Registration number: 02366942 (England and Wales)

Northern Electric plc

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2023

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

Northern Electric plc
Strategic Report for the Year Ended 31 December 2023

The directors present their annual report and audited financial statements for the year ended 31 December 2023 of Northern Electric plc (the "Company"), which have been drawn up and are presented in accordance with the Companies Act 2006 (the “CA06”).

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”), alongside other smaller companies, collectively, (the “Group”).

NPg Northeast is an authorised distributor under the Electricity Act 1989 and holds a 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 2022/23 Regulatory Year (on 31 March 2023), represented the final year of the RIIO-ED1 price control, which became effective on 1 April 2015 and ended on 31 March 2023 (the “ED1 period”). 1 April 2023 denoted the start of the RIIO-ED2 price control, which will run for a period of five years to 31 March 2028 (the “ED2 period”).

The principal activity of NPg Northeast is the distribution of electricity to approximately 1.6 million customers connected to its electricity distribution network (the “Network”) within its distribution services area in the northeast of England, which extends from North Northumberland, south to York and west to the Pennines. The Network includes over 42,000 kilometres of overhead and underground cables and over 28,000 substations. Electricity is received from National Grid's transmission system and from generators connected directly to the Network, and then distributed at voltages of up to 132 kilovolts.

Revenue generated by NPg Northeast is primarily 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 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, volume or legislative driven adjustment mechanisms and any contract liabilities (deferred revenues) from the prior price control) has been set and therefore provides NPg Northeast with some stability in terms of its income for each Regulatory Year from 1 April 2023 through to 31 March 2028. Nominal opening base allowed revenues increased in line with inflation (as measured by the average of the United Kingdom's Retail Prices Index and Consumer Prices Index “CPI-H” in the month of April 2023, and as measured by CPI-H there onwards).

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 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 linked to the commitments made in NPg Northeast’s business plan for the ED2 period (the “Business Plan”).

Submitted to Ofgem in December 2021, the Business Plan described the long-term strategy and commitments that NPg Northeast would achieve during the ED2 period in order to support decarbonisation whilst delivering sustainable growth to those with whom NPg Northeast interacted and served. 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.

Developed after a period of consultation with stakeholders, and in conjunction with the work of the Customer Engagement Group ("CEG"), which was established for the purpose of providing independent scrutiny and challenge to ensure that customers' interests were adequately reflected, the Business Plan focused on a number of output areas.

The output areas, which link to the Core Principles, are described throughout the Strategic Report and include (amongst others) reliability and availability, climate resilience, decarbonisation, safety, vulnerable customers and customer service. These areas are supported by three enablers, being workforce resilience, innovation and data and digitalisation. 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.

As NPg Northeast delivers the strategy set out in the Business Plan, it will support the evolution from DNO to Distribution System Operator ("DSO"), to facilitate decarbonisation and take steps to achieve a fully integrated and flexible energy system. See Environmental Sustainability for more detail.

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 ED2 period. The phasing ensures that the deliverables in both plans can be measured effectively by using a mix of financial and non-financial Key Performance Indicators ("KPI").

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

FINANCIAL STRENGTH

Strategic objective: Strong finances that enable improvement and growth.

KPI	2023	As restated 2022
Operating Profit	£ 215.2 million	£ 197.7 million
Cash from operating activities	£ 367.4 million	£ 338.7 million
Cash used in investing activities	£ 242.9 million	£ 220.7 million
Credit Rating (Standard & Poor's)	A	A

Business Plan commitment: To build on the strong financial base by delivering embedded efficiencies equivalent to 11% of forecast total expenditure during the ED2 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.

Revenue: The Group's revenue at £570.5 million was £12.3 million higher than the prior year due to increased contracting revenues partially offset lower distribution use of system revenues including lower recovery of payments under the supplier of last resort process.

Operating profit and position at the year-end: The Group's operating profit of £215.2 million was £17.5 million higher than the previous year, primarily reflecting an increase in revenue mentioned above, lower pension costs (£8.9m) and costs for exceptional weather events (£4.5m), higher Supplier of Last Resort recovery net of SoLR payments (£3.8m), partially offset by higher depreciation (£3.6 million). The statement of financial position shows that, as at 31 December 2023, the Group had total equity of£1,471.4 million (2022: £1,398.0 million). The increase in net asset (£73.4m) was mainly in relation to an increase in the value of property, plant and equipment (£104.2m), a decrease in non-current liabilitie (£28.4m) mainly in relation to changes in net borrowings in the year, partially offset by an increase in current liabilities (£52.2m) mainly due to an increase in trade and other payables.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 ED2 period.

Finance costs and investments: Finance costs net of investment income at £37.2 million were £10.5 million lower than the prior year mainly reflecting an increase on interest earned.

Taxation: The effective tax rate in the year was 25%. Tax charge for the year was £44.9 million which was £10.7 million higher than prior year of £34.2 million primarily due to higher profits and the impact of 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 20. 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 Northern Powergrid Group. Movements in cash flows were as follows:

- **Operating activities:** Net cash flow from operating activities at £367.4 million was £28.7 million higher than the previous year due to higher profit before depreciation and amortisation, higher receipt of customer contributions, offset by higher tax paid.
- **Investing activities:** Cash flow used in investing activities at £242.9 million was £22.2 million higher than the previous year reflecting higher purchases of plant, property and equipment, offset by higher interest received.

- **Financing activities:** Cash outflow from financing activities at £378.4 million was £486.8 million higher than the previous year of £108.4 million inflow, mainly due to new bond issued in the prior year, movement on treasury account, and lower dividend received.

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 25 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	**2023**	**2022**
Broad Measure of Customer Satisfaction ("BMCS")	89.3%	88.3%
BMCS Rank (out of 14)	12	12
BMCS Power Cuts	88.6%	87.8%
BMCS General Enquiries	94.2%	94%
BMCS Connections	87.7%	86.2%
Stakeholder Engagement and Customer Vulnerability ("SECV") rank (out of 6) (combined with Northern Powergrid (Yorkshire) plc)	6	6

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: In respect of BMCS performance, 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 an increase in overall satisfaction scores at 89.3% compared to the prior year (88.3%) which resulted in an overall BMCS rank of 12 out of 14.

To further enhance the service provided to customers a number of initiatives from NPg Northeast’s customer service improvement plan were implemented. This included introducing three new methods for customers to make contact (including instant and video messaging), the introduction of an on-site customer responder to support customers impacted by long duration power cuts and the provision of out of hours delivery for certain services such as service alterations.

In respect of overall performance during ED1, significant progress has been made in terms of the BMCS, with an increase in overall satisfaction of 83.3% at the start of the ED1 period to the 89.3% reported in respect of the 2023 financial year. However, it is acknowledged that as the other DNOs also continue to invest in customer service, even making incremental improvements in the BMCS ranking can be challenging. Regardless, NPg Northeast will strive to achieve its Business Plan commitments during the ED2 period by continuing to focus on the ways it can improve the service it provides to its customers.

Activity scheduled in support of this includes the refinement of the on-site support offering to extend utilisation beyond long duration faults, continuing to embed connections management improvements across all teams and the development of a Priority Services Membership App to support customers before and during a power cut.

Connections to the network

Business Plan commitment: To reduce small work end-to-end connections lead times by 20% while offering more self-service options, greater support and more flexibility over delivery, including, support for smarter solutions and an expanded range of flexible connections.

Performance during the year: End-to-end lead time improvement continued to be challenging due to the significant increase in connections volumes as a result of low carbon technology uptake and additional applications. In response, NPg Northeast implemented a new quotation system which allowed customers to obtain a quote online and increased operational delivery capacity. This was in addition to the quote on site option, single point of contact and AutoDesign tool that were implemented during the ED1 period.

In relation to NPg Northeast's ICE commitments for the 2022/23 Regulatory Year, the 11 actions included in the service improvement work plan were delivered by 31 March 2023.

From a major connection perspective, transmission network connections continued to pose a significant issue due to long delays. Consequently, steps were taken to proactively mitigate the problem where possible, including via the introduction of a new queue management processes and in collaboration with the electricity system operator ("ESO") and other network operators through the Energy Network Association's Strategic Connections Group, revised technical delegated limits were piloted at some of NPg Northeast's grid supply points. This allowed interim non-firm solutions to be offered to customers, thereby reducing connections lead times by approximately six years.

Communication was also prioritised with regular 'Transmission System Congestion' webinars having been hosted alongside National Grid Electricity Transmission and National Grid ESO, to provide stakeholders with clear and transparent updates on NPg Northeast's approach to identifying and implementing improved solutions. In addition, the availability and timeliness of information for customers was improved through a Project Progression portal, an online service that allows customers to look up their project to understand the status of the project and where it is in the connections pipeline.

Aside from transmission connections issues NPg Northeast continued to see high volumes of connection applications, particularly at the extra high voltage level. In support of the increased appetite, plans are in place to improve customer service by minimising the time to quote, facilitated by introducing a new triage process which helps to prioritise quotations.

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 April 2023, NPg Northeast (together with Northern Powergrid (Yorkshire) plc) put forward its SECV submission to Ofgem in respect of work undertaken during the 2022/23 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 sixth place (of six) in the context of the DNOs (2021/22: sixth place (of six)). In response, an external assessment of the approach to engagement, fuel poverty provision and the support provided to vulnerable customers was undertaken and improvement plans were established. This was the last year of the SECV incentive as the measurement of stakeholder engagement in future years will be via issue specific incentives such as DSO and Consumer Vulnerability.

During the year, NPg Northeast continued to develop engagement activity with a focus on supporting the implementation of the Business Plan. This included establishing new forums to facilitate decarbonisation and DSO engagement as well as enhancing existing relationships with local councils, Local Enterprise Partnerships and civic leaders. In support the Business Plan Engagement Groups delivered tailored engagement activities and respond to on-going feedback from customers and stakeholders.

As in recent years, the ongoing energy crisis and economic uncertainty exacerbated the challenges facing vulnerable customers. Accordingly, investment doubled and NPg Northeast and its affiliate were able to a support over 20,000 customers who were facing fuel poverty. In addition, in conjunction with partners, work began to pilot a new service to provide advisory services, particularly for vulnerable customers, to decarbonise their homes. This was supported by a refresh of the Social Issues Expert Group to the Northern Inclusive Energy Group. Comprised of a number of independent vulnerability experts from across health, housing and energy, the group aims to deliver support to vulnerable customers by shaping NPg Northeast's social responsibility and consumer vulnerability policy.

In terms of additional activity, NPg Northeast's Community Partnering Fund financed nine grassroots organisations across the region to deliver fuel poverty support to vulnerable households and the Net Zero Community Energy Fund supported eight organisations to a share of £50,000. Alongside, NPg Northeast and all funded partners routinely promoted Priority Services Membership and shared energy efficiency materials and winter preparedness information to customers.

OPERATIONAL EXCELLENCE

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

	2022/23		2021/22	
KPI	**Actual**	**Target**	**Actual**	**Target**
Customer minutes lost ("CML")	44.0	<50.9	46.3	<52.8
Customer interruptions ("CI")	46.9	<58.6	49.8	<59.2

KPI	**2023**	**2022**
High voltage restoration time (minutes)	62.1	61.2
Network investment (million)	£185.7	£156.1

Business Plan commitment: To achieve 12% fewer unplanned power cuts and reduce the average length of unplanned power cuts by 25%.

Performance during the year: CML and CI are the KPIs set by Ofgem to measure (on a regulatory year basis) the quality of supply and system performance. 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. NPg Northeast's performance during the year was better than Ofgem's target for both CML and CI.

From a high voltage restoration perspective, NPg Northeast averaged 62.1 minutes (2022: 61.2 minutes), after allowing for severe weather incidents and other exemptions.

In respect of the ED1 business plan commitments (to achieve 8% fewer unplanned power cuts and reduce the average length of unplanned power cuts by 20% during the ED1 period), NPg Northeast (together with Northern Powergrid (Yorkshire) plc) outperformed the original targets by achieving 25.4% fewer unplanned power cuts and a reduction of the average length of unplanned power cuts by 29.5% (relative to the prior regulatory period).

NPg Northeast invested £185.7 million during the year through its approved Network investment strategy (2022: £156.1 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.

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. Initiatives were also implemented as a result of the Reliability Improvement Plan including increasing the use of mobile generation to restore supplies.

In terms of storm response and winter preparedness, NPg Northeast continued to implement and develop a range of improvements to its website capabilities, call volume capacity, active network management and Major Incident Management Plan ("MIMP") response procedures.

CLIMATE CHANGE ADAPTATION

Strategic objective: Operate a highly reliable and resilient Network

Business Plan commitment: To adapt the Network and operations to build resilience against the effects of climate change.

		2022/23			2021/22	
KPI (Regulatory Year)	Annual	Cumulative	Target	Annual	Cumulative	Target
Flood Defences:						
High risk sites protected		**100%**	**100%**		**98%**	**88%**
Flood defence upgrades	1	127		0	126	
Major substation flood defences installed	3	83		7	80	
Vegetation Management:						
High voltage Network resilient to high winds (km)	**23.2**		**135**	**16.5**		**544**
Vegetation management clearance spans	27,710		32,073	29,469		29,328
Collaboration:						
Local Resilience Forums (LRFs)	60		28	35		28

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

In respect of performance against the KPIs established for the ED1 period, during the year, NPg Northeast and its affiliate upgraded an additional high-risk site and installed three further substation defences. This resulted in all planned sites being fully protected with a combined investment on flood mitigation works of £0.52 million.

From a vegetation management perspective, £1.8 million was invested by NPg Northeast and Northern Powergrid (Yorkshire) plc to clear spans and make the high-voltage Network more resilient. For the latter, the work entailed creating corridors between vegetation and the Network to accommodate the falling distance of trees. The target was reduced between 2022 and 2023 to provide greater capacity to focus on clearing vegetation from spans at all voltages, given any vegetation that is near the Network can have an impact during periods of high wind. However, in terms of volume of activity across both KPIs, performance was below target and accordingly, a recovery programme was implemented to ensure the backlog of work was expedited.

Collaboration with LRFs was positive with NPg Northeast and its affiliate attending meetings with 60 quarterly tactical business groups for each of the seven LRFs in the operating areas.

Governance Arrangements

In respect of the management of climate-related risks and opportunities, the Northern Powergrid Group has well-defined and mature governance arrangements in place, which are defined by its risk management policy and processes and are overseen by the Risk Advisory Board ("RAB") with the support of the Internal Audit function (see 'Risk Management' and 'Internal Control' for further details). Each subsidiary is responsible for the assessment and management of its own risks and opportunities, with risks then being reported via the processes set out below including being tracked and monitored at a Northern Powergrid Group level via the RAB.

As is the case for all types of risk across the Northern Powergrid Group, climate related risks and opportunities are identified, assessed and managed at a variety of levels with escalation points incorporated at various stages of the process.

Risks that are identified via NPg Northeast's operational working groups are put forward to the Asset Serviceability Review steering group where appropriate actions and controls are monitored by senior management. Risks can then be further escalated to the Asset Risk Management Executive Review Group for further oversight by a subset of the Executive Leadership team.

When identified at a subsidiary or directorate level, risks are reviewed and monitored by the relevant Senior Management team and are escalated through the quarterly risk identification process run by the Internal Audit team. In all scenarios, where risks are identified as being above the Northern Powergrid Group's risk appetite, they are reported to the RAB.

The Northern Powergrid Group's risk management process (including for climate related risks) takes place on a quarterly basis and includes the Chair of the RAB reporting risks and opportunities to the board. In addition, an annual risk submission is made to the Northern Powergrid Group's shareholder, noting that Berkshire Hathaway Energy is routinely made aware of risks via regular dialogue with members of the Executive Leadership team and the board.

Given the significance upon the Northern Powergrid Group and its stakeholders, the board considers climate related risks and opportunities via routine reporting (including scrutinising performance against KPIs) and in-focus updates on at least a quarterly basis. Whilst always being guided by the Core Principles, the board is also cognisant of the impact of risks and opportunities on the Northern Powergrid Group's strategy and business model and, has regard to this when making decisions such as reviewing and approving business plans and monitoring performance.

Risk Management

In terms of identification, climate related risks and opportunities are typically detected via a number of channels, including at the operational, subsidiary and directorate level (as outlined above), as a result of detailed risk assessments based on climate projections, by investigations into exceptional events, from reviewing the macro environment for trends, or via shared learning from other Berkshire Hathaway Energy subsidiary companies or collaborative work with other DNOs. In relation to the latter, the DNOs typically work with the ENA to establish a sector wide perspective and have used this approach to implement various regulatory requirements such as those under the Climate Change Act 2008 and the National Adaptation Plan.

Regardless of the source, all risks are integrated into the Northern Powergrid Group's overall risk management process, are recorded within a central risk register and are categorised by likelihood and impact. Supplementary to this, all climate related risks are also recorded and tracked through the Northern Powergrid Group's climate risk register.

Once identified, all risks (including climate related) are allocated to an owner and are assessed to determine if they are to be tolerated, influenced or mitigated. If the risk is to be mitigated, appropriate actions are developed to reduce or eliminate the impact of the risk over an appropriate timescale. As outlined above, all risks that are above the Northern Powergrid Group's risk appetite are monitored by the RAB and are allocated to a member of the Executive Leadership team to mitigate or manage. Climate related opportunities are typically reviewed by the Science and Technology Advisory Panel in conjunction with the Executive Leadership team ahead of scoping options to maximise the benefits and progressing to implementation as relevant.

Strategy

Following the publication by the Department for Environment, Food & Rural Affairs ("Defra") of the supplementary Green Book Guidance on 'Accounting for the Effects of Climate Change' in November 2020, a thorough assessment of the impact of climate change and severe weather upon NPg Northeast was undertaken in collaboration with other gas and electricity network operators through the ENA. The results of the review and associated adaption, recovery and transform plans were published in the NPg Northeast and its affiliates 'Adapting to Climate' strategy in November 2021.

In line with Defra's recommended approach, the assessment was performed at the operational and asset base level and followed the specific guidance for projects, policies and programmes that have a lifespan that goes beyond 2035. This included using two climate scenarios (as utilised by the Climate Change Commission) to:

- Consider options which include all adaptation measures which would mitigate the known impacts of the 2°C scenario; and
- Make decisions based on the Northern Powergrid Group's risk appetite about whether to consider adaptation measures aligned with the 4°C global warming scenario.

Using outputs from the work that the ENA had commissioned from the Met Office, NPg Northeast was able to identify potential climate related hazards including high temperatures, heavy rain, droughts, storms, sea level changes, snow, ice, wildfires and lighting - or a combination of these. The hazards were then reviewed against other variables such as regional climate change considerations (known events and topography), asset configuration and interdependencies on other national infrastructure to identify a range of impact scenarios.

The risk assessment was carried out across three timescale horizons, short term: current climate, medium term: 2050's and long term: 2080's, for both the 2°C and 4°C scenario and was applied to each of NPg Northeast and Northern Powergrid (Yorkshire) plc's six operating zones. The three time periods are aligned with the UK Climate Projections 2018 and the most recent guidance from Defra (ARP4) This allowed the Northern Powergrid Group to understand how each impact scenario affected the whole of NPg Northeast and its affiliates geographic operating locations, including those where known vulnerabilities already exist such as in coastal areas, flood plains and exposed areas, and over what period, so as to establish and prioritise the key areas of risk and identify relevant opportunities.

Climate Change Adaptation

From an overall business model and strategy resilience perspective, the risk assessments (and corroborated via the findings from other DNOs through the work of the ENA) identified that there was no significant divergence in the climate projections, the impact scenarios or key risks themselves, were observed between the three timescales until beyond 2050.

Whilst this provides some comfort during the short term, adapting to climate change requires an understanding of how to better resist the challenges placed upon NPg Northeast and the Northern Powergrid Group, how to absorb the impact to minimise it as when events do occur and how to utilise the opportunities this creates.

Accordingly, where the risk assessments identified that risks were more likely to occur (at any point over the three timescales) and/or that the impact was potentially greater, these were categorised as the highest priority risk areas and programmes covering bespoke adaptation, recovery actions and longer-term transformations were developed accordingly. It was identified that the highest priority risk areas included:

- Flooding presented by changes in precipitation rates and sea level rise; and
- Changes in growth rates and patterns of trees due to changes in temperature and precipitation.

As referenced in 'further information' below, the impact of climate related issues upon the Northern Powergrid Group, particularly NPg Northeast are incorporated into the five-year regulatory Business Plan. This includes an assessment of the impact of investing in mitigation programmes and undertaking innovation projects with climate change acting as a key driver, particularly in network investment decisions. These plans are fully incorporated into the Northern Powergrid Group's financial planning process (including with consideration of the impact on areas such as the Northern Powergrid Group's supply chain) and the impact of climate related issues will continue to be included in regulatory business plans for the relevant time periods in question. Climate related risk assessment scenarios that feed into financial and strategic planning are included in the NPg Northeast and Northern Powergrid (Yorkshire) plc's Adapting to Climate Change report and its supporting annex (available via the Northern Powergrid Group's website).

Principal climate-related opportunities and risks arising in connection with the Group's operations

1. Physical risk (long term - acute/chronic): Precipitation (extreme prolonged rainfall) - long periods of above average precipitation or intense rainfall events resulting in flooding and erosion.

Assessment assumptions: data was used concerning the accumulation of rainfall over a month and where it exceeds the 90th and 95th percentile of today's climate, the Soil Moisture Deficit and for heavy daily rainfall events, the percentage changes in the 99th percentile of seasonal daily mean precipitation.

Findings: There was a large regional variation in how the frequency of climate related hazards were expected to change in future periods. However, in autumn and winter months, instances of prolonged rainfall, heavy daily rainfall events and heavy hourly precipitation were projected to increase across most of the UK. Assets located in coastal areas were more vulnerable to changes in sea level, notably in the Humber Estuary and Seal Sands.

Impact: Access issues, asset damage and reduced performance, predominantly as a result of Grid and Primary Substations being adversely affected.

Serious flooding in particular was likely to result in the most severe consequences, including the loss of electricity supply to thousands of people, as well as to other types of infrastructure. This in turn had the potential to lead to additional costs as a result of replacing or repairing damaged equipment, as well as increasing the number of customer interruptions, thereby having a negative effect on service and performance levels.

As set out in ‘Operational Excellence’, Network reliability is recorded via Ofgem’s Interruptions Incentive Scheme (“IIS”) through targets in relation to CML and CI. If IIS targets are exceeded, there is a reward. Conversely, in the event targets are missed, there is a penalty. In addition, if Guaranteed Standards or service levels that are agreed by Ofgem are failed, payments must be made to those customers affected. Therefore, unless there is an exemption applied for an extreme weather event, NPg Northeast is susceptible to an increase in costs if service and performance levels reduce.

Mitigation: Flood defences programme - designed to comply with national guidance on how to improve the resilience of electricity substations to flooding.

Mitigation activity:

- Improve and maintain flood resilience through targeted adaptations in civil defences and install additional substation defences.
- Improve flood resilience at distribution substations, either by moving them out of the line of flooding risk or by implementing mitigation measures.

2. Physical risk (long term - acute/chronic): Temperature (extreme heat) - high temperatures that may reduce the performance and efficiency of assets.

Assessment assumptions: Thresholds to understand the frequency of days which constitute ‘extreme temperatures’ across the UK and how these may change under future climate projections were used. This included the frequency with which the daily maximum temperature exceeded 28°C, 30°C and 35°C and the frequency with which the daily maximum temperature exceeded 28°C for 3 consecutive days.

Findings: Trends in observational records confirmed that the UK climate is warming with high temperature thresholds being exceeded each year and expected to increase in line with Representative Concentration Pathway 8.5 (being the worst-case climate change scenario). Met Office climate projections identified that the frequency of hot summer periods is becoming increasingly common.

The rate of change for extreme heat was expected to be slower for cooler regions of the UK such as the North of England. However, by the 2060s the frequency with which extreme heat occurred in the North of England would be the equivalent to that of the warmest areas of the UK at the time of the assessment.

Impact: A reduction in the performance and efficiency of assets. This in turn has the potential to increase fault volumes, leading to additional costs being incurred as a result of repairs and maintenance, reduce service levels and customer satisfaction, and could cause delays to other work planned for delivery.

Whilst the likelihood of global temperature rise is accepted, the impacts on DNOs has not yet begun to be realised. Because of this, networks do not currently see any drivers to invest ahead of the need to offset risks.

Mitigation activity:

- Network and asset performance will continue to be monitored and will be modified once climate change begins to have a direct and longer-term impact.
- Standards and specifications will be updated to include projected changes in temperatures and ground movements.

3. Physical risk (long term - acute/chronic): Precipitation (storms) - Strong winds are a significant hazard, especially when experienced in conjunction with heavy rain.

Assumptions: As for Precipitation (extreme prolonged rainfall)

Findings: There was no clear evidence within climate projections that there would be a change in the frequency or power of storms. Accordingly, the risk of strong winds was assessed in line with the climate conditions at that time. It was also recognised that research into the effects of wind had been carried out between 2011 and 2015 under the Resilient Electricity Networks for Great Britain project and learnings had been incorporated into the NPg Northeast's specifications.

Impact: A number of storms have affected the Network since the initial risk assessment, notably storm Arwen. It is therefore recognised that storms can lead to operational failure of above ground assets, resulting in increased faults and loss of supply to customers, which in turn affects customer service. The potential for damage to telecommunications infrastructure, leading to the inability to communicate with staff in the field or control technology, can also impact repair efforts further.

Mitigation: Resilience programme - Maintain operational resilience and embed long-term resilience across the asset programmes, working with others to better understand future risks.

Mitigation activity:

- Utilise drones for storm damage assessments.
- Undertake collaborative exercises to test operational response.
- Major Incident procedures in place.
- Embed resilience across asset programme designs and specifications to deliver long-term synergistic resilience.
- Vegetation management programme (see below).

4. Physical risk (long term - chronic): Temperature / Precipitation (gradual increase in temperature and rainfall) - warmer and wetter conditions may extend vegetation growing seasons, resulting in increased or accelerated growth of vegetation.

Assumptions: The length of the growing season was calculated using mean daily temperatures beginning at the start of a period of five successive days where the daily-average temperature was greater than 5°C and ending on the day before a period of five successive days when the daily-average temperature was less than 5°C.

Findings: The average growing season length had increased by approximately 30 days per year over the course of the last 60 years and was reported as being largely due to an earlier onset of spring. As a result, the combined effect of temperature and precipitation was likely to lead to increased vegetation growth.

Impact: Interference to overhead lines could cause a variety of power supply issues ranging from transient interruptions, due to vegetation touching the line, through to severe damage from trees, or parts of trees, falling onto the lines. This may result in increased levels of investment being required in order to maintain Network resilience, additional costs associated with maintenance and cutting cycles and performance and customer service related issues.

Under abnormal weather conditions there is also the potential for large scale power outages with some supply restorations taking many days.

Mitigation: Vegetation management programme - improving the resilience of the overhead Network under abnormal weather conditions using a risk-based methodology.

Mitigation activity:

- Undertake enhanced resilience cuts in line industry standards on the overhead network to comply with enhanced resilience requirements.
- Establish and maintain clearance corridors.
- Assess and tackle the issues anticipated from ash tree dieback through the management of affected spans.
- Undertake a vegetation clearance programme for substations and tower bases.
- Utilise Light Detection and Ratings ("LiDAR") technology to ensure efficient targeting for vegetation management.

5. Transition risk: Transmission Related Connections Delays - see Principal Risks and Uncertainties

6. Opportunity: Innovation - participating in and leading innovation projects as a way of developing creative solutions to mitigate the risks of climate change and enhance responsiveness in the event an incident does occur.

A number of projects are planned for the ED2 period including:
- Optimising the use of LiDAR data in order to carry out more effective and efficient clearance and vegetation management by prioritising cutting responses;
- Reviewing the link between rainfall and underground cable faults to understand and quantify the risk;
- Research into substation design specifications and innovative materials to mitigate risks associated with high-temperatures and assets;
- Investigations to understand the performance limitations of outdoor control equipment during periods of extreme heat; and
- Estimate the extent of Ash tree dieback and its impacts on the Network.

Further detail of innovation supporting decarbonisation can be found in the 'Environmental Sustainability' section of the Strategic Report.

7. Opportunity: Decarbonisation - adapting and evolving the Network to facilitate the UK's net zero strategy.

There are many benefits associated with decarbonisation, not just for the Northern Powergrid Group, but for the areas the Northern Powergrid Group serves and the people who live and work there. This includes developing the Network to accommodate additional connections to enable more electric vehicle chargers to be installed, to allow greener heating solutions, to provide a mechanism for local electricity production and to facilitate the growth of renewable energy sources by offering greater flexibility.

Further detail of the initiatives underway to facilitate decarbonisation can be found in the 'Environmental Sustainability' section of the Strategic Report.

8. Opportunity: Collaboration - working with stakeholders including industry partners and energy networks to find solutions to mitigate the risk of climate change and improve resilience through collaborative work on interdependencies to reduce the risk of cascade failures across systems.

The Northern Powergrid Group works closely with its stakeholders and partners to share best practice, evolve new protocols, develop industry guidance and adopt measures to prevent or manage the impact of climate change. This includes working with Local Authorities and regional bodies to evolve their climate resilience and decarbonisation plans and collaborating on specific issues to generate practical solutions - such as with the ENA as outline above.

Initiatives planned in this area include collaboration with:
- Other regional infrastructure operators to identify and mitigate interdependencies.
- The Environment Agency and local authorities on the implementation of their regional flood risk management plans and establish support for these where appropriate.

Further information

Given the likely impact of climate related opportunities and risks on NPg Northeast and its Network, the Northern Powergrid Group's various mitigation programmes (including KPIs and the methodology for determining these) were fully scoped and costed as part of the Business Plan submission to Ofgem for the ED2 Period, details of which can be found via the Northern Powergrid Group's website.

In addition to the information contained above, the Northern Powergrid Group has published a 'Climate Resilience Strategy' and an 'Adapting to Climate Change Report', the latter having been submitted to Defra in line with the requirements of the Climate Change Act (2008). The Northern Powergrid Group's most recent report was published as part of the third round in 2021 and included full details of the risk assessment in a supporting annex. A further update (which will coincide with a review of the Northern Powergrid Group's climate risks and opportunities) is due to be published in 2024. Copies of both reports can be found on the Northern Powergrid Group's website.

EMPLOYEE COMMITMENT

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

	2023		2022	
KPI	**Actual**	**Target**	**Actual**	**Target**
Northern Powergrid Group occupational safety and health administration ("OSHA") rate	0.43	0.09	0.26	0.09
Preventable vehicle accidents (PVAs)	8	14	10	14
Lost time accidents	1	0	0	0
Medical treatment accidents	2	1	0	1
Operational incidents	3	4	5	3
Absence rate	3.35%		3.3%	

Health and safety

Business Plan commitment: To maintain industry leading safety performance and reduce the accident rate by 50%.

Performance during the year: In common with the Berkshire Hathaway Energy group, the Northern Powergrid Group measures its safety performance using the OSHA rate, which is a measure used to capture safety incidents down to minor levels of medical treatment. The Northern Powergrid Group failed to meet its target of 0.09 having achieved an OSHA rate of 0.43 (2022: 0.26), which equated to eight recordable incidents against a goal of two or fewer. Whilst the majority were relatively minor in nature (dog bites), three incidents involved minor burn injuries, and as such, an intervention plan was implemented. NPg Northeast had a positive year in terms of PVAs, with eight recorded against a target of 10 or fewer. In addition, one minor lost time accident was recorded.

In respect of the Business Plan commitment, improving safety performance remains a key priority and the way in which this is achieved is set out in NPg Northeast's health and safety performance improvement plan ("HSPIP"). During the year, the HSPIP focused on 58 initiatives in the areas of colleague safety, contractor safety, health and well-being and public safety. This included the continuation of driver training, the introduction of local safety improvement groups, the mobilisation of an assurance programme on high -risk activities and leveraging data from the vehicle telematics system to prioritise driver training.

The mental health and wellbeing of staff continues to form an integral part of the HSPIP. Existing support 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.

During the year, NPg Northeast successfully completed two external surveillance visits on its ISO 45001 accreditation for its occupational health and safety management system.

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: Agile working has successfully allowed eligible colleagues to adopt flexible ways of working with a renewed focus this year on collaboration and team work. It continues to evolve and is key to supporting the retention and attraction of colleagues. Health, safety and wellbeing has remained a key commitment as the initiatives are further developed to cultivate a healthy workplace.

In relation to development, training sessions on topics which formed part of the Diversity, Equity and Inclusion plan were provided to further promote a more inclusive culture. Routine training also continued in key areas such as customer service, cyber security and management development. In addition, NPg Northeast's leadership offering was refreshed in line with the Berkshire Hathaway Energy Performance Management Framework which included a management development programme, leadership apprenticeships and an approach to identifying and developing individual contributors.

During the year, 68 new recruits (2022: 41) joined NPg Northeast's and Northern Powergrid (Yorkshire) plc's workforce renewal programme. At 31 December 2023, NPg Northeast had 1,344 employees (2022: 1,248).

There has been an increase in the total numbers since the prior year, specifically within Energy Systems, reflecting the strengthening of the DSO and data and digitalisation teams to deliver Business Plan initiatives.

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.

Employee engagement
The board and senior management team continue to 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 Change 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.

Consultation for collectively bargained employees is agreed with trade union representatives in the form of a constitutional framework. In addition, all employees are consulted to establish their views and identify key priorities using employee engagement surveys.

During the year, the President and Chief Executive Officer, members of the board and senior management team provided regular updates on financial, organisational, safety and customer service performance. The executive directors continued to engage directly with employees during operational and office-based site visits, and induction events. Communication with employees was delivered via various channels including group wide text messages and virtual meetings to quickly disseminate key information concerning safety and MIMPs, alongside regular briefings, line manager conversations, meetings with trade union representatives in addition to utilising the Northern Powergrid Group's intranet.

The Berkshire Hathaway Energy code of business conduct ("Code of Conduct")
The Northern Powergrid Group has adopted the 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.

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.

ENVIRONMENTAL RESPECT

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

	2023		2022	
KPI	**Actual**	**Target**	**Actual**	**Target**
Total oil/fluid lost (litres)	8,823	<11,406	10,164	<11,406
SF6 gas discharges (kg)	7.45	<12.75	22.08	<12.75
Environmental incidents	0	<2	3	<2

KPI	**2023**	**2022**
Carbon footprint (tonnes)	15,222	14,375
KWh Energy Consumed	20,160,750	20,867,214

Business carbon footprint	**Tonnes**	**Per km²**	**Tonnes**	**Per km²**
Scope 1	2,252	0.15	2,728	0.19
Scope 2	2,481	0.17	2,439	0.17
Scope 3	10,490	0.72	9,208	0.64
Total carbon footprint (tonnes)	15,222	1.06	14,375	1.00

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 based on science-based targets which are aligned with international standards, those required by Defra and BEIS and is compliant with ISO 14064-1:2006 which is consistent with the GHG Protocol Corporate Standard Scope 3 reporting includes contractor operational transport fleet - diesel, operational transport fleet - petrol and fuel consumption from plant, aviation and mobile generation only.

Business Plan commitment: To reduce our business carbon footprint by 20% and reduce oil loss by 15% during the ED2 Period.

Performance during the year: The volume of SF6 gas loss during the year combined with an increase in contractor works and associated emissions, resulted in NPg Northeast's overall carbon footprint increasing to 15,222 tonnes (2022: 14,376 tonnes). Whilst this was disappointing, significant progress has been made over the ED1 period, with NPg Northeast's and its affiliates' carbon footprint having reduced by 36%, well ahead of the original 10% reduction commitment. In terms of scope 3 emissions, NPg Northeast has committed to collect data for all applicable scope 3 emissions categories in order to enhance a more robust, multiyear baseline. This will inform the actions taken to implement meaningful and actionable steps to further reduce emissions resulting from NPg Northeast's operations.

In support of the target to further reduce oil and fluid loss, the 2023 annual environmental improvement plan included a transition to a blended strategy of both asset replacement of fluid-filled cables and enhanced tracer applications to facilitate earlier interventions. The 2023 loss of fluid reduced from the previous year of 8,823 litres (2022: 11,583).

The remuneration of a number of the Group's employees, including certain members of the Executive Leadership team and Executive directors are directly linked to performance against KPIs including those concerning climate change adaptation. The Group has not set any internal carbon prices or any climate-related opportunity metrics.

To maintain the 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.

NPg Northeast takes its environmental responsibilities 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 achieve the ambition to become carbon net neutral by 2040 across NPg Northeast's controllable emissions. Controllable internal sources of emission are captured through Ofgem's Regulatory Reporting Process and include operational fleet, company car miles, other business travel and office, depot and substation energy use. NPg Northeast's supply chain also contributes to the overall carbon footprint as contractors are used to undertake work on the Network and deploy generators to support customers during power cuts.

Initiatives in place to reduce internal sources of emission include increasing the number of 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. The fleet vehicle target was aligned to stakeholder ambition levels and was therefore designed to balance costs, technology readiness and charging infrastructure availability.

In respect of NPg Northeast's wider environmental impact, plans have been developed to achieve zero waste to landfill by 2035 and to divert (by re-using or recycling) 90% of waste from all of NPg Northeast's operations by 2028. NPg Northeast's Network operations are the largest source of waste generation, with waste arising from excavations and other operations representing 99% of all of the waste produced. Steps taken to enhance performance in this area include the recycling of materials, with NPg Northeast planning to recycle and reuse 85% of total materials by 2028. This target incorporates the increased volume of waste that will be produced as a result of delivering NPg Northeast's Network investment plans and decarbonisation objectives.

Issues relating to the assessment and classification (as hazardous or non-hazardous) of material arising from unplanned utility excavations, prior to transport from site and disposal, pose a significant challenge to NPg Northeast's objective to reduce waste to landfill. The utilities industry is currently working with Streetworks UK and the Environment Agency to develop and implement a new industry-wide risk-based approach to managing waste arising from excavations to combat these issues.

From a supply chain perspective, NPg Northeast will continue to work closely with suppliers to reduce packaging and ensure environmentally friendly alternatives are used where possible. In support, an embodied carbon model will be used to support investment decisions including the sourcing of raw materials. At office locations, the use of waste segregation facilities will be increased, and office supplies will wherever possible be low carbon, plastic free and fully recyclable or reusable.

In addition to the measures outlined above, to safeguard 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 and its affiliates' major sites.

At this time, NPg Northeast has no plans to use carbon offsetting to achieve its targets in the ED2 Period. Instead, the focus remains on reducing physical carbon emissions, on the basis that additional investment in the Network to enable decarbonisation offers much better value to customers than incremental spend on carbon off-setting NPg Northeast's emissions. However, at an initiative level, where ad-hoc opportunities exist, NPg Northeast may pursue these accordingly.

From an environmental compliance perspective, NPg Northeast operates a United Kingdom Accreditation Service scheme for environmental management and is certified to the environmental management systems standard ISO 14001:2015 which is designed to enhance environmental performance, fulfil compliance obligations and achieve environmental objectives, all of which contribute to the achievement of NPg Northeast's KPIs. A full recertification assessment was carried out in October 2023 with two environmental certification standards - the ISO 14001 Environmental Management System and the Energy and Utility Skills Competence Management Scheme (CMS) for waste management (including the transition to an updated version of the CMS standard).

NPg Northeast's carbon footprint reporting framework is certified under the Certified Emissions Measurement and Reduction Scheme for compliance with ISO 14064-1:2006. A full re-certification audit commenced in November 2023, with final re-certification to follow in early 2024 once a re-baseline and incorporation of system losses into our reporting is complete and verified.

To date, NPg Northeast's performance against a number of stretching KPIs to reduce carbon usage and minimise the effects of NPg Northeast on stakeholders and the environment has been positive. However, it is acknowledged that becoming carbon neutral by 2040 and working with suppliers and partners in order to accomplish this, is not without its challenges and risks. Accordingly, NPg Northeast will continue to evolve its ambitions and enhance the implementation of environmental plans throughout the ED2 Period. The phased targets associated with waste to landfill, recycling, noise pollution and biodiversity and additional descriptions of all key measures can be found in annex 1.4 of the Business Plan, a copy of which can be found via the Northern Powergrid Group's website (our business plan). Additional reporting against these targets will be included in the 2023/2024 Regulatory Accounts, given it is the first full Regulatory Year period, for which the KPIs have been developed.

Environmental Sustainability

Strategic focus: Enable significant growth in customers connecting low carbon technologies, support all pathways to net zero emissions and significantly reduce NPg Northeast's carbon footprint.

Performance during the year: As the country takes action to reduce carbon emissions in line with the net zero target by 2050, the way in which electricity is produced and used is expected to have a substantial impact on the Network over time. Accordingly, in the year, NPg Northeast began implementing its DSO strategy in order to act as a key facilitator in the country's net zero transition by placing decarbonisation at the heart of its investment and actions.

As the volume and total capacity of decentralised energy generation grows and given the greater range of load and generation technologies now connected to the Network, NPg Northeast continued to develop and action innovative solutions that will reduce the need for traditional and potentially expensive reinforcement.

In the past year, NPg Northeast engaged with the market for flexibility by tendering for flexibility services on the network, successfully placing two contracts for services. At these sites customers change their energy consumption and generation patterns as an alternative to NPg Northeast carrying out Network reinforcements, thereby facilitating a more efficient and greener Network. And to better understand how to prepare the Network for the future needs of its customers and the potential pathways to net zero, NPg Northeast published its updated Distribution Future Energy Scenarios (available via the Northern Powergrid Group's corporate website).

From an innovation perspective, NPg Northeast runs a portfolio of projects in the priority areas of customer vulnerability, resilience, and decarbonisation. In 2023 NPg Northeast initiated the Community DSO project, funded through £12.5 million of Network Innovation Competition funding awarded by Ofgem. The project will deliver trials of smart local energy systems to explore how consumer energy resources and flexibility can be utilised in communities, thereby providing more efficient solutions to decarbonisation, resilience for rural communities and opportunities for consumers and vulnerable customers to participate in and benefit from flexibility markets.

Decarbonisation continues to become more central to NPg Northeast's strategy, and 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, there is greater opportunity to contribute to decarbonisation through NPg Northeast's key role in facilitating regional decarbonisation by fulfilling the functions of 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 Business Plan, several 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. NPg Northeast is delivering its plans for DSO to enable open energy data sharing, transform the way decisions and plans are made, support the development of new flexible energy markets, increase customer and Network flexibility and facilitate a whole system energy system. NPg Northeast's Energy Systems directorate centralises responsibility for delivering DSO plans and has progressed, growing a team responsible for these functions throughout 2023.

In conjunction with this activity, with the support of the CEG, NPg Northeast established the DSO Review Panel ("DRP"), for the purpose of making its decisions transparent and to allow the independent members to comment on and challenge NPg Northeast's major investment decisions.

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 2,400 regulatory obligations is assigned to 80 responsible managers. Those responsible managers are required to review compliance with the relevant obligations on a quarterly basis and report on any identified non-compliances or perceived risks which are then addressed by members of the senior management team. To minimise the risk of 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 March 2023, which included risk assessments of the regulatory returns to be submitted during the Regulatory Year ahead (April 2023 to March 2024), together with a report detailing the assurance work actually carried out in the Regulatory Year ended 31 March 2023 and the findings of that work.

In March 2023, NPg Northeast and its affiliate were granted permission from the Competition and Markets Authority (the "CMA") to appeal against the licence modifications that gave effect to the ED2 price control. The appeal related to two specific grounds:

1. the misallocation of allowances that is inconsistent with efficient costs; and
2. the approach to determining rewards for the Business Plan Incentive.

The CMA upheld NPg Northeast’s appeal on the first ground and sent that part of Ofgem’s decision back to Ofgem for reconsideration and redetermination. The CMA dismissed NPg Northeast’s second ground of appeal.

Ofgem reconsidered its analysis of the allocation of allowances and, on 2 November 2023, issued the statutory consultation proposing the changes to be made to the special conditions of NPg Northeast’s electricity distribution licence in order to, in Ofgem’s view, give effect to the CMA’s decision.

NPg Northeast submitted its response to the statutory consultation on 29 November 2023 and, having considered that response, Ofgem issued the statutory notice formally modifying the special conditions of NPg Northeast’s electricity distribution licence on 13 February 2024. NPg Northeast confirmed to the CMA that it would not appeal Ofgem’s redetermination. Further information concerning the outcome of the appeal process can be found via the CMA website.

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 (see the non-financial and sustainability information statement for further detail).

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 Northern Powergrid Group's risk appetite is determined by a process based on risks, issues and consequences. The level of tolerance varies in accordance with the pursuit of objectives and with caution or acceptance adopted depending on whether risks can be influenced or mitigated fully, partly or not at all. 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 are tested regularly to ensure that as required, operational performance can remain resilient and employees are able to perform their duties safely.

Principal Risks

During the year, two additional risks were added to the risk register, being transmission connection delays and the outcome of the regulatory price control. No other notable changes have taken place. The Northern Powergrid Group's principal risks are not ranked or prioritised in any particular order. Given the sensitivity and ever-changing nature of risks, the board has elected not to disclose the risk appetite associated with each risk.

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.

Regulatory and policy positioning

Decisions taken resulting in negative impacts to our business model.

Mitigations:

- Ofgem ruled out an Out or Underperformance true up in respect of high inflation on the performance of the Cost of Debt.
- Innovation projects are 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 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.
- Grid resilience programme and audits.
- Robust procurement processes.
- Vulnerable site protocols.

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

Mitigations:
- Overseen by the Health and Safety Committee.
- Safety Health and Improvement Plan and associated policies and procedures.
- Health and safety training, 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:
- Programme to reduce fluid loss and NPg Northeast's business carbon footprint and remove assets containing polychlorinated biphenyl from the network.
- Environment improvement plan, Environment Action Plan and science-based targets.
- Path to carbon neutrality by 2040.
- Incident response, waste management and habitat protection programmes.
- Additional climate related risks are disclosed in the non-financial and sustainability information statement.
- 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 and a diversity, equality and inclusion plan are in place.
- Good relationships with trade unions representatives.

Transmission Related Connections Delays
Significantly delayed connection delivery timescales due to transmission constraints.

Mitigations:
- Overseen by a steering group.
- Connection lead times are routinely monitored.
- Change programme in place to improve customer connection lead times and customer communication.
- Part of an industry work programme through the Energy Networks Association.

Regulatory Price Control Outcome
A regulatory settlement that is insufficient to provide fair and balanced outcomes.

Mitigations:
- Optimising price control reopener mechanisms.
- Competition and Markets Authority Appeal process.
- Continued dialogue and engagement with Ofgem.
- Robust budgetary and financial position.

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

Mitigations:
- Robust business planning process.
- Robust financial controls in place.
- 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 2023, 98% of the Group's long-term borrowings were at fixed rates and the average maturity for the long-term borrowings was 23 years.
- Financial covenant monitoring is in place.
- Regulatory adjustments control the effect of taxation changes.

Internal control
A strong internal control environment exists to support the financial reporting process, including regular reporting, a series of operational and financial policies, investigations undertaken by internal audit and a stringent process for ensuring the implementation of internal audit recommendations. In addition, the Group utilises comprehensive business planning procedures, regularly reviews KPIs to assess progress towards its goals, and has a strong internal audit function to provide independent scrutiny. Financial controls include centralised treasury operations and established procedures for the planning, approving and monitoring of major capital expenditure.

The RAB monitors the effectiveness of internal controls and reports on its findings to the board and Berkshire Hathaway Energy. As part of the statutory reporting process, the Group’s external auditor reviews and tests a number of internal controls and reports their findings and recommendations for improvements to the board.

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

In accordance with Berkshire Hathaway Energy's requirements to comply with the 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 its policies and procedures, 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 (See 'Employees'). 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

Decision-making at the Board
All matters which under the Company's governance arrangements are reserved for decision by the Directors are presented at Board meetings. Directors are briefed on any potential impacts and risks for customers, and other stakeholders and how they are to be managed. The Directors take these factors into account before making decisions, which together they believe are in the best interests of the Company and its member.

Long-term sustainability
As referenced throughout the Strategic Report, NPg Northeast's business model is to make sufficient profit in order to invest in the Network thereby, ensuring the integrity of the electricity supply for its customers. To achieve this objective, the Company and Group delivers its service to fulfil the needs of the stakeholders with whom it interacts and in doing so, ensures all business relationships are conducted in an open and transparent manner. Consequently, fostering business relationships is a prerequisite of the activity performed by the Group in the pursuit of its goals and the long-term sustainability of the Group is at the forefront of decision-making.

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.

Employees
As detailed in the 'Employee Commitment' section, the Group works hard to ensure the health and safety of employees and to provide them with opportunities for advancement alongside fair terms whilst remunerating appropriately. Activities undertaken by the board in the year included reviewing health and safety performance, monitoring key appointment changes, receiving regular updates on the Northern Powergrid Group's Diversity, Equity and Inclusion plan, reviewing the Northern Powergrid Group's gender pay gap report and approving the delegations of authority.

Customers
Customers, whether they are domestic or commercial, are the primary stakeholder group served by the Company and therefore the services offered are all tailored to provide a benefit or enhance an experience. During the year, the board regularly reviewed performance levels, closely monitored the response in respect of major storms and associated network resilience and engaged with the Chairs of the CEG and the DRP. Further detail of the Company's relationship with customers and the support programmes provided is discussed in 'Customer Service'.

Producers and suppliers
The Group works closely with its supply chain and has measures in place to ensure the treatment of all supplies is fair and equitable. 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 Northern Powergrid Group's annual modern slavery statement.

Financial stakeholders
Financial information is routinely made available to financial stakeholders, including relationship banks and bondholders. Directors participate directly with stakeholders when entering into new financial arrangements. During the year, the board approved an interim dividend, the annual, interim and Regulatory accounts and the tax strategy and met representatives from the Company's external auditor.

Community and environment
Each Director is required to take all reasonable steps to minimise any detrimental impact the Group's operations may have on the environment (see 'Environmental Respect'). NPg Northeast also supports a range of charitable and community activities to help customers with fuel poverty and safety around electricity ('Community' section). During the year, the directors routinely reviewed environmental performance and made decisions pursuant to Environmental Respect.

Regulator
NPg Northeast is in regular dialogue with Ofgem concerning new policy development and emerging risks or opportunities within the sector. As outlined in 'Regulatory Integrity', to meet its licence conditions, NPg Northeast and the directors provide regular reporting to Ofgem (including the annual regulatory certificates and Regulatory Accounts), contribute to various regulatory consultations and monitor regulatory compliance. Given the implications on NPg Northeast's long-term strategy, the relationship with Ofgem, the evolving ED2 framework, the transition to DSO were regular items on the board agenda throughout the year.

Acting fairly as between the Company's owners
The Company has one class of ordinary shares which are all held by Northern Powergrid Limited, a company owned by Northern Powergrid UK Holdings. The Company also has one class of preference shares, further details of which can be found in Note 20. Further details of the shareholder relationship is set out in the 'Corporate Governance Statement'.

Non-financial and sustainability information statement
In accordance with Section 414CA(7) of the CA06, the directors have set out the information required by Section 414CB (1) to (6) in Strategic Report.

Statement pursuant to Listing Rule 14.3.27R Task Force on Climate-related Financial Disclosures ("TCFD")

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. The climate-related financial disclosures pursuant to Section 414CB (2A) can be found in the 'Adapting to Climate Change' and 'Environmental Respect' sections of the Strategic Report.

The Company has complied with all of the requirements of LR 14.3.27R by including climate related financial disclosures consistent with the TCFD recommendations and recommended disclosures, with the exception of the scope 3 greenhouse emissions disclosures relating Metrics and Targets (b). The Company has reported scope 3 emissions in relation to certain categories (being those required by Ofgem's reporting framework). However, it is accepted that further work is required to develop the disclosures.

The steps the Company plans to take in order to be able to make the relevant disclosures in the future, and the timeframe within which it expects to be able to make those disclosures, is set out in Ofgem's 'Environmental Reporting Guidance', sections 3.8 to 3.13, a copy of which can be found via Ofgem's website. This includes a recommendation for the energy industry to work collaboratively to develop an appropriate methodology for reporting scope 3 emissions during the remainder of the ED2 period.

Approved by the Board on 30 April 2024 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 2023.

Dividends

During the year, an interim dividend of £48.0 million was paid (2022: £114.9 million). The directors recommend that no final dividend be paid in respect of the year (2022: £nil).

An interim dividend of £300.0 million was paid on the 26 March 2024 from NPg Northeast to the Company.

The Group'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.

Directors of the Company

The directors who held office during the year under review and to the date of signing this report were:
A P Jones
S J Lockwood
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 2023, is shown in the consolidated statement of financial position. There have been no significant events since the year end and the directors intend that:

- NPg Northeast will continue to implement the Business Plan during the remainder the ED2 period, and by delivering the strategic objectives linked to the Core Principles, NPg Northeast will continue to develop its business by efficiently investing in the Network and improving the quality of supply and service provided to customers. NPg Northeast intends to continue to embrace the role of DSO by expanding its energy systems operations in order to allow its Network to form a key part of a whole energy system, which fosters flexibility and facilitates decarbonisation.
- 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 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 £2.0 million (2022: £1.6 million) (Note 5 to the financial statements) in its research and development activities.

Financial instruments

Financial risk management

Details of financial risks are included in the Principal Risks and Uncertainties, found in the Strategic Report and in Note 29 to the financial statements.

Financial derivatives

As at 31 December 2023 the Group held one derivative financial instrument (2022: one) to mitigate the interest rate risk on a floating interest rate loan. More details on derivative financial instruments are available in Note 30 to the financial statements.

Stakeholder engagement and environmental disclosures

In accordance with Paragraphs 10, 11 and 15 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, details concerning the employment of disabled persons, the relationship and engagement with employees and those with whom the Company does business, in addition to information concerning greenhouse gas emissions can be found in the Section 172 Statement and the Strategic Report (Environmental Respect and Employee Commitment).

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 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 before taking on the role of Head of Technical Accounting & Quality in 2023. 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 a separate statement, 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 (Chair)
- A P Jones, Finance Director (appointed 14 April 2022)
- M Knowles, independent member - Northern Powergrid Holdings Company

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 reports and financial statements, whose names and functions are set out 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 to assess the Company and Group's position and performance, business model and strategy.

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, 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 17 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 including the capital markets. A successful bond issue by the Northern Powergrid Group in November 2023, demonstrates that the Northern Powergrid Group’s bonds remain attractive to investors and there is an active market with strong appetite to invest;

Consideration was also given to the obligations contained in NPg Northeast 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.

Consequently, after making their assessment, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

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 group'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. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Resignation and appointment of auditor

In accordance with the auditor rotation requirements of the Statutory Auditors and Third Country Auditors Regulations 2016, Deloitte LLP will resign from office and the directors will put a resolution to the Company’s shareholder recommending the appointment of KPMG at the Company’s annual general meeting.

Approved by the Board on 30 April 2024 and signed on its behalf by:

A P Jones
Director

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 2023 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 and parent company statement of cash flows; and
- the related notes 1 to 34.

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

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

Materiality
The materiality that we used for the group financial statements was £9.5m which was determined on the basis of 5% of profit before tax.

Scoping
Our scope provides full scope audit coverage of 91% of the group's revenue, 98% of profit before tax as well as 99% of net assets. Our scoping has been performed for each entity included within the group.

Significant changes in our approach
There is judgement around the valuation modelling of each pension scheme member settlement and its impact on the actuarial assumptions due to the change in profile of the membership of the scheme. The number of members claiming settlements has reduced in the year and as such, the level of risk has decreased. We therefore no longer deem pension obligations a key audit matter.

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.

The parent company is a subsidiary of the group headed by Northern Powergrid Holdings Company (the 'Powergrid group') and the going concern of the company is closely linked to the Powergrid group. 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 has therefore been performed at the Powergrid group level, supplemented with procedures specific to the parent company, and 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;
• calculating the amount of headroom in the forecasts, specifically relating to cash and covenants on borrowings;
• Assessing the impact of the current macroeconomic conditions such as inflation to the business;
• performing sensitivity analysis;
• 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; and
• assessing the appropriateness of the going concern disclosures in the financial statements.

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 model

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 £195m (2022: 163m) 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 49.6m capitalised overheads (2022: £45m). 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 group and the cost of the item can be measured reliably in accordance with IAS 16 Property, Plant and Equipment and the group's policies. Management use a model to allocate overheads to capital resulting from analysis of the costs incurred and their relevant cost drivers. The allocation model is reviewed annually.

The calculation of capitalised overheads remains an area at risk of potential bias due to the level of subjectivity in the percentage of overheads capitalised, which also creates a potential fraud risk. In particular, the key risk is that management's judgements in the percentage amounts capitalised are not reflective of the capital spend and as such property, plant and equipment could be materially misstated as a consequence. This is as disclosed in note 2 to the financial statements related to critical judgements in applying accounting policies.

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

We have performed the following procedures in response to the risk identified:

• We have obtained an understanding of relevant controls surrounding accounting for capital spend and the process by which capitalisation rates are determined;

• Tested a sample of cost centres for which we have assessed the capitalisation percentages applied;

• Obtained and inspected breakdowns of transactions included within each cost centre and assessed the classification for a sample of these costs;

• Tested a sample costs by obtaining documentary evidence to assess the consistency of those costs with our understanding of the activities performed by the cost centre and the capitalisation rates applied;

• Tested the accuracy of total overheads included within the allocation model which are subsequently capitalised based on management's assessment of percentage allocation;

• Tested the integrity and mechanics of the cost allocation model to assess its mathematical accuracy; and

• Assessed the appropriateness of the company's disclosures of its capitalisation policy, including the judgement involved in assessing expenditure as capital and the judgement relating to the allocation of overhead cost.

Key observations

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

Our application of materiality

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

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

Group financial statements
Materiality
£9.5m (2022: £8.0m)

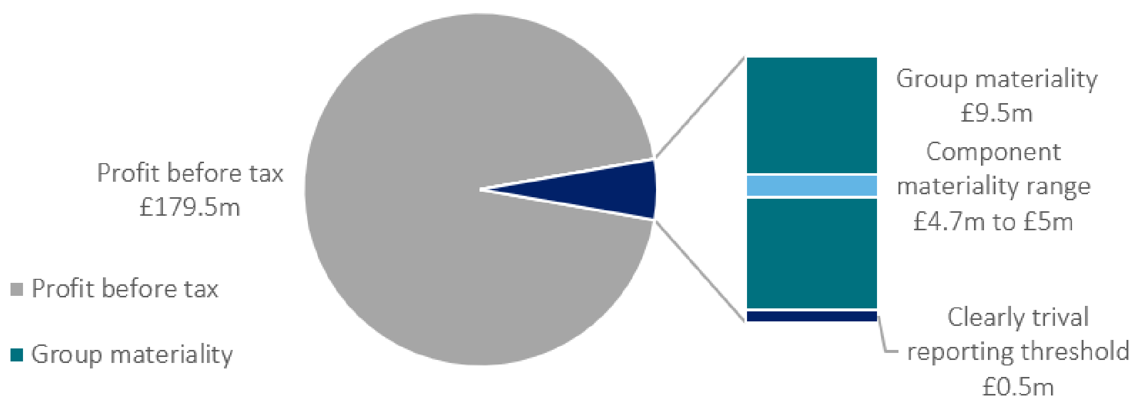
Basis for determining materiality
5.3% of income before tax (2022: 5.0% of income before tax)

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

Parent company financial statements
Materiality
£5.0m (2022: £3.76m)

Basis for determining materiality
Parent company materiality equates to 1% of net assets (2022: 1%), which is capped at 54.0% of group materiality (2022: 52.5%).

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
50% (2022: 60%) of group materiality

Parent company financial statements
Performance materiality
50% (2022: 60%) of parent company materiality

Basis and rationale for determining
In determining performance materiality, we considered the following factors which led to a reduction in the performance materiality:
• our risk assessment, including our assessment of the group's overall control environment;
• we continued to identify control deficiencies and were not able to take a controls reliant approach; and
• the volume and value of uncorrected misstatements in the prior period.

Error reporting threshold
We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £0.5m (2022: £0.4m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board of Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

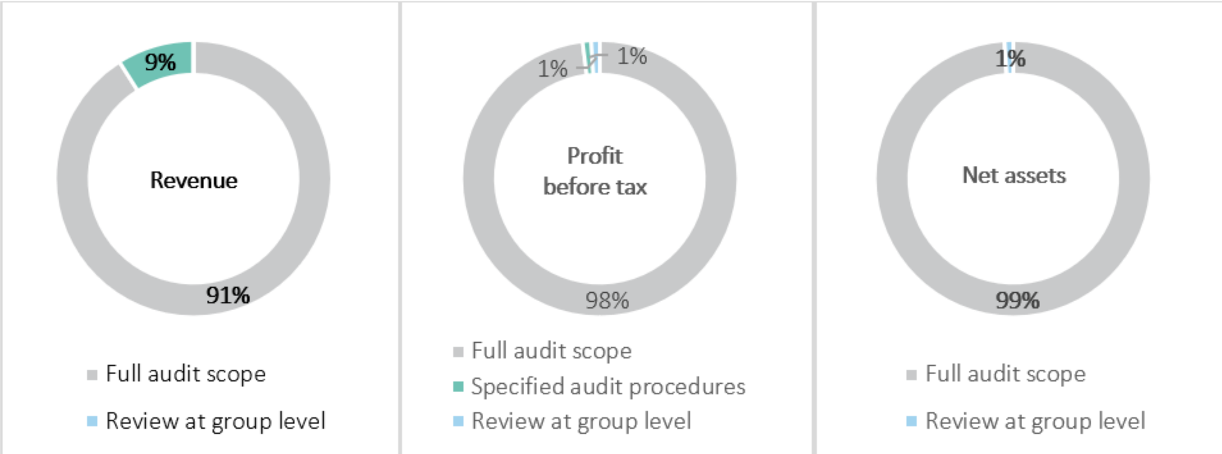
Identification and scoping of components
Our group audit was scoped by obtaining an understanding of the group and its environment, including internal controls, and assessing the risks of material misstatement at the group level. The operations of the group are mainly focused on the United Kingdom in the electricity distribution business, with some overseas assets in the oil and gas industry.

The focus of our audit work was on the main regulated business, Northern Powergrid (Northeast) plc, including work performed in the North East and Yorkshire regions, 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 91% of the group's revenue (2022: 94%), 98% of profit before tax (2022: 94%) as well as 99% of net assets (2022: 99%). For three components we performed full scope audit and one component was subject to an audit of specified audit procedures.

A component materiality was used to perform the audit work for significant components for FY23, which ranged from £4.7m to £5.0m (2022: £4.0m to £6.4m).

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 not subject to full scope audit or audit of specified account balances.

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



Our consideration of the control environment
With the involvement of our IT specialists we assessed relevant controls over the group's IT landscape which contains a number of IT systems and tools used to support business processes. These included relevant controls within the Oracle and Durabill systems integral to relevant business cycles. We have obtained an understanding of the key manual controls of all material business cycles through a combination of tests of inquiry, inspection and observation.. However, we continued to identify control deficiencies and reported these to the Board of Directors and were not able to take a controls reliant approach. We evaluated the impact of these deficiencies on our audit and revised our risk assessment as appropriate. The directors discuss their assessment of the control environment on page 32 of the annual report.

Our consideration of climate-related risks
We have made enquiries with management to understand the impact of climate-related risks and controls relevant to the business, assessed the risks, and adapted our assessment of the risks of material misstatement as appropriate. We performed our own risk assessment of the potential impact of climate change on the group's account balances and class 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. Management have disclosed their climate change adaptation in the strategic report on page 10.
As disclosed in note 2, there has been no material impact in the financial year.

We have involved our ESG (Environmental, Social and Governance specialists) to review the Powergrid group's climate change disclosures and evaluate the information presented in its accounts. No additional risks were identified by the group audit engagement team.

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 directors about their own identification and assessment of the risks of irregularities, including those that are specific to the group's sector;
• 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, pensions, ESG and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

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

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the 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 a as key audit matter 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 that key audit matter.

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

• reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
• enquiring of management, the Board and in-house and external 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 26 years, covering the years ending 31 December 1998 to 31 December 2023.

As set out in the Director’s report on page 40, the financial year ended 31 December 2023 is the final year of our audit tenure.

Consistency of the audit report with the additional report to the audit committee

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

Use of our report

This report is made solely to the company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

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

30 April 2024

Northern Electric plc
Consolidated Income Statement for the Year Ended 31 December 2023

	Note	2023 £ 000	(As restated) 2022 £ 000
Revenue	3	570,484	558,190
Cost of sales		(78,420)	(81,809)
Gross profit		492,064	476,381
Distribution costs		(146,220)	(145,511)
Administrative expenses		(130,660)	(133,135)
Operating profit	5	215,184	197,735
Other gains	4	1,538	1,078
Finance income	6	16,704	5,450
Finance costs	6	(53,916)	(53,161)
Profit before tax		179,510	151,102
Income tax expense	10	(44,890)	(34,179)
Profit for the year		134,620	116,923
Profit attributable to:			
Owners of the Company		134,620	116,923

The above results were derived from continuing operations.

Northern Electric plc
Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2023

	Note	2023 £ 000	(As restated) 2022 £ 000
Profit for the year		134,620	116,923
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post employment benefit obligations (net)	25	(7,995)	(85,657)
Items that may be reclassified subsequently to profit or loss			
Gain on cash flow hedges (net)	10	(5,261)	15,419
Total comprehensive income for the year		121,364	46,685
Total comprehensive income attributable to:			
Owners of the Company		121,364	46,685

The notes on pages 57 to 135 form an integral part of these financial statements.

Northern Electric plc
(Registration number: 02366942)
Consolidated Statement of Financial Position as at 31 December 2023

	Note	31 December 2023 £ 000	31 December 2022 £ 000
Assets			
Non-current assets			
Property, plant and equipment	11	3,163,391	3,059,199
Right of use assets	12	11,229	12,787
Intangible assets		50,606	47,357
Equity accounted investments	14	3,633	3,982
Retirement benefit obligations	25	148,600	151,500
Trade and other receivables	16	6,463	4,087
Other non-current financial assets	30	8,831	18,926
		3,392,753	3,297,838
Current assets			
Inventories	15	29,904	25,740
Trade and other receivables	16	342,948	94,320
Tax receivable		-	1,054
Cash and cash equivalents	17	14,760	268,661
Contract assets		7,052	5,824
Other current financial assets	30	5,861	2,781
		400,525	398,380
Total assets		3,793,278	3,696,218
Equity and liabilities			
Equity			
Share capital	18	(72,173)	(72,173)
Share premium		(158,748)	(158,748)
Capital redemption reserve		(6,185)	(6,185)
Cash flow hedging reserve	19	(11,019)	(16,280)
Retained earnings		(1,223,235)	(1,144,610)
Equity attributable to owners of the Company		(1,471,360)	(1,397,996)
Non-current liabilities			
Lease liabilities	21	(8,395)	(9,791)
Loans and borrowings	20	(1,153,068)	(1,193,131)
Provisions	22	(1,641)	(1,921)
Deferred revenue	24	(668,067)	(652,476)
Deferred tax liabilities	10	(160,882)	(163,218)
		(1,992,053)	(2,020,537)

Northern Electric plc
(Registration number: 02366942)
Consolidated Statement of Financial Position as at 31 December 2023 (continued)

	Note	31 December 2023 £ 000	31 December 2022 £ 000
Current liabilities			
Lease liabilities	21	(3,231)	(3,402)
Trade and other payables	23	(155,769)	(117,404)
Loans and borrowings	20	(135,284)	(125,040)
Income tax liability	10	(3,245)	-
Deferred revenue	24	(30,039)	(29,326)
Provisions	22	(2,297)	(2,513)
		(329,865)	(277,685)
Total liabilities		(2,321,918)	(2,298,222)
Total equity and liabilities		(3,793,278)	(3,696,218)

Approved by the board on 30 April 2024 and signed on its behalf by:

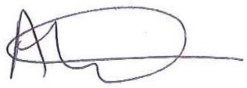
A P Jones
Director

Northern Electric plc
(Registration number: 02366942)
Company Statement of Financial Position as at 31 December 2023

	Note	31 December 2023 £ 000	(As restated) 31 December 2022 £ 000	(As restated) 31 December 2021 £ 000
Assets				
Non-current assets				
Property, plant and equipment	11	1,541	1,548	1,555
Right of use assets	12	879	1,016	1,153
Investments in subsidiaries, joint ventures and associates	14	242,902	242,902	242,902
Retirement benefit obligations		148,600	151,500	262,200
		393,922	396,966	507,810
Current assets				
Trade and other receivables	16	11,416	1,035	3,866
Income tax asset	10	4,367	1,400	158
Cash and cash equivalents	17	-	18,090	29,036
		15,783	20,525	33,060
Total assets		409,705	417,491	540,870
Equity and liabilities				
Equity				
Share capital	18	(72,173)	(72,173)	(72,173)
Share premium		(158,748)	(158,748)	(158,748)
Capital redemption reserve		(6,185)	(6,185)	(6,185)
Retained earnings		(119,570)	(126,897)	(215,919)
Total equity		(356,676)	(364,003)	(453,025)
Non-current liabilities				
Lease liabilities	21	(850)	(914)	(1,062)
Loans and borrowings	20	(1,117)	(1,117)	(1,117)
Provisions	22	(956)	(1,610)	(1,850)
Deferred tax liabilities	10	(36,802)	(37,353)	(65,047)
		(39,725)	(40,994)	(69,076)
Current liabilities				
Lease liabilities	21	(64)	(148)	(144)
Trade and other payables	23	(6,557)	(4,252)	(4,515)
Loans and borrowings	20	(6,368)	(7,831)	(13,861)
Provisions	22	(315)	(263)	(249)
		(13,304)	(12,494)	(18,769)
Total liabilities		(53,029)	(53,488)	(87,845)
Total equity and liabilities		(409,705)	(417,491)	(540,870)

Northern Electric plc
(Registration number: 02366942)
Company Statement of Financial Position as at 31 December 2023 (continued)

Approved by the Board on 30 April 2024 and signed on its behalf by:



A P Jones
Director

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 2023 of £51.3 million (2022: £112.5million).

Northern Electric plc
Consolidated Statement of Changes in Equity for the Year Ended 31 December 2023

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2023	72,173	158,748	6,185	16,280	1,144,610	1,397,996
Profit for the year	-	-	-	-	134,620	134,620
Other comprehensive income/(expense)	-	-	-	(5,261)	(7,995)	(13,256)
Total comprehensive income	-	-	-	(5,261)	126,625	121,364
Dividends (note 27)	-	-	-	-	(48,000)	(48,000)
At 31 December 2023	72,173	158,748	6,185	11,019	1,223,235	1,471,360

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2022	72,173	158,748	6,185	861	1,228,290	1,466,257
Profit for the year (As restated)	-	-	-	-	116,923	116,923
Other comprehensive income/(expense) (As restated)	-	-	-	15,419	(85,657)	(70,238)
Total comprehensive income	-	-	-	15,419	31,266	46,685
Dividends (note 27)	-	-	-	-	(114,946)	(114,946)
At 31 December 2022	72,173	158,748	6,185	16,280	1,144,610	1,397,996

The notes on pages 57 to 135 form an integral part of these financial statements.

Northern Electric plc
Company Statement of Changes in Equity for the Year Ended 31 December 2023

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2023	72,173	158,748	6,185	126,897	364,003
Profit for the year	-	-	-	51,323	51,323
Other comprehensive income	-	-	-	(10,650)	(10,650)
Total comprehensive income	-	-	-	40,673	40,673
Dividends	-	-	-	(48,000)	(48,000)
At 31 December 2023	72,173	158,748	6,185	119,570	356,676

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2022 (As restated)	72,173	158,748	6,185	215,919	453,025
Profit for the year (As restated)	-	-	-	112,474	112,474
Other comprehensive income (As restated)	-	-	-	(86,550)	(86,550)
Total comprehensive income (As restated)	-	-	-	25,924	25,924
Dividends	-	-	-	(114,946)	(114,946)
At 31 December 2022 (As restated)	72,173	158,748	6,185	126,897	364,003

Northern Electric plc
Consolidated Statement of Cash Flows for the Year Ended 31 December 2023

	Note	2023 £ 000	(As restated) 2022 £ 000
Cash flows from/(used in) operating activities			
Profit for the year		134,620	116,923
Depreciation and amortisation	5	161,540	158,265
Depreciation on right of use assets		3,503	3,687
Amortisation of deferred revenue	5	(29,963)	(29,253)
Profit on disposal of property plant and equipment	4	(1,538)	(1,078)
Retirement benefit obligation		(6,800)	(3,262)
Finance income	6	(16,704)	(5,450)
Finance costs	6	53,916	53,161
Income tax expense	10	44,890	34,179
		343,464	327,172
Increase in inventories	15	(4,164)	(5,358)
Increase in trade and other receivables	16	(8,271)	(6,415)
Increase in trade and other payables	23	12,288	542
(Increase)/decrease in contract assets		(1,228)	1,769
Receipt of customer contributions*		60,768	50,423
Decrease in provisions	22	(496)	(1,416)
Cash generated from operations		402,361	366,717
Income taxes paid		(34,968)	(27,970)
Net cash flow from operating activities		367,393	338,747
Cash flows from/(used in) in investing activities			
Acquisitions of property plant and equipment		(248,021)	(219,444)
Proceeds from sale of property plant and equipment		2,501	3,376
Acquisition of intangible assets		(14,444)	(9,956)
Interest received		16,438	4,439
Dividend income	6	615	927
Net cash flows used in investing activities		(242,911)	(220,658)
Cash flows from/(used in) in financing activities			
Proceeds from long-term borrowing draw downs		-	348,320
Transaction costs relating to loans and borrowings		-	(2,105)
Repayment of long-term borrowing		(41,001)	(138,758)
Movement in short-term borrowing		9,330	-
Repayment of lease liabilities		(3,511)	(3,660)
Movement in intercompany treasury account		(242,733)	63,115
Interest expense on leases		(316)	(372)
Interest paid		(52,152)	(43,162)
Dividends paid	26	(48,000)	(114,946)
Net cash flows from/(used in) financing activities		(378,383)	108,432
Net (decrease)/increase in cash and cash equivalents		(253,901)	226,521

The notes on pages 57 to 135 form an integral part of these financial statements.

Northern Electric plc
Consolidated Statement of Cash Flows for the Year Ended 31 December 2023 (continued)

	Note	2023 £ 000	(As restated) 2022 £ 000
Cash and cash equivalents at 1 January		268,661	42,140
Cash and cash equivalents at 31 December		14,760	268,661

*Following a review of sector general practice and to align with the accounting treatment of customer contributions within revenue these amounts have been presented within operating activities rather than investing activities with the comparatives restated. Accordingly this has resulted in an increase in cash from operating activities and increase in cash used in investing activities in the comparative period by £50.4m. There has been no other impact on the financial statements from this change.

Northern Electric plc
Company Statement of Cash Flows for the Year Ended 31 December 2023

	Note	2023 £ 000	(As restated) 2022 £ 000
Cash flows from/(used in) operating activities			
Profit for the year		51,323	112,474
Adjustments to cash flows from non-cash items			
Depreciation and amortisation		7	7
Depreciation on right of use assets		137	137
Retirement benefit obligations		(11,300)	(4,700)
Finance income		(49,579)	(116,243)
Finance costs		9,085	9,034
Income tax expense		3,848	1,584
		3,521	2,293
Working capital adjustments			
(Increase)/decrease in trade and other receivables	16	(504)	2,831
Increase/(decrease) in trade and other payables	23	2,306	(263)
Decrease in provisions	22	(602)	(226)
Cash generated from operations		4,721	4,635
Income taxes paid		(3,817)	(1,670)
Net cash flow from /(used in) operating activities		904	2,965
Cash flows from/(used in) investing activities			
Interest received		964	370
Dividend income		48,615	115,873
Net cash flows from/(used in) investing activities		49,579	116,243
Cash flows from/(used in) financing activities			
Movement in intercompany treasury account		(9,877)	(6,030)
Movement in short-term loans		(1,463)	-
Interest expense on leases		(24)	(28)
Interest paid		(14)	(2)
Repayment of lease liabilities		(148)	(143)
Interest on preference shares		(9,001)	(9,001)
Dividends paid	26	(48,000)	(114,946)
Foreign exchange gains/(losses)		(46)	(4)
Net cash flows from/(used in) financing activities		(68,573)	(130,154)
Net decrease in cash and cash equivalents		(18,090)	(10,946)
Cash and cash equivalents at 1 January		18,090	29,036
Cash and cash equivalents at 31 December		-	18,090

The notes on pages 57 to 135 form an integral part of these financial statements.

Consolidated / Company Statement of Cash Flows

Yorkshire Electricity Group plc, a Northern Powergrid Group company, acting on behalf of other group companies was authorised to settle various liabilities against the relevant intercompany accounts. The Group / Company has disclosed the underlying cash flows as operating, investing or financing according to their nature on the basis that, as a principal, the entity has the right to the cash inflows and/or the obligation to settle the liability and ensure clarity of disclosure of the cash costs of the business. In addition it acts as a treasury company to the Group and accordingly the movements in the intercompany treasury account are included in financing activities.

1 General information

The company is a public company limited by share capital, incorporated in England and Wales and domiciled in the United Kingdom and is part of the Northern Powergrid Holdings Company and its subsidiaries group of companies (the "Northern Powergrid Group").

The principal activities of the Group is split between the following three areas:

- NPg Northeast is the distribution of electricity to approximately 1.6 million customers connected to its electricity distribution network.

- IUS provides engineering contracting services.

- NPg Metering rents meters to energy suppliers.

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 UK-adopted international accounting standards and, if relevant, with International Financial Reporting Standards as issued by the IASB.

Climate change
No material impact from climate change within the accounts.

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

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:

2 Accounting policies (continued)

- NPg Northeast is a stable electricity distribution business 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;
- NPg Northeast is profitable with strong underlying cash flows and holds investment grade credit ratings.
- The Northern Powergrid Group is financed by long-term borrowings with an average maturity of 17 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; and
- The Northern Powergrid Group benefits from strong investment-grade credit ratings which allow access to a range of financing options including the capital markets. A successful bond issue by the Northern Powergrid Group in November 2023, 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.

Consequently, after making their assessment, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

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 £49.6 million (2022: £45.0 million), this was a decrease from 54.3% to 53.4%.

Key sources of estimation uncertainty

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

- Assumptions used when evaluating long-term pension plans - these assumptions and their possible impacts are disclosed in Note 25.

2 Accounting policies (continued)

Changes in accounting policy

New standards, interpretations and amendments effective

Effective for periods beginning on or after 1 January 2023:

- Amendments to IFRS 17: Insurance Contracts
- Amendments to IAS 1: Presentation of Financial Statements
- Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates

Effective for periods beginning on 23 May 2023:

- Amendments to IAS 12: Income Taxes

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

New standards issued that are not yet applicable

Effective for periods beginning on 1 January 2024:

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current
- Amendments to IFRS 16: Lease Liability on a Sale and Leaseback
- Amenements to IAS 7 and IFRS 7: Supplier Finance Agreements

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

Leases

For lessees, all leases will be recorded on the balance sheet as liabilities, at the present value of the future lease payments, along with an asset reflecting the right to use the asset over the lease term. Short-term leases (a lease that, at the commencement date has a lease term of 12 months or less) and low value leases (below £5,000) will be excluded.

The Group applies IFRS 16 to all leases 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, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. 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.

- Uses current expectations 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.

2 Accounting policies (continued)

The implict rate applied to determine the present value of the lease liabilities during the current period was 5.5% in comparison to the incremental borrowing rate used in 2022 of 2.33%.

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.

Revenue recognition

Recognition

The Group earns revenue from the provision of services which are 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.

2 Accounting policies (continued)

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

Other performance obligations include but are not limited to:
- Provision of vehicles over a specified period accounted for under lease accounting; 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.

2 Accounting policies (continued)

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

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

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

Investments in subsidiaries

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

Prior Year Restatement

Pensions company only

Following a review of the accounting for The Northern Powergrid Group of the ESPS ("the DB Scheme") in the company only accounts of Northern Electric plc it has been identified that the DB scheme should have been included in the balance sheet reflecting its obligation as sponsoring employer for the plan, some of which it then recharges to other group companies. This has led to the recognition of a defined benefit pension scheme asset of £151.5 million and associated deferred tax liability of £37.9 million in the comparatives as restated in the balance sheet. The profit for the prior year has also been restated to include a credit of £4.7 million and a charge of £1.1 million deferred tax. Other comprehensive income within the statement of changes in equity has been restated to include a charge of £86.6 million net of tax. The net impact on reserves brought forward at 1 January 2022 was £196.6 million. These amounts also take account of the impact of the 'Pensions consolidation only' restatement described below. Given the retrospective restatement has a material effect on the information in the statement of financial position at the beginning of the preceding period, a third statement of financial position has been presented in accordance with IAS 1: 40. The impact of the restatement on the 2021 statement of financial position is the recognition of a pension surplus asset of £262.2 million with an associated deferred tax liability of £65.6 million. The company only cashflow statement has also been restated to include an increase of £4.7m cash used in respect of retirement benefit obligations and £1.1m reduction in income taxes paid which offsets the £3.6m increase in profit for the year.

Pensions consolidation only

During the preparation of the 2023 financial statements the treatment of pension increases over 5% was identified as incorrectly being treated as a past service cost through the income statement when it should have been included as an actuarial movement in the Statement of Comprehensive Income. In the comparative period the restatement has reduced the income statement cost by £16.5 million before tax with an associated increase in tax of £5.0 million and a corresponding increase in the charge and tax shown in the statement of comprehensive income. There has been no other impact on the financial statements arising from this change.

Receipt of customer contibutions (consolidation only)

The Consolidated Statement of Cash Flows contains more information relating to the prior year restatement on receipt of customer contributions.

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.

2 Accounting policies (continued)

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 transaction price less provision for impairment.The Group always recognises lifetime expected credit losses (ECL) for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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.

2 Accounting policies (continued)

Intercompany Short-term loans (Current Accounts)
The Northern Powergrid group operates a central treasury function operated through it's subsidiary Yorkshire Electricity Group plc. As a result, every company within the Northern Powergrid group has a relationship with Yorkshire Electricity Group plc as either an intercompany debtor or creditor.

Interest periods are for a duration of one month, and the interest is applied to an intercompany debtor balance on the last day of the preceding month at the compounded reference rate (currently SONIA) applicable under the most recent revolving facility agreement to which Northern Powergrid Holdings Company is a party.

Monthly interest is applied to an intercompany creditor balance on the last day of the preceding month at the aggregate of the compounded reference rate (currently SONIA) and the margin (currently 0.2%) applicable under the most recent revolving facility agreement to which Northern Powergrid Holdings Company is a party.

The Intercompany debtor or creditor balance will be repaid at the end of each month, or if still required will be rolled over for a further period of one month.

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.

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.

2 Accounting policies (continued)

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

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

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2023.

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.

2 Accounting policies (continued)

Financial instruments

Initial recognition
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.

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.

2 Accounting policies (continued)

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

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

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

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

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

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

2 Accounting policies (continued)

Derecognition

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

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

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

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

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

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

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

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

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

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

Modification of financial assets and financial liabilities

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

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

2 Accounting policies (continued)

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

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

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

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

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

The expected loss rates are based on the payment profiles of sales over a period of 36 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
An internally generated intangible asset arising from development is recognised if the conditions set out in IAS 38 relating to the recognition of intangible assets are met. The amount initially recognised for internally-generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria. Amortisation is recognised on a straight-line basis over their estimated useful lives.

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

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

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

2 Accounting policies (continued)

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 & Segmental Analysis

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

	2023 £ 000	2022 £ 000
Distribution revenue	405,307	412,147
Amortisation of deferred revenue	29,963	29,253
Contracting revenue	41,445	22,609
Meter asset rental	89,679	86,334
Other revenue	4,090	7,847
	570,484	558,190

Other revenue includes assessment and design fees and disconnections from the network.

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

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

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 & Segmental Analysis (continued)

2023	Distribution £ 000	Contracting £ 000	Metering £ 000	Other £ 000	Total £ 000
Revenue	435,270	41,445	89,679	4,090	570,484
Inter-segment sales	416	6,649	-	(7,065)	-
Total revenue	435,686	48,094	89,679	(2,975)	570,484
Operating profit	166,056	2,103	37,760	9,265	215,184
Other gains					1,538
Finance costs					(53,916)
Finance income					16,704
Profit before tax					179,510
Capital additions	204,630	507	65,772	965	269,944
Depreciation and amortisation	116,367	687	52,059	4,070	165,043
Amortisation of deferred revenue	29,963	-	-	-	29,963
Segment assets	2,810,945	14,693	310,076	409,353	3,545,067
Unallocated corporate assets					248,211
Total assets					3,793,278
Segment liabilities	(554,741)	(8,771)	(193,820)	(313,097)	(1,070,429)
Unallocated corporate liabilities					(1,251,489)
Total liabilities					(2,321,918)
Segment net assets	2,256,204	5,922	116,256	96,255	2,474,637
Unallocated net corporate liabilities					(1,003,277)
Total net assets					1,471,360

3 Revenue & Segmental Analysis (continued)

2022 (As restated)	**Distribution £ 000**	**Contracting £ 000**	**Metering £ 000**	**Other £ 000**	**Total £ 000**
Revenue	441,400	22,609	86,334	7,847	558,190
Inter-segment sales	412	11,535	-	(11,947)	-
Total revenue	441,812	34,144	86,334	(4,100)	558,190
Operating profit	158,227	771	29,097	(6,861)	197,735
Other gains					1,078
Finance costs					(53,161)
Finance income					5,450
Profit before tax					151,102
Capital additions	167,486	495	53,266	3,744	224,991
Depreciation and amortisation	111,695	245	54,648	(4,635)	161,952
Amortisation of deferred revenue	29,253	-	-	-	29,253
Segment assets	2,708,141	14,699	318,528	375,910	3,417,278
Unallocated corporate assets					278,940
Total assets					3,696,218
Segment liabilities	(540,677)	(10,418)	(208,745)	(265,233)	(1,025,063)
Unallocated corporate liabilities					(1,273,159)
Total liabilities					(2,298,222)
Segment net assets	2,167,464	4,281	109,783	110,687	2,392,215
Unallocated net corporate liabilities					(994,219)
Total net assets					1,397,996

3 Revenue & Segmental Analysis (continued)

Sales to the E.ON group in 2023 of £79.8 million (2022: £75.7 million) and to British Gas plc in 2023 of £58.8million (2022: £48.6 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:

Assets recognised from costs to fulfil a contract with customers

	31 December 2023 £ 000	31 December 2022 £ 000
Contract costs incurred plus recognised profit less recognised losses to date	56,873	50,918
Less: progress billings	(49,821)	(45,094)
	7,052	5,824

At 31 December 2023, no retentions are held by customers for contract work (2022: £nil).

Advances received from customers for contract work relate to IUS customers contribution only which amounted to £nil (2022: £nil).

The Company had no contract assets at 31 December 2023 (2022: £nil).

4 Other gains and losses

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

	2023 £ 000	2022 £ 000
Gain on disposal of property, plant and equipment	1,538	1,078

5 Operating profit

Arrived at after charging/(crediting)

	2023 £ 000	2022 £ 000
Depreciation expense	150,345	146,778
Depreciation of right-of-use assets	3,503	3,687
Amortisation expense	11,195	11,487
Research and development	2,031	1,598
Trade and other receivables loss allowance	1,132	966
Amortisation of deferred revenue	(29,963)	(29,253)

Amortisation expense is included in administration costs within the consolidated income statement on page 45.

6 Finance income and costs

	2023 £ 000	2022 £ 000
Finance income		
Other finance income	16,704	5,450
Finance costs		
Interest on borrowings at amortised cost	(54,003)	(53,395)
Interest expense on leases	(316)	(372)
Borrowing costs included in cost of qualifying asset	403	606
Total finance costs	(53,916)	(53,161)
Net finance costs	(37,212)	(47,711)

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 3.02% (2022: 3.14%) to expenditure on such assets.

7 Staff costs

Group	2023 £ 000	(As restated) 2022 £ 000
Salaries	74,948	70,853
Social security costs	9,031	8,775
Defined benefit pension cost	230	4,357
Defined contribution pension cost	5,999	5,102
	90,208	89,087
Less capitalised to property plant and equipment	(49,029)	(46,318)
	41,179	42,769

A proportion of the Group's employees are members of the DB Scheme, details of which are given in the Employee Benefit Obligations Note 25.

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

	2023 No.	2022 No.
Distribution	1,344	1,248
Engineering contracting	165	155
Other	13	14
	1,522	1,417

The Company had an average monthly number of 13 employees during the year ended 31 December 2023 (2022:11).

8 Directors' remuneration

The directors' remuneration for the year was as follows:

	2023 £	2022 £
Highest paid		
Short-term employee benefits	110,663	94,578
Post retirement benefits - defined contribution	3,488	-
Other long-term benefits	33,953	100,193
	148,104	194,771
Total		
Short-term employee benefits	185,594	244,542
Post retirement benefits - defined benefit	29,744	21,582
Post retirement benefits - defined contribution	3,488	6,001
Other long-term benefits	44,613	159,137
	263,439	431,262
Post retirement benefits		
No. of Directors who were members of a defined contribution scheme in the year	1	4
No. of Directors who were members of a defined benefit scheme in the year	1	1

	2023 £	2022 £
Key personnel remuneration		
Short-term employee benefits	1,206,990	1,070,859
Post retirement benefits - defined benefit	-	33,482
Post retirement benefits - defined contribution	129,883	81,910
Other long-term benefits	460,360	515,380
	1,797,233	1,701,631

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:

	2023 £ 000	2022 £ 000
Fees payable to the auditor for audit of the Company's annual accounts	71	43
Fees payable to the auditor for audit of the Company's subsidiaries pursuant to legislation	368	383
Total audit fees	439	426
Audit of regulatory reporting	69	59
Other services	7	8
Total auditor's remuneration	515	493

Other services relate to non-statutory audit services including pensions.

10 Income tax

Tax charged in the income statement

	2023 £ 000	(As restated) 2022 £ 000
Current taxation		
UK corporation tax	43,247	30,767
UK corporation tax adjustment to prior periods	(1,333)	(664)
	41,914	30,103
Deferred taxation		
Arising from origination and reversal of temporary differences	2,987	1,321
Deferred tax expense/(credit) from unrecognised temporary difference from prior period	(380)	705
Deferred tax credit relating to changes in tax rates or laws	369	2,050
Total deferred taxation	2,976	4,076
Tax expense in the income statement	44,890	34,179

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 (2022 - higher than the standard rate of corporation tax in the UK) of 19.0% to 31 March 2023 and 25% thereafter (2022 - 19.0%).

The differences are reconciled below:

	2023 £ 000	2022 £ 000
Profit before tax	179,510	151,102
Corporation tax at standard rate	42,221	28,709
Increase in deferred tax due to changes in tax rates or laws	369	2,050
Tax effect of result of joint venture entities	(54)	(192)
Decrease in current tax from adjustment for prior periods	(1,333)	(664)
Permanent differences (including non-taxable dividends)	(929)	1,069
Pension contributions recognised in other comprehensive income	2,655	893
Increase/(decrease) in deferred tax from adjustment for prior periods	(380)	705
Non-deductible interest	2,117	1,710
Release of deferred tax in respect of prior year holdover relief claim	-	(33)
Other tax effects for reconciliation between accounting profit and tax expense/(income)	224	(68)
Total tax charge	44,890	34,179

Finance Act 2024 confirmed that the corporation tax rate will remain at 25% from 1 April 2023 as previously enacted. Deferred tax balances are therefore measured at 25% at 31 December 2023 (after taking into account the estimated effect of timing differences which will reverse at the 19% rate prior to 1 April 2023).

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

Amounts recognised in other comprehensive income

2023	Before tax £ 000	Tax (expense) benefit £ 000	Net of tax £ 000
Loss on cash flow hedges	(7,015)	1,754	(5,261)
Remeasurement of post employment benefit obligations	(14,200)	6,205	(7,995)
	(21,215)	7,959	(13,256)

2022	Before tax £ 000	Tax (expense) benefit £ 000	Net of tax £ 000
Loss on cash flow hedges	20,559	(5,140)	15,419
Remeasurement of post employment benefit obligations (As restated)	(115,400)	29,743	(85,657)
	(94,841)	24,603	(70,238)

10 Income tax (continued)

Deferred tax

Group

Deferred tax movement during the year:

	At 1 January 2023 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 31 December 2023 £ 000
Accelerated tax depreciation	131,624	906	-	132,530
Pension benefit obligations	27,734	2,130	(3,558)	26,306
Other items	3,835	(38)	(1,754)	2,043
Holdover relief	25	(23)	-	3
	163,218	2,975	(5,312)	160,882

	At 1 January 2022 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 31 December 2022 £ 000
Accelerated tax depreciation	128,826	2,798	-	131,624
Pension benefit obligations (As restated)	55,431	1,153	(28,850)	27,734
Other items	(1,463)	158	5,140	3,835
Holdover relief	58	(33)	-	25
	182,852	4,076	(23,710)	163,218

The other items of £2.0m (2022: £3.8m liability) 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 pension costs on the movement in retirement benefit obligation/asset. A proportion of the movement has been capitalised in property, plant and equipment.

10 Income tax (continued)

Company

Deferred tax movement during the year:

	At 1 January 2023 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 31 December 2023 £ 000
Accelerated tax depreciation	(8)	1	-	(7)
Pension benefit obligations	37,361	2,998	(3,550)	36,809
	37,353	2,999	(3,550)	36,802

Deferred tax movement during the prior year:

	At 1 January 2022 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 31 December 2022 £ 000
Accelerated tax depreciation	(10)	2	-	(8)
Pension benefit obligations (As restated)	65,057	1,154	(28,850)	37,361
	65,047	1,156	(28,850)	37,353

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 2022	6,534	3,941,237	489,662	84,443	4,521,876
Additions	-	156,104	53,266	5,665	215,035
Disposals	-	(9,612)	(35,845)	-	(45,457)
As at 31 December 2022	6,534	4,087,729	507,083	90,108	4,691,454
At 1 January 2023	6,534	4,087,729	507,083	90,108	4,691,454
Additions	-	185,654	65,772	4,074	255,500
Disposals	-	(8,184)	(25,530)	(116)	(33,830)
At 31 December 2023	6,534	4,265,199	547,325	94,066	4,913,124
Depreciation					
At 1 January 2022	6,534	1,214,211	230,018	77,873	1,528,636
Charge for year	-	90,958	52,843	2,977	146,778
Eliminated on disposal	-	(9,612)	(33,547)	-	(43,159)
As at 31 December 2022	6,534	1,295,557	249,314	80,850	1,632,255
At 1 January 2023	6,534	1,295,557	249,314	80,850	1,632,255
Charge for the year	-	94,990	52,027	3,328	150,345
Eliminated on disposal	-	(8,184)	(24,567)	(116)	(32,867)
At 31 December 2023	6,534	1,382,363	276,774	84,062	1,749,733
Carrying amount					
At 1 January 2022	-	2,727,026	259,644	6,570	2,993,240
At 31 December 2022	-	2,792,172	257,769	9,258	3,059,199
At 31 December 2023	-	2,882,836	270,551	10,004	3,163,391

11 Property, plant and equipment (continued)

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

	31 December 2023 £ 000	31 December 2022 £ 000
Distribution system	184,298	167,998

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

	31 December 2023 £ 000	31 December 2022 £ 000
Distribution system	33,834	20,757

Company

	Land and buildings £ 000	Distribution system £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation				
At 1 January 2022	280	1,259	3,634	5,173
At 31 December 2022	280	1,259	3,634	5,173
At 1 January 2023	280	1,259	3,634	5,173
At 31 December 2023	280	1,259	3,634	5,173
Depreciation				
At 1 January 2022	70	-	3,548	3,618
Charge for year	7	-	-	7
At 31 December 2022	77	-	3,548	3,625
At 1 January 2023	77	-	3,548	3,625
Charge for the year	7	-	-	7
At 31 December 2023	84	-	3,548	3,632
Carrying amount				
At 31 December 2023	196	1,259	86	1,541
At 31 December 2022	203	1,259	86	1,548
At 1 January 2022	210	1,259	86	1,555

12 Right of use assets

Group

	Fleet £ 000	Property £ 000	Land £ 000	Total £ 000
Cost or valuation				
At 1 January 2022	16,118	4,020	1,923	22,061
Additions	2,062	-	-	2,062
Disposals	(1,482)	-	-	(1,482)
At 31 December 2022	16,698	4,020	1,923	22,641
At 1 January 2023	16,676	4,019	1,923	22,618
Additions	1,967	-	-	1,967
Disposals	(1,026)	(181)	-	(1,207)
At 31 December 2023	17,617	3,838	1,923	23,378
Depreciation				
At 1 January 2022	6,398	1,161	91	7,650
Charge for year	3,095	527	64	3,686
Eliminated on disposal	(1,482)	-	-	(1,482)
At 31 December 2022	8,011	1,688	155	9,854
At 1 January 2023	8,011	1,688	155	9,854
Charge for the year	2,911	527	64	3,502
Eliminated on disposal	(1,026)	(181)	-	(1,207)
At 31 December 2023	9,896	2,034	219	12,149
Carrying amount				
At 31 December 2023	7,721	1,804	1,704	11,229
At 31 December 2022	8,687	2,332	1,768	12,787

12 Right of use assets (continued)

Company

	Property £ 000	Total £ 000
Cost or valuation		
At 1 January 2022	1,366	1,366
At 31 December 2022	1,366	1,366
At 1 January 2023	1,366	1,366
At 31 December 2023	1,366	1,366
Depreciation		
At 1 January 2022	213	213
Charge for year	137	137
At 31 December 2022	350	350
At 1 January 2023	350	350
Charge for the year	137	137
At 31 December 2023	487	487
Carrying amount		
At 31 December 2023	879	879
At 31 December 2022	1,016	1,016

13 Intangible assets

Group

	Software development £ 000	Total £ 000
Cost or valuation		
At 1 January 2022	139,641	139,641
Additions	9,956	9,956
At 31 December 2022	149,597	149,597
At 1 January 2023	149,597	149,597
Additions	14,444	14,444
At 31 December 2023	164,041	164,041
Amortisation		
At 1 January 2022	90,753	90,753
Amortisation charge	11,487	11,487
At 31 December 2022	102,240	102,240
At 1 January 2023	102,240	102,240
Amortisation charge	11,195	11,195
At 31 December 2023	113,435	113,435
Carrying amount		
At 31 December 2023	50,606	50,606
At 31 December 2022	47,357	47,357

As at year-end, the amount of contractual commitments for the acquisition of intangible assets amounted to £4.1 million (2022: £2.3m).

14 Investments

	Investment in joint ventures £ 000	Investment in associate £ 000	Share in other undertakings £ 000	Total £ 000
At 1 January 2022	3,877	-	21	3,898
Profit from investments	1,011	-	-	1,011
Dividends paid by investments	(927)	-	-	(927)
At 31 December 2022	3,961	-	21	3,982
Profit from investments	266	-	-	266
Dividends paid by investments	(615)	-	-	(615)
At 31 December 2023	3,612	-	21	3,633

More information on JV can be found on Page 106.

14 Investments (continued)

Summary of the Company investments

	31 December 2023 £ 000	31 December 2022 £ 000
Investments in subsidiaries	242,902	242,902

Group subsidiaries

Details of the Group subsidiaries as at 31 December 2023 are as follows:

Name of subsidiary	Principal activity	Registered office and country of incorporation	Proportion of ownership interest and voting rights held 2023	2022
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 (02522939)*	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%

14 Investments (continued)

Name of subsidiary	Principal activity	Registered office and country of incorporation	Proportion of ownership interest and voting rights held 2023	2022
Northern Electricity (Yorkshire) Limited	Dormant	England and Wales	100%	100%
Northern Electricity Limited	Dormant	England and Wales	100%	100%
Northern Electricity Networks Company (North East) Limited	Dormant	England and Wales	100%	100%
Northern Electricity Networks Company (Yorkshire) Limited	Dormant	England and Wales	100%	100%
Northern Electricity Networks Company Limited	Dormant	England and Wales	100%	100%
Northern Electrics Limited	Dormant	England and Wales	100%	100%
Northern Energy Funding Company Limited	Dormant	England and Wales	100%	100%
Northern 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%

14 Investments (continued)

Name of subsidiary	Principal activity	Registered office and country of incorporation	Proportion of ownership interest and voting rights held 2023	2022
PowerGrid (North East) Limited	Dormant	England and Wales	100%	100%
PowerGrid (North Eastern) Limited	Dormant	England and Wales	100%	100%
PowerGrid (North West) Limited	Dormant	England and Wales	100%	100%
PowerGrid (North Western) Limited	Dormant	England and Wales	100%	100%
PowerGrid (North) Limited	Dormant	England and Wales	100%	100%
PowerGrid (Northern) Limited	Dormant	England and Wales	100%	100%
PowerGrid (South East) Limited	Dormant	England and Wales	100%	100%
PowerGrid (South Eastern) Limited	Dormant	England and Wales	100%	100%
PowerGrid (South West) Limited	Dormant	England and Wales	100%	100%
PowerGrid (South Western) Limited	Dormant	England and Wales	100%	100%
PowerGrid (South) Limited	Dormant	England and Wales	100%	100%
PowerGrid (Southern) Limited	Dormant	England and Wales	100%	100%
PowerGrid (West) Limited	Dormant	England and Wales	100%	100%
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%

14 Investments (continued)

Name of subsidiary	Principal activity	Registered office and country of incorporation	Proportion of ownership interest and voting rights held 2023	2022
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 2023 are as follows:

Name of associate	Principal activity	Registered office	Proportion of ownership interest and voting rights held by the Group 2023	2022
DCUSA Limited*	Goverance of Distribution Connection and Use of System Agreement	Northumberland House, 303-306 Holborn, WC1V 7JZ, England and Wales	1.69%	1.69%
Electralink Limited*	Data transfer network operator	Northumberland House, 303-306 Holborn, WC1V 7JZ, England and Wales	6.2%	6.2%
MRA Service Company Limited* (Dissolved in Sep 2023)	Goverance of the electricty industry's Master Registrauion Agreement	8 Fenchurch Place, London, EC3M 4AJ, England and Wales	0.36%	0.36%
Selectusonline Limited	Procurement vehicle	Hawaswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington, WA5 3LP, England and Wales	16.67%	16.67%
Electricity Pensions Trustee Limited	Scheme Trustee of the Electricity Supply Pension Scheme	Highdown House, Yeoman Way, Worthing, West Sussex, United Kingdom, BN99 3HH	3.3%	3.2%
Smart Energy Code Company Limited*	Goverance of multi-Party agreement in management of smart metering	77 Gracechurch Street, London, England, EC3V 0AS	0.64%	0.64%
EATL Group Covenantors Limited**	Principal Employer of the EA Technology Group	Highdown House, Yeoman Way, Worthing, West Sussex, England, BN99 3HH	3.92%	3.92%

*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 except EATL.

**EATL Group Covenantors Limited is a private company limited by guarantee without a share capital, so no shares are held in this company.

14 Investments (continued)

Group joint ventures

Details of the Group joint ventures as at 31 December 2023 are as follows:

Name of Joint-ventures	Principal activity	Registered office	Proportion of ownership interest and voting rights held by the Group 2023	2022
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%

* indicates direct investment of Northern Powergrid Limited

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 2023 £ 000	31 December 2022 £ 000
Current assets	27,878	15,481
Non-current assets	9,475	22,031
Current liabilities	(12,501)	(12,464)
Non-current liabilities	(17,699)	(17,198)
Net assets	7,152	7,850
Groups share of net assets	3,576	3,925
Revenue	19,512	20,615
Profit for the year	532	2,022
Groups share of profit for the year	266	1,011

15 Inventories

	Group		Company	
	31 December 2023 £ 000	31 December 2022 £ 000	31 December 2023 £ 000	31 December 2022 £ 000
Raw materials and consumables	28,662	24,968	-	-
Work in progress	607	441	-	-
Vehicle inventory	635	331	-	-
	29,904	25,740	-	-

16 Trade and other receivables

	Group		Company	
	31 December 2023 £ 000	31 December 2022 £ 000	31 December 2023 £ 000	31 December 2022 £ 000
Distribution use of system receivables and accrued income	59,298	57,273	-	-
Trade receivables	30,552	26,267	50	2
Lease receivable	3,858	3,968	-	-
Loss allowance	(8,150)	(9,579)	-	-
Net trade receivables	85,558	77,929	50	2
Receivables from related parties	242,733	-	9,876	-
Social security and other taxes	-	-	1,199	850
Prepayments	7,934	8,467	291	183
Other receivables	6,723	7,924	-	-
	342,948	94,320	11,416	1,035
Non-current lease receivables	6,463	4,087	-	-
	349,411	98,407	11,416	1,035

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

Within Distribution use of system receivables and accrued income above is £32.4m of accrued income (2022: £27.4m).

More information on receivables from related parties can be found within Note 2 and Note 31.

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.

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 2023 £ 000	31 December 2022 £ 000
At 1 January	9,579	8,757
Amounts utilised/written off in the year	(2,561)	(144)
Amounts recognised in the income statement	1,132	966
At 31 December	8,150	9,579

16 Trade and other receivables (continued)

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

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 18.1% of distribution revenues in 2023 (2022: 21.7%) and British Gas plc accounting for approximately 14.5% of distribution revenues in 2023 (2022: 14.1%). 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 and accrued income past due:

2023	Not due £ 000	Current £ 000	1-3 months £ 000	Over 3 months £ 000
Total balance	32,447	23,886	12	2,953
Less specific provisions	-	-	-	(2,930)
Balance eligible for ECL	32,447	23,886	12	23
Lifetime ECL	0%	2%	2%	2%
Expected credit loss	-	590	-	1

16 Trade and other receivables (continued)

2022	Not due £ 000	Current £ 000	1-3 months £ 000	Over 3 months £ 000
Total balance	35,177	26,865	7	2,965
Less specific provisions	-	-	(3)	(2,962)
Balance eligible for ECL	35,177	26,865	4	3
Lifetime ECL	0%	0%	0%	0%
Expected credit loss	-	-	-	-

Other distribution trade receivables

Sales of goods and services comprise all income streams which are not classified as 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

2023	0-6 months £ 000	6-12 months £ 000	1-2 years £ 000	2-3 years £ 000	Over 3 year £ 000
Total balance	892	481	505	1,126	81
Less specific provisions	(293)	(85)	(127)	(991)	-
Balance eligible for ECL	599	396	378	135	81
Lifetime ECL	20%	25%	30%	40%	80%
Expected credit loss	120	99	113	54	65

2022	0-6 months £ 000	6-12 months £ 000	1-2 years £ 000	2-3 years £ 000	Over 3 year £ 000
Total balance	943	1,180	546	113	261
Less specific provisions	(97)	(68)	(232)	-	(226)
Balance eligible for ECL	846	1,112	314	113	35
Lifetime ECL	20%	25%	30%	40%	80%
Expected credit loss	169	278	94	45	28

Non-damages receivables

2023	Not due £ 000	Current £ 000	1-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	167	423	645	336	620
Less specific provisions	(2)	-	-	-	(42)
Balance eligible for ECL	165	423	645	336	578
Lifetime ECL	0%	0%	0%	50%	85%
Expected credit loss	-	-	-	168	491

16 Trade and other receivables (continued)

2022	Not due £ 000	Current £ 000	1-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	313	315	1,224	222	319
Less specific provisions	-	-	-	-	-
Balance eligible for ECL	313	315	1,224	222	319
Lifetime ECL	0%	0%	0%	50%	87%
Expected credit loss	-	-	-	111	278

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

2023	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	7,604	1,833	10	-	-
Balance eligible for ECL	7,604	1,833	10	-	-
Lifetime ECL	0%	10%	50%	100%	100%
Expected credit loss	-	183	5	-	-

2022	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	6,774	2,145	27	4	58
Less specific provisions	-	(2,145)	(27)	(4)	(58)
Balance eligible for ECL	6,774	-	-	-	-
Lifetime ECL	0%	100%	100%	100%	100%
Expected credit loss	-	-	-	-	-

Contracted churn

2023	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	1,289	4,812	321	6	11
Balance eligible for ECL	1,289	4,812	321	6	11
Lifetime ECL	0%	20%	50%	100%	100%
Expected credit loss	-	976	163	6	11

16 Trade and other receivables (continued)

2022	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	4,164	1,128	270	117	1,053
Less specific provisions	-	(1,128)	(270)	(117)	(1,053)
Balance eligible for ECL	4,164	-	-	-	-
Lifetime ECL	0%	100%	100%	100%	100%
Expected credit loss	-	-	-	-	-

Non-contracted churn

2023	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	116	40	1	-	-
Balance eligible for ECL	116	40	1	-	-
Lifetime ECL	0%	40%	100%	100%	100%
Expected credit loss	-	16	1	-	-

2022	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	374	36	1	33	660
Less specific provisions	-	(36)	(1)	(33)	(660)
Balance eligible for ECL	374	-	-	-	-
Lifetime ECL	0%	100%	100%	100%	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 £4.2 million (2022: £1.9 million), which are past due at the reporting date for which the Group has provided for an irrecoverable amount of £0.5 million (2022: £0.1 million) based on past experience. The Group does not hold and collateral over these balances. The average age of these receivables is 60 days (2022: 50 days).

Included in the Group's construction contracts balance are debtors with a carrying amount of £nil (2022: £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.

2023	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	1,892	1,087	181	74	549
Less specific provisions	-	-	-	-	(549)
Balance eligible for ECL	1,892	1,087	181	74	-
Lifetime ECL	0%	1%	10%	50%	100%
Expected credit loss	-	11	18	37	-

16 Trade and other receivables (continued)

2022	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	2,174	1,891	135	44	104
Less specific provisions	-	-	-	-	(104)
Balance eligible for ECL	2,174	1,891	135	44	-
Lifetime ECL	0%	1%	10%	50%	100%
Expected credit loss	-	19	14	22	-

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% (2022: 6.5%) per annum. None of these debts are past due and there are no indicators of impairment.

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 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.

2023	Minimum lease payments £ 000	Interest £ 000	Present value £ 000
Within one year	3,903	(45)	3,858
In two to five years	7,067	(604)	6,463
	10,970	(649)	10,321

2022	Minimum lease payments £ 000	Interest £ 000	Present value £ 000
Within one year	4,027	(109)	3,918
In two to five years	4,624	(537)	4,087
	8,651	(646)	8,005

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 2023 £ 000	31 December 2022 £ 000
Within one year	85,848	79,519
In two to five years	236,459	262,627
Over five years	177,401	145,932
	499,708	488,078

The Group's exposure to credit and market risks, including maturity analysis, relating to trade and other receivables is disclosed in Note 29 "Financial risk review".

17 Cash and cash equivalents

	Group		Company	
	31 December 2023 £ 000	31 December 2022 £ 000	31 December 2023 £ 000	31 December 2022 £ 000
Cash at bank	810	15,324	-	-
Other cash and cash equivalents	13,950	253,337	-	18,090
	14,760	268,661	-	18,090

The cash and cash equivalents at 31 December 2022 relate to demand deposits held with the Group’s treasury company Yorkshire Electricity Group plc and treated as cash and cash equivalents. Yorkshire Electricity Group plc is authorised to settle amounts against intercompany balances as set out in the Cash Flow Statement. During 2023 the Group has completed a refinancing and paid dividends. The amounts held are not considered demand deposits and accordingly the amounts are disclosed as an intercompany receivable and included in trade and other receivables in note 16

18 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 20.

	Share value	No. of shares	2023 £ 000	2022 £ 000
Ordinary shares	56 12/13p	127,689,809	72,173	72,173

19 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)	(5,261)	-	(5,261)
Remeasurements of post employment benefit obligations (net)	-	(7,995)	(7,995)
	(5,261)	(7,995)	(13,256)

There had been no movement on share premium and capital redemption reserve.

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	(As restated) Retained earnings £ 000	Total £ 000
Loss on cash flow hedge (net)	15,419	-	15,419
Remeasurements of post employment benefit obligations	-	(85,657)	(85,657)
	15,419	(85,657)	(70,238)

19 Reserves (continued)

Company

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

	Retained earnings £ 000	Total £ 000
Remeasurements of post employment benefit obligations	(10,650)	(10,650)

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

	Retained earnings £ 000	Total £ 000
Remeasurements of post employment benefit obligations	(86,550)	(86,550)

20 Loans and borrowings

	Group		Company	
	2023 £ 000	2022 £ 000	2023 £ 000	2022 £ 000
Non-current loans and borrowings	1,153,068	1,193,131	1,117	1,117
Current loans and borrowings	135,284	125,040	6,368	7,831
	1,288,352	1,318,171	7,485	8,948

20 Loans and borrowings (continued)

Group

	Carrying value		Fair value	
	2023	2022	2023	2022
	£ 000	£ 000	£ 000	£ 000
Short-term loans	72,883	63,614	72,883	63,614
Amortising loan 2026 - 2.3012%*	135,502	174,915	137,476	173,480
Bond 2035 - 5.125%	153,550	153,457	158,526	150,066
Bond 2049- 2.75%	150,161	150,098	106,192	100,507
Bond 2052 - 3.25%	355,018	354,942	272,362	259,793
Bond 2062 - 1.875%	297,742	297,649	159,538	154,267
European Investment Bank 2027 - 2.564%	120,128	120,128	111,677	103,252
Cumulative preference shares	3,368	3,368	133,454	139,037
	1,288,352	1,318,171	1,152,108	1,144,016

The group's exposure to market and liquidity risks, including maturity analysis, relating to loans and borrowings is disclosed in Note 29 "Financial risk review".

*2026 £218m Amortising Loan is 80% swapped at a fixed rate of 2.4455%, with the remaining 20% floating at SONIA plus 1.55%.

Company

	Carrying value		Fair value	
	2023	2022	2023	2022
	£ 000	£ 000	£ 000	£ 000
Short-term loans	4,118	5,580	4,118	5,580
Cumulative preference shares	3,368	3,368	133,454	139,037
	7,486	8,948	137,572	144,617

Of the total financial liabilities of £1,288.4 million, £1,215.5 million (2022: £1,254.6 million) relates to external borrowings and preference shares (111,662,378 shares) whose fair value is determined with reference to quoted market prices. The directors' estimates of the fair value of internal borrowings are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments. The valuation of liabilities set out above is based on Level 1 inputs.

The terms of the cumulative preference shares:

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

20 Loans and borrowings (continued)

- 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.

21 Obligations under leases

Group

Lease liability

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

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

	31 December 2023 £ 000	31 December 2022 £ 000
Within one year	3,524	3,690
In two to five years	6,996	8,014
In over five years	2,381	2,755
Total lease payment	12,901	14,459
Unearned interest	(1,275)	(1,266)
Total lease liability	11,626	13,193

The discounted amount due within one year totalled £3,231k (2022: £3,402k).

Unearned interest is future interest on leases not yet earned at the balance sheet date.

21 Obligations under leases (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 2023 £ 000	31 December 2022 £ 000
Within one year	86	172
In two to five years	687	601
In over five years	219	391
Total lease payment	992	1,164
Unearned interest	(78)	(102)
Total lease liability	914	1,062

22 Provisions

Group

	Claims £ 000	Other £ 000	Total £ 000
At 1 January 2023	1,095	3,339	4,434
Additional provisions	1,515	(105)	1,410
Provisions used	(1,609)	(297)	(1,906)
At 31 December 2023	1,001	2,937	3,938
Non-current liabilities	-	1,641	1,641
Current liabilities	1,001	1,296	2,297

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 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 relate to the Group's share of expected settlements of liabilities relating to pension deficit repair of Electricity Association Technology Limited ("EATL") and are expected to be settled over a period of approximately two years. As at 31 December 2023 the provision relating to EATL is £0.3m (2022: £0.6m).

22 Provisions (continued)

Company

	Other provisions £ 000	Total £ 000
At 1 January 2023	2,265	2,265
Increase (decrease) in existing provisions	(315)	(315)
Provisions used	(679)	(679)
At 31 December 2023	1,271	1,271

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 two years. As at 31 December 2023 the provision relating to EATL is £0.3m (2022: £0.6m).

23 Trade and other payables

	Group		Company	
	31 December 2023 £ 000	31 December 2022 £ 000	31 December 2023 £ 000	31 December 2022 £ 000
Payments on account	68,670	54,169	-	-
Trade payables	4,842	4,838	2,234	1,550
Capital creditors	32,330	20,754	2,348	-
Accrued expenses	16,697	14,353	1,643	2,291
Social security and other taxes	5,334	8,498	143	94
Other payables	27,896	14,792	189	317
	155,769	117,404	6,557	4,252

Payments on accounts is primarily advanced customer contributions.

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 29.

There are various costs and services shared between, or performed on behalf of, one distribution company for the other.These are borne initially through creditors and recharged to the other distribution company through revenue of £31.2m (2023 £26.0m).

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.

24 Deferred revenue

	Group		Company	
	31 December 2023 £ 000	31 December 2022 £ 000	31 December 2023 £ 000	31 December 2022 £ 000
Opening balance	681,802	677,658	-	-
Additions	46,267	33,397	-	-
Amortisation	(29,963)	(29,253)	-	-
	698,106	681,802	-	-

	Group		Company	
	31 December 2023 £ 000	31 December 2022 £ 000	31 December 2023 £ 000	31 December 2022 £ 000
Current	30,039	29,326	-	-
Non-current	668,067	652,476	-	-
	698,106	681,802	-	-

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.

25 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.

25 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 next actuarial valuation of the DB Scheme will be carried out by the Trustee's actuarial advisors, Aon, at a date no later than 31 March 2025. Such valuations are required by law to take place at intervals of no more than three years. Following each valuation, the Trustees and the Northern Powergrid 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 2022, the funding surplus was assessed to be £2.9 million. In light of this and subsequent changes in the funding position, the Group are not currently paying any deficit contributions. The next actuarial valuation is underway as at 31 March 2025 and is expected to be completed by 30 June 2026, by which time a new contribution schedule will be agreed.

The contributions payable by the Group to the DB Scheme in respect of future benefits which are accruing is 46.1% (49.1% to 30 June 2023) of pensionable pay with effect from 1 July 2023. These contributions were determined as part of the 31 March 2022 actuarial valuation. 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 2025 valuation.

The Northern Powergrid Group’s total contributions to the DB Scheme for the next financial year are expected to be £8.8m.

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 2022 funding valuation. This is the weighted-average time over which benefit payments are expected to be made.

As at 31 March 2022, broadly about 23% of the liabilities are attributable to current employees (duration about 24 years), 7% to former employees (duration about 22 years) and 70% to current pensioners (duration about 13 years).

We anticipate that the overall duration of the Scheme’s obligation will have reduced to around 13 years at 31 December 2023.

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

25 Pension and other schemes (continued)

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% (2022: 99%) 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 significant proportion (27%) 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 35% 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.

25 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.

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 2023
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 2022. 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 2022 have been adjusted to 31 December 2023. Those adjustments take account of experience over the period since 31 March 2022, 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:

Post retirement mortality assumptions

	31 December 2023 Years	31 December 2022 Years
Life expectancy for male currently aged 60	26.70	26.70
Life expectancy for female currently aged 60	28.90	26.60
Life expectancy at 60 for male currently aged 45	27.40	27.40
Life expectancy at 60 for female currently aged 45	30.10	29.70

25 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 2023 £ 000	31 December 2022 £ 000
Fair value of scheme assets	1,098,300	1,117,000
Present value of scheme liabilities	(949,700)	(965,500)
Defined benefit pension scheme surplus	148,600	151,500

Scheme assets

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

	31 December 2023 £ 000	31 December 2022 £ 000
Fair value at start of year	1,117,000	1,742,600
Interest income	52,700	33,600
Re-measurement (loss)/gains on scheme assets	(3,000)	(582,000)
Employer contributions	10,500	12,100
Contributions by scheme participants	400	400
Benefits paid	(77,900)	(88,300)
Administrative expenses paid	(1,400)	(1,400)
Fair value at end of year	1,098,300	1,117,000

25 Pension and other schemes (continued)

Analysis of assets

The major categories of scheme assets are as follows:

	31 December 2023 £ 000	31 December 2022 £ 000
Developed market equity	71,700	78,400
Emerging market equity	2,100	4,400
Property	103,300	169,400
Reinsurance	93,800	80,800
Listed infrastructure	53,500	62,800
Investment grade corporate bonds	49,700	15,900
Other debt (non-investment grade)	191,400	32,800
Fixed interest gilts	37,500	6,500
Liability driven investments	454,500	584,300
Cash and cash equivalents including derivatives	40,800	81,700
	1,098,300	1,117,000

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 2023 £ 000	(As restated) 31 December 2022 £ 000
Present value at start of year	(965,500)	(1,480,400)
Current service cost	(5,100)	(11,100)
Actuarial gains/(losses) arising from changes in demographic assumptions	34,400	900
Actuarial gains/(losses) arising from changes in financial assumptions	(18,300)	530,100
Actuarial gains/(losses) arising from experience adjustments	(27,300)	(64,400)
Interest cost	(45,400)	(28,500)
Benefits paid	77,900	88,300
Contributions by scheme participants	(400)	(400)
Present value at end of year	(949,700)	(965,500)

25 Pension and other schemes (continued)

Amounts recognised in the income statement

	31 December 2023 £ 000	(As restated) 31 December 2022 £ 000
Current service cost	5,100	11,100
Losses (gains) on curtailments and settlements	1,400	1,490
Net interest	(7,300)	(5,100)
Amounts recognised	(800)	7,490
Costs included in cost of qualifying assets	(2,500)	(6,800)
Total recognised in the income statement	(3,300)	690

Amounts taken to the Statement of Comprehensive Income

	31 December 2023 £ 000	31 December 2022 £ 000
Actuarial gains arising from changes in demographic assumptions	(34,400)	(900)
Actuarial losses and (gains) arising from changes in financial assumptions	18,300	(530,100)
Actuarial losses arising from experience adjustments	27,300	64,400
Return on plan assets in excess of that recognised in net interest	3,000	582,000
Amounts recognised in the Statement of Comprehensive Income	14,200	115,400

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 2023			31 December 2022	
Adjustment to discount rate	**+ 0.1% £ 000**	**0.0% £ 000**	**- 0.1% £ 000**	**+ 0.1% £ 000**	**0.0% £ 000**	**- 0.1% £ 000**
Present value of total obligation	945,000	957,600	970,400	952,700	965,500	979,300

		31 December 2023			31 December 2022	
Adjustment to rate of inflation	**+ 0.1% £ 000**	**0.0% £ 000**	**- 0.1% £ 000**	**+ 0.1% £ 000**	**0.0% £ 000**	**- 0.1% £ 000**
Present value of total obligation	966,700	957,600	946,600	978,700	965,500	953,300

		31 December 2023			31 December 2022	
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	993,800	957,600	920,600	995,300	965,500	934,900

25 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.

26 Dividends

	31 December 2023 £ 000	31 December 2022 £ 000
Dividend of £0.38 (2022 - £0.90) per ordinary share	48,000	114,946

An interim dividend of £400 million was paid on the 26th March 2024.

27 Net debt reconciliation

Group

	At 1 January 2023 £ 000	Cash flows £ 000	New leases £ 000	Other changes £ 000	At 31 December 2023 £ 000
Cash and cash equivalents	268,661	(253,901)	-	-	14,760
Lease liabilities	(13,193)	3,827	(2,260)	-	(11,626)
Borrowings	(1,318,171)	31,671	-	(1,852)	(1,288,352)
	(1,062,703)	(218,403)	(2,260)	(1,852)	(1,285,218)

	At 1 January 2022 £ 000	Cash flows £ 000	New leases £ 000	Other changes £ 000	At 31 December 2022 £ 000
Cash and cash equivalents	42,140	226,521	-	-	268,661
Lease liabilities	(14,790)	4,032	(2,435)	-	(13,193)
Borrowings	(1,037,367)	(270,518)	-	(10,286)	(1,318,171)
	(1,010,017)	(39,965)	(2,435)	(10,286)	(1,062,703)

Other changes include accrued interest movement and amortisation of borrowings.

27 Net debt reconciliation (continued)

Company

	At 1 January 2023 £ 000	Cash flows £ 000	New leases £ 000	At 31 December 2023 £ 000
Cash and cash equivalents	18,090	(18,090)	-	-
Lease liabilities	(1,062)	172	(24)	(914)
Borrowings	(8,948)	1,463		(7,485)
	8,080	(16,455)	(24)	(8,399)

	At 1 January 2022 £ 000	Cash flows £ 000	New leases £ 000	At 31 December 2022 £ 000
Cash and cash equivalents	29,036	(10,946)	-	18,090
Lease liabilities	(1,206)	171	(27)	(1,062)
Borrowings	(14,978)	6,030	-	(8,948)
	12,852	(4,745)	(27)	8,080

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

Group

The classification of financial assets and financial liabilities by accounting categorisation for the year ended 31 December 2023 was as follows:

	Financial assets at amortised cost £ 000	Financial assets at FVTPL £ 000	Financial assets at FVTOCI £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Non-current assets					
Property, plant and equipment	-	-	-	-	3,163,391
Right of use assets	-	-	-	-	11,229
Intangible assets	-	-	-	-	50,606
Investments in subsidiaries, joint ventures and associates	-	3,633	-	-	-
Retirement benefit obligations	-	-	148,600	-	-
Trade and other receivables	6,463	-	-	-	-
Other non-current financial assets (Note 30)	-	-	8,831	-	-
	6,463	3,633	157,431	-	3,225,226
Current assets					
Inventories	-	-	-	-	29,904
Trade and other receivables	342,948	-	-	-	-
Cash and cash equivalents	14,760	-	-	-	-
Contract assets	7,052	-	-	-	-
Other current financial assets (Note 30)	-	-	5,861	-	-
	364,760	-	5,861	-	29,904
Total assets	371,223	3,633	163,292	-	3,255,130

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

Non-current assets	Financial assets at amortised cost £ 000	Financial assets at FVTPL £ 000	Financial assets at FVTOCI £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Non-current liabilities					
Long term lease liabilities	-	-	-	(8,395)	-
Loans and borrowings	-	-	-	(1,153,068)	-
Provisions	-	-	-	(1,641)	-
Deferred revenue	-	-	-	(668,067)	-
Deferred tax liabilities	-	-	-	-	(160,882)
	-	-	-	(1,831,171)	(160,882)
Current liabilities					
Current portion of long term lease liabilities	-	-	-	(3,231)	-
Trade and other payables	-	-	-	(150,435)	(5,334)
Loans and borrowings	-	-	-	(135,284)	-
Income tax liability	-	-	-	-	(3,245)
Deferred revenue	-	-	-	(30,039)	-
Provisions	-	-	-	(2,297)	-
	-	-	-	(321,286)	(8,579)
Total liabilities	-	-	-	(2,152,457)	(169,461)

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

The classification of financial assets and financial liabilities by accounting categorisation for the period ending 31 December 2022 was as follows:

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial assets & liabilities at FVTOCI £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets					
Non-current assets					
Property, plant and equipment	-	-	-	-	3,059,199
Right of use assets	-	-	-	-	12,787
Intangible assets	-	-	-	-	47,357
Investments in subsidiaries, joint ventures and associates	-	3,982	-	-	-
Retirement benefit obligations	-	-	151,500	-	-
Trade and other receivables	4,087	-	-	-	-
Other non-current financial assets (Note 30)	-	-	18,926	-	-
	4,087	3,982	170,426	-	3,119,343
Current assets					
Inventories	-	-	-	-	25,740
Trade and other receivables	94,320	-	-	-	-
Income tax asset	1,054	-	-	-	-
Cash and cash equivalents	268,661	-	-	-	-
Contract assets	5,824	-	-	-	-
Other current financial assets (Note 30)	-	-	2,781	-	-
	369,859	-	2,781	-	25,740
Total assets	373,946	3,982	173,207	-	3,145,083

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

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial assets & liabilities at FVTOCI £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Liabilities					
Non-current liabilities					
Long term lease liabilities	-	-	-	(9,791)	-
Loans and borrowings	-	-	-	(1,193,131)	-
Provisions	-	-	-	(1,921)	-
Deferred revenue	-	-	-	(652,476)	-
Deferred tax liabilities	-	-	-	(163,218)	-
	-	-	-	(2,020,537)	-
Current liabilities					
Current portion of long term lease liabilities	-	-	-	(3,402)	-
Trade and other payables	-	-	-	(117,404)	-
Loans and borrowings	-	-	-	(125,040)	-
Deferred revenue	-	-	-	(29,326)	-
Provisions	-	-	-	(2,513)	-
	-	-	-	(277,685)	-
Total liabilities	-	-	-	(2,298,222)	-

Fair values are derived from level 1 inputs.

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

Company

The classification of financial assets and financial liabilities by accounting categorisation for the year ended 31 December 2023 was as follows:

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial assets at FVTOCI £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets					
Non-current assets					
Property, plant and equipment	-	-	-	-	1,541
Right of use assets	-	-	-	-	879
Retirement benefit obligations	-	-	148,600	-	-
Investments in subsidiaries, joint ventures and associates	-	242,902	-	-	-
	-	242,902	148,600	-	2,420
Current assets					
Trade and other receivables	10,217	-	-	-	1,199
Income tax asset	-	-	-	-	4,367
	10,217	-	-	-	5,566
Total assets	10,217	242,902	148,600	-	7,986
Liabilities					

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

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial assets at FVTOCI £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Non-current liabilities					
Long term lease liabilities	-	-	-	(850)	-
Loans and borrowings	-	-	-	(1,117)	-
Provisions	-	-	-	(956)	-
Deferred tax liabilities	-	-	-	-	(36,802)
	-	-	-	(2,923)	(36,802)
Current liabilities					
Current portion of long term lease liabilities	-	-	-	(64)	-
Trade and other payables	-	-	-	(6,414)	(143)
Loans and borrowings	-	-	-	(6,368)	-
Provisions	-	-	-	(315)	-
	-	-	-	(13,161)	(143)
Total liabilities	-	-	-	(16,084)	(36,945)

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

The classification of financial assets and financial liabilities by accounting categorisation for the year ended 31 December 2022 was as follows:

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial assets at FVTOCI £ 000	(As restated) Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets					
Non-current assets					
Property, plant and equipment	-	-	-	-	1,548
Right of use assets	-	-	-	-	1,016
Retirement benefit obligations	-	-	151,500	-	-
Investments in subsidiaries, joint ventures and associates	-	242,902	-	-	-
	-	242,902	151,500	-	2,564
Current assets					
Trade and other receivables	1,035	-	-	-	-
Income tax asset	1,400	-	-	-	-
Cash and cash equivalents	18,090	-	-	-	-
	20,525	-	-	-	-
Total assets	21,047	242,902	151,500	-	2,564
Liabilities					

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

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial assets at FVTOCI £ 000	(As restated) Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Non-current liabilities					
Long term lease liabilities	-	-	-	(914)	-
Loans and borrowings	-	-	-	(1,117)	-
Provisions	-	-	-	(1,610)	-
Deferred tax liabilities	-	-	-	-	(37,353)
	-	-	-	(3,641)	(37,353)
Current liabilities					
Current portion of long term lease liabilities	-	-	-	(148)	-
Trade and other payables	-	-	-	(4,158)	(94)
Loans and borrowings	-	-	-	(7,831)	-
Provisions	-	-	-	(263)	-
	-	-	-	(12,400)	(94)
Total liabilities	-	-	-	(16,041)	(37,447)

29 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 2022.

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

At 31 December 2023, 98% of the Group's long-term borrowings were at fixed rates (2022: 97%) and the average maturity for these borrowings was 23 years (2022: 23 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

2023	Notes	Gross carrying amount £ 000	Loss allowance £ 000	Net carrying amount £ 000
Trade and other receivables	16	357,561	(8,150)	349,411
Cash and short-term deposits	17	14,760	-	14,760
Contract assets	16	7,052	-	7,052
	16	379,373	(8,150)	371,223

2022	Notes	Gross carrying amount £ 000	Loss allowance £ 000	Net carrying amount £ 000
Trade and other receivables	16	107,986	(9,579)	98,407
Income tax asset		1,054	-	1,054
Cash and short-term deposits	17	268,661	-	268,661
Contract assets	16	5,824	-	5,824
	16	383,525	(9,579)	373,946

29 Financial risk review (continued)

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

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

Company

2023	Notes	Gross carrying amount £ 000	Loss allowance £ 000	Net carrying amount £ 000
Trade and other receivables	16	11,416	-	11,416
Cash and cash equivalents	17	-	-	-
Income tax asset		4,367	-	4,367

2022	Notes	Gross carrying amount £ 000	Loss allowance £ 000	Net carrying amount £ 000
Trade and other receivables	16	1,035	-	1,035
Cash and cash equivalents	17	18,090	-	18,090
Income tax asset		-	-	-

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. During 2023, the second 1-year extension option was exercised, extending the expiry date to December 2026. 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 2023, the Group had available £119.3m (2022: £88.8m) 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.

29 Financial risk review (continued)

Group

2023	Less than 3 months £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
Non-interest bearing	101,426	-	-	-	101,426
Short-term interest bearing	7,044	66,338	-	-	73,382
Long-term interest bearing	-	77,895	345,867	1,554,688	1,978,450
	108,470	144,233	345,867	1,554,688	2,153,258

2022	Less than 3 months £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
Non-interest bearing	73,854	-	-	-	73,854
Short-term interest bearing	63,592	3,717	30,386	-	97,695
Long-term interest bearing	-	102,786	363,611	1,583,500	2,049,897
	137,446	106,503	393,997	1,583,500	2,221,446

Company

2023	Less than 3 months £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
Non-interest bearing	2,424	-	-	-	2,424
Short-term interest bearing	4,096	-	-	-	4,096
Long-term interest bearing	-	9,001	36,004	226,144	271,149
	6,520	9,001	36,004	226,144	277,669

2022	Less than 3 months £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
Non-interest bearing	1,889	-	-	-	1,889
Short-term interest bearing	5,558	-	-	-	5,558
Long-term interest bearing	-	9,001	36,004	226,144	271,149
	7,447	9,001	36,004	226,144	278,596

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 2023 the Group had 98%(2022: 97%) of long term debt at fixed rates. Short-term loans under the multicurrency revolving credit facility are charged at a floating rate of interest at SONIA plus 0.20% plus a credit adjustment spread. In aggregate, 20% of the amortising long-term loan and the capital expenditure facility loans are at a floating rate of interest at SONIA plus 1.55% and 1.60% respectively, 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.

More information on the use of cash flow hedges to manage interest rate risk on is available in Note 30.

29 Financial risk review (continued)

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

30 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.

	2023		2022	
	Assets £ 000	Liabilities £ 000	Assets £ 000	Liabilities £ 000
Non-current	8,831	-	18,926	-
Current	5,861	-	2,781	-
	14,692	-	21,707	-

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
2023				
Notional principal	33,403	129,880	-	163,283
Cash flow hedge	2,171	12,521	-	14,692
	35,574	142,401	-	177,975
2022				
Notional principal	32,801	145,179	-	177,980
Cash flow hedge	2,781	18,926	-	21,707
	35,582	164,105	-	199,687

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% on the amortising long-term loans and 0.8505% on the capital expenditure facility loans. The Group will settle the difference between the fixed and floating interest rate on a net basis.

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

Effectiveness testing

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

Nature of the risk being hedged

The Group is hedging the risk of variability in cash flows indexed to SONIA. Further details of the Group's risk management is available in the strategic report, pages 23 to 28, and in financial risk review, Note 29.

31 Related party transactions

Directors' advances, credits and guarantees

During the year, 1 directors (2022: 3) and 4 key personnel (2022: 3) utilised the services provided by Northern Transport Finance Limited. The amounts included in lease receivables owed by these directors and key personnel were £65,888 (2022: £90,000).

Group

2023	Sales to £ 000	Purchases from £ 000	Amounts owed from/(to) £ 000	Finance income/(costs) £ 000	Borrowings to/(from) £ 000
Integrated Utility Services (Eire)	2,235	(2,932)	-	-	-
CE Gas Limited	658	-	-	-	-
Northern Powergrid (Yorkshire) plc	37,535	(15,359)	2,218	-	-
Vehicle Lease and Service Limited	37	(5,132)	-	231	-
Yorkshire Electricity Group	-	-	-	614	242,733
	40,465	(23,423)	2,218	845	242,733

2022	Sales to £ 000	Purchases from £ 000	Amounts owed from/(to) £ 000	Finance income/(costs) £ 000	Borrowings to/(from) £ 000
Integrated Utility Services (Eire)	2,414	(3,015)	-	-	-
CE Gas Limited	215	-	-	-	-
Northern Powergrid (Yorkshire) plc	32,346	(10,591)	-	-	-
Vehicle Lease and Service Limited	28	(5,175)	-	1,011	-
Yorkshire Electricity Group	-	-	-	2,948	253,337
	35,003	(18,781)	-	3,959	253,337

31 Related party transactions (continued)

Company

2023	Sales to £ 000	Purchases from £ 000	Finance income/(costs) £ 000	Borrowings to/(from) £ 000
CE Gas Limited	658	-	-	-
Northern Powergrid Limited	-	-	(3,111)	-
Northern Powergrid (Northeast) plc	5,010	(12)	31,400	-
Northern Powergrid (Yorkshire) plc	2,310	-	-	-
Northern Transport Finance Limited	51	-	-	-
Vehicle Lease and Service Limited	-	-	231	-
Yorkshire Electricity Group	-	-	973	11,271
Northern Powergrid Metering Limited	-	-	16,600	-
	8,029	(12)	46,093	11,271

2022	Sales to £ 000	Purchases from £ 000	Finance income/(costs) £ 000	Borrowings to/(from) £ 000
CE Gas Limited	215	-	-	-
Northern Powergrid (Northeast) plc	4,193	(6)	27,700	-
Northern Powergrid (Yorkshire) plc	2,092	-	-	-
Northern Transport Finance Limited	7	-	3,249	-
Vehicle Lease and Service Limited	-	-	1,011	-
Yorkshire Electricity Group	-	-	370	18,090
Northern Powergrid Metering Limited	-	-	75,000	-
Northern Electric Properties Limtied	-	-	8,997	-
	6,507	(6)	116,327	18,090

Intercompany balances with Yorkshire Electricity Group relate to intercompany current account transactions. Further details can be found on Note 2 and Note 17.

32 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

33 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.

34 Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of Northern Electric plc will be held by Teams on Wednesday 26 June 2024 at 11.00 am.

WebEx joining instructions
For shareholders wishing to join the Annual General Meeting of Northern Electric plc please visit https://www.microsoft.com/microsoft-teams/join-a-meeting and when prompted, enter ‘meeting ID’: 220 376 670 685 and ‘passcode’: NAZcEs.

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 2023.

Dividend
2 To declare that no final dividend be paid for the year ended 31 December 2023.

Re-election of Directors
3 To re-elect Mr J N Reynolds as a director.

The Auditors
4 To appoint KPMG as auditor of the Company to hold office with effect 26 June 2024 to the conclusion of the accounts meeting next following their appointment, remuneration to be determined by the directors.

34 Notice of annual general meeting (continued)

By order of the board
J C Riley
Company Secretary
30 April 2024

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.