Registered number: 04112320 (England and Wales)

Northern Powergrid (Yorkshire) plc

Annual Report and Financial Statements

for the Year Ended 31 December 2021

Northern Powergrid (Yorkshire) plc
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Company Information

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Northern Powergrid (Yorkshire) plc
Strategic Report for the Year Ended 31 December 2021

The directors present the annual reports and financial statements for the year ended 31 December 2021 of Northern Powergrid (Yorkshire) plc (the "Company"), which have been drawn up and presented in accordance with the Companies Act 2006.

BUSINESS MODEL

The Company is as an authorised distributor under the Electricity Act 1989 and holds a Licence granted by the Secretary of State. As a distribution network operator ("DNO"), the Company is regulated by the Office of Gas and Electricity Markets ("Ofgem"), which in turn, is governed by the Gas and Electricity Markets Authority ("GEMA"). Ofgem requires the DNOs to operate within a regulatory framework known as a price control, the purpose of which is to protect the interests of end consumers by setting an upper limit on the amount the DNOs can charge for the use of their networks. The completion of the 2020/21 Regulatory Year (on 31 March 2021), 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").

The principal activity of the Company is the distribution of electricity to approximately 2.3 million customers connected to its electricity distribution network (the "Network") throughout the areas of West Yorkshire, East Yorkshire, almost all of South Yorkshire, together with parts of North Yorkshire, Derbyshire, Nottinghamshire, Lincolnshire and Lancashire. The Company's Network includes over 55,000 kilometres of overhead and underground cables and over 36,000 substations. Electricity is received from National Grid's transmission system and from generators connected directly to the Network, and then distributed at voltages of up to 132 kilovolts.

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

STRATEGY

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

Submitted to Ofgem in March 2014, the Business Plan described the long-term strategy and commitments that the Company would achieve during the ED1 period in order to deliver sustainable growth with regard to those with whom the Company interacted and served. Developed after a period of consultation with stakeholders, the Business Plan focused on a number of priorities (described throughout the Strategic Report) including minimising costs, improving flood defences, enhancing customer service, prioritising employee safety, supporting vulnerable customers, protecting the environment and transitioning to low carbon technologies. 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 the Northern Powergrid Group 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 Company 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 Northern Powergrid Group's shareholder each financial year and is designed to phase progress towards the achievement of each commitment over the duration of the ED1 period. The phasing ensures that the deliverables in both plans can be measured effectively by using a mix of financial and non-financial Key Performance Indicators ("KPI").

The Strategic Report focuses on each Core Principle and the performance of the associated KPIs 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 (million)	£212.2	£186.1
Cash from operating activities (million)	£269.7	£223.1
Cash used in investing activities (million)	(£213.9)	(£209.5)
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 Company 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. Six years through the ED1 period, the Company had implemented efficiencies equivalent to a 4% reduction in base costs relative to the prior regulatory period.

Revenue: The Company's revenue at £467.4 million was £30.1 million higher than the prior year (2020: £437.3 million) primarily due to higher distribution use of system revenues as the result of higher tariffs and the impact of Covid-19 Pandemic ("the Pandemic") between the years.

Operating profit and position at the year-end: The Company's operating profit of £212.2 million was £26.1 million more than the previous year (2020: £186.1 million), primarily reflecting higher revenues (£30.1 million) and lower pension deficit repair contributions (£7.0 million) offset by higher depreciation (£6.8 million) and higher bad debts (£3.1 million). The statement of financial position on page 36 shows that, at 31 December 2021 the Company had total equity of £1,627.9 million (2020: £1,561.5 million). The directors consider the Company to have a strong financial position which, when coupled with the preference of its parent company, Berkshire Hathaway Energy for operating with lower levels of debt than equivalent companies in the sector, creates a stable base for continued strong performance during the ED1 period.

Finance costs and investments: Finance costs net of investment income at £37.1 million was £1.0 million lower than the prior year (2020: £38.1 million) mainly reflecting full year impact of refinancing at lower rates in the prior year.

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

- Cash flow from operating activities at £269.7 million was £46.6 million higher than the previous year, reflecting higher operating profit before depreciation and amortisation and lower tax paid following changes in payment on account arrangements in the prior year.

- The net cash used in investing activities at £213.9 million was £4.4 million higher than the previous year, reflecting higher purchases of plant, property and equipment offset by higher receipts of customer contributions.

- The net cash outflow from financing activities at £76.0 million was £217.2 million lower than the previous year mainly due to the £200 million repayment in 2020.

Pensions: The Company is a participating employer in the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "DB Scheme"), a defined benefit scheme. Further details of the Company's commitments to the Scheme and the associated deficit repair payments are provided in Note 26 to the financial statements. The Company also participates in the Northern Powergrid Pension Scheme, which is a defined contribution scheme.

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

CUSTOMER SERVICE

Strategic objective: Delivering exceptional customer service.

KPI	**2021**	**2020**
Broad Measure of Customer Satisfaction ("BMCS")	88.4%	89.3%
BMCS Rank (out of 14)	13	13
BMCS Power Cuts	88.4%	89.9%
BMCS General Enquiries	93.7%	91.8%
BMCS Connections	86.3%	88%
Stakeholder Engagement and Customer Vulnerability (“SECV”) rank (out of 5) (combined with Northern Powergrid (Northeast) plc)	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. The Company 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.

To further enhance the service provided to customers a number of initiatives from the Company's customer service improvement plan were implemented during the year. This included the continued development of the customer relationship management ("CRM") system, 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 Northern Powergrid Group's external website is also due to take place in 2022.

Connections to the network

Business plan commitments: 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 2020/21 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, the Company (together with Northern Powergrid (Northeast) plc) 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, the Company 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, the Company continued to develop its routine engagement activity by enhancing existing relationships with elected representatives at the local council and parliamentary level as well as with civic leaders from Local Enterprise Partnerships, particularly during periods of severe weather and when providing support to vulnerable customers. In addition, virtual one-to-one and group engagement sessions were held (and attended by the CEG) for the purpose of understanding stakeholders' priorities and opinion on 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 finalization of the ED2 Plan.

The continuing challenges of the Pandemic and restrictions meant that the way in which the Company 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. The Company'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.

	2020/21		2019/20	
KPI	**Actual**	**Target**	**Actual**	**Target**
Customer minutes lost ("CML")	40.0	<54.8	42.1	<56.4
Customer interruptions ("CI")	52.4	<63.0	50.8	<64.1

	2021	**2020**
Network investment (millions)	£268.9	£249.0
High voltage restoration time (minutes)	53.7	55.2

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

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

In relation to high voltage restoration, the Company's high-voltage restoration 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, the Company together with its affiliate (Northern Powergrid (Northeast) plc) 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.

The Company invested £268.9 million during the year through its approved Network investment strategy (2020: £249.0 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, the Company 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 the Company and its affiliate's new £53.1 million (in 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.

KPI

	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	73		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	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, 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. The Company 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.

The Company 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, the Company 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 the Company and its affiliate'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 Northern Powergrid Group website). In July 2021 the Company and its affiliate 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 Northern Powergrid Group website).

The Company and Northern Powergrid (Northeast) plc have 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, during 2021, the Company and its affiliate invested £5.0 million on flood mitigation works and £8.6 million on the continuation of the vegetation management programme.

Response to storm Arwen

The Company and its affiliate have 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 the Company had faced in more than two decades.

A MIMP was triggered on 26 November 2021, following which, to mitigate the loss of 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 supplies to all 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**
Northern Powergrid Group occupational safety and health administration ("OSHA") rate	0.29	0.09	0.13	0.13
Preventable vehicle accidents	15	14	15	15
Lost time accidents	3	0	0	2
Restricted duty accidents	1	0	1	0
Medical treatment accidents	0	1	0	0
Operational incidents	7	5	5	5
Northern Powergrid Group 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 Northern Powergrid Group measures its safety performance in terms of the OSHA rate, which is a measure used in the United States ("US") to capture safety incidents down to minor levels of medical treatment. The Northern Powergrid Group 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 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 Company also had a poor year in terms of preventable vehicle accidents, with fifteen recorded against a target of fourteen. 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 Company's accident rate had been reduced by 58%, which was ahead of the target to achieve a 50% reduction by 31 March 2023. The Company successfully retained its ISO 45001 accreditation scheme for its health and safety management system.

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

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

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

The mental health and wellbeing of staff continues to form 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.

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 Company to continue to adjust and adapt employee working arrangements. For those that were able, home working continued, as did the Company's support offered to working parents or those that were required 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 Company 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 continued to be promoted alongside the standard support services which are available.

Alongside any new measures, the Company 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 Company 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 the Company and Northern Powergrid (Northeast) plc's workforce renewal programme. At 31 December 2021, the Company had 1,113 employees (2020: 1,148). Further information concerning how the Northern Powergrid group is supporting gender diversity in the energy industry can be found in the Northern Powergrid Group's gender pay gap report via the Northern Powergrid Group's corporate website.

ENVIRONMENTAL RESPECT

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

	2021		**2020**	
KPI	**Actual**	**Target**	**Actual**	**Target**
Total oil/fluid lost (litres)	21,498	<18,117	24,032	<18,117
SF6 gas discharges (kg)	63.63	<40.50	47.33	<42.75
Environmental incidents	5	<3	5	<3
KWh Energy Consumed	24,397,919		25,577,261	

Business carbon footprint	**Tonnes**	**Per km²**	**Tonnes**	**Per km²**
Building electricity use	940	0.1	945	0.1
Substation electricity use	2,743	0.3	3,422	0.3
Fleet fuel use	2,056	0.2	2,033	0.2
Business fuel use	810	0.1	995	0.1
Other (including fugitive emissions)	1,496	0.1	1,124	0.1
Contractor emissions	8,192	0.8	8,152	0.7
Total carbon footprint (tonnes)	16,237	1.5	16,672	1.5

Notes:

KWh energy consumed relates to depot energy and fleet fuel usage.
The chosen business carbon footprint intensity ratio is based on the Company's licence area which equals 10,902 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: The Company operates a United Kingdom Accreditation Service scheme for environmental management and is certified to the environmental management systems standard ISO 14001:2015 which is designed to enhance environmental performance, fulfil compliance obligations and achieve environmental objectives, all of which contribute to the achievement of the Company'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.

The Company's carbon footprint reporting framework is certified under the Certified Emissions Measurement and Reduction Scheme for compliance with ISO 14064-1:2006. The last full audit was undertaken in August 2021, where continued certification was confirmed. Remote working and less travel have led a further reduction the Company's carbon footprint to 16,237 tonnes (2020: 16,672 tonnes). This improvement (combined with Northern Powergrid (Northeast) plc) 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 21,498 litres (2020: 24,032). In relation to the Business Plan commitment, at 31 December 2021, the Company and its affiliate (Northern Powergrid (Northeast) plc) 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 Company continues to assess environmental risks and mitigate threats through programmes of work such as fluid-filled cable replacement, undergrounding overhead lines in areas of outstanding natural beauty, installing flood defences, implementing secondary containment in high-risk substations and removing equipment containing polychlorinated biphenyl from the Network. Whilst prevention is paramount, in the event the Company's activity does result in a leak or spill, the services of an appointed 24-hour a day environmental response consultancy is used to minimise the effects of any incident.

The Company 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 the Company'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. The Company's science-based targets were verified by the Science-based Targets Initiative on 23 December 2021.

In respect of the Company'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 the Company's operations by 2028. In addition to safeguarding the environment from its direct activity, the Company 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 the Company'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. The Company laid out its intention to act as a key facilitator in the country's net zero transition by placing decarbonisation at the heart of its 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, the Company is developing and actioning innovative solutions that will reduce the need for traditional and potentially expensive reinforcement of the Network. In the past year, the Company has continued to 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, the Company has continued to build on its views of potential pathways to net zero in its region through its publication of Distribution Future Energy Scenarios in May 2021.

From an innovation perspective, the Company continues to run and develop a portfolio of projects in the priority areas of smart meters, digital-enabled customer service and affordability. 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 the Company transitions into the ED2 period, decarbonisation will continue to become central not only to the Company's strategy, but the way in which the Company contributes more broadly to the evolution of the energy industry and the stakeholders with whom it interacts. The Company has been progressive in its ambition to reduce its own business carbon footprint. However, more is required and it is acknowledged that the Company 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 the Company'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 the Company, 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, the Company 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 Company's business to the highest behavioural standards and adhere to a policy of strict compliance with all relevant standards, legislation and regulatory conditions.

Performance during the year: In order to assure compliance with distribution licence and other regulatory obligations, the Company operates a regulatory compliance affirmation process, under which ownership of approximately 2,000 regulatory obligations 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 the Company breaching its licence conditions and other statutory requirements (which could lead to financial penalties), the board reviews the outcomes of each exercise. Each quarterly regulatory compliance affirmation process was completed satisfactorily during the year.

The Company submitted its annual Data Assurance Report to Ofgem in February 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 the Company published and submitted to Ofgem its finalised business plan for the ED2 period. The 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 Northern Powergrid Group operates a structured and disciplined approach to the management of risk as part of its overall risk management policy and in support of its financial reporting practices. A system is in place to facilitate the identification of new and emerging opportunities and risks, including those associated with the achievement of the Northern Powergrid 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 Northern Powergrid Group’s risk appetite. The RAB routinely reports its findings to the board to ensure the directors are sufficiently appraised of the risk exposure associated with the pursuit of the Company’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. The business continuity and disaster recovery plans were fully tested as a result of the Pandemic, and whilst adaptation and flexibility was required, operational performance remained resilient and employees continued to perform their duties safely

Principal 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.

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

Regulatory and policy positioning
Decisions taken resulting in negative impacts to our business model.

Mitigation
- The Company's policy position supporting the expanded role of DSO was published in December 2021.
- Innovation projects in place to develop and demonstrate future technologies and commercial practices.
- The Company engages in a robust regulatory and stakeholder engagement programme, the latter of which is scrutinised by the CEG.
- The Company is actively involved in consultations on the ED2 price controls.

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

Mitigation

- Major incident and crisis management policies, plans and governance arrangements are in place.
- An industry mutual aid agreement exists.
- Network investment ensures grid resilience.
- Grid resilience programme and audits.
- Vulnerable site protocols.
- Climate resilience strategy and framework.

Safety

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

Mitigation

- Overseen by the Health and Safety Committee.
- Clear policies and procedures exist that comply with legislation to ensure the safety of 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 and climate protection

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

Mitigation

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

Mitigation

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

Efficiency and output performance

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

Mitigation

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

Financial risks

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

Mitigation

- Monitored by the treasury department.
- The Company 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, 100% of the Company's long-term borrowings were at fixed rates and the average maturity for these borrowings was 15 years.
- 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.

Pandemic

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

Mitigation

- 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 Company 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 Company utilises comprehensive business planning procedures, regularly reviews KPIs to assess progress towards its goals, and has a strong internal audit function to provide independent scrutiny. Financial controls include centralised treasury operations and established procedures for the planning, approving and monitoring of major capital expenditure. The RAB monitors the effectiveness of internal controls and reports on its findings to the board and Berkshire Hathaway Energy. As part of the statutory reporting process, the Company's external auditor reviews and tests a number of internal controls and reports their 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 Northern Powergrid Group) for the purpose of enabling the senior management team to make decisions up to certain financial limits, above which point the decision making reverts to the directors. These limits reflect the board's level of risk appetite and are reviewed on an annual basis.

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

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

To ensure that the Northern Powergrid Group maintains the highest level of ethical standards in the conduct of its business, Berkshire Hathaway Energy's Code of Conduct has been adopted, further details of which can be found on page 13. The Northern Powergrid Group has robust procedures in place to meet the requirements of the Bribery Act 2010. Every employee must undertake training in respect of the Northern Powergrid Group's anti-corruption and anti-bribery policy each year.

Section 172(1) statement

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

(a) the likely consequences of any decision in the long term; (Page 2)
(b) the interests of the Company's employees; (Pages 9, 10 and 11)
(c) the need to foster the Company's business relationships with suppliers, customers and others; (Pages 4, 5, 22 and 23)
(d) the impact of the Company's operations on the community and the environment; (Pages 4, 5, 6, 8 and 9)
(e) the desirability of the Company maintaining a reputation for high standards of business conduct; and (Page 11 and 22)
(f) the need to act fairly as between members of the Company.

The Company has one class of ordinary shares which are all held by Yorkshire Electricity Group plc, a company owned by the Northern Powergrid Group.

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 the Company's (and its affiliate'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 9 - 11;
• Social Matters: pages 4 - 5;
• Respect for Human rights: page 18; and
• Anti-Corruption and Anti-bribery matters: pages 11 and 18

Approved by the Board on 4 May 2022 and signed on its behalf by:

A P Jones
Director

The directors present their report together with the auditor's report and the financial statements financial statements for the year ended 31 December 2021.

Dividends

During the year, an interim dividend of £34.4 million was paid (2020: £33.6 million). The directors recommend that no final dividend be paid in respect of the year (2020: £nil).

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

Directors of the Company

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

T H France
A J Maclennan
A R Marshall
A P Jones (appointed 14 April 2022)
P A Jones
P C Taylor
T E Fielden (resigned 15 February 2021)

During the year, none of the directors had an interest in any contract which was material to the business of the Company.

During the year and up to the date of approval of the Report of the Directors, 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 indemnity provision for the purposes of the Companies Act 2006.

Future developments

The financial position of the Company, as at 31 December 2021, is shown in the statement of financial position on page 36. There have been no significant events since the year end. The directors intend that the Company will continue to implement the Business Plan during the remainder of the ED1 period and by delivering the strategic objectives linked to the Core Principles, the Company will continue to develop its business by efficiently investing in the Network and improving the quality of supply and service provided to customers. There are no plans to change the existing business model.

Research and development

The Company supports a programme of research that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. During the year, the Company invested £1.4 million (2020: £2.2 million) (Note 5 to the financial statements) in its research and development activities.

Financial instruments

Details of financial risks are included in the Principal Risks and Uncertainties on pages 15 - 17 of the Strategic Report and Note 29 to the financial statements on page 69.

As at 31 December 2021 and during the Year it was the Company's policy not to hold any derivative financial instruments.

Employment of disabled persons

The Company'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 Company 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 Northern Powergrid Group's intranet.

During the year, the President and Chief Executive Officer and members of the board and senior management team of the Northern Powergrid Group continued to provide colleagues with updates on the Northern Powergrid Group's response to the Pandemic and financial, organisational, safety and customer service performance through weekly recorded electronic briefings. In addition, group wide text messages were used to quickly disseminate key information concerning the Pandemic or the invoking of major incident responses. Where appropriate, the executive directors and the senior management 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 details concerning the Company's relationship with employees (including the principal decisions taken during the year) and information concerning greenhouse gas emissions can be found in the Strategic Report (Employee Commitment and Environmental Respect).

Business Relationships

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

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

Relations with suppliers is managed using a supplier registration system which supports a robust and transparent procurement process and ensures strict compliance with the prevention of slavery and human trafficking. As a consequence, the system allows the Company 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 Company's annual Modern Slavery Act statement which is reviewed and approved by the board each year.

Customers, whether they are domestic or commercial, are the primary stakeholder group served by the Company and therefore the services offered are all tailored to provide a benefit or enhance an experience. Further detail of the Company'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 Company's long-term strategy, the relationship with Ofgem, the evolving ED2 framework, the transition to DSO as well as the effects of the Pandemic were regular items on the board agenda throughout the year.

CORPORATE GOVERNANCE STATEMENT

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

Audit Committee

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

Committee members:

• J Reynolds - Non-executive Director (Chair)
• T E Fielden, Finance Director (resigned 15 February 2021)
• AP Jones, Finance Director (appointed 20 April 2022)
• M Knowles - Independent member
• S J Lockwood - Director of Finance (Interim) (appointed 11 February 2021, resigned 14 April 2022)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the 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 that directors:

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

Directors' responsibility statement pursuant to DTR 4

Each of the directors as at the date of the annual reports and financial statements, whose names and functions are set out on page 1 in the Directors Report confirms that, to the best of their knowledge:

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

Going Concern

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

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

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

- The Company's revenue derives principally from regulated electricity distribution and this was not materiality affected by the Pandemic. The regulatory regime allows for the recovery of allowed costs in full over the long term;
- The Company is a stable electricity distribution business operating an essential public service and is regulated by GEMA. In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Company is profitable with strong underlying cash flows and holds investment grade credit ratings;
- The Company is financed by long-term borrowings with an average maturity of 15 years and has access to borrowing facilities 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. Recent successful bond issues by the Northern Powergrid Group and by other issuers in the weeks immediately prior to the date of these accounts suggest that the Northern Powergrid Group's bonds remain attractive to investors;

- The Northern Powergrid Group has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Northern Powergrid Group has sufficient resources to settle its liabilities as they fall due for at least the 12 months from the date of these accounts. The directors have had discussions with the bank who have indicated that they would continue to provide the short-term facilities to the Northern Powergrid Group for the foreseeable future on acceptable terms; and
- Consideration was also given to the obligations contained in the Company's and Northern Powergrid (Northeast) plc's distribution licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Company and Northern Powergrid (Northeast) plc will have sufficient financial and operational resources available for the continuation of business for a period of at least 12 months. The board determined any material variations to the assumptions used when providing those certificates were unlikely within the eight-year period or beyond.

Consequently, after making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In addition, a letter of support was received from Northern Powergrid Holdings Company. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

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 4 May 2022 and signed on its behalf by:

A P Jones
Director

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Northern Powergrid (Yorkshire) plc (the 'company'):

• give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;

• 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); and

• have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

• the statement of profit or loss;
• the statement of comprehensive income;
• the statement of financial position;
• the statement of changes in equity;
• the statement of cash flows; and
• the related Notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

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 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 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 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

-Key audit matters

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

• Accounting for capital spend - overhead model.

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 we used in the current year was £8.8m which was determined on the basis of 5% of profit before tax.

-Scoping

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 company's ability to continue to adopt the going concern basis of accounting included:

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the 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 model

-Key audit matter description

Total additions to property, plant and equipment in the year in the company were £270m (2020: £252m) with the majority of the additions to the company’s electricity distribution system, as disclosed in Note 11 to the financial statements. These additions include capitalised overheads of £48m (2020: £46m). 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. Management uses a model to allocate overheads to capital resulting from analysis of the costs incurred and their relevant cost drivers. The allocation model 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, as disclosed in Note 2 “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 fluctuations. We have also analysed current management 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;

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

-Key observations

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

Our application of materiality

-Materiality

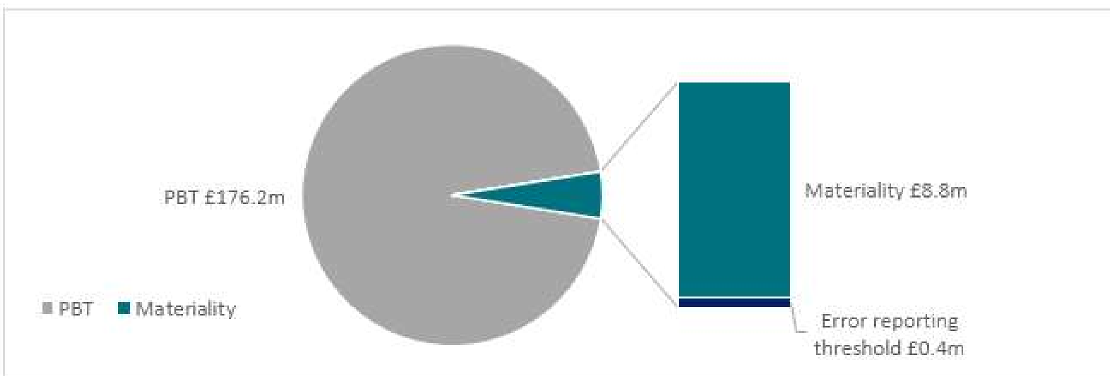
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our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

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

-Materiality
£8.8m (2020: £7.5m)

-Basis for determining materiality
5% (2020: 5%) of pre-tax profit earned during the year.

-Rationale for the benchmark applied
As a trading entity, profit is a key driver of the value of the company.



-Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 60% of materiality for the 2021 audit (2020: 70%). In determining performance materiality, we have considered the following:

• our risk assessment, including our assessment of the company's overall control environment and we considered it appropriate to rely on controls on the revenue cycle; and
• the volume of uncorrected misstatements in the prior period and control deficiencies identified.

-Error reporting threshold

We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £0.4m (2020: £0.4m), 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

-Scoping

The company operates as a regulated distribution network operator (DNO) in the areas of West Yorkshire, East Yorkshire, and parts of South Yorkshire, North Yorkshire, Derbyshire, Nottinghamshire, Lincolnshire and Lancashire in the UK. Our audit was scoped by obtaining an understanding of the company and its environment, as well as assessing the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatements. Following this assessment and our determination of materiality, we applied professional judgement to determine the extent of testing required over each balance in the financial statements. Audit work to respond to the risks of material misstatement was performed directly by audit engagement team. There have been no material changes in scope from prior year.

-Our consideration of the control environment

We have performed testing of controls of all material business cycles through a combination of tests of inquiry, inspection, observation, and re-performance.

We have involved our IT specialists to assess relevant controls over the Company'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 Company 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.

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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilites for the audit of financial statements

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

-Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

• the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
• results of our enquiries of management and the Board of Directors about their own identification and assessment of the risks of irregularities;
• any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
o identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
o detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
o the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
• the matters discussed among the audit engagement and relevant internal specialists, including tax, valuations, pensions and IT 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 area: accounting for capital spend-overhead model. 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 company 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 UK Companies Act, Listing Rules, pensions legislation and tax legislation.

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

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

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

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

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, or returns adequate for our audit have not been received from branches not visited by us; or
• the financial statements are not in agreement with the accounting records and returns.

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 Board

Our audit opinion is consistent with the additional report to the Board of Directors 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

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

London
United Kingdom

4 May 2022

Northern Powergrid (Yorkshire) plc
Statement of Profit or Loss for the Year Ended 31 December 2021

	Note	2021 £ 000	2020 £ 000
Revenue	3	467,420	437,257
Cost of sales		(17,661)	(19,715)
Gross profit		449,759	417,542
Distribution costs		(170,531)	(162,948)
Administrative expenses		(67,025)	(68,540)
Operating profit	5	212,203	186,054
Other gains	4	232	117
Finance costs	6	(37,322)	(38,763)
Finance income	6	267	658
Profit before tax		175,380	148,066
Income tax expense	10	(74,552)	(42,794)
Profit for the year		100,828	105,272

The notes on pages 40 to 81 form an integral part of these financial statements.

Northern Powergrid (Yorkshire) plc
Statement of Comprehensive Income for the Year Ended 31 December 2021

	2021 £ 000	2020 £ 000
Profit for the year	100,828	105,272
Total comprehensive income for the year	100,828	105,272

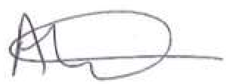
The notes on pages 40 to 81 form an integral part of these financial statements.

Northern Powergrid (Yorkshire) plc
(Registration number: 04112320)
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	3,731,005	3,581,134
Right of use assets	12	8,582	8,209
Intangible assets	13	44	85
		3,739,631	3,589,428
Current assets			
Inventories	15	488	640
Trade and other receivables	16	73,519	68,509
Income tax asset		1,205	1,501
Cash and cash equivalents	17	114,001	134,243
		189,213	204,893
Total assets		3,928,844	3,794,321
Equity and liabilities			
Equity			
Share capital	18	(290,000)	(290,000)
Retained earnings		(1,337,924)	(1,271,496)
Total equity		(1,627,924)	(1,561,496)
Non-current liabilities			
Long-term lease liabilities		(6,422)	(6,230)
Loans and borrowings	20	(968,698)	(1,119,024)
Provisions	22	(555)	(555)
Deferred revenue	24	(837,447)	(825,756)
Deferred tax liabilities	10	(178,145)	(138,320)
		(1,991,267)	(2,089,885)
Current liabilities			
Current portion of long-term lease liabilities		(2,392)	(2,157)
Trade and other payables	23	(101,667)	(88,538)
Loans and borrowings	20	(168,206)	(17,210)
Deferred revenue	24	(35,859)	(34,099)
Provisions	22	(1,529)	(936)
		(309,653)	(142,940)
Total liabilities		(2,300,920)	(2,232,825)
Total equity and liabilities		(3,928,844)	(3,794,321)

Statement of Financial Position as at 31 December 2021 (continued)

Approved by the Board of Directors on 4 May 2022 and signed on its behalf by:



A P Jones
Director

Northern Powergrid (Yorkshire) plc
Statement of Changes in Equity for the Year Ended 31 December 2021

	Note	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2021		290,000	1,271,496	1,561,496
Profit for the year		-	100,828	100,828
Total comprehensive income		-	100,828	100,828
Dividends	25	-	(34,400)	(34,400)
At 31 December 2021		290,000	1,337,924	1,627,924

	Note	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2020		290,000	1,199,824	1,489,824
Profit for the year		-	105,272	105,272
Total comprehensive income		-	105,272	105,272
Dividends	25	-	(33,600)	(33,600)
At 31 December 2020		290,000	1,271,496	1,561,496

The notes on pages 40 to 81 form an integral part of these financial statements.

Northern Powergrid (Yorkshire) plc
Statement of Cash Flows for the Year Ended 31 December 2021

	Note	2021 £ 000	2020 £ 000
Cash flows from operating activities			
Profit for the year		100,828	105,272
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	5	121,721	115,228
Depreciation on right of use assets		2,540	2,259
Amortisation of deferred revenue		(34,055)	(33,018)
Profit on disposal of property plant and equipment	4	(232)	(117)
Finance income	6	(267)	(658)
Finance costs	6	37,322	38,763
Income tax expense	10	74,552	42,794
		302,409	270,523
Decrease/(increase) in inventories	15	152	(147)
(Increase)/decrease in trade and other receivables	16	(4,679)	607
Increase in trade and other payables	23	5,623	3,242
Increase/(decrease) in provisions	22	593	(237)
Cash generated from operations		304,098	273,988
Income taxes paid	10	(34,431)	(50,848)
Net cash flow from operating activities		269,667	223,140
Cash flows used in investing activities			
Acquisitions of property plant and equipment		(270,570)	(246,571)
Proceeds from sale of property plant and equipment		232	117
Acquisition of intangible assets	13	(10)	(9)
Receipt of customer contributions		56,194	36,344
Interest received		267	658
Net cash flows used in investing activities		(213,887)	(209,461)
Cash flows used in financing activities			
Interest expense on leases		(254)	(265)
Interest paid		(38,881)	(57,134)
Repayment of other borrowing		-	(200,000)
Payments to finance lease creditors		(2,487)	(2,175)
Dividends paid	25	(34,400)	(33,600)
Net cash flows used in financing activities		(76,022)	(293,174)
Net movement in cash and cash equivalents		(20,242)	(279,495)
Cash and cash equivalents at 1 January	17	134,243	413,738
Cash and cash equivalents at 31 December	17	114,001	134,243

The notes on pages 40 to 81 form an integral part of these financial statements.

1 General information

The company is a public company limited by share capital, incorporated under the Companies Act and domiciled in England and Wales.

The address of its registered office is Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.

2 Accounting policies

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

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

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

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

The nature of the Company's business model, strategic objectives, operations and activities are set out in the Strategic Report.

The Company is exempt from preparing group financial statements as it is a wholly owned subsidiary of a parent undertaking preparing group financial statements. Further details of the registered address and parent company are available in Note 30. Further details on the Company's accounting policies in relation to investments are available on page 69.

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

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

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

- The Company's revenue derives principally from regulated electricity distribution and this was not materially affected by the Pandemic. The regulatory regime allows for the recovery of allowed costs in full over the long term;

2 Accounting policies (continued)

- The Northern Powergrid Group's main subsidiaries, the Company and Northern Powergrid (Northeast) plc, are stable electricity distribution businesses operating an essential public service and are regulated by GEMA. In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that distribution licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;

- The Northern Powergrid Group is profitable with strong underlying cash flows and holds investment grade credit ratings.

- The Company is financed by long-term borrowings with an average maturity of 15 years and has access to borrowing facilities 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. Recent successful bond issues by the Northern Powergrid Group and by other issuers in the weeks immediately prior to the date of these accounts suggest that the Northern Powergrid Group's bonds remain attractive to investors;
- The Northern Powergrid Group has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Northern Powergrid Group has sufficient resources to settle its liabilities as they fall due for at least the 12 months from the date of these accounts. The directors have had discussions with the bank who have indicated that they would continue to provide the short-term facilities to the Northern Powergrid Group for the foreseeable future on acceptable terms; and
- Consideration was also given to the obligations contained in the Company's and Northern Powergrid (Northeast) plc's distribution licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Company and Northern Powergrid (Northeast) plc will have sufficient financial and operational resources available for the continuation of business for a period of at least 12 months. The board determined any material variations to the assumptions used when providing those certificates were unlikely within the eight-year period or beyond.

Consequently, after making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In addition, a letter of support was received from Northern Powergrid Holdings Company. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

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:

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

2 Accounting policies (continued)

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

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

The amounts of overheads capitalised in the year was £48.4 million (2020: £46.1 million). The capitalisation rate was 71.3% (2020: 70.7%).

Changes in accounting policy
New standards, interpretations and amendments effective

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

New standards issued that are not yet applicable
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)

Revenue recognition

Recognition
The Company 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 i.e. kVA) and fixed (per 'customer' per day) basis;
- Customer contributions for connections are amortised over the life of the corresponding asset;
- Meter asset provision are recognised over time;
- Intercompany recharges for services provided are based on costs incurred; and
- Other revenue includes assessment and design fees and disconnections from the network, these are recognised by reference to the proportion of total costs of providing the service.

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

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

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

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

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

The main performance obligations in contracts consist of the provision of a distribution network to electricity suppliers. For these contracts, through the distribution and connection use of system agreement (DCUSA) the delivery of performance obligations are measured at the balance sheet date by the number of units: combination of kWh, capacity and fixed daily basis.

2 Accounting policies (continued)

Leases

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

The Company has taken practical expedients as per below:

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

The weighted average lessee's incremental borrowing rate applied to determine the present value of the lease liabilities during the current period was 1.75% (2020: 2.43%).

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

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

Finance income and costs policy

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

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

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

2 Accounting policies (continued)

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 company 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 financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

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

Property, plant and equipment

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

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

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

2 Accounting policies (continued)

Depreciation

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

Asset Class	**Depreciation rate**
Distribution system;	
- Generation assets	15 years
- Metering equipment	up to 5 years
- Information technology	up to 10 years
- Land	not depreciated
- Other system assets	45 years
Buildings;	
- Freehold	up to 60 years
- Leasehold	lower of lease period of 60 years
Non-operational land	not depreciated
Furniture, fittings and equipment	up to 10 years

Intangible assets

An internally generated intangible asset arising from development is recognised if the conditions set out in IAS 38 relating to the recognition of intangible assets are met. The amount initially recognised for internally-generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria. Amortisation is recognised on a straight-line basis over their estimated useful lives.

Amortisation

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

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

Derecognition

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

2 Accounting policies (continued)

Cash and cash equivalents

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

Trade receivables

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

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

Inventories

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.

2 Accounting policies (continued)

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 company 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 company 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.

Impairment of non-financial assets

At the balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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.

2 Accounting policies (continued)

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

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

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

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

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 company recognises financial assets and financial liabilities in the statement of financial position when, and only when, the company 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 company 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.

2 Accounting policies (continued)

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

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

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

The classification and the basis for measurement are subject to the company'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 fair value through the profit or loss (FVTPL).

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

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

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

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

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

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

2 Accounting policies (continued)

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.

Derecognition

Financial assets
The company 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 company 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 company is recognised as a separate asset or liability.

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

2 Accounting policies (continued)

Modification of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, the company 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 company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

Financial liabilities
If the terms of a financial liabilities are modified, the company 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 company recalculates the gross carrying amount of the financial liabilities and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

2 Accounting policies (continued)

Impairment of financial assets

Measurement of Expected Credit Losses
The company recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVPTL, namely:

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

The company 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 company 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 company recognises an allowance for the lifetime ECL.

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

The company 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 company 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 company on terms that the company 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 company, or economic conditions that correlate with defaults in the company.

2 Accounting policies (continued)

For trade receivables, the company 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 company 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 company has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

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

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

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

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

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

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

3 Revenue

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

	2021 £ 000	2020 £ 000
Distribution use of system revenue	412,309	383,509
Work for related parties	11,312	11,238
Amortisation of deferred revenue	34,055	33,018
Other revenue	9,744	9,492
	467,420	437,257

Segmental analysis

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

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

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

4 Other gains

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

	2021 £ 000	2020 £ 000
Gain on disposal of property, plant and equipment	232	117

5 Operating profit

Arrived at after charging/(crediting)

	2021 £ 000	2020 £ 000
Depreciation expense	121,670	115,165
Depreciation on right of use assets	2,540	2,259
Amortisation expense	51	64
Amortisation of deferred revenue	(34,055)	(33,018)
Research and development cost	1,380	2,221
Trade and other receivables loss allowance	5,100	1,974

Amortisation expense is included in administration costs in the statement of profit or loss on page 26.

6 Finance income and costs

	2021 £ 000	2020 £ 000
Finance income		
Interest income on financial assets measured at amortised cost	194	27
Other finance income measured at amortised cost	73	631
Total finance income	267	658
Finance costs		
Interest on bank overdrafts and borrowings	(39,314)	(40,144)
Borrowing costs included in cost of qualifying asset	2,246	1,646
Interest expense on leases	(254)	(265)
Total finance costs	(37,322)	(38,763)
Net finance costs	(37,055)	(38,105)

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% (2020: 3.40%) to expenditure on such assets.

7 Staff costs

	2021 £ 000	2020 £ 000
Salaries	61,609	58,740
Social security costs	6,972	6,801
Defined benefit pension costs	7,654	15,314
Defined contribution pension costs	4,520	4,122
	80,755	84,977
Less charged to plant, property and equipment	(52,612)	(50,242)
	28,143	34,735

A large proportion of the Company's employees are members of the DB Scheme, most of the remaining employees are members of the Northern Powergrid Pension Scheme, details of both are given in the employee benefits note 26.

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

	2021 No.	2020 No.
Technical	389	384
Industrial	520	532
Administration and support	114	87
Other departments	118	116
	1,141	1,119

8 Directors and other key personnel remuneration

The directors' remuneration for the year was as follows:

	2021 £ 000	2020 £ 000
Short-term employee benefits	527	632
Post-retirement benefits - defined contribution	9	11
Other long-term benefits	461	452
	997	1,095

During the year the number of directors who were receiving retirement benefits was as follows:

	2021 No.	2020 No.
Accruing benefits under money purchase pension scheme	3	4

8 Directors and other key personnel remuneration (continued)

In respect of the highest paid director:

	2021 £ 000	2020 £ 000
Short-term employee benefits	353	365
Long-term benefits	387	357
	740	722

In respect of other key personnel:

	2021 £ 000	2020 £ 000
Short-term employee benefits	466	437
Post-retirement benefits - defined benefit	22	5
Post-retirement benefits - defined contribution	80	51
Long-term benefits	196	121
	764	614

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

The directors and key personnel are remunerated for their services to the Northern Powergrid Group, of which the Company is a subsidiary. The figures above represent the share of the costs borne by the Company.

Long-term benefits relate to deferred bonus plan vested over the period of the plan.

9 Auditor's remuneration

	2021 £ 000	2020 £ 000
Audit of the financial statements	159	158
Other audit services	51	51
Non-audit services	25	26
Total fees payable to the Company's auditor	235	235

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

10 Income tax

Tax charged/(credited) in the income statement

	2021 £ 000	2020 £ 000
Current taxation		
UK corporation tax	34,806	29,707
UK corporation tax adjustment to prior periods	(78)	304
	34,728	30,011
Deferred taxation		
Arising from origination and reversal of temporary differences	(1,685)	(1,649)
Deferred tax adjustment to prior periods	10	(289)
Effect of changes in legislation	41,499	14,721
Total deferred taxation	39,824	12,783
Tax expense in the income statement	74,552	42,794

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% (2020 - 19%).

The differences are reconciled below:

	2021 £ 000	2020 £ 000
Profit before tax	175,380	148,066
Corporation tax at standard rate	33,322	28,133
Increase/(decrease) in current tax from adjustment for prior periods	(78)	304
Increase/(decrease) in deferred tax from adjustment for prior periods	10	(289)
Effect of income and expenses not deductible in determining taxable profit	(59)	(39)
Arising from changes in tax rates or laws	41,499	14,721
Other tax effects for reconciliation between accounting profit and tax expense	(142)	(36)
Total tax charge	74,552	42,794

10 Income tax (continued)

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 £41.5m 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 £14.7m which is reflected within the above tax charge.

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

Deferred tax
Deferred tax assets and liabilities

Deferred tax movement during the year:

	At 1 January 2021 £ 000	Recognised in income £ 000	At 31 December 2021 £ 000
Accelerated tax depreciation	139,287	40,614	179,901
Other	(968)	(789)	(1,757)
Net tax liabilities	138,320	39,825	178,145

Deferred tax movement during the prior year:

	At 1 January 2020 £ 000	Recognised in income £ 000	At 31 December 2020 £ 000
Accelerated tax depreciation	126,067	13,220	139,287
Other	(530)	(438)	(968)
Net tax liabilities	125,537	12,783	138,320

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

The company 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 Company 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. There has been no significant progress on these discussions in the past 12 months but this is continually monitored by the Company on a regular basis.

11 Property, plant and equipment

	Land and buildings £ 000	Distribution system £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation				
At 1 January 2020	4,505	4,543,525	42,587	4,590,617
Additions	453	248,996	2,992	252,441
Disposals	-	(12,663)	(110)	(12,773)
At 31 December 2020	4,958	4,779,858	45,469	4,830,285
At 1 January 2021	4,958	4,779,858	45,469	4,830,285
Additions	(278)	268,887	2,932	271,541
Disposals	-	(17,471)	-	(17,471)
At 31 December 2021	4,680	5,031,274	48,401	5,084,355
Depreciation				
At 1 January 2020	2,948	1,109,739	34,072	1,146,759
Charge for year	178	111,482	3,505	115,165
Eliminated on disposal	-	(12,663)	(110)	(12,773)
At 31 December 2020	3,126	1,208,558	37,467	1,249,151
At 1 January 2021	3,126	1,208,558	37,467	1,249,151
Charge for the year	178	118,351	3,141	121,670
Eliminated on disposal	-	(17,471)	-	(17,471)
At 31 December 2021	3,304	1,309,438	40,608	1,353,350
Carrying amount				
At 31 December 2020	1,832	3,571,300	8,002	3,581,134
At 31 December 2021	1,376	3,721,836	7,793	3,731,005

11 Property, plant and equipment (continued)

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

	31 December 2021 £ 000	31 December 2020 £ 000
Distribution system	239,130	218,099

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

	31 December 2021 £ 000	31 December 2020 £ 000
Distribution system	50,800	68,020

12 Right of use assets

	Property £ 000	Fleet £ 000	Total £ 000
Cost or valuation			
At 1 January 2020	474	8,481	8,955
Additions	919	2,440	3,359
Disposals	(88)	(272)	(360)
At 31 December 2020	1,305	10,649	11,954
At 1 January 2021	1,305	10,649	11,954
Additions	-	2,913	2,913
Disposals	(41)	(496)	(537)
At 31 December 2021	1,264	13,066	14,330
Depreciation			
At 1 January 2020	132	1,714	1,846
Charge for year	161	2,098	2,259
Eliminated on disposal	(88)	(272)	(360)
At 31 December 2020	205	3,540	3,745
At 1 January 2021	205	3,540	3,745
Charge for the year	129	2,411	2,540
Eliminated on disposal	(41)	(496)	(537)
At 31 December 2021	293	5,455	5,748
Carrying amount			
At 31 December 2021	971	7,611	8,582
At 31 December 2020	1,100	7,109	8,209

13 Intangible assets

	Internally generated software development costs £ 000
Cost or valuation	
At 1 January 2020	34,900
Additions	9
At 31 December 2020	34,909
At 1 January 2021	34,909
Additions	10
At 31 December 2021	34,919
Amortisation	
At 1 January 2020	34,760
Amortisation charge	64
At 31 December 2020	34,824
At 1 January 2021	34,824
Amortisation charge	51
At 31 December 2021	34,875
Carrying amount	
At 1 January 2020	140
At 31 December 2020	85
At 31 December 2021	44

14 Investments

Associates

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

Name of associate	Principal activity	Registered office	Proportion of ownership interest and voting rights held 2021	2020
Electralink Limited +	Data transfer network operator	Northumberland House, 303-306 Holborn, WC1V 7JZ, England and Wales	7.2%	7.2%
MRA Service Company Limited +	Governance of the electrcity industrys Master Registration Agreement	8 Fenchurch Place, London, EC3M 4AJ, England and Wales	0.36%	0.39%
DCUSA Limited +	Governance of Distribution Connection and Use of System Agreement	Northumberland House, 303-306 Holborn, WC1V 7JZ, England and Wales	1.69%	1.69%
Smart Energy Code Company Limited +	Governance of Smart Metering Energy Agreements	8 Fenchurch Place, London, EC3M 4AJ	0.32%	0.34%

+ indicates accounted for using the equity method

These are all holdings in ordinary shares.

15 Inventories

	31 December 2021 £ 000	31 December 2020 £ 000
Work in progress	488	640

16 Trade and other receivables

	31 December 2021 £ 000	31 December 2020 £ 000
Distribution use of system receivables	70,122	66,506
Trade receivables	4,374	563
Loss allowance	(7,464)	(3,838)
Net trade receivables	67,032	63,231
Prepayments	6,487	5,278
	73,519	68,509

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

The Company 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.

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

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

As the Company'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 not distinguished between distributions use of systems ("DUoS") receivables, non-damages receivables, and damages receivables.

Movement in the loss allowance

	31 December 2021 £ 000	31 December 2020 £ 000
At 1 January	3,838	1,979
Amounts utilised/written off in the year	(1,474)	(115)
Amounts recognised in the statement of profit or loss	5,100	1,974
At 31 December	7,464	3,838

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

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £4.9 million (2020: £2.5 million), which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

16 Trade and other receivables (continued)

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 page 66, losses arising in relation to distribution use of system debts will be recovered through an increase in future allowed income.

Distribution use of system receivables

The customers served by the Company's distribution network are supplied predominantly by a number of electricity supply businesses (circa 110) with the E.ON Group accounting for approximately 24.8% of distribution revenues in 2021 (2020:26.5%) and British Gas plc accounting for approximately 13.1% of distribution revenues in 2021 (2020:13.0%). Ofgem, under Code Governance arrangements set-out a framework known as Credit Cover within the Distribution Connection and Use of System Agreement (DCUSA), which set credit limits for each supply business based on its credit rating (taken from a credit rating agency). If no credit 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. Included within other payables are customer cash deposits of which there was £1.4 million as at 31 December 2021 (2020 £1.7m).

Provided the Company has implemented credit control, billing and collection processes in line with Ofgem's best practice guidelines and can demonstrate compliance with the guidelines or is able to satisfactorily explain departure from the guidelines, any bad debt losses arising from supplier default will be recovered through an increase in future years allowed income. Losses incurred to date have been material due to the unprecedented number of suppliers falling into liquidation over the course of the year. Included in the Company's use of system ("UoS") receivables are 27 debtors with a carrying value of £3.1 million which have been placed into administration and have therefore been provided in full at the year-end (2020 £2.0m).

The following table details the age of DUoS receivables:

2021	**Not due £ 000**	**Current £ 000**	**1-3 months £ 000**	**3-6 months £ 000**
Total balance	39,447	26,943	2,201	1,532
Less specific provisions	-	(286)	(2,193)	(1,181)
Balance on which ECL made	39,447	26,657	8	351
Expected credit loss	-	-	-	-

2020	**Not due £ 000**	**Current £ 000**	**1-3 months £ 000**	**3-6 months £ 000**
Total balance	36,880	26,736	147	2,648
Less specific provisions	-	(330)	(145)	(1,513)
Balance on which ECL made	36,880	26,406	2	1,135
Expected credit loss	-	-	-	-

16 Trade and other receivables (continued)

Other trade receivables

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

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £4.9 million (2020: £2.5 million), which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

16 Trade and other receivables (continued)

Damages

2021	1-6 months £ 000	6-12 months £ 000	1-2 years £ 000	2-3 years £ 000	Over 3 years £ 000
Total balance	1,498	530	512	160	62
Less specific provisions	(241)	(60)	(132)	(43)	(30)
Balance on which ECL made	1,257	470	380	117	32
Lifetime ECL	20%	25%	30%	40%	80%
Expected credit loss	251	117	114	47	26

2020	1-6 months £ 000	6-12 months £ 000	1-2 years £ 000	2-3 years £ 000	Over 3 years £ 000
Total balance	1,020	309	548	196	49
Less specific provisions	(103)	(42)	(199)	(44)	(21)
Balance on which ECL made	917	267	349	152	28
PriorECL	20%	25%	30%	40%	80%
Expected credit loss	183	67	105	61	22

Non-damages

2021	Not due £ 000	Current £ 000	1-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	279	350	571	247	386
Lifetime ECL	0%	0%	0%	50%	89%
Expected credit loss				123	343

2020	Not due £ 000	Current £ 000	1-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	527	975	359	235	404
Lifetime ECL	0%	0%	0%	50%	50%
Expected credit loss	-	-	-	117	202

There has been no significant change in the gross amounts of trade receivables that has affected the estimation of loss allowance.

16 Trade and other receivables (continued)

Significant increase in credit risk

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

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

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

17 Cash and cash equivalents

	31 December 2021 £ 000	31 December 2020 £ 000
Cash at bank	3	258
Other cash and cash equivalents	113,998	133,985
	114,001	134,243

18 Share capital

Allotted, called up and fully paid shares

	31 December 2021		31 December 2020	
	No.	£	No.	£
Ordinary Share Capital of £1 each	290,000,000	290,000,000	290,000,000	290,000,000

The Company has 400 million shares authorised for use. The Company has one class of ordinary shares which carries no right to fixed income.

19 Reserves

	Retained earnings £ 000
At 1 January 2021	1,271,496
Profit for the year	100,828
Total comprehensive income	100,828
Dividends	(34,400)
At 31 December 2021	1,337,924

	Retained earnings £ 000
At 1 January 2020	1,199,824
Profit for the year	105,272
Total comprehensive income	105,272
Dividends	(33,600)
At 31 December 2020	1,271,496

20 Loans and borrowings

	31 December 2021 £ 000	31 December 2020 £ 000
Non-current loans and borrowings	968,698	1,119,024
Current loans and borrowings	168,206	17,210
	1,136,904	1,136,234

20 Loans and borrowings (continued)

	Book value		Fair value	
	31 December 2021 £ 000	31 December 2020 £ 000	31 December 2021 £ 000	31 December 2020 £ 000
Short-term loan	2	6	2	6
2022 - European Investment Bank 4.133%	153,791	153,764	153,791	161,955
2025 - European Investment Bank - 2.073%	50,086	50,086	50,978	53,451
2025 - 2.5% bonds	151,860	151,579	156,959	164,168
2027 - European Investment Bank 2.564%	130,139	130,139	136,606	145,630
2032 - 4.375% bonds	151,210	151,061	184,883	202,877
2035 - 5.125% bonds	204,479	204,362	272,012	299,431
2059 - 2.25% bonds	295,337	295,237	313,467	367,740
	1,136,904	1,136,234	1,268,698	1,395,258

The fair value of liabilities held at amortised cost, is set out above and based on Level 1 inputs.

The fair value of the bonds is determined with reference to quoted market prices. The directors' estimates of the fair value of bank loans and 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 fair value of short-term borrowings is equal to their book value. All loans are non-secured and are denominated in sterling.

The company's exposure to market and liquidity risk in respect of loans and borrowings is disclosed in financial risk review note 29.

21 Lease Liabilities

Lease Commitments

Leases primarily relate to the hire of fleet vehicles from Vehicle Lease and Service Ltd and the rental of operational and non operational land and buildings. The vehicle leases have terms between 2 and 7 years. The Company does not have the option to purchase the vehicles at the end of the lease term.

The operational land lease are between 10 and 999 years, but in the majority are between 20 and 60 years. As the leases are regarded as a business tenancy, the Company has the option to renew the lease under the 1954 Landlord and Tenant Act unless a landlord is to redevelop or has grounds to recover land as prescribed under the Act, and may acquire the freehold at any time by agreement. The Company also has the ability to compulsory purchase the freehold.

Maturity analysis - contractual undiscounted cash flows:

	31 December 2021 £ 000	31 December 2020 £ 000
Within one year	2,590	2,377
In two to five years	5,789	5,629
In over five years	1,149	1,181
Total lease payment	9,528	9,187
Unearned interest	(714)	(800)
Total lease liabilites	8,814	8,387

The total cash outflow for leases during the year was £2.7 million (2020: £2.4 million). Within cash outflow is lease expense of £2.5 million (2020: £2.2 million).

22 Provisions

	Claims £ 000	Other provisions £ 000	Total £ 000
At 1 January 2021	528	963	1,491
Additional Provisions	796	1,031	1,827
Additional Provisions	(680)	(554)	(1,234)
At 31 December 2021	644	1,440	2,084
Non-current liabilities	-	555	555
Current liabilities	644	885	1,529

22 Provisions (continued)

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

Other: Primarily consists of a provision for future safe disposal of transformers which contain oil contaminated with Polychlorinated Biphenyls (PCBs) and for an amount to cover claims made under Section 74 of the New Road and Street Works Act 1991. Costs are expected to be incurred over the next 15 years.

23 Trade and other payables

	31 December 2021 £ 000	31 December 2020 £ 000
Payments on Account	45,454	36,985
Trade payables	5,745	1,476
Accrued expenses	8,118	5,928
Capital Accruals	28,714	29,989
Social security and other taxes	10,389	10,518
Other payables	3,247	3,642
	101,667	88,538

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

24 Deferred revenue

	31 December 2021 £ 000	31 December 2020 £ 000
Opening balance	859,855	853,121
Additions	47,506	39,752
Amortisation	(34,055)	(33,018)
Closing Balance	873,306	859,855

	31 December 2021 £ 000	31 December 2020 £ 000
Current	35,859	34,099
Non-current	837,447	825,756
	873,306	859,855

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

25 Dividends

	31 December 2021 £ 000	31 December 2020 £ 000
Interim dividend of 11.9p (2020 - 11.6p) per ordinary share	34,400	33,600

26 Pension and other schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £4.5 million (2020 - £4.1 million). The pension cost for 2022 is expected to be £4.9 million.

Defined benefit pension scheme

The Company operates a defined benefit pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £7.6 million (2020 - £15.3 million). The pension cost for 2022 is expected to be £4.8 million.

During the year ended 31 December 2021, the Group participated in a scheme which is part of the Northern Powergrid Group of the Electricity Supply Pension scheme (the “DB Scheme”). The DB Scheme provides benefits based on a member’s final permissible salary. The assets of the defined benefit sections are held in a separate trustee-administered fund. Contributions to these sections are assessed in accordance with the advice of an independent qualified actuary. The defined benefit sections of the scheme have been closed to new entrants from 1997. The scheme is a plan for related companies within the Group where risks are shared. The overall costs of the scheme have been recognised in the Northern Powergrid Holdings Group financial statements according to IAS 19 (revised). Each of the participating companies accounts on the basis of contributions paid by that company. The Group accounts for the difference between the aggregate IAS 19 (revised) cost of the scheme and the aggregate contributions paid. The scheme is governed by a Trustee Company in accordance with a Trust Deed and Rules. It is also subject to regulation from the Pensions Regulator and relevant UK legislation. This regulatory framework requires the Trustees of the scheme and the Group to agree upon the assumptions underlying the funding target, and the necessary contributions as part of each triennial valuation. The last actuarial valuation of the scheme had an effective date of March 2019. The investment strategy of the scheme, which aims to meet liabilities as they fall due, is to invest plan assets in a mix of equities, other return seeking assets and liability driven investments to maximise the return on plan assets and minimise risks associated with lower than expected returns on plan assets. Trustees are required to regularly review investment strategy. As it is not possible to identify the Group’s share of the net assets and liabilities of the scheme on a consistent and reasonable basis due to the high volume of members/pensioners and the historic interaction between Group companies, and there is no contractual agreement or stated policy for charging to individual Group entities, the assets and liabilities are fully accounted for within the financial statements of Northern Powergrid Holdings Company.

Detailed information on the Northern Powergrid pension schemes is available in the Northern Powergrid Holdings Company financial statements, available from Lloyds Court, 78 Grey Street, Newcastle upon Tyne, Tyne and Wear, NE1 6AF.

27 Reconciliation of liabilities arising from financing activities

	At 1 January 2021 £ 000	Financing cash flows £ 000	Other changes £ 000	At 31 December 2021 £ 000
Borrowings	(1,136,234)	-	(670)	(1,136,904)
Lease liabilities	(8,387)	2,741	(3,168)	(8,814)
	(1,144,621)	2,741	(3,838)	(1,145,718)

	At 1 January 2020 £ 000	Financing cash flows £ 000	Other changes £ 000	At 31 December 2020 £ 000
Borrowings	(1,353,262)	200,000	17,028	(1,136,234)
Lease liabilities	(7,203)	2,440	(3,624)	(8,387)
	(1,360,465)	202,440	13,404	(1,144,621)

Other changes relate to amortisation of financing fees, discounts and new leases entered into.

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

The classification of financial assets and financial liabilities by accounting categorisation for the period ending 31 December 2021 was as follows:

	Financial assets at amortised cost £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets			
Non-current assets			
Property, plant and equipment	-	-	3,731,005
Right of use assets	-	-	8,582
Intangible assets	-	-	44
	-	-	3,739,631
Current assets			
Inventories	-	-	488
Trade and other receivables	73,519	-	-
Income tax asset	1,205	-	-
Cash and cash equivalents	114,001	-	-
	188,725	-	488
Total assets	188,725	-	3,740,119
Liabilities			
Non-current liabilities			
Long term lease liabilities	-	(6,422)	-
Loans and borrowings	-	(968,698)	-
Provisions	-	-	(555)
Deferred revenue	-	(837,447)	-
Deferred tax liabilities	-	-	(178,145)
	-	(1,812,567)	(178,700)
Current liabilities			
Current portion of long term lease liabilities	-	(2,392)	-
Trade and other payables	-	(101,668)	-
Loans and borrowings	-	(168,206)	-
Deferred revenue	-	(35,859)	-
Provisions	-	-	(1,529)
	-	(308,125)	(1,529)
Total liabilities	-	(2,120,692)	(180,229)

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

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

	Financial assets at amortised cost £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets			
Non-current assets			
Property, plant and equipment	-	-	3,581,134
Right of use assets	-	-	8,209
Intangible assets	-	-	85
	-	-	3,589,428
Current assets			
Inventories	-	-	640
Trade and other receivables	68,509	-	-
Income tax asset	1,501	-	-
Cash and cash equivalents	134,243	-	-
	204,253	-	640
Total assets	204,253		3,590,068
Liabilities			
Non-current liabilities			
Long term lease liabilities	-	(6,230)	-
Loans and borrowings	-	(1,119,024)	-
Provisions	-	-	(555)
Deferred revenue	-	(825,756)	-
Deferred tax liabilities	-	-	(138,320)
	-	(1,951,010)	(138,875)
Current liabilities			
Current portion of long term lease liabilities	-	(2,157)	-
Trade and other payables	-	(88,539)	-
Loans and borrowings	-	(17,210)	-
Deferred revenue	-	(34,099)	-
Provisions	-	-	(936)
	-	(142,005)	(936)
Total liabilities	-	(2,093,015)	(139,811)

29 Financial risk review

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

The Company's Senior Total Net Debt as of 31 December 2021 totalled £1,017.0 million. 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 of 31 March 2022 of £2,102.7 million. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 48.4% (2020: 50.8%).

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 Company. The Company has adopted a policy of only dealing with creditworthy counterparties. The Company'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 Company's maximum exposure to credit risk as no collateral or other credit enhancements are held.

The Company'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 Company.

2021	**Notes**	**Gross carrying amount £ 000**	**Loss allowance £ 000**	**Net carrying amount £ 000**
Trade and other receivables	16	80,983	(7,464)	73,519
Equity investments at FVTPL	14			
2020				
Trade and other receivables	16	72,347	(3,838)	68,509
Equity investments at FVTPL	14			

29 Financial risk review (continued)

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

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

Liquidity risk

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

The Company has access to £100 million revolving credit facility provided by Barclays Bank plc, Lloyds Bank plc, HSBC UK Bank plc and Royal Bank of Canada. The Company entered into a new Facility Agreement in December 2021 for a period of three years, with two 1 year extension options. In addition, the Company has access to further short-term borrowing facilities provided by YEG and to a £19.0 million overdraft facility provided by Lloyds Bank plc, which is reviewed annually, these borrowings are repayable on demand.

At 31 December 2021, the Company had available £119.0 million (2020: £94.0 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Market risk

The Company's activities do not expose it to significant financial risks of changes in foreign currency exchange rates and interest rates. Short-term loans and inter-company short term loans are charged at a floating rate of interest based on Sonia plus a margin of 0.20% plus a credit adjustment spread, thus exposing the Company to cash flow interest rate risk. A 1% movement in interest rates would not subject the Company to any change in interest for the year. This is considered an acceptable level of risk. All other loans are at fixed interest rates and expose the Company to fair value interest rate risk.

30 Related party transactions

Summary of transactions with joint ventures

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

Summary of transactions with other related parties

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

30 Related party transactions (continued)

Transaction with related parties

2021	Sales to £ 000	Purchases from £ 000	Amounts owed (to)/from £ 000
Northern Powergrid (Northeast) plc	10,548	24,358	-
Northern Powergrid Metering Limited	663	-	-
Integrated Utility Services (Eire)	-	427	(37)
Integrated Utility Services Limited	81	3,935	-
Northern Electric plc	-	1,992	-
Vehicle Lease and Service Limited	52	4,987	-
	11,344	35,699	(37)

2020	Sales to £ 000	Purchases from £ 000	Amounts owed (to)/from £ 000
Northern Powergrid (Northeast) plc	10,522	22,961	-
Northern Powergrid Metering Limited	609	-	-
Integrated Utility Services (Eire)	-	383	(317)
Integrated Utility Services Limited	107	4,228	-
Northern Electric plc	-	2,494	-
Vehicle Lease and Service Limited	63	4,660	-
	11,301	34,726	(317)

Loans from related parties

2021	Parent £ 000
At start of period	133,985
Repaid	(19,987)
At end of period	113,998

2020	Parent £ 000
At start of period	413,675
Advanced	18,912
Repaid	(298,602)
At end of period	133,985

The loans with the parent are part of a group cashpooling arrangement presented within cash and cash equivalents (Note 17).

31 Parent and ultimate parent undertaking

The Company's immediate parent is Yorkshire Electricity Group plc.

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

The ultimate controlling party is Berkshire Hathaway, Inc.

Relationship between entity and parents

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

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

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

The address of Northern Powergrid Holdings Company is:
Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.