuarial valuation of the DB Scheme was carried out by the Trustee's actuarial advisors, Aon, as at 31 March 2019. Such valuations are required by law to take place at intervals of no more than three years. Following each valuation, the Trustees and the Group must agree the contributions required (if any) such that the DB Scheme is fully funded over time on the basis of suitably prudent assumptions.

At the latest funding valuation as at 31 March 2019, the funding deficit was assessed to be £116.3 million. In light of this and subsequent changes in the funding position, the Group agreed with the Trustees in September 2020 to pay £2.44 million per month from 1 April 2019 to 31 March 2021. A further £29.3 million will be paid on 30 November 2021 and 30 November 2022 and £14.1 million on 30 November 2023 and 30 November 2024. These amounts are in 2019/20 prices and will be updated on 1 April 2020 and on each 1 April thereafter in line with annual changes in RPI inflation. If the actuarial assumptions are borne out in practice then the funding deficit is expected to be removed by 31 March 2025. The amounts due each November may be reduced by up to 100% depending on the updated funding position. Due to a significantly improved funding position of over 99%, the November 2021 deficit contribution was suspended. The next actuarial valuation will take place as at 31 March 2022 and is expected to be completed by 30 June 2023, when the funding plan will be reviewed in its entirety.

The contributions payable by the Group to the DB Scheme in respect of future benefits which are accruing is 49.1% of pensionable pay. These contributions were determined as part of the 31 March 2019 actuarial valuation and are payable in addition to the deficit repair contributions mentioned above. These rates will remain in place until such a time as a new schedule of contributions is agreed between the Trustees and the Group as part of the 31 March 2022 valuation. In addition, the Group pays contributions to cover the expenses of running the DB Scheme are 6.3% of pensionable pay from 1 October 2020.

The Group's total contributions to the DB scheme for the next financial year are expected to be £12.3m, assuming no further deficit repair payments.

The Trust Deed provides the Group with an unconditional right to a refund of surplus assets assuming the gradual settlement of plan liabilities over time. Furthermore, in the ordinary course of business the Trustees have no right to unilaterally wind up, or otherwise augment the benefits due to members of the DB scheme. Based on these rights, any net surplus in the plan is recognised in full.

**Profile of the scheme**

The defined benefit obligation ("DBO") includes benefits for current employees, former employees and current pensioners. The overall duration of the DB Scheme's obligation was assessed to be about 17 years based on the results of the 31 March 2019 funding valuation. This is the weighted-average time over which benefit payments are expected to be made.

As at 31 March 2019, broadly about 30% of the liabilities are attributable to current employees (duration about 24 years), 10% to former employees (duration about 23 years) and 60% to current pensioners (duration about 13 years).

**Investment objectives for the DB Scheme**

The Trustees aim to achieve the Scheme's investment objectives through investing partly in a diversified mix of growth assets which, over the long term, are expected to grow in value by more than low risk assets like cash and gilts. This is done with a broad liability driven investing framework that uses cash, gilts and other hedging instruments like swaps in a capital efficient way. In combination this efficiently captures the Trustees' risk tolerances and return objectives relative to the Scheme's liabilities.

The Company and Trustees have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes the use of Liability Driven Investment (LDI) from October 2016 to more closely match the nature and duration of the DB Scheme's liabilities through the use of derivatives such as swaps and repurchase agreements. The portfolio is designed to hedge a proportion of the interest rate and inflation risk inherent in the Scheme's liabilities. The target hedging level is currently 99% (2021: 75%) of the DB Scheme's liabilities as measured on the basis used for the funding valuation.

The trustees insure certain benefits which are payable on death before retirement.

**27 Pension and other schemes (continued)**

**Risks**

***Volatile asset returns***
The DBO is calculated using a discount rate set with reference to corporate bond yields. If assets underperform this discount rate, this will create an element of deficit. The DB Scheme aims to hold a proportion (7%) of its assets in return-seeking assets (such as equities) which, although expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term.

*Mitigation*
The allocation to return-seeking assets is monitored to ensure it remains appropriate given the DB Scheme's long-term objectives. The Trustees regularly review the strategy from return-seeking assets and have diversified some return-seeking assets from equities into Reinsurance and Listed Infrastructure to reduce overall risk. To avoid concentration risk, the allocation to UK equity is restricted to 36% of the total equity allocation.

***Changes in bond yields***
A decrease in corporate bond yields will increase the value placed on the DBO for accounting purposes, although this will be partially offset by an increase in the value of the DB Scheme's bond holdings.

*Mitigation*
The DB Scheme aims to hold a substantial proportion of its assets (73%) as bonds and Liability Driven Investments (LDI), which provide a significant hedge against falling bond yields (falling yields which increase the DBO will also increase the value of the bond assets). There are some differences in the credit quality of bonds held by the DB Scheme and the bonds analysed to decide the DBO discount rate, such that there remains some risk should yields on different quality bond/swap assets diverge.

***Inflation risk***
A significant proportion of the DBO is indexed in line with price inflation (specifically in line with RPI) and higher inflation will leads to a higher DBO.

*Mitigation*
The DB Scheme invests around 42% in LDI (included in the 73% above) which provides a hedge against higher-than-expected inflation increases on the DBO (rising inflation will increase both the DBO and the value of the LDI portfolio).

***Life expectancy risk***
The majority of the DB Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

*Mitigation*
The DB Scheme regularly reviews actual experience of its membership against the actuarial assumptions underlying the future benefit projections and carries out detailed analysis when setting an appropriate scheme specific mortality assumption.

***Currency risk***
To increase diversification, the DB Scheme invests in overseas assets. This leads to a risk that foreign currency movements negatively impact the value of assets in Sterling terms.

*Mitigation*
The DB Scheme hedges a proportion of the overseas investments currency risk for those overseas currencies that can be hedged efficiently. The DB Scheme's currency hedging ratio is currently 50% in respect of overseas developed market currencies.

**Other risks**
There are a number of other risks associated with the DB Scheme including operational risks (such as paying out the wrong benefits), legislative risks (such as the government increasing the burden on pension schemes through new legislation) and other demographic risks (such as a higher proportion of members dying than assumed with a dependant eligible to receive a survivor's pension from the DB Scheme).

**Reporting at 31 December 2021**

## 27 Pension and other schemes (continued)

For the purposes of this disclosure, the current and future pension costs of the Northern Powergrid Group have been assessed by Aon, a qualified independent actuary, using the assumptions set out below, which the actuary has confirmed represent a reasonable best estimate of those costs. The review has been based on the same membership and other data as at 31 March 2019. The board of Northern Powergrid Holdings Company has accepted the advice of the actuary and formally approved the use of these assumptions for the purpose of calculating the pension cost of the Northern Powergrid Group.

The results of the latest funding valuation at 31 March 2019 have been adjusted 31 December 2020. Those adjustments take account of experience over the period since 31 March 2019, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the DBO and the related current service cost were measured using the Projected Unit Credit Method.

For schemes closed to new members, such as the DB Scheme, the current service cost calculated under the Projected Unit Credit Method is expected to increase as the members of the DB Scheme approach retirement.

***Principal actuarial assumptions***

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

| | 31 December 2021 % | 31 December 2020 % |
|---|---|---|
| Discount rate | 1.95 | 1.40 |
| Future salary increases | 3.45 | 3.05 |
| Future pension increases | 2.85 | 2.50 |
| Inflation- CPI | 2.55 | 2.05 |
| Inflation - RPI | 2.95 | 2.55 |
| Proportion of pension exchanged for additional cash at retirement | 10.00 | 10.00 |

***Post retirement mortality assumptions***

| | 31 December 2021 Years | 31 December 2020 Years |
|---|---|---|
| Life expectancy for male currently aged 60 | 26.70 | 26.60 |
| Life expectancy for female currently aged 60 | 28.60 | 28.70 |
| Life expectancy at 60 for male currently aged 45 | 27.40 | 27.90 |
| Life expectancy at 60 for female currently aged 45 | 29.60 | 29.90 |

## 27 Pension and other schemes (continued)

***Reconciliation of scheme assets and liabilities to assets and liabilities recognised***

The amounts recognised in the statement of financial position are as follows:

| | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
|---|---|---|
| Fair value of scheme assets | 1,742,600 | 1,700,700 |
| Present value of scheme liabilities | (1,480,400) | (1,612,600) |
| Defined benefit pension scheme surplus | 262,200 | 88,100 |

***Scheme assets***

Changes in the fair value of scheme assets are as follows:

| | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
|---|---|---|
| Fair value at start of year | 1,700,700 | 1,616,100 |
| Interest income | 23,800 | 33,800 |
| Remeasurement gains on scheme assets | 87,900 | 109,400 |
| Employer contributions | 20,800 | 44,000 |
| Contributions by scheme participants | 400 | 500 |
| Benefits paid | (89,700) | (102,000) |
| Administrative expenses paid | (1,300) | (1,100) |
| Fair value at end of year | 1,742,600 | 1,700,700 |

***Analysis of assets***

The major categories of scheme assets are as follows:

| | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
|---|---|---|
| Developed market equity | 124,000 | 264,100 |
| Emerging market equity | 3,200 | 8,000 |
| Property | 194,300 | 166,600 |
| Reinsurance | 80,200 | 79,600 |
| Listed infrastructure | 95,300 | 84,000 |
| Investment grade corporate bonds | 201,300 | 200,100 |
| Other debt (non-investment grade) | 133,100 | 119,700 |
| Fixed interest gilts | 46,400 | 55,800 |
| Index-linked gilts | 3,800 | 4,600 |
| Liability driven investments | 703,200 | 539,800 |
| Cash and cash equivalents including derivatives | 157,800 | 178,400 |
| | 1,742,600 | 1,700,700 |

The pension scheme has not invested in any of the Company's own financial instruments or in properties or other assets used by the Company.

## 27 Pension and other schemes (continued)

***Scheme liabilities***

Changes in the present value of scheme liabilities are as follows:

| | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
|---|---|---|
| Present value at start of year | (1,612,600) | (1,522,700) |
| Current service cost | (12,000) | (12,500) |
| Actuarial gains/(losses) arising from changes in demographic assumptions | 2,900 | (20,300) |
| Actuarial losses arising from changes in financial assumptions | 55,100 | (128,000) |
| Actuarial gains/(losses) arising from experience adjustments | 19,200 | 900 |
| Interest cost | (22,300) | (31,500) |
| Benefits paid | 89,700 | 102,000 |
| Contributions by scheme participants | (400) | (500) |
| Present value at end of year | (1,480,400) | (1,612,600) |

***Amounts recognised in the income statement***

| | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
|---|---|---|
| Current service cost | 12,000 | 12,500 |
| Administrative expenses paid | 1,300 | 1,100 |
| Net interest | (1,500) | (2,300) |
| Prior service costs | - | 700 |
| Total amount recognised | 11,800 | 12,000 |
| Costs included in cost of qualifying assets | (8,000) | (8,000) |
| Total amount recognised in income statement | 3,800 | 4,000 |

## 27 Pension and other schemes (continued)

***Amounts taken to the Statement of Comprehensive Income***

| | 31 December 2021 £ 000 | 31 December 2020 £ 000 |
|---|---|---|
| Actuarial (gains) and losses arising from changes in demographic assumptions | (2,900) | 20,300 |
| Actuarial (gains) and losses arising from changes in financial assumptions | (55,100) | 127,300 |
| Actuarial (gains) and losses arising from experience adjustments | (19,200) | (900) |
| Return on plan assets in excess of that recognised in net interest | (87,900) | (109,400) |
| Amounts recognised in the Statement of Comprehensive Income | (165,100) | 37,300 |

**Sensitivity analysis**

Significant actuarial assumptions for determination of the defined benefit obligation are discount rate, inflation, and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant:

| | | 31 December 2021 | | | 31 December 2020 | |
|---|---|---|---|---|---|---|
| **Adjustment to discount rate** | **+ 0.1% £ 000** | **0.0% £ 000** | **- 0.1% £ 000** | **+ 0.1% £ 000** | **0.0% £ 000** | **- 0.1% £ 000** |
| Present value of total obligation | 1,455,600 | 1,480,400 | 1,505,600 | 1,582,500 | 1,612,600 | 1,643,900 |

| | | 31 December 2021 | | | 31 December 2020 | |
|---|---|---|---|---|---|---|
| **Adjustment to rate of inflation** | **+ 0.1% £ 000** | **0.0% £ 000** | **- 0.1% £ 000** | **+ 0.1% £ 000** | **0.0% £ 000** | **- 0.1% £ 000** |
| Present value of total obligation | 1,503,900 | 1,480,400 | 1,466,300 | 1,641,900 | 1,612,600 | 1,594,700 |

| | | 31 December 2021 | | | 31 December 2020 | |
|---|---|---|---|---|---|---|
| **Adjustment to mortality age rating assumption** | **+ 1 Year £ 000** | **None £ 000** | **- 1 Year £ 000** | **+ 1 Year £ 000** | **None £ 000** | **- 1 Year £ 000** |
| Present value of total obligation | 1,545,600 | 1,480,400 | 1,415,600 | 1,685,900 | 1,612,600 | 1,539,900 |

The sensitivity analysis presented above may not be representative of the actual change in defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

## 28 Net debt reconciliation

### Group

**2021**

| | At 1 January 2021 £ 000 | Cash flows £ 000 | Other changes £ 000 | At 31 December 2021 £ 000 |
|---|---|---|---|---|
| Cash and cash equivalents | 40,710 | (11,585) | - | 29,125 |
| Borrowings | (2,447,934) | (48,362) | (2,145) | (2,498,441) |
| Right-of-use asset leases | (24,150) | (7,002) | 6,441 | (24,711) |
| | (2,431,374) | (66,949) | 4,296 | (2,494,027) |

**2020**

| | At 1 January 2020 £ 000 | Cash flows £ 000 | Other changes £ 000 | At 31 December 2020 £ 000 |
|---|---|---|---|---|
| Cash and cash equivalents | 245,122 | (204,412) | - | 40,710 |
| Borrowings | (2,506,565) | 42,798 | 15,833 | (2,447,934) |
| Right-of-use asset leases | (18,329) | (5,969) | 148 | (24,150) |
| | (2,279,772) | (167,583) | 15,981 | (2,431,374) |

### Company

**2021**

| | At 1 January 2021 £ 000 | Cash flows £ 000 | Other changes £ 000 | At 31 December 2021 £ 000 |
|---|---|---|---|---|
| Cash and cash equivalents | 77,839 | (67,436) | - | 10,403 |
| Borrowings | (199,042) | - | (736) | (199,778) |
| Loans to the Group | 307,193 | 102,538 | 7 | 409,738 |
| | 185,990 | 35,102 | (729) | 220,363 |

**2020**

| | At 1 January 2020 £ 000 | Cash flows £ 000 | Other changes £ 000 | At 31 December 2020 £ 000 |
|---|---|---|---|---|
| Cash and cash equivalents | 115,803 | (37,964) | - | 77,839 |
| Borrowings | (198,360) | - | (682) | (199,042) |
| Loans to the Group | 190,000 | 104,795 | 12,398 | 307,193 |
| | 107,443 | 66,831 | 11,716 | 185,990 |

### 29 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 ended 31 December 2021 was as follows:

| | Financial assets at amortised cost £ 000 | Financial assets & liabilities at FVTPL £ 000 | Financial assets & liabilities at FVTOCI £ 000 | Financial liabilities at amortised cost £ 000 | Non-financial assets & liabilities £ 000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | - | - | - | - | 7,029,079 |
| Right of use assets | - | - | - | - | 24,105 |
| Intangible assets | - | - | - | - | 297,925 |
| Investments in subsidiaries, joint ventures and associates | - | 3,898 | - | - | - |
| Retirement benefit obligations | - | - | 262,200 | - | - |
| Tax receivable | - | - | - | - | 363 |
| Trade and other receivables | 2,702 | - | - | - | - |
| Other non-current financial assets | - | - | 944 | - | - |
| | 2,702 | 3,898 | 263,144 | - | 7,351,472 |
| **Current assets** | | | | | |
| Inventories | - | - | - | - | 20,879 |
| Trade and other receivables | 165,712 | - | - | - | - |
| Income tax asset | 3,130 | - | - | - | - |
| Cash and cash equivalents | 29,125 | - | - | - | - |
| Contract assets | 7,593 | - | - | - | - |
| Other current financial assets | - | - | 204 | - | - |
| | 205,560 | - | 204 | - | 20,879 |
| Total assets | 208,262 | 3,898 | 263,348 | - | 7,372,351 |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Long term lease liabilities | - | - | - | (18,551) | - |
| Loans and borrowings | - | - | - | (2,074,946) | - |
| Provisions | - | - | - | - | (11,986) |
| Deferred revenue | - | - | - | (1,486,460) | - |
| Deferred tax liabilities | - | - | - | (359,834) | - |
| | - | - | - | (3,939,791) | (11,986) |

**29 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 assets & liabilities at FVTOCI £ 000 | Financial liabilities at amortised cost £ 000 | Non-financial assets & liabilities £ 000 |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| Current portion of long term lease liabilities | - | - | - | (6,160) | - |
| Trade and other payables | - | - | - | (226,478) | - |
| Loans and borrowings | - | - | - | (423,495) | - |
| Deferred revenue | - | - | - | (66,261) | - |
| Provisions | - | - | - | - | (5,358) |
| | - | - | - | (722,394) | (5,358) |
| Total liabilities | - | - | - | (4,662,185) | (17,344) |

### 29 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 ended 31 December 2020 was as follows:

| | Financial assets at amortised cost £ 000 | Financial assets & liabilities at FVTPL £ 000 | Financial assets & liabilities at FVTOCI £ 000 | Financial liabilities at amortised cost £ 000 | Non-financial assets & liabilities £ 000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | - | - | - | - | 6,698,650 |
| Right of use assets | - | - | - | - | 23,684 |
| Intangible assets | - | - | - | - | 300,744 |
| Investments in subsidiaries, joint ventures and associates | - | 3,648 | - | - | - |
| Retirement benefit obligations | - | - | 88,100 | - | - |
| Tax receivable | - | - | - | - | 334 |
| Trade and other receivables | 4,598 | - | - | - | - |
| | 4,598 | 3,648 | 88,100 | - | 7,023,412 |
| **Current assets** | | | | | |
| Inventories | - | - | - | - | 19,347 |
| Trade and other receivables | 151,462 | - | - | - | - |
| Income tax asset | 291 | - | - | - | - |
| Cash and cash equivalents | 57,221 | - | - | - | - |
| Restricted cash | 16,758 | - | - | - | - |
| Contract assets | 6,214 | - | - | - | - |
| | 231,946 | - | - | - | 19,347 |
| Total assets | 236,544 | 3,648 | 88,100 | - | 7,042,759 |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Long term lease liabilities | - | - | - | (18,632) | - |
| Loans and borrowings | - | - | - | (2,384,242) | - |
| Provisions | - | - | - | - | (10,486) |
| Deferred revenue | - | - | - | (1,468,599) | - |
| Deferred tax liabilities | - | - | - | (239,729) | - |
| Other non-current financial liabilities | - | - | (3,174) | - | - |
| | - | - | (3,174) | (4,111,202) | (10,486) |

## 29 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 assets & liabilities at FVTOCI £ 000 | Financial liabilities at amortised cost £ 000 | Non-financial assets & liabilities £ 000 |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| Current portion of long term lease liabilities | - | - | - | (5,518) | - |
| Trade and other payables | - | - | - | (213,300) | - |
| Loans and borrowings | - | - | - | (80,203) | - |
| Deferred revenue | - | - | - | (64,687) | - |
| Provisions | - | - | - | - | (2,912) |
| Other current financial liabilities | - | - | (640) | - | - |
| | - | - | (640) | (363,708) | (2,912) |
| Total liabilities | - | - | (3,814) | (4,474,910) | (13,398) |

Fair values are derived from level 1 inputs.

## 29 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 ended 31 December 2021 was as follows:

| | Financial assets at amortised cost £ 000 | Financial assets & liabilities at FVTPL £ 000 | Financial liabilities at amortised cost £ 000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries, joint ventures and associates | - | 376,289 | - |
| Trade and other receivables | 190,000 | - | - |
| | 190,000 | 376,289 | - |
| **Current assets** | | | |
| Trade and other receivables | 219,738 | - | - |
| Cash and cash equivalents | 9,808 | - | 595 |
| | 229,546 | - | 595 |
| Total assets | 419,546 | 376,289 | 595 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Loans and borrowings | - | - | (199,134) |
| **Current liabilities** | | | |
| Trade and other payables | - | - | (18,842) |
| Loans and borrowings | - | - | (644) |
| Income tax liability | - | - | (260) |
| | - | - | (19,746) |
| Total liabilities | - | - | (218,880) |

### 29 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 ended 31 December 2020 was as follows:

| | Financial assets at amortised cost £ 000 | Financial assets & liabilities at FVTPL £ 000 | Financial liabilities at amortised cost £ 000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries, joint ventures and associates | - | 376,289 | - |
| Trade and other receivables | 190,000 | - | - |
| | 190,000 | 376,289 | - |
| **Current assets** | | | |
| Trade and other receivables | 117,193 | - | - |
| Cash and cash equivalents | 77,538 | - | 301 |
| | 194,731 | - | 301 |
| Total assets | 384,731 | 376,289 | 301 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Loans and borrowings | - | - | (198,398) |
| **Current liabilities** | | | |
| Trade and other payables | - | - | (17,550) |
| Loans and borrowings | - | - | (644) |
| | - | - | (18,194) |
| Total liabilities | - | - | (216,592) |

### 30 Financial risk review

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

**Capital management**
The Group manages its capital centrally to ensure that entities in the 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 Group's overall strategy remains unchanged from 2020.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 22 offset by equity of the Company (comprising issued capital, reserves and retained earnings as detailed in Notes 19 and 20)).

The covenants associated with some of the Group's bonds 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 any fair value and accounting adjustments.

### 30 Financial risk review (continued)

The Group's Senior Total Net Debt as at 31 December 2021 totalled £2,230.9m (2020: £2,217.6m). Using the RAV value as at March 2022, as outlined by Ofgem in its electricity distribution price control financial model published in November 2021, 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 2022 of £3,687.6m (31 March 2021: £4,450.3m). The Senior Total Net Debt to RAV ratio for the Group is therefore estimated at 60.5% (2020: 64.3%).

At 31 December 2021, the Group had available £241.6m (2020: £175.5m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

At 31 December 2021, 98% of the Group's long-term borrowings were at fixed rates (2020: 98%) and the average maturity for these borrowings was 16 years (2020: 17).

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

**Credit risk**

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 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. The Group's receivables are subject to expected credit loss calculations disclosed further within the trade receivables (note 16). The Group's credit risk exposure is shown below:

**Group**

| 2021 | Notes | Gross carrying amount £ 000 | Loss allowance £ 000 | Net carrying amount £ 000 |
|---|---|---|---|---|
| Trade and other receivables | 16 | 184,635 | (16,221) | 168,414 |
| Income tax asset | | 3,493 | - | 3,493 |
| Cash and short-term deposits | 17 | 29,125 | - | 29,125 |
| Contract assets | 3 | 7,593 | - | 7,593 |
| | 16 | 224,846 | (16,221) | 208,625 |

| 2020 | Notes | Gross carrying amount £ 000 | Loss allowance £ 000 | Net carrying amount £ 000 |
|---|---|---|---|---|
| Trade and other receivables | 16 | 166,053 | (9,993) | 156,060 |
| Income tax asset | | 625 | - | 625 |
| Cash and short-term deposits | 17 | 57,221 | - | 57,221 |
| Contract assets | 3 | 6,214 | - | 6,214 |
| | 16 | 230,113 | (9,993) | 220,120 |

For trade receivables the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group 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 Group’s financial assets at FVTPL as disclosed in note 29 best represents their respective maximum exposure to credit risk. The Group holds no collateral over any of these balances.

### 30 Financial risk review (continued)

**Company**

| 2021 | Notes | Gross carrying amount £ 000 | Loss allowance £ 000 | Net carrying amount £ 000 |
|---|---|---|---|---|
| Amounts receivable from Group undertakings | 16 | 409,738 | - | 409,738 |

| 2020 | Notes | Gross carrying amount £ 000 | Loss allowance £ 000 | Net carrying amount £ 000 |
|---|---|---|---|---|
| Trade and other receivables | 16 | - | - | - |
| Amounts due from Group undertakings | 16 | 307,193 | - | 307,193 |

Amounts due from Group undertakings are regarded as low credit risk as the Group has a strong capacity to meet its contractual cash flow obligations and maintains an investment grade credit rating.

**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 Group has access to a £200 million revolving credit facility provided by Barclays Bank plc, Lloyds Bank plc, HSBC UK Bank plc and Royal Bank of Canada. The facility was executed in December 2021 for a period of three years expiring in 2024, with two 1 year extension options. In addition, the Group has access to a £42 million overdraft facility provided by Lloyds Bank plc, which is reviewed annually, these borrowings are repayable on demand. At 31 December 21, the Group had available £241.6m (2020: £175.5m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

***Maturity analysis for financial liabilities***

The following table sets out the remaining contractual maturities of financial liabilities by type.

**Group**

| 2021 | Less than 3 months £ 000 | 3 months - 1 year £ 000 | 1-5 years £ 000 | More than 5 years £ 000 | Total £ 000 |
|---|---|---|---|---|---|
| Non-interest bearing | 114,379 | - | - | - | 114,379 |
| Short-term interest bearing | 439 | - | - | - | 439 |
| Long-term interest bearing | - | 438,623 | 500,335 | 2,629,303 | 3,568,261 |
| | 114,818 | 438,623 | 500,335 | 2,629,303 | 3,683,079 |

| 2020 | Less than 3 months £ 000 | 3 months - 1 year £ 000 | 1-5 years £ 000 | More than 5 years £ 000 | Total £ 000 |
|---|---|---|---|---|---|
| Non-interest bearing | 140,376 | - | - | - | 140,376 |
| Short-term interest bearing | 16,510 | - | - | - | 16,510 |
| Long-term interest bearing | - | 119,987 | 970,772 | 2,510,908 | 3,601,667 |
| | 156,886 | 119,987 | 970,772 | 2,510,908 | 3,758,553 |

**30 Financial risk review (continued)**

**Company**

| 2021 | Less than 3 months £ 000 | 3 months - 1 year £ 000 | 1-5 years £ 000 | More than 5 years £ 000 | Total £ 000 |
|---|---|---|---|---|---|
| Non-interest bearing | 23,002 | - | - | - | 23,002 |
| Long-term interest bearing | - | 214,500 | - | - | 214,500 |
| | 23,002 | 214,500 | - | - | 237,502 |

| 2020 | Less than 3 months £ 000 | 3 months - 1 year £ 000 | 1-5 years £ 000 | More than 5 years £ 000 | Total £ 000 |
|---|---|---|---|---|---|
| Non-interest bearing | 17,550 | - | - | - | 17,550 |
| Long-term interest bearing | - | 14,500 | 214,500 | - | 229,000 |
| | 17,550 | 14,500 | 214,500 | - | 246,550 |

**Market risk**
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'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 2021 the Group had 98% (2020: 98%) of long term debt at fixed rates. Short-term loans are charged at a floating rate of interest at SONIA plus 0.20% plus a credit adjustment spread and 2% of the Group’s long term borowings are at a floating rate of interest at SONIA plus 1.55%, thus exposing the Group to cash flow interest rate risk. A 1% movement in interest rates would subject the Group to an approximate change in interest costs of £0.3m per year. This is considered to be an acceptable level of risk. All other loans are at fixed interest rates and expose the Group to fair value interest rate risk. The 1% sensitivity is utilised as it is the sensitivity rate used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates and is applied to variable interest rate borrowings.

During the year. the Group repaid its loans that were subject to LIBOR and executed a new loan that is linked to SONIA, therefore the Group no longer has any exposure to LIBOR linked instruments.

More information on the use of cash flow hedges to manage interest rate risk on is available in note 31.

**Financial risk**
The Group is exposed to price risk on CE Resources' revenues. During the year there was no revenue relating to the sale of commodities therefore a 1% change in commodity prices would not have a material impact on the financial statements.

The Group is not subject to significant risk relating to foreign exchange. The Group has entities operating in Euros, Australian dollars, and polish złoty; a 1% change in exchange rates in these currencies would not have a material impact on the financial statements.

## 31 Derivatives held for risk management and hedge accounting

### Derivatives held for risk management

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange rates, credit spreads, commodities, equity or other indices. In accordance with Board approved policies, derivatives are transacted to manage our exposure to fluctuations in interest rate. The Group uses derivatives to manage these risks from our financing portfolio to optimise the overall cost of accessing the debt capital markets.

The following table provides a reconciliation by risk category of components of equity and analysis of other comprehensive income items (net of tax) resulting from hedge accounting. All derivative financial instruments relate to cash flow hedges.

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Assets £ 000 | Liabilities £ 000 | Assets £ 000 | Liabilities £ 000 |
| Non-current | 944 | - | - | 3,174 |
| Current | 204 | - | - | 640 |
| | 1,148 | - | - | 3,814 |

The maturity of financial instruments was as follows:

| | 3 months to 1 year £ 000 | 1 to 5 years £ 000 | More than 5 years £ 000 | Total £ 000 |
|---|---|---|---|---|
| **2021** | | | | |
| Notional principal | 31,006 | 143,394 | - | 174,400 |
| Cash flow hedge | 204 | 944 | - | 1,148 |
| | 31,210 | 144,338 | - | 175,548 |
| **2020** | | | | |
| Notional principal | 20,414 | 89,087 | 12,072 | 121,573 |
| Cash flow hedge | (640) | (2,795) | (379) | (3,814) |
| | 19,774 | 86,292 | 11,693 | 117,759 |

### Effectiveness testing

The Group is using regression analysis to assess the effectiveness of the interest rate swap on a retrospective and prospective basis throughout the term of the hedging relationship. The dollar offset method was also performed at inception, showing zero ineffectiveness.

### Nature of the risk being hedged

The Group is hedging the risk of variability in cash flows indexed to SONIA. Further details of the Group's risk management is available in the strategic report, pages 16 to 20, and in financial risk review, note 30.

## 32 Related party transactions

**Directors' advances, credits and guarantees**

During the year, 2 directors (2020: 2) and 3 key personnel (2020: 3) utilised the services provided by Northern Transport Finance Limited. The amounts included in finance lease receivables owed by these directors and key personnel at the end of the period were £89,000 (2020: £19,000).

**Company**

The Company has advanced loans to other companies in the Group. The total interest included in investment income in the statement of profit or loss for the year ended 31 December 2021 was £15,513,000 (2020: £12,185,000). Included in assets within the statement of financial position is £409,375,000 (2020: £307,198,000). These amounts relate to subsidiaries of the Company. The Company's amount payable to its parent as of 31 December 2021 is £18.8m (2020: £16.6m)

**Group**

**Income and receivables from related parties**

| 2021 | Joint ventures £ 000 |
|---|---|
| Sale of goods | 180 |

| 2020 | Joint ventures £ 000 |
|---|---|
| Sale of goods | 186 |

**Expenditure with and payables to related parties**

| 2021 | Parent £ 000 | Joint ventures £ 000 |
|---|---|---|
| Purchase of goods | - | 9,938 |
| Amounts payable to related party | 24,628 | 70 |

| 2020 | Parent £ 000 | Joint ventures £ 000 |
|---|---|---|
| Purchase of goods | - | 9,600 |
| Amounts payable to related party | 18,856 | 54 |

Amounts due to parent as shown above relate to amounts owed to Berkshire Hathaway Energy Company for on-going costs and is repayable on demand.

Joint venture in the tables above relate to Vehicle Lease and Services Limited.

### 33 Parent and ultimate parent undertaking

The Company's immediate parent is Berkshire Hathaway Energy Company.

The ultimate parent and controlling party 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 of America.

The registered 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 Berkshire Hathaway Energy Company, incorporated in United States of America.

The registered address of Berkshire Hathaway Energy Company is:
3555 Farnam Street, Omaha, Nebraska 68131