Registration number: 02366942 (England and Wales)

Northern Electric plc

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2021

Northern Electric plc
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Company Information

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Registration number	02366942 (England and Wales)
Auditor	Deloitte LLP Statutory Auditor London United Kingdom United Kingdom

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

Business model

The Company is part of the Northern Powergrid Holdings Company and its subsidiaries group of companies (the "Northern Powergrid Group") and acts as a holding company of Northern Powergrid (Northeast) plc ("NPg Northeast"), Integrated Utility Services Limited ("IUS") and Northern Powergrid Metering Limited ("NPg Metering"), collectively, (the "Group").

NPg Northeast is an authorised distributor under the Electricity Act 1989 and holds an electricity distribution licence granted by the Secretary of State. As a distribution network operator ("DNO"), NPg Northeast is regulated by the office of Gas and Electricity Markets ("Ofgem"), which in turn, is governed by the Gas and Electricity Markets Authority ("GEMA"). 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"). NPg Northeast distributes electricity, to approximately 1.6 million customers connected to its electricity distribution network within its distribution services area in the northeast of England. As NPg Northeast is the largest contributor to the Group in terms of revenue, the Strategic Report predominantly concentrates on the performance and progress of that entity throughout the reporting year.

The majority of revenue generated by NPg Northeast is controlled by a distribution price control formula which is set out in the electricity distribution licence. The price control formula does not directly constrain profits from year to year, but is a control on revenue that operates independently of a significant portion of the NPg Northeast'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. NPg Northeast's opening base allowed revenue (excluding the effects of incentive schemes and any deferred revenues from the prior price control) has been set to remain constant for each Regulatory Year from 1 April 2016 through to 31 March 2023. Nominal opening base allowed revenues will increase in line with inflation (as measured by the United Kingdom's Retail Prices Index "RPI").

IUS provides engineering contracting services and NPg Metering rents meters to energy suppliers.

Strategy

In common with the Northern Powergrid Group, the Group operates a strategy based on six core principles (the "Core Principles"), which comprise Financial Strength, Customer Service, Operational Excellence, Employee Commitment, Environmental Respect and Regulatory Integrity. The Core Principles (which are applied by the Northern Powergrid Group's parent company, Berkshire Hathaway Energy Company ("Berkshire Hathaway Energy")), set out the basis on which the Company and Group generates shareholder value over the longer-term and defines the standards by which the Northern Powergrid Group holds itself accountable. Each Core Principle is defined by a strategic objective which is intrinsically linked to the commitments made in the NPg Northeast'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 NPg Northeast would achieve during the ED1 period in order to deliver sustainable growth with regard to those with whom NPg Northeast 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, NPg Northeast commenced the development of its regulatory business plan for the ED2 period (1 April 2023 to 31 March 2028) (the "ED2 Plan"), ahead of submission to Ofgem in December 2021. As part of this process, NPg Northeast continues to work with the Customer Engagement Group ("CEG"), which was established for the purpose of providing independent scrutiny and challenge to ensure that customers' interests are adequately reflected in the ED2 Plan. Ahead of the implementation of the ED2 Plan on 1 April 2023, NPg Northeast 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 each KPI throughout the year in order to provide a summary of the success in achieving each strategic objective, progress made against certain Business Plan commitments and performance in relation to the Annual Plan.

FINANCIAL STRENGTH

Strategic objective: Strong finances that enable improvement and growth.

KPI	**2021**	**2020**
Operating Profit	£ 184.2 million	£ 185.6 million
Cash from operating activities	£ 275.6 million	£ 260.5 million
Cash used in investing activities	£ 214.5 million	£ 206.4 million
Credit Rating (Standard & Poor's)	A	A

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

Performance during the year: The Group continued to maintain good control in respect of both its capital and operating costs by effectively managing the financial risks that could have had an adverse impact on its business. At half way through the ED1 Period, NPg Northeast has implemented efficiencies equivalent to a 4% reduction in base costs relative to the prior regulatory period.

Revenue: The Group's revenue at £493.7 million was £39.4 million higher than the prior year due to increased distribution revenues and higher meter rentals, partially offset by lower contracting volumes.

Operating profit and position at the year-end: The Group's operating profit of £184.2 million was £1.4 million lower than the previous year, primarily reflecting higher depreciation (£10.6 million), Storm Arwen costs (£15.5 million) and bad debts (£5.3 million) offset by higher revenues (£39.4 million). The statement of financial position on pages 40 and 41 shows that, as at 31 December 2021, the Group had total equity of £1,466.3 million (2020: £1,280.2 million). The directors consider the Group to have a strong financial position which, when coupled with the preference of Berkshire Hathaway Energy for operating with lower levels of debt than equivalent companies in the sector, creates a stable base for continued strong performance during the ED1 period.

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

Finance costs and investments: Finance costs net of investment income at £40.3 million were £5.9 million lower than the prior year reflecting changes in financing in the prior year.

Taxation: The effective tax rate in the year was 46.6%. Tax charge for the year was £67.8 million which was £27.5 million higher than prior year of £40.3 million primarily due to the impact the tax rate change had on the deferred tax balance. Details of the income tax expense are provided in Note 10 to the financial statements.

Share capital: The Company has one class of ordinary shares which carries no right to fixed income. Details of cumulative non-equity preference shares are contained in the borrowings Note 21. There were no changes to the Company's share capital during the year.

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

- **Operating activities:** Cash flow from operating activities at £275.6 million was £15.1 million higher than the previous year due to higher profit before depreciation and amortisation and lower pension deficit repair costs offset by adverse working capital movements.
- **Investing activities:** Cash flow used in investing activities at £214.5 million was £8.1 million higher than the previous year reflecting higher purchases of plant, property and equipment offset by higher receipt of customer contributions.
- **Financing activities:** Cash outflow from financing activities at £40.9 million was £14.0 million lower than the previous year of £54.9 million, mainly due to the movement in net operating and investing cash flows.

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

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

CUSTOMER SERVICE

Strategic objective: Delivering exceptional customer service.

KPI	2021	2020
Broad Measure of Customer Satisfaction ("BMCS")	89.4%	91.4%
BMCS Rank (out of 14)	11	9
BMCS Power Cuts	88.9%	90.7%
BMCS General Enquiries	94.4%	94.7%
BMCS Connections	87.8%	90.4%
Stakeholder Engagement and Customer Vulnerability ("SECV") rank (out of 13) (combined with Northern Powergrid (Yorkshire) 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 NPg Northeast's customers to find out how satisfied they were with services related to unplanned or planned power cuts, quotations and subsequent connections, and general enquiries. NPg Northeast recorded a decline in overall satisfaction scores at 89.4% compared to the prior year (91.4%) which had resulted in an overall BMCS rank of 11 out of 14, falling two places from the prior year.

To further enhance the service provided to customers a number of initiatives from NPg Northeast'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. In addition, the deployment of a new contact centre telephony platform and upgrade to the Northern Powergrid Group's external website. The program of work will be coupled with an end to end review of our Customer Service Support teams to enable focus on external customer facing activities.

Connections to the network

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

Performance during the year: Reducing end-to-end connections lead times continued to pose a challenge and, as such, work to improve the level of customer service within the small works connections business (measured by the BMCS connections KPI) continued. In support of this, the process whereby one individual assumes responsibility throughout each connections process from creating a quotation on site (using the quote-on-site technology) to the final delivery of the connection itself was further embedded. By continuing to introduce further enhancements, NPg Northeast 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.

NPg Northeast 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 NPg Northeast's low and high voltage networks by suitably accredited ICP operatives as a contestable activity.

In relation to NPg Northeast's ICE commitments for the 20/21 regulatory period, the 18 actions included in the service improvement work plan were successfully delivered.

Corporate responsibility

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

Performance during the year: In May 2021, NPg Northeast (together with Northern Powergrid (Yorkshire) 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, NPg Northeast 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, NPg Northeast continued to develop its routine engagement activity by enhancing existing relationships with elected representatives at the local council and parliamentary level as well as with civic leaders from Local Enterprise Partnerships, particularly during periods of severe weather and when providing support to vulnerable customers. In addition, virtual one-to-one and group engagement sessions were held (and attended by the CEG) for the purpose of understanding stakeholders' priorities and opinion on commitments developed and the level of proposed investment set out in the draft and then subsequent ED2 Plan. The feedback, along with an understanding of customers' willingness to accept various proposals provided invaluable insight, enabling the board and senior managers to critically evaluate a range of stakeholder opinions in order to inform the finalisation of the ED2 Plan.

The continuing challenges of the Pandemic and restrictions meant that the way in which NPg Northeast 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. NPg Northeast'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")	36.8	<55.2	44.1	<57.0
Customer interruptions ("CI")	45.3	<60.0	47.0	<60.7

KPI	**2021**	**2020**
High voltage restoration time (minutes)	51.8	64.0
Network investment (million)	£187.6	£189.0

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

Performance during the year: CML and CI are the KPIs set by Ofgem and used by NPg Northeast 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 NPg Northeast's high-voltage restoration performance during the year averaged 51.8 minutes (2020: 64.0 minutes), after allowing for severe weather incidents and other exemptions (as referenced in Customer Service above).

In respect of the Business Plan commitments, NPg Northeast together with its affiliate (Northern Powergrid (Yorkshire) 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.

NPg Northeast invested £187.6 million during the year through its approved Network investment strategy (2020: £189.0 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, NPg Northeast 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 NPg Northeast 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

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

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

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

NPg Northeast 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, NPg Northeast 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 NPg Northeast and its affiliates 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 NPg Northeast 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).

NPg Northeast and Northern Powergrid (Yorkshire) 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, NPg Northeast 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

NPg Northeast 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 NPg Northeast 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 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	23	14	17	15
Lost time accidents	1	0	0	1
Medical treatment accidents	2	1	2	1
Operational incidents	6	4	4	5
Absence rate	3.3%		2.8%	

Health and safety

Business Plan commitment: To deliver world class safety performance and halve 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 (four of which were lost time) against the goal of two or fewer. Whilst this was very disappointing, none of the incidents themselves were serious and additional training is to be implemented to reduce the exposure to minor slips, trips and falls - and even dog bites. NPg Northeast also had a poor year in terms of preventable vehicle accidents, with twenty three 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, NPg Northeast's accident rate had been reduced by 58%, which was ahead of the target to achieve a 50% reduction by 31 March 2023. NPg Northeast 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 NPg Northeast continued to adapt to new ways of working and provide essential safety and personal protective equipment.

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

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

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

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

During the year, 38 new recruits (2020: 40) joined NPg Northeast’s and Northern Powergrid (Yorkshire) plc’s workforce renewal programme. At 31 December 2021, the Group had 1,393 employees (2020: 1,431). 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)	8,986	<11,583	7,205	<11,583
SF6 gas discharges (kg)	19.20	<13.50	16.80	<14.25
Environmental incidents	0	<2	0	<4

KPI	**2021**	**2020**
Carbon footprint (tonnes)	14,496	15,110
KWh Energy Consumed	21,241,374	21,269,487

Business carbon footprint	**Tonnes**	**Per km²**	**Tonnes**	**Per km²**
Building electricity use	867	0.06	875	0.06
Substation electricity use	1,812	0.13	1,951	0.14
Fleet fuel use	2,092	0.15	2,176	0.15
Business fuel use	754	0.05	906	0.06
Other (including fugitive emissions)	645	0.04	608	0.04
Contractor emissions	8,326	0.58	8,385	0.58
Total carbon footprint (tonnes)	14,496	1.01	14,901	1.04

Note: 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 14.394 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: NPg Northeast and IUS operates a United Kingdom Accreditation Service scheme for environmental management and is certified to the environmental management systems standard ISO 14001:2015. The ISO 14001 standard is designed to enhance environmental performance, fulfil compliance obligations and achieve environmental objectives, all of which contribute to the achievement of NPg Northeast'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.

NPg Northeast's and IUS' carbon footprint reporting framework is certified under the Certified Emissions Measurement and Reduction Scheme for compliance with ISO 14064-1:2006. The last full audit was undertaken in August 2021, where continued certification was confirmed. Remote working and less travel have led to a further reduction in NPg Northeast's carbon footprint to 14,496 tonnes (2020: 14,901 tonnes). This improvement (combined with Northern Powergrid (Yorkshire) 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. This was hampered by a small number of leaking cable circuits where location prohibited sufficient fluid recovery resulting in a total fluid loss of 8,986 litres (2020: 7,205). In relation to the Business Plan commitment, at 31 December 2021, NPg Northeast and its affiliate (Northern Powergrid (Yorkshire) 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, NPg Northeast 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 NPg Northeast's activity does result in a leak or spill, the services of an appointed 24-hour a day environmental response consultancy is used to minimise the effects of any incident.

In respect of NPg Metering, whenever practicable, meters are recycled and reinstalled. In addition, meters and their components are always disposed of using an approved agent to ensure that the Northern Powergrid Group's environmental obligations are met.

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

In respect of NPg Northeast'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 NPg Northeast's operations by 2028. In addition to safeguarding the environment from its direct activity, NPg Northeast 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 NPg Northeast'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. NPg Northeast 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, NPg Northeast is developing and actioning innovative solutions that will reduce the need for traditional and potentially expensive reinforcement of the Network. In the past year, NPg Northeast 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, NPg Northeast 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, NPg Northeast 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 NPg Northeast transitions into the ED2 period, decarbonisation will continue to become central not only to the NPg Northeast's strategy, but the way in which NPg Northeast contributes more broadly to the evolution of the energy industry and the stakeholders with whom it interacts. NPg Northeast has been progressive in its ambition to reduce its own business carbon footprint. However, more is required and it is acknowledged that NPg Northeast 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 NPg Northeast'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 NPg Northeast, 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, NPg Northeast will continue to build on the significant activity that has already been undertaken to decarbonise its operations and reduce the impact that it has upon its stakeholders as it prepares for the implementation of the ED2 Plan.

REGULATORY INTEGRITY

Strategic objective: Trustworthy, fair and balanced.

KPI: Completion of a quarterly regulatory compliance affirmation process.

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

Performance during the year: In order to assure compliance with distribution licence and other regulatory obligations, NPg Northeast operates a regulatory compliance affirmation process, under which ownership of approximately 2,000 regulatory obligations are 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 NPg Northeast 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.

NPg Northeast 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, NPg Northeast 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 Group’s long-term strategy.

The risk management programme includes regular reviews of the crisis management, disaster recovery and major incident plans. To determine the level of disaster preparedness and responsiveness against threats to business continuity, risk management plans and processes are periodically tested. This self-evaluation approach is reinforced by that of the Berkshire Hathaway Energy group, which benchmarks risk management activities across its business units and shares significant lessons learned. 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 and Information Security
Unauthorised access or compromise of the Information Technology or Operational Technology networks, resulting in loss of network control and availability. Unauthorised access or loss of large volumes of data or sensitive data.

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

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

Mitigations:
- NPg Northeast 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.
- NPg Northeast engages in a robust regulatory and stakeholder engagement programme the latter of which is scrutinised by the CEG.
- NPg Northeast is actively involved in consultations on the ED2 price controls.

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

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

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

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

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

Mitigations:
- Incident response process and robust policies and procedures in place
- Programme to reduce fluid loss and the Company's business carbon footprint and remove assets containing polychlorinated biphenyl from the network.
- Investment in technology to minimise environmental incidents and 'self-heal' the network.
- Asset inspection and maintenance programme.
- Environment improvement plan and Environment Action Plan.
- Path to carbon neutrality by 2040.
- Waste management and habitat protection programmes.
- Science-based targets approved by the Science-based Targets Initiative.
- ISO14001 environmental management system in place.

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

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

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

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

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

Mitigations:
- Monitored by the Treasury department.
- The Group is financed by long-term borrowings at fixed rates has access to short-term borrowing facilities at floating rates of interest.
- As at 31 December 2021, 95% of the Group's long-term borrowings were at fixed rates and the average maturity for the long-term borrowings was 22 years.
- Financial covenant monitoring is in place.
- Regulatory adjustments control the effect of taxation changes.

Pandemic
Infection rate leads to high staff absence.

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

Internal control
A strong internal control environment exists within the Group to support the financial reporting process, the key features of which include regular reporting, a series of operational and financial policies, investigations undertaken by internal audit and a stringent process for ensuring the implementation of internal audit recommendations. In addition, the Group utilises comprehensive business planning procedures, regularly reviews KPIs to assess progress towards its goals, and has a strong internal audit function to provide independent scrutiny. Financial controls include a 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 Group’s external auditor reviews and tests a number of internal controls and reports their findings 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 Group undertakes a quarterly risk control assessment confirming that the effectiveness of the system of internal controls have been reviewed during the year. A self-certification process is in place, in support of this review, whereby certain senior managers are required to confirm that the system of internal control in their area of the business is operating effectively. Consequently, the directors believe that a robust system of risk assessment and management is in place.

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

To ensure that the Northern Powergrid Group maintains the highest level of ethical standards in the conduct of its business, Berkshire Hathaway Energy's Code of Conduct has been adopted, further details of which can be found on page 9. 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, Directors Report and Corporate Governance Statement. Consequently, the detail which describes how the directors have had regard to the matters set out in Section 172(1) (a) to (f) when performing their duty under Section 172 can be found on the pages referenced below:

(a) the likely consequences of any decision in the long term; (Page 2 and 3)
(b) the interests of the Group's employees; (Page 7 and 8)
(c) the need to foster the Group's business relationships with suppliers, customers and others; (Pages 4-6 and 18)
(d) the impact of the Group's operations on the community and the environment; (Page 9 and 10)
(e) the desirability of the Group maintaining a reputation for high standards of business conduct; and (Page 11)
(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 Northern Electric plc, a company owned by the Northern Powergrid Limited. The Company also has one class of preference shares, further details of which can be found in Note 21.

Non-financial information statement

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

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

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

A P Jones
Director

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

Dividends

During the year, an interim dividend of £26.0 million was paid (2020: £25.4 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 and Group to carry on its business for at least the next year. In addition, the level of dividends is set to maintain sufficient equity so as not to jeopardise the Company's and NPg Northeast's investment grade issuer credit ratings. These strict parameters align with the conditions set out in NPg Northeast's distribution licence and are considered carefully by the board so as to ensure that the payment of any dividend does not cause NPg Northeast to breach any licence obligations in the future.

Directors of the Company

The directors who held office during the year under review and to the date of signing this report were:
T E Fielden (resigned 15 February 2021)
T H France (resigned 14 April 2022)
C D Haack (resigned 14 April 2022)
A P Jones (appointed 14 April 2022)
P A Jones (resigned 14 April 2022)
S J Lockwood (appointed 14 April 2022)
J N Reynolds

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

Future developments and future outlook

The financial position of the Group, as at 31 December 2021, is shown in the consolidated statement of financial position on pages 40 and 41. There have been no significant events since the year end and the directors intend that:

- NPg Northeast will continue to implement its well-justified business plan and will develop its business by efficiently investing in the network and improving the quality of supply and service provided to customers.
- IUS will develop its business by concentrating on its core skills of engineering contracting thereby delivering a high standard of service to its existing clients and pursuing opportunities to increase its portfolio of clients.
- NPg Metering will retain its focus on pursuing opportunities in the market for meter asset provision as the smart meter roll-out programme develops.

There are no plans to change the existing business model of the Company, or any of the companies within the Group.

Research and development

The Group supports a programme of research (see page 15 for further details) that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. During the year, the Group invested £0.8 million (2020: £1.4 million) (Note 5 to the financial statements) in its research and development activities.

Political donations

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

Financial instruments

Financial risk management

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

Financial derivatives

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

Employment of disabled persons

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

Engagement with employees

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

Employee engagement continues to show improvement with local action plans augmented by routine communication channels including regular colleague briefings, meaningful conversations between colleagues and their line manager, council meetings with trade union representatives, and utilising the 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 Group'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 NPg Northeast's business model is to provide and maintain a reliable, safe and cost-effective Network. To achieve this objective, NPg Northeast 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 NPg Northeast's and the Group in the pursuit of its goals.

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

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

Vote holder and issuer notification

There have been no disclosures to the Company under Disclosure and Transparency Rule 5 (Vote Holder and Issuer Notification Rules).

Directors' biographies

Alex P Jones

Mr Jones joined the Northern Powergrid Group in January 2015 and became Finance Director in March 2022. He is a Chartered Accountant having completed his training with KPMG, spending seven years in their Restructuring practice. Prior to becoming Finance Director, Mr Jones was the Director of Performance and Planning, leading on the development of the Northern Powergrid Group's long term business plan. He has also spent time leading the Northern Powergrid Group's engineering and major projects operations teams.

Stephen J Lockwood

Appointed in April 2022, Mr Lockwood joined the Northern Powergrid Group in 1983 and became Group Financial Controller in 2016. Prior to this he held a number of finance roles in the Northern Powergrid Group. Mr Lockwood is a qualified Chartered Management Accountant and Chartered Tax Advisor.

John N Reynolds OBE

Mr. Reynolds was appointed in January 2011 as a director of Northern Powergrid Holdings Company and in October 2017 as Chairman of the audit committee and a director of the Company. Mr Reynolds is the Chief Executive Officer of Castle Water. He is a Fellow of the Institution of Engineering & Technology, a Fellow of the Energy Institute and is a former commission member of the Water Industry Commission for Scotland. Mr Reynolds chaired the Church of England Ethical Investment Advisory Group, and is a former council member of the Central Finance Board of the Methodist Church. He is the author of a number of books and articles on business ethics. Mr. Reynolds previously held senior management roles at HSBC and Houlihan Lokey.

CORPORATE GOVERNANCE STATEMENT

In accordance with Disclosure and Transparency Rule (DTR) 7.2.9, the directors have elected to set out the information required by DTR 7.2.1 to DTR 7.2.7 R in the group annual report and audited consolidated financial statements of Northern Powergrid Holdings Company, a copy of which can be found on the Northern Powergrid Group's corporate website.

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.
Composition:
• J N Reynolds, non-executive Director (Chairman)
• T E Fielden, Finance Director (resigned 15 February 2021)
• A P Jones, Finance Director (appointed 20 April 2022)
• M Knowles, independent member - Northern Powergrid Holdings Company
• 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 group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements also comply with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group and Company for that period.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' responsibility statement pursuant to DTR 4
Each of the directors as at the date of the annual report and financial statements, whose names and functions are set out on page 16 in the Directors' Report confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with applicable UK law and in conformity with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;

- the 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 it faces; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders.

Going Concern

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

The Northern Powergrid Group is financed both in its operating companies and in other entities within the Group, and companies may lend within the Group. For that reason, financial health is considered with reference to the Northern Powergrid Group.

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

- The Northern Powergrid Group's main subsidiaries, NPg Northeast and NPg Yorkshire are stable electricity distribution businesses operating an essential public service and are regulated by the Gas and Electricity Markets Authority (“GEMA”). In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Northern Powergrid Group is profitable with strong underlying cash flows. The Northern Powergrid Group, NPg Northeast and NPg Yorkshire hold investment grade credit ratings;
- The Northern Powergrid Group is financed by long-term borrowings with an average maturity of 25 years and has access to short-term committed borrowing facilities of £242 million provided by Barclays Bank plc, Lloyds Bank plc, HSBC UK Bank plc and Royal Bank of Canada;
- The Northern Powergrid Group benefits from strong investment-grade credit ratings which allow access to a range of financing options. A successful bond issue by the Northern Powergrid Group in April 2022, demonstrates that the Northern Powergrid Group’s bonds remain attractive to investors and there is an active market with strong appetite to invest;
- The 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 NPg Northeast's and Northern Powergrid (Yorkshire) plc’s licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Group 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 and the Group have 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

A resolution to re-appoint Deloitte LLP as the Company’s auditor and authorise the directors to determine their remuneration will be proposed at the annual general meeting.

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 Electric plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Northern Electric plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent statement of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

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

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

Summary of our audit approach

Key audit matters
The key audit matters that we identified in the current year were:
- Accounting for capital spend - overhead allocation model and Storm Arwen costs; and
- Valuation of defined benefit obligations.

Within this report, key audit matters are identified as follows:
- Newly identified
- Increased level of risk
- Similar level of risk
- Decreased level of risk

Materiality
The materiality that we used for the group financial statements was £8.0m which was determined on the basis of income before tax.

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

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

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

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

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

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

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

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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

Accounting for capital spend - overhead allocation model and Storm Arwen costs

Key audit matter description

Total additions to property, plant and equipment in the year in, within the main trading subsidiary of the group, Northern Powergrid (Northeast) plc were £194m (2020: £192m) 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 £38m capitalised overheads (2020: £39m). A portion of overheads are capitalised to the extent that it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the item can be measured reliably in accordance with IAS 16 and the Company's policies. The allocation of overheads to capital results from analysis of the costs incurred and their relevant cost drivers, this is reviewed annually.

In addition, material amounts of £7m (2020: £ nil) were initially capitalised in relation to work associated with Storm Arwen.

The judgements around amounts capitalised associated with Storm Arwen, and 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, both create a potential fraud risk. In particular, the key risk that management's judgement in the percentage amounts capitalised are not reflective of the capital spend and as such PPE could be material misstated as a consequence. This is as disclosed in Note 2, including the note relating to critical judgements in applying accounting policies.

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

• We have obtained an understanding of relevant controls surrounding accounting for capital spend;
• We have analysed the capital spend and the overhead allocation percentages in the year and compared these to prior years to identify any unusual and relevant fluctuations. We have also analysed current policies in place and assessed their suitability in line with IAS 16, along with reviewing the approach management takes towards assessing capitalised overheads and any change introduced in the current year; and
• We have performed testing of the total overheads including within the allocation model which are subsequently capitalised based on management's assessment of percentage allocation; and
• We have assessed managements initial paper to account for the spending associated with Storm Arwen and performed testing over the amounts capitalised.

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.

On testing Storm Arwen costs capitalised during the course of our work an adjustment of £2m was identified and corrected. Reflecting the nature of this event there was an expectation that some costs would be expensed. The remaining balance was immaterial.

We have also recommended that management controls and analysis (including consideration of any abnormal costs) over the Storm Arwen costs, and subsequent similar expenditure, is enhanced.

Valuation of defined benefit obligations
Key audit matter description
The group operates a defined pension scheme, for which key judgement relate to the determination of the present value of the defined benefit obligation. Within this, we also consider consistency with International Accounting Standard 19: Employee benefits (IAS 19). In accordance with management's actuary, the present value of the funding surplus is £262.2m (2020: £88.1m), with an underlying obligation of £1,480.4m (2020: £1,612.6m). The present value of the defined benefit obligation is derived and is subject to judgement in the assumption setting. Due to the continued settlements in the year for the scheme, there continues to be an additional risk around the valuation modelling of each settlement and the impact to the actuarial assumptions due to the change in the profile of the membership of the scheme. The accounting policy and disclosure is found in note 25 to the financial statement.

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

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

Our application of materiality

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

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

Group financial statements
Materiality
£7.9m (2020: £7.0m)

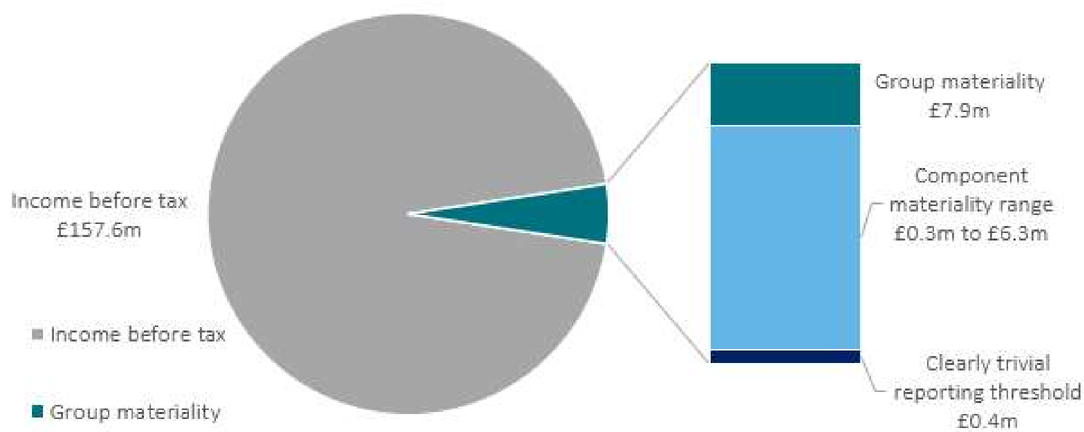
Basis for determining materiality
5% of income before tax (2020: 5% of income before tax)

Rationale for the benchmark applied
The group contains large trading entities. The industry revenue is highly regulated, therefore, there is a focus on income before tax.

Parent company financial statements
Materiality
£4.2m (2020: £4.0m)

Basis for determining materiality
Parent company materiality equates to 16.6% of net assets (2020: 16.8%), which is capped at 53.3% of group materiality (2020: 53.4%).

Rationale for the benchmark applied
Total equity shows how much of the value of shareholdings are in the company and as such investor value. The company is not trading and as such incurs no revenue.



Performance materiality

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

Group financial statements

Performance materiality

60% (2020: 70%) of group materiality

Parent company financial statements

Performance materiality

60% (2020: 70%) of parent company materiality

Basis and rationale for determining

In determining performance materiality, we have considered the following:

• our risk assessment, including our assessment of the group'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

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

Error reporting threshold

We agreed with the Board of Directors that we would report all audit differences in excess of £0.4m (2020: £0.1m), 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

Identification and scoping of components

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

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

A component materiality was used to perform the audit work for all component entities for FY21 this ranged from £0.3m to £6.3m (2020: £0.1m to £4.0m). Component materiality is used to reduce to an appropriately low level of probability that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds materiality for the group financial statements as a whole.

At the group level, we have tested the consolidation process and carried out analytical procedures to confirm our conclusion that there was no risk of material misstatement of the aggregated financial information of the remaining components bot subject to audit or audit of specific balances.

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

Our consideration of the control environment

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

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

Our consideration of climate related risks

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

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

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

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

Other information

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

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

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

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

We have nothing to report in this regard.

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

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

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

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

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

Audit response to risks identified
As a result of performing the above, we identified accounting for capital spend - overhead allocation model and Storm Arwen costs,and valuation of defined benefit obligations as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those 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 group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

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

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 FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP, Statutory Auditor
London
United Kingdom

4 May 2022

Northern Electric plc
Consolidated Income Statement for the Year Ended 31 December 2021

	Note	2021 £ 000	2020 £ 000
Revenue	3	493,744	454,302
Cost of sales		(36,700)	(31,660)
Gross profit		457,044	422,642
Distribution costs		(134,169)	(128,457)
Administrative expenses		(138,685)	(108,614)
Operating profit	5	184,190	185,571
Other gains	4	1,675	72
Finance income	6	1,337	1,150
Finance costs	6	(41,657)	(47,407)
Profit before tax		145,545	139,386
Income tax expense	10	(67,816)	(40,303)
Profit for the year		77,729	99,083
Profit attributable to:			
Owners of the Company		77,729	99,083

The above results were derived from continuing operations.

Northern Electric plc
Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2021

	Note	2021 £ 000	2020 £ 000
Profit for the year		77,729	99,083
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post employment benefit obligations (net)	26	130,374	(28,319)
Items that may be reclassified subsequently to profit or loss			
Loss on cash flow hedges (net)	10	3,950	(1,998)
Total comprehensive income for the year		212,053	68,766
Total comprehensive income attributable to:			
Owners of the Company		212,053	68,766

Northern Electric plc
(Registration number: 02366942)
Consolidated Statement of Financial Position as at 31 December 2021

	Note	31 December 2021 £ 000	31 December 2020 £ 000
Assets			
Non-current assets			
Property, plant and equipment	11	2,993,240	2,889,678
Right of use assets	12	14,411	14,031
Intangible assets	13	48,888	51,219
Equity accounted investments	14	3,898	3,648
Retirement benefit obligations	26	262,200	88,100
Trade and other receivables	16	2,702	4,598
Other non-current financial assets	31	944	-
		3,326,283	3,051,274
Current assets			
Inventories	15	20,382	18,699
Trade and other receivables	16	89,290	82,492
Tax receivable		2,294	-
Cash and cash equivalents	17	42,140	21,874
Restricted cash	18	-	16,758
Contract assets		7,593	6,214
Other current financial assets	31	204	-
		161,903	146,037
Total assets		3,488,186	3,197,311
Equity and liabilities			
Equity			
Share capital	19	(72,173)	(72,173)
Share premium		(158,748)	(158,748)
Capital redemption reserve		(6,185)	(6,185)
Cash flow hedging reserve	20	(861)	3,089
Retained earnings		(1,228,290)	(1,046,186)
Equity attributable to owners of the Company		(1,466,257)	(1,280,203)
Non-current liabilities			
Lease liabilities	22	(11,359)	(11,295)
Loans and borrowings	21	(985,988)	(946,185)
Provisions	23	(2,341)	(2,737)
Deferred revenue	25	(649,013)	(641,727)
Deferred tax liabilities	10	(182,852)	(106,852)
Other non-current financial liabilities	31	-	(3,174)
		(1,831,553)	(1,711,970)

Northern Electric plc
(Registration number: 02366942)
Consolidated Statement of Financial Position as at 31 December 2021 (continued)

	Note	31 December 2021 £ 000	31 December 2020 £ 000
Current liabilities			
Lease liabilities	22	(3,431)	(3,036)
Trade and other payables	24	(103,412)	(94,015)
Loans and borrowings	21	(51,379)	(77,060)
Income tax liability	10	-	(1,260)
Deferred revenue	25	(28,645)	(27,629)
Provisions	23	(3,509)	(1,498)
Other current financial liabilities	31	-	(640)
		(190,376)	(205,138)
Total liabilities		(2,021,929)	(1,917,108)
Total equity and liabilities		(3,488,186)	(3,197,311)

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

A P Jones
Director

Northern Electric plc
(Registration number: 02366942)
Company 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	1,555	1,562
Right of use assets	12	1,153	1,290
Investments in subsidiaries, joint ventures and associates	14	242,902	242,902
Deferred tax asset	10	553	469
		246,163	246,223
Current assets			
Trade and other receivables	16	3,866	1,291
Income tax asset	10	158	-
Cash and cash equivalents	17	29,036	38,148
		33,060	39,439
Total assets		279,223	285,662
Equity and liabilities			
Equity			
Share capital	19	(72,173)	(72,173)
Share premium		(158,748)	(158,748)
Capital redemption reserve		(6,185)	(6,185)
Retained earnings		(19,319)	(25,836)
Total equity		(256,425)	(262,942)
Non-current liabilities			
Long-term lease liabilities	22	(1,062)	(1,205)
Loans and borrowings	21	(1,117)	(1,117)
Provisions	23	(1,850)	(2,217)
		(4,029)	(4,539)
Current liabilities			
Current portion of long-term lease liabilities	22	(144)	(141)
Trade and other payables	24	(4,515)	(4,029)
Loans and borrowings	21	(13,861)	(9,741)
Income tax liability	10	-	(4,168)
Provisions	23	(249)	(102)
		(18,769)	(18,181)
Total liabilities		(22,798)	(22,720)
Total equity and liabilities		(279,223)	(285,662)

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

A P Jones
Director

The notes on pages 48 to 120 form an integral part of these financial statements.

The Directors have taken the exemption offered under section 408 of the Act from publishing a separate statement of profit or loss. The Company reported a profit for the financial year ended 31 December 2021 of £19.5 million (2020: £18.0 million).

Northern Electric plc
Consolidated Statement of Changes in Equity for the Year Ended 31 December 2021

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2021	72,173	158,748	6,185	(3,089)	1,046,187	1,280,204
Profit for the year	-	-	-	-	77,729	77,729
Other comprehensive expense	-	-	-	3,950	130,374	134,324
Total comprehensive income	-	-	-	3,950	208,103	212,053
Dividends	-	-	-	-	(26,000)	(26,000)
At 31 December 2021	72,173	158,748	6,185	861	1,228,290	1,466,257

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2020	72,173	158,748	6,185	(1,091)	1,000,822	1,236,837
Profit for the year	-	-	-	-	99,083	99,083
Other comprehensive expense	-	-	-	(1,998)	(28,319)	(30,317)
Total comprehensive income	-	-	-	(1,998)	70,764	68,766
Dividends	-	-	-	-	(25,400)	(25,400)
At 31 December 2020	72,173	158,748	6,185	(3,089)	1,046,186	1,280,203

The notes on pages 48 to 120 form an integral part of these financial statements.

Northern Electric plc
Company Statement of Changes in Equity for the Year Ended 31 December 2021

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2021	72,173	158,748	6,185	25,836	262,942
Profit for the year	-	-	-	19,483	19,483
Total comprehensive income	-	-	-	19,483	19,483
Dividends	-	-	-	(26,000)	(26,000)
At 31 December 2021	72,173	158,748	6,185	19,319	256,425

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2020	72,173	158,748	6,185	33,246	270,352
Profit for the year	-	-	-	17,990	17,990
Total comprehensive income	-	-	-	17,990	17,990
Dividends	-	-	-	(25,400)	(25,400)
At 31 December 2020	72,173	158,748	6,185	25,836	262,942

The notes on pages 48 to 120 form an integral part of these financial statements.

Northern Electric plc
Consolidated Statement of Cash Flows for the Year Ended 31 December 2021

	Note	2021 £ 000	2020 £ 000
Cash flows from/(used in) operating activities			
Profit for the year		77,729	99,083
Depreciation and amortisation	5	152,815	142,843
Depreciation on right of use assets		3,553	2,957
Amortisation of deferred revenue		(27,945)	(26,284)
Profit on disposal of property plant and equipment	4	(1,675)	(72)
Retirement benefit obligation		(9,000)	(32,000)
Finance income	6	(1,337)	(1,150)
Finance costs	6	41,657	47,407
Income tax expense	10	67,816	40,303
		303,613	273,087
(Increase)/decrease in inventories	15	(1,683)	1,493
(Increase)/decrease in trade and other receivables	16	(4,902)	5,313
Increase in trade and other payables	24	9,491	3,737
(Increase)/decrease in contract assets		(1,379)	1,918
Increase in provisions	23	1,615	1,199
Cash generated from operations		306,755	286,747
Income taxes paid		(31,108)	(26,266)
Net cash flow from operating activities		275,647	260,481
Cash flows from/(used in) in investing activities			
Acquisitions of property plant and equipment		(245,135)	(220,905)
Proceeds from sale of property plant and equipment		1,675	725
Acquisition of intangible assets	13	(9,544)	(9,145)
Receipt of customer contributions		37,452	21,927
Interest received		247	280
Dividend income	6	840	761
Net cash flows used in investing activities		(214,465)	(206,357)
Cash flows from/(used in) in financing activities			
Proceeds from long-term borrowing draw downs		218,000	324,078
Transaction costs relating to loans and borrowings		(4,235)	-
Repayment of long-term borrowing		(166,035)	(166,875)
Payments to finance lease creditors		(3,474)	(2,784)
Movement in intercompany treasury account		(34,901)	(133,661)
Movement in restricted cash		16,758	(2,885)
Interest expense on leases		(417)	(374)
Interest paid		(40,612)	(47,016)
Dividends paid	27	(26,000)	(25,400)
Net cash flows used in financing activities		(40,916)	(54,917)
Net increase/(decrease) in cash and cash equivalents		20,266	(793)
Cash and cash equivalents at 1 January		21,874	22,667
Cash and cash equivalents at 31 December		42,140	21,874

The notes on pages 48 to 120 form an integral part of these financial statements.

Northern Electric plc
Company Statement of Cash Flows for the Year Ended 31 December 2021

	Note	2021 £ 000	2020 £ 000
Cash flows from/(used in) operating activities			
Profit for the year		19,483	17,990
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	5	7	7
Depreciation on right of use assets		137	76
Finance income		(26,853)	(26,246)
Finance costs		8,985	9,722
Income tax expense		239	(152)
		1,998	1,397
Working capital adjustments			
Increase in trade and other receivables	16	(2,575)	(746)
Increase in trade and other payables	24	1,176	91
(Decrease)/increase in provisions	23	(220)	831
Cash generated from operations		379	1,573
Income taxes (paid)/received		(4,649)	7,452
Net cash flow (used in)/from operating activities		(4,270)	9,025
Cash flows from/(used in) investing activities			
Interest received		853	846
Dividend income		26,000	25,400
Net cash flows from investing activities		26,853	26,246
Cash flows from/(used in) financing activities			
Movement in intercompany treasury account		4,120	1,143
Interest expense on leases		(31)	(18)
Interest paid		(650)	(9)
Payments to finance lease creditors		(140)	(20)
Interest on preference shares		(9,001)	(9,001)
Dividends paid	27	(26,000)	(25,400)
Foreign exchange gains/(losses)		7	(5)
Net cash flows used in financing activities		(31,695)	(33,310)
Net (decrease)/increase in cash and cash equivalents		(9,112)	1,961
Cash and cash equivalents at 1 January		38,148	36,187
Cash and cash equivalents at 31 December		29,036	38,148

1 General information

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

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

2 Accounting policies

Statement of compliance
The Group financial statements have been prepared in accordance with International Financial Reporting Standards and its interpretations adopted by the IASB ("adopted IFRS's").

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 the historical cost convention as modified by financial instruments recognised at fair value.

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

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

2 Accounting policies (continued)

Going Concern

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

The Northern Powergrid Group is financed both in its operating companies and in other entities within the Group, and companies may lend within the Group. For that reason, financial health is considered with reference to the Northern Powergrid Group.

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

- The Northern Powergrid Group's main subsidiaries, NPg Northeast and NPg Yorkshire, are stable electricity distribution businesses operating an essential public service and are regulated by the Gas and Electricity Markets Authority ("GEMA"). In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Northern Powergrid Group is profitable with strong underlying cash flows. The Northern Powergrid Group, NPg Northeast and NPg Yorkshire hold investment grade credit ratings;
- The Northern Powergrid Group is financed by long-term borrowings with an average maturity of 25 years and has access to short-term committed borrowing facilities of £242 million provided by Barclays Banks plc, Lloyds Bank plc, HSBC UK Banks plc and Royal Bank of Canada;
- The Northern Powergrid Group benefits from strong investment-grade credit ratings which allow access to a range of financing options. A successful bond issue by the Northern Powergrid Group in April 2022, demonstrates that the Northern Powergrid Group's bonds remain attractive to investors and there is an active market with strong appetite to invest;
- The 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 NPg Northeast's and NPG Yorkshire's licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Group 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 and the Group have 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:

- The split of operating and capital expenditure and the allocation of overheads to property, plant and equipment: The allocation of overheads to capital is derived from a detailed analysis of the costs and their cost drivers which is reviewed on annual basis. The percentage allocation of overheads across the workstream categories are obtained from section managers who are asked to provide reasoning and supporting evidence for the allocation. Finance then undertake a financial impact assessment review and the rationale to ensure it complies with IFRS. The amount of overheads capitalised in the year was £38.3 million (2020: £38.6 million), this was a decrease from 53.9% to 53.2%.

2 Accounting policies (continued)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- Assumptions used when evaluation long-term pension plans - these assumptions and their possible impacts are disclosed in Note 26.

Changes in accounting policy

New standards and amendments

Effective for periods beginning on or after 1 January 2021

- Amendment to IFRS 16 - Covid-19 related rent concessions; and
- 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.

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

Leases

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

The Group has taken practical expedients as per below:

- For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes personal computers, small items of office furniture and telephones), the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within ‘administrative expenses’ in the 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 1.753% (2020: 2.43%).

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

2 Accounting policies (continued)

Revenue recognition

Recognition

The Group earns revenue from the provision of services relating to revenue from a contract to provide services is recognised by the following means:

- Distribution use of system income is recognised on a per unit (volumetric i.e. kWh and capacity (kVA)) and fixed (per 'customer' per day) basis;
- Customer contributions for connections are amortised over the life of the corresponding asset;
- Contracting revenue is recognised in line with expenditure;
- Meter asset provision income is accounted for under lease accounting;
- Intercompany recharges for services provided are based on costs incurred; and
- Other revenue includes assessment and design fees and disconnections from the network and are recognised by reference to the proportion of total costs of providing the service.

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

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

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

Fee arrangements

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

• For regulated use of system income the revenue for the service is recognised on the basis of agreed charging methodologies which is recognised on a per unit (volumetric i.e. kWh and capacity (kVA)) and fixed (per 'customer' per day) basis.

• For fixed price for contracted service revenue is recognised based on the stage of completion and performance obligations met for actual services provided as a proportion of the total fixed fee agreed in the contract.

• For stage payment on long-term contracts revenue is recognised by reference to stage of manufacture at the year end date using contractual rates specified in the contract. Revenue on materials is measured at the actual amount of the material used on the contract at the price specified in the contract.

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

- Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion.
- Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.
- Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of the costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

2 Accounting policies (continued)

- When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

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

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

Investments in subsidiaries
Investments in subsidiaries are account for at cost less impairment.

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

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

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

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

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

Impairment of non-financial assets
At the balance sheet date, the Group 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.

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.

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

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

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

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

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

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

Amortisation of intangible assets is performed on a straight-line basis over the asset's expected economic useful life.

Basis of consolidation
The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2021.

2 Accounting policies (continued)

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

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

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

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

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

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

Financial instruments

Initial recognition

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

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

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

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

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 Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:

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

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

Derecognition

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

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

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

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

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

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

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

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

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

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

Modification of financial assets and financial liabilities

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

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

2 Accounting policies (continued)

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

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

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

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2021 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

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

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

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

The changes in the fair values of derivative financial instruments entered into for trading purposes are included in trading income.

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

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

These hedging relationships are discussed below.

2 Accounting policies (continued)

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

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

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

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

The use of estimates and assumptions is principally limited to the determination of provisions for impairment 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.

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.

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, as follows:

Asset class	**Depreciation method and rate**
Distribution system:	
- Generation assets	15 years
- Conventional metering equipment	up to 5 years
- Information technology equipment	up to 10 years
- Land	not depreciated
- Other system assets	45 years
Land and buildings:	
- Freehold buildings	up to 60 years
- Leasehold buildings	lower of lease period or 60 years
- Non-operational land	not depreciated
Furniture, fittings and equipment	up to 10 years
Metering equipment	up to 15 years

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

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

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

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

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

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.

3 Revenue

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

	2021 £ 000	2020 £ 000
Distribution revenue	356,842	328,775
Amortisation of deferred revenue	27,945	26,284
Contracting revenue	20,198	15,832
Meter asset rental	81,106	76,741
Other revenue	7,653	6,670
	493,744	454,302

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

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

The Group is separated into the following segments:
Distribution: Northern Powergrid (Northeast) plc
Contracting: Integrated Utility Services Limited
Metering: Northern Powergrid Metering Services Limited
Other: Includes support activities

3 Revenue (continued)

2021	Distribution £ 000	Contracting £ 000	Metering £ 000	Other £ 000	Total £ 000
Revenue	384,787	20,198	81,106	7,653	493,744
Inter-segment sales	420	12,147	-	(12,567)	-
Total revenue	385,207	32,345	81,106	(4,914)	493,744
Operating profit	146,230	227	25,793	11,940	184,190
Other gains					1,675
Finance costs					(41,657)
Finance income					1,337
Profit before tax					145,545
Capital additions	198,149	226	56,998	1,364	256,737
Depreciation and amortisation	107,824	123	51,149	(2,727)	156,368
Amortisation of deferred revenue	27,945	-	-	-	27,945
Segment assets	2,918,459	12,438	320,642	220,726	3,472,265
Unallocated corporate assets					15,921
Total assets					3,488,186
Segment liabilities	(869,562)	(8,064)	(223,879)	(1,735)	(1,103,240)
Unallocated corporate liabilities					(918,689)
Total liabilities					(2,021,929)
Segment net assets	2,048,897	4,374	96,763	218,991	2,369,025
Unallocated net corporate liabilities					(902,768)
Total net assets					1,466,257

3 Revenue (continued)

2020	Distribution £ 000	Contracting £ 000	Metering £ 000	Other £ 000	Total £ 000
Revenue	355,059	15,832	76,741	6,670	454,302
Inter-segment sales	353	8,321	-	(8,674)	-
Total revenue	355,412	24,153	76,741	(2,004)	454,302
Operating profit	125,544	(159)	26,264	33,922	185,571
Other gains					72
Finance costs					(47,407)
Finance income					1,150
Profit before tax					139,386
Capital additions	199,480	111	26,497	(74)	226,014
Depreciation and amortisation	102,238	117	47,168	(3,723)	145,800
Amortisation of deferred revenue	26,284	-	-	-	26,284
Segment assets	2,803,799	11,030	332,215	45,477	3,192,521
Unallocated corporate assets					4,790
Total assets					3,197,311
Segment liabilities	(846,861)	(6,920)	(177,134)	(37,076)	(1,067,991)
Unallocated corporate liabilities					(849,117)
Total liabilities					(1,917,108)
Segment net assets	1,956,938	4,110	155,081	8,401	2,124,530
Unallocated net corporate liabilities					(844,327)
Total net assets					1,280,203

Sales to the E.ON group in 2021 of £69.6 million (2020: £68.6 million) and to British Gas plc in 2021 of £37.0 million (2020: £34.4 million) are included within the Distribution segment.

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

3 Revenue (continued)

Assets recognised from costs to fulfil a contract with customers

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

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

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

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

4 Other gains and losses

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

	2021 £ 000	2020 £ 000
Gain on disposal of property, plant and equipment	1,675	72

5 Operating profit

Arrived at after charging/(crediting)

	2021 £ 000	2020 £ 000
Depreciation expense	140,940	132,628
Depreciation of right-of-use assets	3,553	2,957
Amortisation expense	11,875	10,215
Research and development	826	1,407
Trade and other receivables loss allowance	6,394	1,114
Amortisation of deferred revenue	(27,945)	(26,284)

Amortisation expense is included in administration costs within the statement of profit or loss on page 38.

6 Finance income and costs

	2021 £ 000	2020 £ 000
Finance income		
Other finance income	1,337	1,150
Finance costs		
Interest on borrowings at amortised cost	(41,906)	(47,938)
Interest expense on leases	(417)	(374)
Borrowing costs included in cost of qualifying asset	666	905
Total finance costs	(41,657)	(47,407)
Net finance costs	(40,320)	(46,257)

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: 4.16%) to expenditure on such assets.

7 Staff costs

	2021 £ 000	2020 £ 000
Salaries	68,713	65,112
Social security costs	8,147	7,735
Defined benefit pension cost/credit	5,106	(2,484)
Defined contribution pension cost	4,503	3,859
	86,469	74,222
Less charged to property plant and equipment	(43,804)	(41,954)
	42,665	32,268

A large proportion of the Group's employees are members of the DB Scheme, details of which are given in the Employee Benefit Obligations Note 26.

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

	2021 No.	2020 No.
Distribution	1,247	1,175
Engineering contracting	155	143
Other	14	14
	1,416	1,332

The Company had an average monthly number of 12 employees during the year ended 31 December 2021 (2020:14).

8 Directors' remuneration

The directors' remuneration for the year was as follows:

	2021 £	2020 £
Highest paid		
Short-term employee benefits	396,843	419,232
Other long-term benefits	435,990	410,600
	832,833	829,832
Total		
Short-term employee benefits	492,069	634,907
Post retirement benefits - defined contribution	9,180	9,041
Other long-term benefits	493,661	496,386
	994,910	1,140,334
Post retirement benefits		
Directors who are members of a defined contribution scheme	2	3
Directors who are members of a defined benefit scheme	-	-

	2021 £	2020 £
Key personnel remuneration		
Short-term employee benefits	648,896	582,572
Post retirement benefits - defined benefit	24,529	5,462
Post retirement benefits - defined contribution	87,751	58,146
Other long-term benefits	257,160	169,467
	1,018,336	815,647

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

9 Auditor's remuneration

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

	2021 £ 000	2020 £ 000
Fees payable to the auditor for audit of the Company's annual accounts	38	120
Fees payable to the auditor for audit of the Company's subsidiaries pursuant to legislation	337	336
Total audit fees	375	456
Audit of regulatory reporting	51	51
Other services	51	7
Total auditor's remuneration	477	514

Other services relate to non-statutory audit services including bond issuance and pensions.

10 Income tax

Tax charged in the income statement

	2021 £ 000	2020 £ 000
Current taxation		
UK corporation tax	28,387	29,008
UK corporation tax adjustment to prior periods	(832)	(494)
	27,555	28,514
Deferred taxation		
Arising from origination and reversal of temporary differences	336	(1,497)
Deferred tax expense/(credit) from unrecognised temporary difference from prior period	610	(403)
Deferred tax credit relating to changes in tax rates or laws	39,315	13,689
Total deferred taxation	40,261	11,789
Tax expense in the income statement	67,816	40,303

10 Income tax (continued)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2020 - higher than the standard rate of corporation tax in the UK) of 19.0% (2020 - 19.0%).

The differences are reconciled below:

	2021 £ 000	2020 £ 000
Profit before tax	145,545	139,386
Corporation tax at standard rate	27,654	26,483
Increase in deferred tax due to changes in tax rates or laws	39,315	13,689
Tax effect of result of joint venture entities	(207)	(165)
Decrease in current tax from adjustment for prior periods	(832)	(494)
Permanent differences (including non-taxable dividends)	(198)	(343)
Pension contributions recognised in other comprehensive income	(255)	(262)
Increase/(decrease) in deferred tax from adjustment for prior periods	610	(403)
Non-deductible interest	1,710	1,710
Release of deferred tax in respect of prior year holdover relief claim	(45)	-
Other tax effects for reconciliation between accounting profit and tax expense/(income)	64	88
Total tax charge	67,816	40,303

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 £39.3m 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 £13.7m as at 31 December 2020 which is reflected within the prior year tax charge.

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

Amounts recognised in other comprehensive income

2021	Before tax £ 000	Tax (expense) benefit £ 000	Net of tax £ 000
Loss on cash flow hedges	4,962	(1,012)	3,950
Remeasurement of post employment benefit obligations	165,100	(34,726)	130,374
	170,062	(35,738)	134,324

2020	Before tax £ 000	Tax (expense) benefit £ 000	Net of tax £ 000
Gain on cash flow hedges	(2,500)	502	(1,998)
Remeasurement of post employment benefit obligations	(37,300)	8,981	(28,319)
	(39,800)	9,483	(30,317)

10 Income tax (continued)

Deferred tax

Group

Deferred tax movement during the year:

	At 1 January 2021 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 31 December 2021 £ 000
Accelerated tax depreciation	99,729	29,097	-	128,826
Rollover/holdover relief	116	(58)	-	58
Other items	(1,950)	(525)	1,012	(1,463)
Pension benefit obligations	8,957	9,498	36,976	55,431
Net tax liabilities/(assets)	106,852	38,012	37,988	182,852

Deferred tax movement during the prior year:

	At 1 January 2020 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 31 December 2020 £ 000
Accelerated tax depreciation	89,422	10,307	-	99,729
Rollover/holdover relief	901	(785)	-	116
Other items	(1,015)	(433)	(502)	(1,950)
Pension benefit obligations	9,158	2,700	(2,901)	8,957
Net tax liabilities/(assets)	98,466	11,789	(3,403)	106,852

The other deferred tax asset of £1.5m (2020: £2.0m) includes the deferred tax impact of cash flow hedges, provisions and employee benefits which are deductible on a paid basis. Within pension benefit obligations the movement in the year represents deferred tax on the change in retirement benefit obligation/asset. A proportion of the change has been capitalised in property, plant and equipment.

10 Income tax (continued)

Company

Deferred tax movement during the year:

	At 1 January 2021 £ 000	Recognised in income £ 000	At 31 December 2021 £ 000
Accelerated tax depreciation	(8)	(2)	(10)
Rollover/holdover relief	32	(32)	-
Pension benefit obligations	(493)	(50)	(543)
Net tax assets	(469)	(84)	(553)

Deferred tax movement during the prior year:

	At 1 January 2020 £ 000	Recognised in income £ 000	At 31 December 2020 £ 000
Accelerated tax depreciation	(9)	1	(8)
Rollover/holdover relief	151	(119)	32
Pension benefit obligations	(250)	(243)	(493)
Net tax liabilities/(assets)	(108)	(361)	(469)

11 Property, plant and equipment

Group

	Land and buildings £ 000	Distribution system £ 000	Metering equipment £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation					
At 1 January 2020	6,534	3,583,696	448,079	80,408	4,118,717
Additions	-	188,951	26,497	1,421	216,869
Disposals	-	(9,985)	(12,674)	-	(22,659)
As at 31 December 2020	6,534	3,762,662	461,902	81,829	4,312,927
At 1 January 2021	6,534	3,762,662	461,902	81,829	4,312,927
Additions	-	187,580	56,998	2,615	247,193
Disposals	-	(9,005)	(29,238)	(1)	(38,244)
At 31 December 2021	6,534	3,941,237	489,662	84,443	4,521,876
Depreciation					
At 1 January 2020	6,387	1,064,472	170,271	71,481	1,312,611
Charge for year	103	81,661	47,130	3,734	132,628
Eliminated on disposal	-	(9,985)	(12,005)	-	(21,990)
As at 31 December 2020	6,490	1,136,148	205,396	75,215	1,423,249
At 1 January 2021	6,490	1,136,148	205,396	75,215	1,423,249
Charge for the year	44	87,068	51,169	2,659	140,940
Eliminated on disposal	-	(9,005)	(26,547)	(1)	(35,553)
At 31 December 2021	6,534	1,214,211	230,018	77,873	1,528,636
Carrying amount					
At 1 January 2020	147	2,519,224	277,808	8,927	2,806,106
At 31 December 2020	44	2,626,514	256,506	6,614	2,889,678
At 31 December 2021	-	2,727,026	259,644	6,570	2,993,240

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

	31 December 2021 £ 000	31 December 2020 £ 000
Distribution system	187,697	202,298

11 Property, plant and equipment (continued)

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

	31 December 2021 £ 000	31 December 2020 £ 000
Distribution system	21,104	30,600

Company

	Land and buildings £ 000	Distribution system £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation				
At 1 January 2020	280	1,259	3,634	5,173
At 31 December 2020	280	1,259	3,634	5,173
At 1 January 2021	280	1,259	3,634	5,173
At 31 December 2021	280	1,259	3,634	5,173
Depreciation				
At 1 January 2020	56	-	3,548	3,604
Charge for year	7	-	-	7
At 31 December 2020	63	-	3,548	3,611
At 1 January 2021	63	-	3,548	3,611
Charge for the year	7	-	-	7
At 31 December 2021	70	-	3,548	3,618
Carrying amount				
At 31 December 2021	210	1,259	86	1,555
At 31 December 2020	217	1,259	86	1,562
At 1 January 2020	224	1,259	86	1,569

12 Right of use assets

Group

	Fleet £ 000	Property £ 000	Land £ 000	Total £ 000
Cost or valuation				
At 1 January 2020	9,046	2,439	-	11,485
Additions	4,489	1,410	1,923	7,822
Disposals	(335)	(198)	-	(533)
At 31 December 2020	13,200	3,651	1,923	18,774
At 1 January 2021	13,200	3,651	1,923	18,774
Additions	3,518	415	-	3,933
Disposals	(600)	(46)	-	(646)
At 31 December 2021	16,118	4,020	1,923	22,061
Depreciation				
At 1 January 2020	1,880	439	-	2,319
Charge for year	2,469	461	27	2,957
Eliminated on disposal	(335)	(198)	-	(533)
At 31 December 2020	4,014	702	27	4,743
At 1 January 2021	4,014	702	27	4,743
Charge for the year	2,984	505	64	3,553
Eliminated on disposal	(600)	(46)	-	(646)
At 31 December 2021	6,398	1,161	91	7,650
Carrying amount				
At 31 December 2021	9,720	2,859	1,832	14,411
At 31 December 2020	9,186	2,949	1,896	14,031

Company

	Property £ 000	Total £ 000
Cost or valuation		
Additions	1,366	1,366
At 31 December 2020	1,366	1,366
At 1 January 2021	1,366	1,366
At 31 December 2021	1,366	1,366
Depreciation		

12 Right of use assets (continued)

	Property £ 000	Total £ 000
Charge for year	76	76
At 31 December 2020	76	76
At 1 January 2021	76	76
Charge for the year	137	137
At 31 December 2021	213	213
Carrying amount		
At 31 December 2021	1,153	1,153
At 31 December 2020	1,290	1,290

13 Intangible assets

Group

	Software development £ 000	Total £ 000
Cost or valuation		
At 1 January 2020	121,666	121,666
Additions	9,145	9,145
At 31 December 2020	130,811	130,811
At 1 January 2021	130,811	130,811
Additions	9,544	9,544
Disposals	(714)	(714)
At 31 December 2021	139,641	139,641
Amortisation		
At 1 January 2020	69,377	69,377
Amortisation charge	10,215	10,215
At 31 December 2020	79,592	79,592
At 1 January 2021	79,592	79,592
Amortisation charge	11,875	11,875
Amortisation eliminated on disposals	(714)	(714)
At 31 December 2021	90,753	90,753
Carrying amount		
At 31 December 2021	48,888	48,888
At 31 December 2020	51,219	51,219

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

14 Investments

14 Investments (continued)

	Investment in joint ventures £ 000	Investment in associate £ 000	Share in other undertakings £ 000	Total £ 000
At 1 January 2020	3,518	-	21	3,539
Profit from investments	870	-	-	870
Dividends paid by investments	(761)	-	-	(761)
At 31 December 2020	3,627	-	21	3,648
Profit from investments	1,090	-	-	1,090
Dividends paid by investments	(840)	-	-	(840)
At 31 December 2021	3,877	-	21	3,898

14 Investments (continued)

Summary of the Company investments

	31 December 2021 £ 000	31 December 2020 £ 000
Investments in subsidiaries	242,902	242,902

Group subsidiaries

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

Name of subsidiary	Principal activity	Registered office and country of incorporation	Proportion of ownership interest and voting rights held 2021	2020
CE Electric Services Limited	Dormant	England and Wales	100%	100%
Central PowerGrid Limited	Dormant	England and Wales	100%	100%
East PowerGrid Limited	Dormant	England and Wales	100%	100%
Eastern PowerGrid Limited	Dormant	England and Wales	100%	100%
Infrastructure North Limited	Dormant	England and Wales	100%	100%
Integrated Utility Services Limited	Engineering contracting	England and Wales	100%	100%
IUS Limited	Dormant	England and Wales	100%	100%
Midlands PowerGrid Limited	Dormant	England and Wales	100%	100%
NEDL Limited	Dormant	England and Wales	100%	100%
North East PowerGrid Limited	Dormant	England and Wales	100%	100%
North Eastern PowerGrid Limited	Dormant	England and Wales	100%	100%
North PowerGrid Limited	Dormant	England and Wales	100%	100%
North West PowerGrid Limited	Dormant	England and Wales	100%	100%
North Western PowerGrid Limited	Dormant	England and Wales	100%	100%
Northern Electric Distribution Limited	Dormant	England and Wales	100%	100%
Northern Electric Properties Limited*	Property holdings & management company	England and Wales	100%	100%
Northern Electric Share Scheme Trustee Limited	Dormant	England and Wales	100%	100%
Northern Electricity (North East) Limited	Dormant	England and Wales	100%	100%
Northern Electricity (Yorkshire) Limited	Dormant	England and Wales	100%	100%
Northern Electricity Limited	Dormant	England and Wales	100%	100%

14 Investments (continued)

Name of subsidiary	Principal activity	Registered office and country of incorporation	Proportion of ownership interest and voting rights held 2021	2020
Northern Electricity Networks Company (North East) Limited	Dormant	England and Wales	100%	100%
Northern Electricity Networks Company (Yorkshire) Limited	Dormant	England and Wales	100%	100%
Northern Electricity Networks Company Limited	Dormant	England and Wales	100%	100%
Northern Electrics Limited	Dormant	England and Wales	100%	100%
Northern Energy Funding Company Limited	Dormant	England and Wales	100%	100%
Northern Powergrid Metering Limited	Meter asset provider	England and Wales	100%	100%
Northern Powergrid (Northeast) plc	Distribution of electricity	England and Wales	100%	100%
Northern Powergrid (North West) Limited	Dormant	England and Wales	100%	100%
Northern Power Networks Company (North East) Limited	Dormant	England and Wales	100%	100%
Northern Power Networks Company (Yorkshire) Limited	Dormant	England and Wales	100%	100%
Northern Power Networks Company Limited	Dormant	England and Wales	100%	100%
Northern Transport Finance Limited	Car finance company	England and Wales	100%	100%
Northern Utility Services Limited	Dormant	England and Wales	100%	100%
PowerGrid (Central) Limited	Dormant	England and Wales	100%	100%
PowerGrid (East) Limited	Dormant	England and Wales	100%	100%
PowerGrid (Eastern) Limited	Dormant	England and Wales	100%	100%
PowerGrid (Midlands) Limited	Dormant	England and Wales	100%	100%
PowerGrid (North East) Limited	Dormant	England and Wales	100%	100%
PowerGrid (North Eastern) Limited	Dormant	England and Wales	100%	100%
PowerGrid (North West) Limited	Dormant	England and Wales	100%	100%
PowerGrid (North Western) Limited	Dormant	England and Wales	100%	100%
PowerGrid (North) Limited	Dormant	England and Wales	100%	100%
PowerGrid (Northern) Limited	Dormant	England and Wales	100%	100%

14 Investments (continued)

Name of subsidiary	Principal activity	Registered office and country of incorporation	Proportion of ownership interest and voting rights held 2021	2020
PowerGrid (South East) Limited	Dormant	England and Wales	100%	100%
PowerGrid (South Eastern) Limited	Dormant	England and Wales	100%	100%
PowerGrid (South West) Limited	Dormant	England and Wales	100%	100%
PowerGrid (South Western) Limited	Dormant	England and Wales	100%	100%
PowerGrid (South) Limited	Dormant	England and Wales	100%	100%
PowerGrid (Southern) Limited	Dormant	England and Wales	100%	100%
PowerGrid (West) Limited	Dormant	England and Wales	100%	100%
PowerGrid (Western) Limited	Dormant	England and Wales	100%	100%
PowerGrid (Yorkshire) Limited	Dormant	England and Wales	100%	100%
South East PowerGrid Limited	Dormant	England and Wales	100%	100%
South Eastern PowerGrid Limited	Dormant	England and Wales	100%	100%
South PowerGrid Limited	Dormant	England and Wales	100%	100%
South West PowerGrid Limited	Dormant	England and Wales	100%	100%
South Western Powergrid	Dormant	England and Wales	100%	100%
Southern PowerGrid Limited	Dormant	England and Wales	100%	100%
West PowerGrid Limited	Dormant	England and Wales	100%	100%
Western PowerGrid Limited	Dormant	England and Wales	100%	100%
YEDL Limited	Dormant	England and Wales	100%	100%
Yorkshire Electricity Distribution Limited	Dormant	England and Wales	100%	100%
Yorkshire PowerGrid Limited	Dormant	England and Wales	100%	100%
Northern Electric Finance plc**	Finance company	England and Wales	100%	100%

*These companies have taken advantage of s479A Companies Act exemption from audit.

**These companies are indirectly owned subsidiaries, with the rest of the above being directly owned.

The class of shares related to the above companies are ordinary shares.

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

14 Investments (continued)

Group associates

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

Name of associate	Principal activity	Registered office	Proportion of ownership interest and voting rights held by the Group 2021	2020
DCUSA Limited*	Goverance of Distribution Connection and Use of System Agreement	Northumberland House, 303-306 Holborn, WC1V 7JZ, England and Wales	1.69%	1.0%
Electralink Limited*	Data transfer network operator	Northumberland House, 303-306 Holborn, WC1V 7JZ, England and Wales	6.2%	1.0%
MRA Service Company Limited*	Goverance of the electricty industry's Master Registrauion Agreement	8 Fenchurch Place, London, EC3M 4AJ, England and Wales	0.36%	1.0%
Selectusonline Limited	Procurement vehicle	Hawaswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington, WA5 3LP, England and Wales	16.67%	1.0%

*These companies are indirectly owned subsidiaries, with the rest of the above being directly owned.

The class of shares related to the above companies are ordinary shares.

14 Investments (continued)

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

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

The class of shares related to the joint ventures above are ordinary shares.

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

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

	31 December 2021 £ 000	31 December 2020 £ 000
Current assets	16,158	17,320
Non-current assets	22,222	22,297
Current liabilities	(14,559)	(14,299)
Non-current liabilities	(16,069)	(18,066)
Net assets	7,753	7,252
Groups share of net assets	3,876	3,627
Revenue	19,085	17,898
Profit for the year	2,180	1,740
Groups share of profit for the year	1,090	870

15 Inventories

	Group		Company	
	31 December 2021 £ 000	31 December 2020 £ 000	31 December 2021 £ 000	31 December 2020 £ 000
Raw materials and consumables	19,638	17,870	-	-
Work in progress	266	289	-	-
Vehicle inventory	478	540	-	-
	20,382	18,699	-	-

16 Trade and other receivables

	Group		Company	
	31 December 2021 £ 000	31 December 2020 £ 000	31 December 2021 £ 000	31 December 2020 £ 000
Distribution use of system receivables	56,769	53,617	-	-
Trade receivables	24,630	21,261	18	81
Finance lease receivable	5,059	4,252	-	-
Loss allowance	(8,757)	(6,154)	-	-
Net trade receivables	77,701	72,976	18	81
Social security and other taxes	-	-	3,472	1,001
Prepayments	7,285	5,182	376	209
Other receivables	4,304	4,334	-	-
	89,290	82,492	3,866	1,291
Non-current Finance lease receivables	2,702	4,598	-	-
	91,992	87,090	3,866	1,291

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

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

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

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

As the 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 distinguished as follows:

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

	31 December 2021 £ 000	31 December 2020 £ 000
At 1 January	6,154	5,153
Amounts utilised/written off in the year	(3,791)	(113)
Amounts recognised in the income statement	6,394	1,114
At 31 December	8,757	6,154

The increase in the amount recognised in the year follows the failure of a number of a electricity supply companies in 2021. Subject to certain conditions mentioned on page 82, losses arising in relation to distribution use of system debts will be recovered through an increase in future allowed income.

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.

Distribution use of system receivables
The customers served by the Group’s distribution network are supplied predominantly by a number of electricity supply businesses (circa 110) with the E.ON group accounting for approximately 21.5% of distribution revenues in 2021 (2020:23.0%) and British Gas plc accounting for approximately 11.4% of distribution revenues in 2021 (2020: 11.5%). Ofgem under Code Governance arrangements, set out a framework known as Credit Cover within the Distribution Connection and Use of System Agreement (DCUSA), which sets credit limits for each supply business based on its credit rating (taken from a credit agency). If no score is available, then they can build up their credit limit through good payment history. In addition, suppliers can provide other forms of collateral to cover their value at risk (measured as being equivalent to 45 days usage) or if their credit rating alone is not sufficient to cover their value at risk. Acceptable collateral typically is provided in the form of a parent company guarantee, letter of credit, cash or an escrow account.

Provided the Group has implemented credit control, billing and collection processes in line with best practice guidelines and can demonstrate compliance with the guidelines or is able to satisfactorily explain departure from the guidelines, any losses arising from supplier default will be recovered through an increase in future allowed income. Losses incurred to date have not been material therefore no ECL has been made on DUoS balances.

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

2021	Not due £ 000	Current £ 000	1-3 months £ 000	3-6 months £ 000
Total balance	31,375	22,590	1,703	1,100
Less specific provisions	-	(255)	(1,696)	(844)
Balance eligible for ECL	31,375	22,335	7	256
Lifetime ECL	0%	0%	0%	0%
Expected credit loss	-	-	-	-

2020	Not due £ 000	Current £ 000	1-3 months £ 000	3-6 months £ 000
Total balance	29,114	21,975	110	2,357
Less specific provisions	-	(152)	(109)	(1,326)
Balance eligible for ECL	29,114	21,823	1	1,031
Lifetime ECL	0%	0%	0%	0%
Expected credit loss	-	-	-	-

16 Trade and other receivables (continued)

Other distribution trade receivables

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.

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

Damages receivables

2021	0-6 months £ 000	6-12 months £ 000	1-2 years £ 000	2-3 years £ 000	Over 3 year £ 000
Total balance	1,785	373	237	424	53
Less specific provisions	(165)	(114)	(24)	(363)	(22)
Balance eligible for ECL	1,620	259	213	61	31
Lifetime ECL	20%	25%	30%	40%	80%
Expected credit loss	324	65	64	24	25

2020	0-6 months £ 000	6-12 months £ 000	1-2 years £ 000	2-3 years £ 000	Over 3 year £ 000
Total balance	788	205	617	69	37
Less specific provisions	(183)	(54)	(430)	(22)	-
Balance eligible for ECL	605	151	187	47	37
Lifetime ECL	20%	25%	30%	40%	80%
Expected credit loss	121	38	56	19	30

Non-damages receivables

2021	Not due £ 000	Current £ 000	1-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	259	393	480	121	234
Less specific provisions	-	-	-	-	-
Balance eligible for ECL	259	393	480	121	234
Lifetime ECL	0%	0%	0%	50%	87%
Expected credit loss	-	-	-	61	204

2020	Not due £ 000	Current £ 000	1-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	260	323	144	87	156
Less specific provisions	-	-	-	-	-
Balance eligible for ECL	260	323	144	87	156
Lifetime ECL	0%	0%	0%	50%	50%
Expected credit loss	-	-	-	44	78

16 Trade and other receivables (continued)

Meter asset provision

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

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the debtor is over 1 year past due. None of the trade receivables that have been written off are subject to enforcement activities.

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

Contracted

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

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

Contracted churn

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

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

16 Trade and other receivables (continued)

Non-contracted churn

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

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

Engineering contracting receivables

The average credit period on Engineering contracting receivables is 30 days. Interest is not generally charged on receivables paid after due date. Included in the Group’s construction contracts balance are debtors with a carrying amount of £2.1 million (2020: £2.1 million), which are past due at the reporting date for which the Group has provided for an irrecoverable amount of £0.1 million (2020: £0.1 million) based on past experience. The Group does not hold and collateral over these balances. The average age of these receivables is 54 days (2020: 52 days).

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

The average credit period on sales of goods and services is 30 days. Interest is not generally charged on the trade receivables paid after the due date.

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

2020	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	1,621	1,719	240	49	70
Less specific provisions	-	-	-	-	(70)
Balance eligible for ECL	1,621	1,719	240	49	-
Lifetime ECL	0%	1%	10%	50%	100%
Expected credit loss	-	17	24	25	-

16 Trade and other receivables (continued)

Finance lease receivables

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

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

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

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

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

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

2020	Minimum lease payments £ 000	Interest £ 000	Present value £ 000
Within one year	6,021	(1,769)	4,252
In two to five years	6,281	(1,683)	4,598
	12,302	(3,452)	8,850

16 Trade and other receivables (continued)

Operating lease receivables

Operating leases relate to the metering assets owned by the Group with lease terms of 10 years, these are disclosed in Note 11. The lessee does not have an option to purchase the meters at the expiry of the lease period.

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

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

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

17 Cash and cash equivalents

	Group		Company	
	31 December 2021 £ 000	31 December 2020 £ 000	31 December 2021 £ 000	31 December 2020 £ 000
Cash at bank	26,098	21,874	-	-
Other cash and cash equivalents	16,042	-	29,036	38,148
	42,140	21,874	29,036	38,148

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

18 Restricted cash

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

Restricted cash was held for use under the terms of certain contractual agreements.

19 Share capital

Allotted, issued, and fully paid:

The Company has one class of ordinary shares which carries no right to fixed income. Details of cumulative non-equity preference shares are contained in the borrowings Note 21.

	Share value	No. of shares	2021 £ 000	2020 £ 000
Ordinary shares	56 12/13p	127,689,809	72,173	72,173

20 Reserves

Group

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

	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
Loss on cash flow hedge (net)	3,950	-	3,950
Remeasurements of post employment benefit obligations (net)	-	130,374	130,374
	3,950	130,374	134,324

Prior period

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

	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
Gain on cash flow hedge (net)	(1,998)	-	(1,998)
Remeasurements of post employment benefit obligations (net)	-	(28,319)	(28,319)
	(1,998)	(28,319)	(30,317)

21 Loans and borrowings

	Group		Company	
	2021	2020	2021	2020
	£ 000	£ 000	£ 000	£ 000
Non-current loans and borrowings	985,988	946,185	1,117	1,117
Current loans and borrowings	51,379	77,060	13,861	9,741
	1,037,367	1,023,245	14,978	10,858

21 Loans and borrowings (continued)

Group

	Carrying value		Fair value	
	2021	**2020**	**2021**	**2020**
	£ 000	**£ 000**	**£ 000**	**£ 000**
Short-term loans	499	28	499	28
Inter-company short-term loans	-	35,372	-	35,372
Amortising loan 2026 - 2.3012%***	212,395	-	212,395	-
Amortising loan 2026 - 2.9573%*	-	133,871	-	135,348
Amortising loan 2026 - 2.0245%**	-	29,736	-	30,005
Bond 2035 - 5.125%	153,366	153,279	204,175	225,276
Bond 2049- 2.75%	150,037	149,978	172,211	194,134
Bond 2062 - 1.875%	297,558	297,469	289,945	338,377
European Investment Bank 2027 - 2.564%	120,128	120,128	126,098	134,428
Cumulative preference shares	3,368	3,368	166,952	192,076
Yorkshire Electricity Group - 5.9%	100,016	100,016	148,285	164,723
	1,037,367	1,023,245	1,320,560	1,449,767

*2026 £136m Amortising Loan, 89% swapped at a fixed rate of 3.0682%, with the remaining 11% floating at 3 month LIBOR plus 2.00%, repaid December 2021.
**2026 £ 30m Amortising Loan at a Floating rate loan at 3 month LIBOR plus 2.00%, repaid December 2021.
***2026 £218m Amortising Loan is 80% swapped at a fixed rate of 2.4455%, with the remaining 20% floating at SONIA plus 1.55%.

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

Company

	Carrying value		Fair value	
	2021	**2020**	**2021**	**2020**
	£ 000	**£ 000**	**£ 000**	**£ 000**
Short-term loans	11,610	7,490	11,610	8,180
Cumulative preference shares	3,368	3,368	166,952	192,076
	14,978	10,858	178,562	200,256

Of the total financial liabilities of £1,037.4 milion, £936.9 million (2020: £887.8 million) relates to external borrowings and preference shares whose fair value is determined with reference to quoted market prices. The directors' estimates of the fair value of internal borrowings are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments. The valuation of liabilities set out above is based on Level 1 inputs.

The borrowings from the European Investment Bank were drawn down in four tranches. The interest rates shown are average rates for those repayment dates.

The terms of the cumulative preference shares:

- entitle holders, in priority to holders of all other classes of shares, to a fixed cumulative preferential dividend of 8.061p (net) per share per annum payable half-yearly in equal amounts on 31 March and 30 September;
- on a return of capital on a winding up, or otherwise, will carry the right to repayment of capital together with a premium of 99p per share and a sum equal to any arrears or accruals of dividend. This right is in priority to the rights of ordinary shareholders;

21 Loans and borrowings (continued)

- carry the right to attend a general meeting of Northern Electric plc and vote if, at the date of the notice convening the meeting, payment of the dividend to which they are entitled is six months or more in arrears, or if a resolution is to be considered at the meeting for the winding-up of Northern Electric plc or abrogating, varying or modifying any of the special rights attaching to them; and
- are redeemable in the event of the revocation by the Secretary of State of Northern Electric plc's Public Electricity Supply Licence at the value given above.

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

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

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

22 Obligations under leases and hire purchase contracts

Group

Lease liability

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

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

	31 December 2021 £ 000	31 December 2020 £ 000
Within one year	3,630	3,404
In two to five years	8,545	8,834
In over five years	3,406	3,766
Total lease payment	15,581	16,004
Unearned interest	(791)	(1,673)
Total lease liability	14,790	14,331

22 Obligations under leases and hire purchase contracts (continued)

Company

Operating leases

The Company holds one single lease relating to the main office building within Newcastle upon Tyne.

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

	31 December 2021 £ 000	31 December 2020 £ 000
Within one year	172	172
In two to five years	601	601
In over five years	563	735
Total lease payment	1,336	1,508
Unearned interest	(130)	(162)
Total lease liability	1,206	1,346

23 Provisions

Group

	Claims £ 000	Other £ 000	Total £ 000
At 1 January 2021	647	3,588	4,235
Additional provisions	897	1,746	2,643
Provisions used	(751)	(278)	(1,029)
At 31 December 2021	793	5,056	5,849
Non-current liabilities	-	2,341	2,341
Current liabilities	793	2,716	3,509

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

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

Also included within 'other' are pension provisions which releate to the Group's share of expected settlements of liabilities relating to pension deficit repair of Electricity Association Technology Limited ("EATL") and are expected to be settled over a period of approximately eight years. As at 31 December 2021 the provision relating to the EATL is £0.7m (2020: £0.8m).

Company

	Other provisions £ 000	Total £ 000
At 1 January 2021	2,319	2,319
Provisions used	(220)	(220)
At 31 December 2021	2,099	2,099

23 Provisions (continued)

The Company's provisions relate to the actuarial assessment of the costs of unfunded pension arrangements in respect of former employees. This is expected to be realised over the next 20 years.

Also included above are pension provisions which releate to the Group's share of expected settlements of liabilities relating to pension deficit repair of Electricity Association Technology Limited ("EATL") and are expected to be settled over a period of approximately eight years. As at 31 December 2021 the provision relating to the EATL is £0.6m (2020: £0.8m).

24 Trade and other payables

	Group		Company	
	31 December 2021 £ 000	31 December 2020 £ 000	31 December 2021 £ 000	31 December 2020 £ 000
Payments on account	37,143	35,938	-	-
Trade payables	4,956	2,823	2,756	1,658
Capital creditors	24,330	25,629	-	-
Accrued expenses	15,277	11,000	1,520	1,424
Social security and other taxes	7,943	5,310	94	116
Other payables	13,763	13,315	145	831
	103,412	94,015	4,515	4,029

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

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

25 Deferred revenue

	Group		Company	
	31 December 2021 £ 000	31 December 2020 £ 000	31 December 2021 £ 000	31 December 2020 £ 000
Opening balance	669,356	663,980	-	-
Additions	36,247	31,660	-	-
Amortisation	(27,945)	(26,284)	-	-
	677,658	669,356	-	-

	Group		Company	
	31 December 2021 £ 000	31 December 2020 £ 000	31 December 2021 £ 000	31 December 2020 £ 000
Current	28,645	27,629	-	-
Non-current	649,013	641,727	-	-
	677,658	669,356	-	-

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

26 Pension and other schemes

Defined benefit pension schemes
Electricity Supply Pension Scheme

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

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

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

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

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

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

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

26 Pension and other schemes (continued)

Role of Trustees

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

Funding requirements

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

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

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

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

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

Profile of the scheme

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

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

Investment objectives for the DB Scheme

26 Pension and other schemes (continued)

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

The Company and Trustees have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes the use of Liability Driven Investment (LDI) from October 2016 to more closely match the nature and duration of the DB Scheme's liabilities through the use of derivatives such as swaps and repurchase agreements. The portfolio is designed to hedge a proportion of the interest rate and inflation risk inherent in the Scheme's liabilities. The target hedging level is currently 99% (2020: 75%) of the DB Scheme's liabilities as measured on the basis used for the funding valuation.

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

Risks

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

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

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

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

Inflation risk
A significant proportion of the DBO is indexed in line with price inflation (specifically in line with RPI) and higher inflation will lead to higher liabilities

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

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

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

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

26 Pension and other schemes (continued)

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

26 Pension and other schemes (continued)

Other risks

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

Reporting at 31 December 2021

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

The results of the latest funding valuation at 31 March 2019 have been adjusted to 31 December 2021. Those adjustments take account of experience over the period since 31 March 2019, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the DBO and the related current service cost were measured using the Projected Unit Credit Method.

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

Principal actuarial assumptions

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

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

Post retirement mortality assumptions

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

26 Pension and other schemes (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

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

Scheme assets

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

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

26 Pension and other schemes (continued)

Analysis of assets

The major categories of scheme assets are as follows:

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

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

Scheme liabilities

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

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

26 Pension and other schemes (continued)

Amounts recognised in the income statement

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

Amounts taken to the Statement of Comprehensive Income

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

Sensitivity analysis

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

		31 December 2021			31 December 2020	
	+ 0.1%	0.0%	- 0.1%	+ 0.1%	0.0%	- 0.1%
Adjustment to discount rate	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	1,445,600	1,480,400	1,505,600	1,582,500	1,612,600	1,643,900

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

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

26 Pension and other schemes (continued)

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

27 Dividends

	31 December 2021 £ 000	31 December 2020 £ 000
Dividend of £0.20 (2020 - £0.20) per ordinary share	26,000	25,400

28 Net debt reconciliation

Group

	At 1 January 2021 £ 000	Cash flows £ 000	New leases £ 000	Other changes £ 000	At 31 December 2021 £ 000
Cash and cash equivalents	21,874	20,266	-	-	42,140
Lease liabilities	(14,331)	3,891	(4,350)	-	(14,790)
Borrowings	(1,023,245)	(14,256)	-	134	(1,037,367)
	(1,015,702)	9,901	(4,350)	134	(1,010,017)

	At 1 January 2020 £ 000	Cash flows £ 000	New leases £ 000	Other changes £ 000	At 31 December 2020 £ 000
Cash and cash equivalents	22,667	(793)	-	-	21,874
Lease liabilities	(9,291)	3,158	(8,198)	-	(14,331)
Borrowings	(998,796)	(23,542)	-	(907)	(1,023,245)
	(985,420)	(21,177)	(8,198)	(907)	(1,015,702)

28 Net debt reconciliation (continued)

Company

	At 1 January 2021 £ 000	Cash flows £ 000	New finance leases £ 000	At 31 December 2021 £ 000
Cash and cash equivalents	38,148	(9,112)	-	29,036
Lease liabilities	(1,346)	171	(31)	(1,206)
Borrowings	(10,858)	(4,120)	-	(14,978)
	25,944	(13,061)	(31)	12,852

	At 1 January 2020 £ 000	Cash flows £ 000	New finance leases £ 000	Other changes £ 000	At 31 December 2020 £ 000
Cash and cash equivalents	36,187	1,961	-	-	38,148
Lease liabilities	-	-	(1,346)	-	(1,346)
Borrowings	(9,717)	(1,143)	-	2	(10,858)
	26,470	818	(1,346)	2	25,944

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

Group

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

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial assets & liabilities at FVTOCI £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Non-current assets					
Property, plant and equipment	-	-	-	-	2,993,240
Right of use assets	-	-	-	-	14,411
Intangible assets	-	-	-	-	48,888
Investments in subsidiaries, joint ventures and associates	-	3,898	-	-	-
Retirement benefit obligations	-	-	262,200	-	-
Trade and other receivables	2,702	-	-	-	-
Other non-current financial assets	-	-	944	-	-
	2,702	3,898	263,144	-	3,056,539
Current assets					
Inventories	-	-	-	-	20,382
Trade and other receivables	89,290	-	-	-	-
Income tax asset	2,294	-	-	2,294	-
Cash and cash equivalents	42,140	-	-	-	-
Contract assets	7,593	-	-	-	-
Other current financial assets	-	-	204	-	-
	141,317	-	204	2,294	20,382
Total assets	144,019	3,898	263,348	2,294	3,076,921
Non-current liabilities					
Long term lease liabilities	-	-	-	(11,359)	-
Loans and borrowings	-	-	-	(985,988)	-
Provisions	-	-	-	(2,341)	-
Deferred revenue	-	-	-	(649,013)	-
Deferred tax liabilities	-	-	-	(182,852)	-
	-	-	-	(1,831,553)	-
Current liabilities					
Current portion of long term lease liabilities	-	-	-	(3,431)	-
Trade and other payables	-	-	-	(103,412)	-
Loans and borrowings	-	-	-	(51,379)	-
Deferred revenue	-	-	-	(28,645)	-
Provisions	-	-	-	(3,509)	-
	-	-	-	(190,376)	-
Total liabilities	-	-	-	(2,021,929)	-

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

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

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial assets & liabilities at FVTOCI £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Non-current assets					
Property, plant and equipment	-	-	-	-	2,891,240
Right of use assets	-	-	-	-	15,321
Intangible assets	-	-	-	-	51,219
Investments in subsidiaries, joint ventures and associates	-	3,648	-	-	-
Retirement benefit obligations	-	-	88,100	-	-
Trade and other receivables	4,598	-	-	-	-
	4,598	3,648	88,100	-	2,957,780
Current assets					
Inventories	-	-	-	-	18,699
Trade and other receivables	82,492	-	-	-	-
Cash and cash equivalents	21,874	-	-	-	-
Restricted cash	16,758	-	-	-	-
Contract assets	6,214	-	-	-	-
	127,338	-	-	-	18,699
Total assets	131,936	3,648	88,100	-	2,976,479
Non-current liabilities					
Long term lease liabilities	-	-	-	(11,295)	-
Loans and borrowings	-	-	-	(946,185)	-
Provisions	-	-	-	(2,737)	-
Deferred revenue	-	-	-	(641,727)	-
Deferred tax liabilities	-	-	-	(106,852)	-
Other non-current financial liabilities	-	-	(3,174)	-	-
	-	-	(3,174)	(1,708,796)	-
Current liabilities					
Current portion of long term lease liabilities	-	-	-	(3,036)	-
Trade and other payables	-	-	-	(94,015)	-
Loans and borrowings	-	-	-	(77,060)	-
Income tax liability	(1,260)	-	-	(1,260)	-
Deferred revenue	-	-	-	(27,629)	-
Provisions	-	-	-	(1,498)	-
Other current financial liabilities	-	-	(640)	-	-
	(1,260)	-	(640)	(204,498)	-
Total liabilities	(1,260)	-	(3,814)	(1,913,294)	-

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

Fair values are derived from level 1 inputs.

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

Company

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

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets				
Non-current assets				
Property, plant and equipment	-	-	-	1,555
Right of use assets	-	-	-	1,153
Investments in subsidiaries, joint ventures and associates	-	242,902	-	-
Deferred tax asset	553	-	-	-
	553	242,902	-	2,708
Current assets				
Trade and other receivables	3,866	-	-	-
Income tax asset	158	-	-	-
Cash and cash equivalents	29,036	-	-	-
	33,060	-	-	-
Total assets	33,613	242,902	-	2,708
Liabilities				
Non-current liabilities				
Long term lease liabilities	-	-	(1,062)	-
Loans and borrowings	-	-	(1,117)	-
Provisions	-	-	(1,850)	-
	-	-	(4,029)	-
Current liabilities				
Current portion of long term lease liabilities	-	-	(144)	-
Trade and other payables	-	-	(4,515)	-
Loans and borrowings	-	-	(13,861)	-
Provisions	-	-	(249)	-
	-	-	(18,769)	-
Total liabilities	-	-	(22,798)	-

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

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

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets				
Non-current assets				
Property, plant and equipment	-	-	-	1,562
Right of use assets	-	-	-	1,290
Investments in subsidiaries, joint ventures and associates	-	242,902	-	-
Deferred tax asset	469	-	-	-
	469	242,902	-	2,852
Current assets				
Trade and other receivables	1,291	-	-	-
Cash and cash equivalents	38,148	-	-	-
	39,439	-	-	-
Total assets	39,908	242,902	-	2,852
Liabilities				
Non-current liabilities				
Long term lease liabilities	-	-	(1,205)	-
Loans and borrowings	-	-	(1,117)	-
Provisions	-	-	(2,217)	-
	-	-	(4,539)	-
Current liabilities				
Current portion of long term lease liabilities	-	-	(141)	-
Trade and other payables	-	-	(4,029)	-
Loans and borrowings	-	-	(9,741)	-
Income tax liability	(4,168)	-	-	-
Provisions	-	-	(102)	-
	(4,168)	-	(14,013)	-
Total liabilities	(4,168)	-	(18,552)	-

30 Financial risk review

Capital management

The Group manages its capital centrally to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2020.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 21 offset by equity of the Company (comprising issued capital, reserves and retained earnings as detailed in Notes 19 and 20).

At 31 December 2021, 96% of the Group's long-term borrowings were at fixed rates (2020: 95%) and the average maturity for these borrowings was 20 years (2020: 22 years).

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

Credit risk

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

The Group's income is primarily generated from use of system revenue from electricity suppliers; suppliers are credit checked by independent ratings agencies. Impaired income from DUoS will be recovered in future periods through system charges and is therefore of no material risk to the Group. The Company's receivables are subject to expected credit loss calculations disclosed further within the trade receivables (Note 16). The Group's credit risk exposure is shown below:

Group

2021	Notes	Gross carrying amount £ 000	Loss allowance £ 000	Net carrying amount £ 000
Trade and other receivables	16	100,749	(8,757)	91,992
Income tax asset		2,294	-	2,294
Cash and short-term deposits	17	42,140	-	42,140
Contracts	3	7,593	-	7,593
	16	152,776	(8,757)	144,019

2020	Notes	Gross carrying amount £ 000	Loss allowance £ 000	Net carrying amount £ 000
Trade and other receivables	16	93,244	(6,154)	87,090
Cash and short-term deposits	17	21,874	-	21,874
Contracts	3	6,214	-	6,214
	16	121,332	(6,154)	115,178

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

30 Financial risk review (continued)

The carrying amount of the Group's financial assets at FVTPL as disclosed in Note 29 best represents their respective maximum exposure to credit risk. The Group holds no collateral over any of these balances.

30 Financial risk review (continued)

Company

2021	**Notes**	**Gross carrying amount £ 000**	**Loss allowance £ 000**	**Net carrying amount £ 000**
Trade and other receivables	16	3,866	-	3,866
Cash and cash equivalents	17	29,036	-	29,036

2020	**Notes**	**Gross carrying amount £ 000**	**Loss allowance £ 000**	**Net carrying amount £ 000**
Trade and other receivables	16	1,291	-	1,291
Cash and cash equivalents	17	38,148	-	38,148

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

Liquidity risk

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

The Group has access to a £100 million revolving credit facility provided by Barclays Bank plc, Lloyds Bank plc, HSBC UK Bank plc and Royal Bank of Canada. The facility was executed in December 2021 for a period of three years, with two 1 year extensions. In addition, the Group has access to further short-term borrowing facilities provided by YEG and to a £22 million overdraft facility provided by Lloyds Bank plc, which is reviewed annually, these borrowings are repayable on demand.

At 31 December 2021, the Group had available £121.6m (2020: £97.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Maturity analysis for financial liabilities

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

30 Financial risk review (continued)

Group

2021	Less than 3 months £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
Non-interest bearing	55,923	-	-	-	55,923
Short-term interest bearing	439	-	-	-	439
Long-term interest bearing	-	27,651	148,197	1,444,098	1,619,946
	56,362	27,651	148,197	1,444,098	1,676,308

2020	Less than 3 months £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
Non-interest bearing	58,077	-	-	-	58,077
Short-term interest bearing	33,677	-	-	-	33,677
Long-term interest bearing	-	60,015	242,107	1,291,258	1,593,380
	91,754	60,015	242,107	1,291,258	1,685,134

Company

2021	Less than 3 months £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
Non-interest bearing	3,363	-	-	-	3,363
Short-term interest bearing	11,588	-	-	-	11,588
Long-term interest bearing	-	9,001	36,004	226,144	271,149
	14,951	9,001	36,004	226,144	286,100

2020	Less than 3 months £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
Non-interest bearing	4,029	-	-	-	4,029
Short-term interest bearing	7,464	-	-	-	7,464
Long-term interest bearing	-	9,001	36,004	226,144	271,149
	11,493	9,001	36,004	226,144	282,642

Market risk

Market risk is the risk of loss arising from movements in market variables such as interest rates, exchange rates and commodity prices. Risks are mitigated by utilising appropriate risk management products.

The Group's policy on interest rate risk is designed to limit the Group's exposure to floating interest rates. Consistent with this policy, at 31 December 2021 the Group had 96% (2020: 95%) of long term debt at fixed rates. Short-term loans are charged at a floating rate of interest at SONIA plus 0.20% plus a credit adjustment spread and 4% of the Group’s long term borrowings are at a floating rate of interest at SONIA plus 1.55%, thus exposing the Group to cash flow interest rate risk. A 1% movement in interest rates would subject the Group to an approximate change in interest costs of £0.4m per year. This is considered an acceptable level of risk. All other loans are at fixed interest rates and expose the Group to fair value interest rate risk.

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

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

30 Financial risk review (continued)

Financial risk
The Group is not subject to significant risk relating to foreign exchange.

31 Derivatives held for risk management and hedge accounting

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

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

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

The maturity of financial instruments was as follows:

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

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges to reduce the Group's cash flow exposure resulting from variable interest rate borrowings. The interest rate swaps and interest payments on the underlying loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

The interest rate swaps are settled on a quarterly basis and are based on receiving a floating rate of interest based on SONIA and paying a fixed rate of 0.8955%. The Group will settle the difference between the fixed and floating interest rate on a net basis.

Effectiveness testing

31 Derivatives held for risk management and hedge accounting (continued)

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

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

32 Related party transactions

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

Group

2021	Sales to £ 000	Purchases from £ 000	Amounts owed from/(to) £ 000	Finance income/(costs) £ 000	Borrowings to/(from) £ 000
Integrated Utility Services (Eire)	2,156	(5,786)	-	-	-
CE Gas Ltd	134	-	-	-	-
Northern Powergrid Limited	-	-	-	(6,222)	-
Northern Powergrid (Yorkshire) plc	28,293	(11,292)	-	-	-
Vehicle Lease and Service Limited	37	(4,951)	-	1,090	-
Yorkshire Electricity Group	-	-	-	(182)	16,042
	30,620	(22,029)	-	(5,314)	16,042

2020	Sales to £ 000	Purchases from £ 000	Amounts owed from/(to) £ 000	Finance income/(costs) £ 000	Borrowings to/(from) £ 000
Integrated Utility Services (Eire)	2,169	(4,769)	-	-	-
CE Gas Ltd	4	-	-	-	-
Northern Powergrid Limited	-	-	-	(6,228)	-
Northern Powergrid (Yorkshire) plc	27,189	(10,630)	-	-	-
Vehicle Lease and Service Limited	21	(4,940)	-	870	-
Yorkshire Electricity Group	-	-	-	(802)	(35,372)
	29,383	(20,339)	-	(6,160)	(35,372)

32 Related party transactions (continued)

Company

2021	Sales to £ 000	Purchases from £ 000	Finance income/(costs) £ 000	Borrowings to/(from) £ 000
CE Gas Ltd	134	-	-	-
Northern Powergrid Limited	-	-	(6,222)	-
Northern Powergrid (Northeast) plc	4,552	7	26,000	-
Northern Powergrid (Yorkshire) plc	1,992	-	-	-
Northern Transport Finance Limited	18	-	-	-
Vehicle Lease and Service Limited	-	-	1,090	-
Yorkshire Electricity Group	-	-	13	29,036
	6,696	7	20,881	29,036

2020	Sales to £ 000	Purchases from £ 000	Finance income/(costs) £ 000	Borrowings to/(from) £ 000
CE Gas Ltd	223	-	-	-
Northern Powergrid Limited	-	-	(6,228)	-
Northern Powergrid (Northeast) plc	4,952	-	25,400	-
Northern Powergrid (Yorkshire) plc	2,494	-	-	-
Northern Transport Finance Limited	11	-	-	-
Vehicle Lease and Service Limited	-	-	870	-
Yorkshire Electricity Group	-	-	85	38,148
	7,680	-	20,127	38,148

33 Parent and ultimate parent undertaking

The Company's immediate parent is Northern Powergrid Limited.

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

Relationship between entity and parents

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

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

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

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

34 Other reserves

At the Company's Annual General Meeting in August 1994, the shareholders gave approval to on-market purchases of up to 10% of its shares and this was given effect on 21 September 1994 when 12,370,400 shares were purchased. This transaction resulted in the creation of a capital redemption reserve of £6.2m. Under section 831(4) of the Companies Act 2006 this reserve is treated as an un-distributable reserve.

35 Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of Northern Electric plc will be held by WebEx on Wednesday 22 June 2022 at 11.00 am.

WebEx joining instructions

For shareholders wishing to join the Annual General Meeting of Northern Electric plc please visit https://www.webex.com/login/attend-a-meeting and when prompted, enter ‘the meeting information’: 2613 017 0939.

The following resolutions will be proposed as ordinary resolutions:

Annual Report and Accounts

1 To receive and consider the strategic, directors' and auditor's reports and the Group accounts for the year ended 31 December 2021.

Dividend

2 To declare that no final dividend be paid for the year ended 31 December 2021.

Re-election of Directors

3 To appoint Mr A P Jones as a director.

4 To appoint Mr S J Lockwood as a director.

The Auditors

5 To re-appoint Deloitte LLP as the Company’s auditor until the conclusion of the next general meeting at which accounts are laid and to authorise the directors to determine their remuneration.

By order of the board

35 Notice of annual general meeting (continued)

J C Riley
Company Secretary
4 May 2022

Registered office:
Lloyds Court, 78 Grey Street,
Newcastle upon Tyne, NE1 6AF
Registered in England No 2366942

Notes:

1 All the issued ordinary shares in the Company are held by or on behalf of Northern Powergrid Limited.

2 Holders of preference shares have the right to receive notice of, attend and speak at the Annual General Meeting but are only entitled to vote if, at the date of the notice of the meeting, payment of the dividend to which they are entitled is six months or more in arrears, or if a resolution is to be considered at the meeting for the winding up of the Company or abrogating, varying or modifying any of the special rights attaching to the preference shares. As none of these circumstances apply to this Annual General Meeting, preference shareholders should note that they do not have the right to vote on any of the business to be considered.

3 Members are entitled to appoint a proxy to exercise all or any of their rights on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the shareholder. A proxy need not be a shareholder of the Company.

4 Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated person does not have such a right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.

5 Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

6 The current price of the Company’s preference shares can be obtained from the website of the London Stock Exchange at www.londonstockexchange.com.