

Registered number: 02906593 (England and Wales)

Northern Powergrid (Northeast) plc

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2022

Northern Powergrid (Northeast) plc

Contents

Company Information	1
Strategic Report	2 to 21
Directors' Report	22 to 26
Independent Auditor's Report	27 to 37
Consolidated Income Statement	38
Consolidated Statement of Comprehensive Income	39
Consolidated Statement of Financial Position	40 to 41
Statement of Financial Position	42 to 43
Consolidated Statement of Changes in Equity	44
Statement of Changes in Equity	45
Consolidated Statement of Cash Flows	46
Statement of Cash Flows	47
Statement of Cash Flows	48
Notes to the Financial Statements	49 to 110

Northern Powergrid (Northeast) plc

Company Information

Directors	A P Jones
	A J Maclellan
	A R Marshall
	P A Jones
	P C Taylor
	T H France
Company Secretary	J C Riley
Registered office	Lloyds Court
	78 Grey Street
	Newcastle upon Tyne
	Tyne and Wear
	NE1 6AF
Registered Number	02906593 (England and Wales)
Auditors	Deloitte LLP
	Senior statutory auditor
	London
	United Kingdom

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022

The directors present the annual reports and financial statements for the year ended 31 December 2022 of Northern Powergrid (Northeast) plc (the "Company"), which have been drawn up and presented in accordance with the Companies Act 2006.

BUSINESS MODEL

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

As a distribution network operator ("DNO"), the Company is regulated by the Office of Gas and Electricity Markets ("Ofgem"), which in turn, is governed by the Gas and Electricity Markets Authority ("GEMA"). Ofgem requires the DNOs to operate within a regulatory framework known as a price control, the purpose of which is to protect the interests of end consumers by setting an upper limit on the amount the DNOs can charge for the use of their networks. The completion of the 2021/22 Regulatory Year (on 31 March 2022), represented the end of year seven of the current RIIO-ED1 price control, which became effective on 1 April 2015 and is due to end on 31 March 2023 (the "ED1 period").

The principal activity of the Company is the distribution of electricity to approximately 1.6 million customers connected to its electricity distribution network (the "Network") within its distribution services area in the northeast of England, which extends from North Northumberland, south to York and west to the Pennines. The 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 the Company is primarily controlled by a distribution price control formula which is set out in the Licence. The price control formula does not directly constrain profits from year-to-year but is a control on revenue that operates independently of a significant portion of the Company's costs. Allowed revenue is recovered from electricity suppliers via the application of Distribution use of System charges. These charges account for approximately 15% of the electricity end user's overall electricity bill. The Company's opening base allowed revenue (excluding the effects of incentive schemes and any deferred revenues from the prior price control) has been set to remain constant and therefore provides the Company with some stability in terms of its income for each Regulatory Year from 1 April 2016 through to 31 March 2023. Nominal opening base allowed revenues will increase in line with inflation (as measured by the United Kingdom's Retail Prices Index "RPI").

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

STRATEGY

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

Submitted to Ofgem in March 2014, the Business Plan described the long-term strategy and commitments that the Company would achieve during the ED1 period in order to deliver sustainable growth with regard to those with whom the Company interacted and served. Developed after a period of consultation with stakeholders, the Business Plan focused on a number of priorities (described throughout the Strategic Report) including minimising costs, improving flood defences, enhancing customer service, prioritising employee safety, supporting vulnerable customers, protecting the environment and transitioning to low carbon technologies. The directors refer to the values established by the Core Principles and the commitments contained within the Business Plan when considering the consequence of decisions they make. The 2022 financial year denotes the last full year in which the Company operated under the Business Plan.

Following the publication of RIIO-ED2 ("ED2") Business Planning guidance by Ofgem in August 2020, the Company commenced the development of its regulatory business plan for the ED2 period (1 April 2023 to 31 March 2028) (the "ED2 Plan"), which was submitted to Ofgem on 1 December 2021 (a copy of which can be found on the Northern Powergrid Group website). As part of the development of the ED2 Plan, the Company worked with the Customer Engagement Group ("CEG"), which was established for the purpose of providing independent scrutiny and challenge to ensure that customers' interests are adequately reflected in the ED2 Plan. Ahead of the implementation of the ED2 Plan on 1 April 2023, the Company will participate in open hearings with Ofgem and interested stakeholders and consultations before Ofgem publishes its final determination in December 2022 (for further detail, see Regulatory Integrity).

During the transition into the ED2 Period and beyond, the strategy set out in the ED2 Plan will support the Company's evolution from DNO to Distribution System Operator ("DSO"), in order to facilitate decarbonisation and take steps to achieve a fully integrated energy system. See Environmental Sustainability for more detail.

Many of the conditions set out in the Licence, including the way in which base allowed revenue will be determined will be revised as a result of the stipulations set out in the ED2 final determination. However, these will not come into effect until 1 April 2023 and will therefore not be reported on until the 31 December 2023 annual report and financial statements of the Company.

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 ED1 period. This 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 Regulatory 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.

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

FINANCIAL STRENGTH

Strategic objective: Strong finances that enable improvement and growth.

KPI	2022	2021
Operating profit (million)	£161.6	£147.6
Cash from operating activities (million)	£210.8	£205.6
Cash used in investing activities (million)	£124.9	£163.4
Credit Score (Standard and Poor's)	A	A

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

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

Revenue: The Group's revenue at £441.9 million was £56.7 million higher than the prior year (2021: £385.2 million) primarily due to higher distribution use of system revenues as the result of higher tariffs and including the recovery of payments made under the supplier of last resort process.

Operating profit and position at the year-end: The Group's operating profit of £161.6 million was £14.0 million higher than the previous year (2021: £147.6 million), primarily reflecting higher gross profit (£11.7 million) and impact of storm arwen (£4.6 million), pension deficit repair payments (£4.8 million), lower bad debts (£3.8 million) offset by higher depreciation (£3.6 million). The statement of financial position shows that, as at 31 December 2022 the Group had total equity of £1,236.7 million (2021: £1,162.1 million). The directors consider the Group to have a strong financial position which, when coupled with the preference of its parent Company, Berkshire Hathaway Energy, for operating with lower levels of debt than equivalent companies in the sector, creates a stable base for continued strong performance during the ED1 period.

Finance costs and investments: Finance costs net of investment income at £32.2 million was £5.4 million higher than the prior year (2021: £26.8 million) mainly reflecting increased borrowings.

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

Cash flow from operating activities at £210.8 million was £5.2 million higher than the previous year, reflecting higher operating profit before depreciation and amortisation and offset by adverse movements in working capital.

The net cash used in investing activities at £124.9 million was £38.5 million lower than the previous year, reflecting higher receipt of customer contributions offset by lower purchases of plant, property and equipment.

The net cash inflow from financing activities at £190.3 million was £232.8 million higher than the £42.5 million cash outflow in the previous year.

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

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

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

CUSTOMER SERVICE

Strategic objective: Delivering exceptional customer service.

KPI	2022	2021
Broad Measure of Customer Satisfaction ("BMCS")	88.3%	89.4%
BMCS Rank (Out of 14)	12	11
BMCS Power Cuts	87.8%	88.9%
BMCS General Enquiries	94%	94.4%
BMCS Connections	86.2%	87.8%
Stakeholder Engagement and Customer Vulnerability ("SECV") rank (out of 13) (combined with Northern Powergrid (Yorkshire) plc)	6	5

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

Performance during the year: In respect of BMCS performance, an independent market research company carried out telephone surveys with the Company's customers to find out how satisfied they were with services related to unplanned or planned power cuts, quotations and subsequent connections, and general enquiries.

The Company recorded a decline in overall satisfaction scores at 88.3% compared to the prior year (89.4%) 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 the Company's customer service improvement plan were implemented. This included the continued development of the customer relationship management ("CRM") system, including the launch of an enduring connections solution (which equips customers with greater self-serve capabilities), the roll-out of additional communication and greater call handling capability.

Activity scheduled to take place during 2023 includes the further development of the CRM system to support a self-serve solution for low carbon technology additional load requests, the introduction of a proactive on-site response offering to support customers impacted by long duration power cuts and to provide out of hours delivery for certain services.

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

Connections to the network

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

Performance during the year: 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 post the relaxation of Pandemic restrictions. In response the Company 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 in ED1.

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

In relation to the Company's ICE commitments for the 2022/23 regulatory year, the 11 actions included in the service improvement work plan are on track to be delivered by 31 March 2023.

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

Corporate Responsibility

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

Performance during the year: In May 2022, the Company (together with Northern Powergrid (Yorkshire) plc) put forward its SECV submission to Ofgem in respect of work undertaken during the 2021/22 Regulatory Year. The material provided an overview of activities and case studies in areas such as support for vulnerable customers, decarbonisation, safety, environment, customer service, reliability and availability.

Following the review by Ofgem's panel, the Company achieved sixth place (of six) in the context of the DNOs (2020/21: fifth place (of five)). 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.

During the year, the Company continued to develop its routine engagement activity with a focus on decarbonisation and resilience. This included enhancing existing relationships with local councils, Local Enterprise Partnerships and civic leaders, particularly during periods of severe weather and when providing support to vulnerable customers. In addition, engagement sessions were held (and attended by the CEG) to understand stakeholders' opinions on the commitments and proposed level of investment in the ED2 Plan.

The ongoing energy crisis and economic uncertainty exacerbated the challenges facing vulnerable customers. As a result, additional resource was allocated to assist those facing fuel poverty and work continued with partners who provide support services. The Company's fuel poverty partners resumed face to face advice where possible but also maintained online and telephone services. In addition, the Company's Community Partnering Fund financed nine grassroots organisations across the region to deliver fuel poverty support to vulnerable households. Alongside, the Company 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.

KPI	2021/22		2020/21	
	Actual	Target	Actual	Target
Customer minutes lost	46.33	<52.8	36.8	<55.2
Customer interruptions	49.89	<59.2	45.3	<60.0
	2022		2021	
Network investment (million)	£157.5		£188.6	
High voltage restoration time (minutes)	61.1		51.8	

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

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

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

In relation to high voltage restoration, the Company's high-voltage restoration performance during the year averaged 61.1 minutes (2021: 51.8 minutes), after allowing for severe weather incidents and other exemptions.

In respect of the Business Plan commitments, the Company together with Northern Powergrid (Yorkshire) plc achieved 26% fewer unplanned power cuts and a reduction of the average length of unplanned power cuts by 32% (relative to the prior regulatory period). Progress remains on track to outperform the original targets of 8% fewer unplanned power cuts and a 20% reduction in the number of unplanned customer minutes lost per customer.

The Company invested £157.5 million during the year through its approved Network investment strategy (2021: £188.6 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.

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

Climate Change Adaptation

Strategic objective: Operate a highly reliable and resilient Network.

KPI

	2021/22			2020/21		
	Annual	Cumulative	Target	Annual	Cumulative	Target
Flood Defences:						
High risk sites protected		95%	88%		94%	75%
Flood defence upgrades	0	125		1	125	
Installed at major substations	7	81		12	74	
Vegetation Management:						
High voltage network resilient to high winds	16.5		544	53		585
Clearance of spans	29,469		29,328	28,246		28,004
Collaboration:						
Local Resilience Forums	35		28	28		28

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

Performance during the year: In respect of routine activity, the Company and its affiliate invested £5.0 million on flood mitigation works and £8.6 million on the continuation of the vegetation management programme. In parallel, activity to understand the risks and opportunities presented by climate change, as well as the development of initiatives in response, continued to evolve.

Using the latest climate projections (UKCP18), alongside work with the Met Office and the Energy Networks Association, the Company carried out a risk assessment to identify and prioritise key climate related risks and their impact on the Network.

Focus was directed on two pathways. The first, in line with the 2°C global warming considered in the Paris agreement and the second, representing an increase in global mean surface temperature of 4.3°C by 2081-2100. The risk assessment was carried out across three timescales (current, medium term: 2050's and long term: 2080's) for each scenario, which resulted in the following key risks:

- Precipitation (extreme prolonged rainfall) - leading to flooding and erosion, and creating access issues, asset damage and reduced performance.
- Temperature (extreme heat) - high temperatures, which may reduce the performance and efficiency of assets.
- Precipitation (storms) - strong winds in conjunction with heavy rain, causing operational failure of above ground assets and increased faults.
- Temperature / Precipitation (gradual increase in temperature and rainfall) - warmer and wetter conditions extending vegetation growing seasons, resulting in accelerated growth and increasing management needs.

In terms of impact, sixteen asset related risks and four non-asset related risks were identified, all of which were included in the Company's Climate Change Adaptation report submitted to Department for Environment, Food and Rural Affairs ("Defra") in December 2021 and the Climate Resilience Strategy for 2023 to 2028 (both available on the Northern Powergrid Group website).

The Company's climate resilience framework (part of the aforementioned strategy) has been developed in line with guidance from Defra and the National Infrastructure Commission's approach to Climate Resilience and incorporates the recommended aspects of resilience: Anticipate, Assess, Adapt, Recover and Transform.

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

EMPLOYEE COMMITMENT

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

KPI	2022		2021	
	Actual	Target	Actual	Target
Northern Powergrid Group occupational safety and health administration ("OSHA")	0.26	0.09	0.29	0.09
Preventable vehicle accidents	10	14	23	14
Lost time accidents	0	-	1	-
Medical treatment accidents	-	1	2	1
Operational incidents	5	3	6	4
Northern Powergrid Group absence rate	3.3%		3.3%	

Health and Safety

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

Performance during the year: In common with the Berkshire Hathaway Energy group, the Northern Powergrid Group measures its safety performance 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 0.26 (2021: 0.29), which equated to six recordable incidents against a goal of two or fewer. Three incidents involved minor burn injuries, and as such, an intervention plan was implemented. The Company had a positive year in terms of PVAs, with ten recorded against a target of 14 or fewer.

In respect of the Business Plan commitment, at 31 December 2022, the Company's accident rate had been reduced by 42%, which is on target to achieve a 50% reduction by 31 March 2023.

Improving safety performance remains a key priority and the way in which this is achieved is set out in the Company's safety and health improvement plan ("SHIP"). During the year, the SHIP focused on 45 initiatives in the areas of enhanced engagement, operational performance, risk management, road risk, occupational health and public safety. This included an upgrade of the telematics system in all fleet vehicles, continuation of driver training, weekly driving performance analysis for fleet vehicle drivers and the introduction of a new system for display screen equipment assessments.

The mental health and wellbeing of staff continues to form an integral part of the SHIP. 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.

In terms of the Pandemic, safe working practices and procedures remained under review by members of the safety team, senior management team, Health and Safety Committee and the Board, in conjunction with trade union representatives until measures were relaxed.

During the year, the Company successfully retained its ISO 45001 accreditation scheme for its health and safety management system.

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

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: As Pandemic restrictions eased, an enduring approach to agile working was launched, allowing eligible colleagues to adopt flexible ways of working. This enhanced the Company's ability to attract new talent whilst fostering teamwork and collaboration. Alongside, the Company continued to develop its health and wellbeing offering and in support, appointed a new occupational health partner.

In relation to development, training sessions on topics which formed part of the Diversity, Equality 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 2023, the Company's leadership offering will be refreshed in line with the Berkshire Hathaway Energy Performance Management Framework.

During the year, 41 new recruits (2021: 38) joined the Company and Northern Powergrid (Yorkshire) plc's workforce renewal programme. At 31 December 2022, the Company had 1,281 employees (2021: 1,228).

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 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. As social distancing measures eased, the executive directors engaged directly with employees during operational and office-based site visits, and induction and graduation events. Communication with employees was delivered via various channels including group wide text messages to quickly disseminate key information concerning safety, the Pandemic and Major Incident Management Plans, regular briefings, line manager conversations, meetings with trade union representatives and 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 Company's policy is to provide all protected groups, including disabled people, with equality at work in respect of employment, training, career development and promotion, having regard to their aptitudes and abilities. Should any member of staff become disabled during their employment, the Company will make reasonable adjustments, wherever possible.

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

ENVIRONMENTAL RESPECT

Strategic objective: Leaders in environmental respect and low carbon technologies

KPI	2022		2021	
	Actual	Target	Actual	Target
Total oil/fluid lost (litres)	10,164	<11,406	8,986	<11,583
SF6 gas discharges (kg)	22.08	<12.75	19.20	<13.50
Environmental incidents	3	<2	-	<2
Carbon footprint (tonnes)	14,375		14,496	
KWh energy consumed	20,867,214		21,241,374	
Business carbon footprint	Tonnes	Per km²	Tonnes	Per km²
Scope 1	2,728	0.19	2,737	0.19
Scope 2	2,439	0.17	2,679	0.19
Scope 3	9,208	0.64	9,080	0.62
Total carbon footprint (tonnes)	14,375	1.00	14,496	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 aligned with international standards, those required by Defra and BEIS and is compliant with ISO 14064-1:2006.

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

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

Performance during the year: The Company operates a United Kingdom Accreditation Service scheme for environmental management and is certified to the environmental management systems standard ISO 14001:2015. This is designed to enhance environmental performance, fulfil compliance obligations and achieve environmental objectives, all of which contribute to the attainment of the KPIs. A full recertification assessment was carried out in March 2020 with continued certification confirmed following the last surveillance audit in October 2022.

The Company’s carbon footprint reporting framework is certified under the Certified Emissions Measurement and Reduction Scheme for compliance with ISO 14064-1:2006. Certification was reconfirmed in August 2022.

Remote working and less travel has led to a further reduction in the Company’s carbon footprint to 14,375 tonnes (2021: 14,496 tonnes). This improvement (combined with Northern Powergrid (Yorkshire) plc) demonstrated a carbon footprint reduction of 39% at 31 December 2022, well ahead of the original 10% ED1 commitment.

In support of the target to further reduce oil and fluid loss, the 2022 annual environmental improvement plan included replacing fluid-filled cables and locating cable fluid leaks more quickly resulting in a total fluid loss of 10,164 litres (2021: 8,986). In relation to the Business Plan commitment, at 31 December 2022, the Company and its affiliate had achieved a 51% reduction in oil and fluid loss (15% commitment).

To maintain its strict policy of environmental protection and legal compliance, the Company continued to assess environmental risks and mitigate threats through programmes of work such as fluid-filled cable replacement, undergrounding overhead lines in areas of outstanding natural beauty, installing flood defences, implementing secondary containment in high-risk substations and removing equipment containing polychlorinated biphenyl from the Network. Whilst prevention is paramount, in the event the Company’s activity does result in a leak or spill, the services of an appointed 24-hour a day environmental response consultancy is used to minimise the effects of any incident.

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

Science-based targets are a set of goals developed to provide a clear route to reducing greenhouse gas emissions. Emissions reduction targets are considered science based if they are consistent with keeping global warming below 1.5°C above pre-industrial levels. The Company’s science-based targets were verified by the Science-based Targets Initiative in December 2021.

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

To date, the Company’s performance against a number of stretching KPIs to reduce carbon usage and minimise the effects of the Company 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, the Company will continue to evolve its ambitions and enhance the implementation of environmental plans throughout the ED2 period.

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

Environmental Sustainability

Strategic focus: Enable significant growth in customers connecting low carbon technologies, support all pathways to net zero emissions and significantly reduce the Company'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, the Company engaged with Ofgem to secure the funding to support its DSO strategy and therefore, act as a key facilitator in the country's net zero transition by placing decarbonisation at the heart of its investment and actions for the ED2 period.

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, the Company continued to develop and action innovative solutions that will reduce the need for traditional and potentially expensive reinforcement.

In the past year, the Company engaged with the market for flexibility by consulting on investment solutions where there was an option for customers to change their energy consumption and generation patterns, 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, the Company published further Distribution Future Energy Scenarios in February 2022 (available via the Northern Powergrid group corporate website).

From an innovation perspective, the Company runs a portfolio of projects in the priority areas of customer vulnerability, resilience and decarbonisation. One ongoing energy efficiency project has the potential to deliver a 4% reduction in domestic energy use, giving rise to an average £40 annual saving. Meanwhile, the scope of the Silent Power generators for temporary restorations was expanded to support larger and high voltage faults. Ongoing innovation projects aim to provide support to rural communities.

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

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

Collectively, these objectives have been developed to achieve a number of outcomes and benefits. Consequently, during ED2, the Company will proceed with its plans for DSO to enable open energy data sharing, transform the way decisions and plans are made throughout the Company, support the development of new flexible energy markets, increase customer and Network flexibility and facilitate a whole system energy system. In support, the new DSO business unit was launched in 2022, and is led by the Director of Policy & Markets.

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

REGULATORY INTEGRITY

Strategic objective: Trustworthy, fair and balanced.

KPI: Completion of a quarterly regulatory compliance affirmation process.

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

Performance during the year: In order to assure compliance with distribution licence and other regulatory obligations, the Company operates a regulatory compliance affirmation process, under which ownership of approximately 1,900 regulatory obligations is assigned to 71 responsible managers. Those responsible managers are required to review compliance with the relevant obligations on a quarterly basis and report on any identified non-compliances or perceived risks which are then addressed by members of the senior management team. To minimise the risk of the Company breaching its licence conditions and other statutory requirements (which could lead to financial penalties), the board reviews the outcomes of each exercise. Each quarterly regulatory compliance affirmation process was completed satisfactorily during the year.

The Company submitted its annual Data Assurance Report to Ofgem in February 2022, which included risk assessments of the regulatory returns to be submitted for the Regulatory Year ahead (April 2022 to March 2023), together with a report detailing the assurance work actually carried out in the year ended 28 February 2022 and the findings of that work.

Ofgem completed its review process to determine the network charges that DNOs will be able to levy over the ED2 period and issued a consultation on its draft determinations for the ED2 period on 29 June 2022, to which the Company submitted a comprehensive response. Ofgem issued its final determinations on 30 November 2022.

The main focus in the ED2 period will be on investing in supporting the move away from dependence on fossil fuels towards cleaner, cheaper and more secure sources of energy, such as wind and solar power, to connect those sources of generation to the network and to facilitate the anticipated significant increase in the use of low carbon technologies such as heat pumps and electric vehicles.

On 2 March 2023 NPg Northeast and its affiliate sought permission from the Competition and Markets Authority (the "CMA") to appeal against the licence modifications that give effect to the ED2 price control. The appeal relates to two specific areas:

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

The permission for the appeal was granted by the CMA, the appeal is expected to conclude in the fourth quarter of 2023 in accordance with the timetable required of the CMA. The outcome of these appeals may increase or reduce the revenue available to the Company if the CMA amends the price control determination.

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

Principal Risks

During the year, the risk posed by leaving the European Union was removed. In addition, following the relaxation of rules, the Pandemic no longer remains as a principal risk. No other notable changes have taken place. The Northern Powergrid Group's principal risks are not ranked or prioritised in any particular order.

Cyber and Information Security

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

Mitigation

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

Regulatory and policy positioning

Decisions taken resulting in negative impacts to our business model.

Mitigation

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

Network and climate resilience

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

Mitigation

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

Safety

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

Mitigation

- Overseen by the Health and Safety Committee.
- 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.

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

Environment and climate protection

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

Mitigation

- Programme to reduce fluid loss and the Company's business carbon footprint and remove assets containing polychlorinated biphenyl from the network.
- Environment improvement plan and Environment Action Plan.
- Path to carbon neutrality by 2040.
- Incident response, waste management and habitat protection programmes.
- ISO14001 environmental management system in place.

Resource availability

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

Mitigation

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

Efficiency and output performance

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

Mitigation

- Robust business planning process.
- 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.

Mitigation

- The Group is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest.
- As at 31 December 2022, 100% of the Group's long-term borrowings were at fixed rates and the average maturity for these borrowings was 27 years.
- Financial covenant monitoring is in place.
- Regulatory adjustments control the effect of taxation changes.

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

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 Company utilises comprehensive business planning procedures, regularly reviews KPIs to assess progress towards its goals, and has a strong internal audit function to provide independent scrutiny. Financial controls include centralised treasury operations and established procedures for the planning, approving and monitoring of major capital expenditure.

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

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

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

The Northern Powergrid Group does not have a specific human rights policy. However, in accordance with the Core Principles, it remains fully committed to operating ethically and responsibly and with fairness and integrity. This is implemented through 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.

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

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, the Company'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 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 Company in the pursuit of its goals and the long-term sustainability of the Company is at the forefront of decision-making.

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

Employees

As detailed in the 'Employee Commitment' section, the Company 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 Company's Diversity, Equity and Inclusion plan, reviewing the Company'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 Storm Arwen, including compensation arrangements and engaged with the Chair of the CEG. Further detail of the Company's relationship with customers and the support programmes provided is discussed in 'Customer Service'.

Producers and suppliers

The Company 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 Company to make informed decisions which align with its values when awarding contracts. When considering suppliers, the board advocates prompt payment practices, which are reviewed regularly by the internal audit function, and the implementation of procedures to reduce the risk of modern slavery in supply chains - as set out in the Company's annual modern slavery 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 and interim accounts and the tax strategy.

Northern Powergrid (Northeast) plc

Strategic Report for the Year Ended 31 December 2022 (continued)

Community and environment

Each Director is required to take all reasonable steps to minimise any detrimental impact the Company's operations may have on the environment (see 'Environmental Respect'). The Company 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 Company donated £6,954,879.52 to the Northern Powergrid Foundation and the directors routinely reviewed environmental performance and made decisions pursuant to Environmental Respect.

Regulator

The Company 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, the Company 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 the Company'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 Electric plc, a company in the Northern Powergrid Group. During the year the directors declared an interim dividend and approved the Business Plan.

Non-financial information statement

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

Approved by the Board on 28 April 2023 and signed on its behalf by:



A P Jones
Director

Northern Powergrid (Northeast) plc

Directors' Report for the Year Ended 31 December 2022

The directors present their report together with the auditor's report and the financial statements for the year ended 31 December 2022.

Dividends

During the year, an interim dividend of £27.7 million was paid (2021: £26.0 million). The directors recommend that no final dividend be paid in respect of the year (2021: £nil).

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

Directors of the Company

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

A J MacLennan

A P Jones (appointed 14 April 2022)

A R Marshall

P A Jones

P C Taylor

T H France

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

During the year and up to the date of approval of the Report of the Directors, an indemnity contained in the Company's Articles of Association was in force for the benefit of the directors of the Company and as directors of associated companies, which was a qualifying indemnity provision for the purposes of the Companies Act 2006.

Future Developments

The financial position of the Company, as at 31 December 2022, is shown in the statement of financial position. There have been no significant events since the year end. The directors intend that the Company will continue to implement the Business Plan during the remainder of the ED1 period, before it transitions into the ED2 period, and by delivering the strategic objectives linked to the Core Principles, the Company will continue to develop its business by efficiently investing in the Network and improving the quality of supply and service provided to customers. The Company intends to embrace the role of DSO in order to allow its Network to form a key part of a whole energy system, which fosters flexibility and facilitates decarbonisation.

Research and Development

The Group supports a programme of research that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. During the year, the Company invested £1.6 million (2021: £0.8 million) (Note 5 to the financial statements) in its research and development activities.

Northern Powergrid (Northeast) plc

Directors' Report for the Year Ended 31 December 2022 (continued)

Financial Instruments

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

As at 31 December 2022 and during the Year it was the Group's policy not to hold any derivative financial instruments.

Stakeholder engagement and environmental disclosures

In accordance with Paragraphs 11 and 15 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, details concerning 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).

Northern Powergrid (Northeast) plc

Directors' Report for the Year Ended 31 December 2022 (continued)

CORPORATE GOVERNANCE STATEMENT

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

Audit Committee

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

Committee members:

- M Knowles - Independent member
- J Reynolds - Non-executive Director (Chair)
- S J Lockwood - Director of Finance (Interim) (resigned 14 April 2022)
- A P Jones, Finance Director (appointed 20 April 2022)

STATEMENT OF DIRECTORS RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements also comply with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

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

Northern Powergrid (Northeast) plc

Directors' Report for the Year Ended 31 December 2022 (continued)

Going Concern

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

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

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

- The Company's revenue derives principally from regulated electricity distribution. The regulatory regime allows for the recovery of allowed costs in full over the long term;
- The Northern Powergrid Group's main subsidiaries, the Company and Northern Powergrid (Yorkshire) plc, are stable electricity distribution businesses operating an essential public service and are regulated by GEMA. In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that distribution licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Company is profitable with strong underlying cash flows. Northern Powergrid Holdings Company, the Company and Northern Powergrid (Yorkshire) plc hold investment grade credit ratings;
- The Company is financed by long-term borrowings with an average maturity of 27 years and has access to borrowing facilities provided by Barclays Bank plc, Lloyds Bank plc, HSBC UK Bank plc and Royal Bank of Canada
- The Northern Powergrid Group benefits from strong investment-grade credit ratings and has access to a range of financing options including the capital markets. A successful bond issue by the Northern Powergrid Group in April 2022, demonstrates that the Northern Powergrid Group's bonds remain attractive to investors and there is an active market with strong appetite to invest;
- The Northern Powergrid Group has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Northern Powergrid Group has sufficient resources to settle its liabilities as they fall due for at least the 12 months from the date of these accounts. The directors have had discussions with the bank who have indicated that they would continue to provide the short-term facilities to the Northern Powergrid Group for the foreseeable future on acceptable terms; and
- Consideration was also given to the obligations contained in the Company's and Northern Powergrid (Yorkshire) plc's distribution licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Company and Northern Powergrid (Yorkshire) plc will have sufficient financial and operational resources available for the continuation of business for a period of at least 12 months. The board determined any material variations to the assumptions used when providing those certificates were unlikely within the eight-year period or beyond.

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

Northern Powergrid (Northeast) plc

Directors' Report for the Year Ended 31 December 2022 (continued)

Directors' responsibility statement pursuant to DTR 4

Each of the directors as at the date of the annual reports and financial statements, whose names and functions are set out on page 23 in the Directors Report confirms that, to the best of their knowledge:

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

Disclosure of information to the auditor

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditor

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

Approved by the Board on 28 April 2023 and signed on its behalf by:



A P Jones
Director

Northern Powergrid (Northeast) plc

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

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Northern Powergrid (Northeast) plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 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 (IFRS) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flows;
- the related notes 1 to 31.

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.

Northern Powergrid (Northeast) plc

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

Summary of our audit approach

-Key Audit Matters

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

- Accounting for capital spend - overhead model; and
- Valuation of define benefit obligations.

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

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

-Materiality

The materiality that we used for the Group financial statements was £6.4m which was determined on the basis of pre-tax profit earned during the year.

-Scoping

Our scope provides full scope audit coverage of 100% of the Group's revenue, 93% profit before tax as well as 97% of net assets. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. There is only one location from which the group operates.

-Significant changes in our approach

In the current year we revised our approach to testing controls and identified a new key audit matter relating to defined benefit pension obligations.

Conclusions relating to going concern

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

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

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

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

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

Northern Powergrid (Northeast) plc

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

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. We added one key audit matters this year which was the valuation of defined benefit obligations.

Accounting for capital spend - overhead model

-Key audit matter description:

Total additions to property, plant and equipment in the year in Northern Powergrid (Northeast) Plc were £163m (2021: £191m) 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 £45m capitalised overheads (2021: £38m). A portion of overheads are capitalised to the extent that it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the item can be measured reliably in accordance with IAS 16 and the Company's policies. The allocation 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 judgement in the percentage amounts capitalised are not reflective of the capital spend, as disclosed in Note 2 "Critical judgements in applying accounting policies."

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

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

- Key observations

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

Northern Powergrid (Northeast) plc

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

Valuation of defined benefit obligations

-Key audit matter description

The group operates a defined pension scheme, for which key judgement relates to the determination of the present value of the defined benefit obligation. In the current year, management have made full disclosures in accordance with IAS 19 Employee Benefits; in previous periods, the financial statements referred to disclosures made in the financial statements of the Company's immediate parent, Northern Powergrid Holdings Company.

In accordance with management's actuary, the present value of the funding surplus is £151.5m (2021: £262.2m), with underlying obligation of £965.5m (2021: £1,480.4m). The present value of the defined benefit obligation is derived and is subject to judgement in the assumption setting.

Due to the continued high number of scheme members requesting lump sum settlements in the year, there continues to be an additional risk around the valuation modelling of each settlement and the impact to the actuarial assumptions due to the change in the profile of the membership of the scheme. The accounting policy is found in Note 2 to the financial statements and the disclosures in Note 25 to the financial statements.

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

We have involved our internal specialists in performing the following work to assess that the disclosures and the valuation of the defined benefit obligations are in line with IAS 19 Employee Benefits:

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

-Key observations

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

Northern Powergrid (Northeast) plc

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

Our application of materiality

Materiality

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

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

-Materiality

Group financial statements - £6.422m (2021: £6.21m)

Parent company financial statements - £6.421m (2021: £6.20m)

-Basis for determining materiality

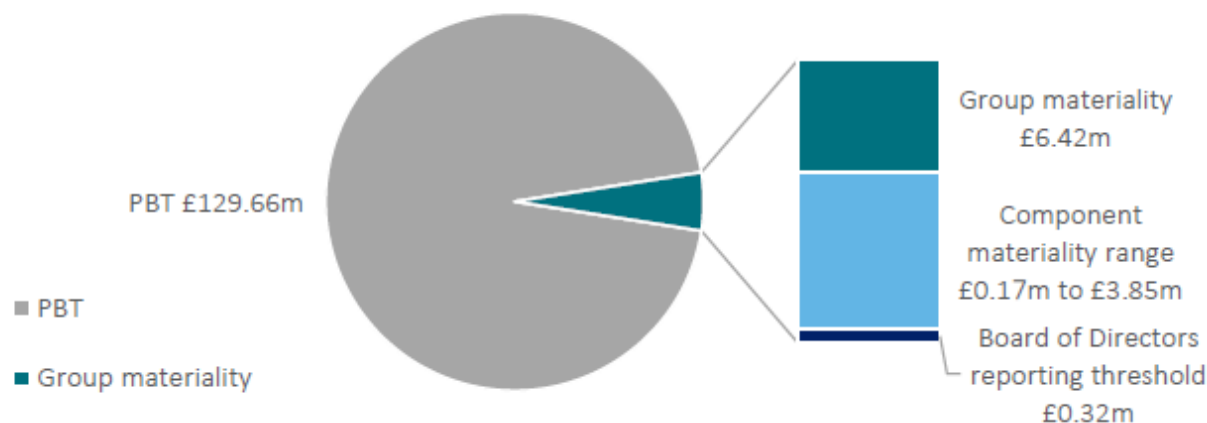
Group financial statements - 5% pre-tax profit earned during the year. This is consistent with the methodology applied in 2021.

Parent company financial statements - 5% pre-tax profit earned during the year. This is consistent with the methodology applied in 2021.

-Rationale for the benchmark applied

Group financial statements - Stakeholders are interested in the financial performance of the Group. As the material subsidiaries of the Group are trading entities, pre-tax profit earned during the year has been determined as an appropriate measure of financial performance for the Group.

Parent company financial statements - As a trading entity, profit is a key driver of the value of the Company.



Performance materiality

Northern Powergrid (Northeast) plc

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

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

-Performance Materiality

Group financial statements - 60% (2021: 60%) of group materiality

Parent company financial statements - 60% (2021: 60%) of parent company materiality

-Basis and rationale for determining performance materiality

In determining performance materiality, we have considered the following:

- our risk assessment, including our assessment of the group's overall control environment; and
- the volume of uncorrected misstatements in the prior period and control deficiencies identified.

Northern Powergrid (Northeast) plc

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

Error reporting threshold

We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £0.32m (2021: £0.31m), 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 focused within the electricity distribution business of the United Kingdom.

The focus of our audit work was on the main regulated business, Northern Powergrid (Northeast) Plc, which is the Parent Company. The only subsidiary within the Group is Northern Electric Finance Plc. This subsidiary is a financing company within which are number of bonds, listed on the London Stock Exchange, and was subject to a full scope audit.

A component materiality was used to perform the audit work for all component entities and for FY22, component materiality for Northern Electric Finance plc was £0.249m (2021: £0.168m)

At the Group level, we have tested the consolidation process.

The audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team. There have been no material changes in scope from prior year except for adopting a no reliance on controls approach for the testing of revenue.

-Our consideration of the control environment

We have involved our IT specialists to assess relevant controls over the Group's IT landscape which contains a number of IT systems and tools used to support business processes. These include controls within the Oracle and Durabill systems integral to relevant business cycles. However, we identified control deficiencies and reported these to the Board of Directors. 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 19 of the annual report.

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

-Our consideration of the 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. This included reviewing the provisions in place and obtaining legal confirmation to ascertain if there should be any additional environmental provisions recognised. As disclosed in Note 2, the impact on the financial statements has been increased expenses and capital expenditures to make the network resilient to extreme weather events. Management have disclosed their climate change adaption in the strategic report.

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

Northern Powergrid (Northeast) plc

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

Other information

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

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

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Northern Powergrid (Northeast) plc

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

-Identifying and assessing potential risks related to irregularities

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

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

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

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, 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 license by the Gas and Electricity Markets Authority (GEMA).

-Audit response to risks identified

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

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

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

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

Northern Powergrid (Northeast) plc

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

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 25 years, covering the years ending 31 December 1998 to 31 December 2022.

-Consistency of the audit report with the additional report to the Board of Directors

Our audit opinion is consistent with the additional report to the Board 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.

Northern Powergrid (Northeast) plc

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

A handwritten signature in dark ink, appearing to read 'Anthony Matthews', with a horizontal line drawn underneath it.

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

London
United Kingdom

28 April 2023

Northern Powergrid (Northeast) plc

Consolidated Income Statement for the Year Ended 31 December 2022

	Note	2022 £ 000	2021 £ 000
Revenue	3	441,859	385,215
Cost of sales		<u>(59,080)</u>	<u>(14,152)</u>
Gross profit		382,779	371,063
Distribution costs		(143,523)	(134,167)
Administrative expenses		<u>(77,637)</u>	<u>(89,261)</u>
Operating profit	5	161,619	147,635
Other gains	4	198	410
Finance income	6	3,622	210
Finance costs	6	<u>(35,781)</u>	<u>(27,061)</u>
Profit before tax		129,658	121,194
Income tax expense	10	<u>(27,400)</u>	<u>(52,678)</u>
Profit for the year		<u>102,258</u>	<u>68,516</u>
Profit/(loss) attributable to:			
Owners of the Company		<u>102,258</u>	<u>68,516</u>

The notes on pages 49 to 110 form an integral part of these financial statements.

Northern Powergrid (Northeast) plc

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2022

	2022 £ 000	2021 £ 000
Profit for the year	<u>102,258</u>	<u>68,516</u>
Total comprehensive income for the year	<u><u>102,258</u></u>	<u><u>68,516</u></u>
Total comprehensive income attributable to:		
Owners of the Company	<u><u>102,258</u></u>	<u><u>68,516</u></u>

The notes on pages 49 to 110 form an integral part of these financial statements.

Northern Powergrid (Northeast) plc

(Registration number: 02906593)

Consolidated Statement of Financial Position as at 31 December 2022

	Note	31 December 2022 £ 000	31 December 2021 £ 000
Assets			
Non-current assets			
Property, plant and equipment	11	2,849,504	2,782,123
Right of use assets	12	25,739	11,652
Intangible assets	13	47,356	48,888
		<u>2,922,599</u>	<u>2,842,663</u>
Current assets			
Inventories	15	25,406	19,898
Trade and other receivables	16	64,144	59,782
Income tax asset	10	-	2,164
Cash and cash equivalents	17	276,126	3
		<u>365,676</u>	<u>81,847</u>
Total assets		<u>3,288,275</u>	<u>2,924,510</u>
Equity and liabilities			
Equity			
Share capital	18	(200,000)	(200,000)
Retained earnings		<u>(1,036,661)</u>	<u>(962,103)</u>
Equity attributable to owners of the company		<u>(1,236,661)</u>	<u>(1,162,103)</u>
Non-current liabilities			
Long-term lease liabilities	21	(21,152)	(9,062)
Loans and borrowings	20	(1,057,069)	(810,454)
Provisions	22	(55)	(55)
Deferred revenue	24	(652,476)	(649,013)
Deferred tax liabilities	10	(133,515)	(130,752)
		<u>(1,864,267)</u>	<u>(1,599,336)</u>
Current liabilities			
Current portion of long-term lease liabilities	21	(5,058)	(2,876)
Trade and other payables	23	(96,844)	(86,694)
Loans and borrowings	20	(54,263)	(42,159)
Income tax liability	10	(259)	-
Deferred revenue	24	(29,326)	(28,645)
Provisions	22	(1,597)	(2,697)
		<u>(187,347)</u>	<u>(163,071)</u>
Total liabilities		<u>(2,051,614)</u>	<u>(1,762,407)</u>

The notes on pages 49 to 110 form an integral part of these financial statements.

Northern Powergrid (Northeast) plc

(Registration number: 02906593)

Consolidated Statement of Financial Position as at 31 December 2022 (continued)

	Note	31 December 2022 £ 000	31 December 2021 £ 000
Total equity and liabilities		<u>(3,288,275)</u>	<u>(2,924,510)</u>

Approved by the Board on 28 April 2023 and signed on its behalf by:



A P Jones
Director

The notes on pages 49 to 110 form an integral part of these financial statements.

Northern Powergrid (Northeast) plc

(Registration number: 02906593)

Statement of Financial Position as at 31 December 2022

	Note	31 December 2022 £ 000	31 December 2021 £ 000
Assets			
Non-current assets			
Property, plant and equipment	11	2,849,504	2,782,123
Right of use assets	12	25,739	11,652
Intangible assets	13	47,356	48,888
Investments in subsidiaries, joint ventures and associates	14	50	50
		<u>2,922,649</u>	<u>2,842,713</u>
Current assets			
Inventories	15	25,406	19,898
Trade and other receivables	16	64,144	59,782
Income tax asset	10	-	2,173
Cash and cash equivalents	17	274,529	3
		<u>364,079</u>	<u>81,856</u>
Total assets		<u><u>3,286,728</u></u>	<u><u>2,924,569</u></u>
Equity and liabilities			
Equity			
Share capital	18	(200,000)	(200,000)
Retained earnings		<u>(1,038,447)</u>	<u>(963,901)</u>
Total equity		<u>(1,238,447)</u>	<u>(1,163,901)</u>
Non-current liabilities			
Long-term lease liabilities	21	(21,152)	(9,062)
Loans and borrowings	20	(1,057,064)	(810,449)
Provisions	22	(55)	(55)
Deferred revenue	24	(652,476)	(649,013)
Deferred tax liabilities	10	<u>(133,515)</u>	<u>(130,752)</u>
		<u>(1,864,262)</u>	<u>(1,599,331)</u>
Current liabilities			
Current portion of long-term lease liabilities	21	(5,058)	(2,876)
Trade and other payables	23	(96,842)	(86,689)
Loans and borrowings	20	(50,949)	(40,430)
Income tax liability	10	(247)	-
Deferred revenue	24	(29,326)	(28,645)
Provisions	22	<u>(1,597)</u>	<u>(2,697)</u>
		<u>(184,019)</u>	<u>(161,337)</u>
Total liabilities		<u><u>(2,048,281)</u></u>	<u><u>(1,760,668)</u></u>

The notes on pages 49 to 110 form an integral part of these financial statements.

Northern Powergrid (Northeast) plc

(Registration number: 02906593)

Statement of Financial Position as at 31 December 2022 (continued)

	31 December 2022 £ 000	31 December 2021 £ 000
Note		
Total equity and liabilities	<u>(3,286,728)</u>	<u>(2,924,569)</u>

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 2022 of £102.2 million (2021: £68.5 million)

Approved by the Board on 28 April 2023 and signed on its behalf by:



A P Jones
Director

Northern Powergrid (Northeast) plc

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2022

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2022	200,000	962,103	1,162,103
Profit for the year	-	102,258	102,258
Total comprehensive income	-	102,258	102,258
Dividends	-	(27,700)	(27,700)
At 31 December 2022	<u>200,000</u>	<u>1,036,661</u>	<u>1,236,661</u>
	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2021	200,000	919,587	1,119,587
Profit for the year	-	68,516	68,516
Total comprehensive income	-	68,516	68,516
Dividends	-	(26,000)	(26,000)
At 31 December 2021	<u>200,000</u>	<u>962,103</u>	<u>1,162,103</u>

The notes on pages 49 to 110 form an integral part of these financial statements.

Northern Powergrid (Northeast) plc

Statement of Changes in Equity for the Year Ended 31 December 2022

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2022	200,000	963,901	1,163,901
Profit for the year	-	102,246	102,246
Total comprehensive income	-	102,246	102,246
Dividends	-	(27,700)	(27,700)
At 31 December 2022	<u>200,000</u>	<u>1,038,447</u>	<u>1,238,447</u>
	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2021	200,000	921,424	1,121,424
Profit for the year	-	68,477	68,477
Total comprehensive income	-	68,477	68,477
Dividends	-	(26,000)	(26,000)
At 31 December 2021	<u>200,000</u>	<u>963,901</u>	<u>1,163,901</u>

The notes on pages 49 to 110 form an integral part of these financial statements.

Northern Powergrid (Northeast) plc

Consolidated Statement of Cash Flows for the Year Ended 31 December 2022

	Note	2022 £ 000	2021 £ 000
Cash flows from/(used in) operating activities			
Profit for the year		102,258	68,516
Depreciation and amortisation	5	106,952	103,345
Depreciation on right of use assets		4,501	4,719
Amortisation of deferred revenue		(29,253)	(27,945)
Profit on disposal of property plant and equipment	4	(198)	(410)
Finance income	6	(3,622)	(210)
Finance costs	6	35,781	27,061
Income tax expense	10	<u>27,400</u>	<u>52,678</u>
		243,819	227,754
Increase in inventories	15	(5,508)	(1,740)
Increase in trade and other receivables	16	(4,442)	(7,186)
Increase in trade and other payables	23	197	7,680
(Decrease)/increase in provisions	22	<u>(1,100)</u>	<u>1,693</u>
Cash generated from operations		232,966	228,201
Income taxes paid		<u>(22,214)</u>	<u>(22,580)</u>
Net cash flow from operating activities		<u>210,752</u>	<u>205,621</u>
Cash flows from/(used in) in investing activities			
Acquisitions of property plant and equipment		(168,056)	(192,106)
Proceeds from sale of property plant and equipment		198	410
Acquisition of intangible assets	13	(9,956)	(9,544)
Receipt of customer contributions		49,259	37,658
Interest received		<u>3,622</u>	<u>210</u>
Net cash flows used in investing activities		<u>(124,933)</u>	<u>(163,372)</u>
Cash flows from/(used in) in financing activities			
Movement in intercompany loans		(31,506)	15,930
Movement in short-term borrowing		35,056	(4)
Proceeds from issue of bonds		346,316	-
Repayment of long-term borrowing		(100,000)	-
Payments to finance lease creditors		(4,316)	(4,700)
Interest expense on leases		(641)	(358)
Interest paid		(26,905)	(27,365)
Dividends paid	26	<u>(27,700)</u>	<u>(26,000)</u>
Net cash flow (used in)/from financing activities		<u>190,304</u>	<u>(42,497)</u>
Net increase/(decrease) in cash and cash equivalents		276,123	(248)
Cash and cash equivalents at 1 January		<u>3</u>	<u>251</u>
Cash and cash equivalents at 31 December		<u><u>276,126</u></u>	<u><u>3</u></u>

The notes on pages 49 to 110 form an integral part of these financial statements.

Northern Powergrid (Northeast) plc

Statement of Cash Flows for the Year Ended 31 December 2022

	Note	2022 £ 000	2021 £ 000
Cash flows from/(used in) operating activities			
Profit for the year		102,246	68,477
Depreciation and amortisation	5	106,952	103,345
Depreciation on right of use assets		4,501	4,719
Amortisation of deferred revenue		(29,253)	(27,945)
Profit on disposal of property plant and equipment	4	(198)	(410)
Finance income	6	(3,619)	(210)
Finance costs	6	35,816	27,131
Income tax expense		<u>27,397</u>	<u>52,669</u>
		243,842	227,776
Increase in inventories	15	(5,508)	(1,740)
Increase in trade and other receivables	16	(4,442)	(7,186)
Increase in trade and other payables	23	200	7,680
(Decrease)/increase in provisions	22	<u>(1,100)</u>	<u>1,693</u>
Cash generated from operations		232,992	228,223
Income taxes paid		<u>(22,214)</u>	<u>(22,570)</u>
Net cash flow from operating activities		<u>210,778</u>	<u>205,653</u>
Cash flows from/(used in) investing activities			
Acquisitions of property plant and equipment		(168,056)	(192,106)
Proceeds from sale of property plant and equipment		198	410
Acquisition of intangible assets	13	(9,956)	(9,544)
Receipt of customer contributions		49,259	37,658
Interest received		<u>3,619</u>	<u>210</u>
Net cash flows used in investing activities		<u>(124,936)</u>	<u>(163,372)</u>
Cash flows from/(used in) financing activities			
Interest expense on leases		(641)	(358)
Movement in intercompany loans		(33,091)	15,968
Interest paid		(26,940)	(27,435)
Proceeds from long term borrowing draw downs		346,316	-
Movement in short-term borrowings		35,056	(4)
Repayment of other borrowing		(100,000)	-
Payments to finance lease creditors		(4,316)	(4,700)
Dividends paid	26	<u>(27,700)</u>	<u>(26,000)</u>
Net cash flows (used in)/from financing activities		<u>188,684</u>	<u>(42,529)</u>
Net increase/(decrease) in cash and cash equivalents		274,526	(248)
Cash and cash equivalents at 1 January		<u>3</u>	<u>251</u>
Cash and cash equivalents at 31 December		<u><u>274,529</u></u>	<u><u>3</u></u>

The notes on pages 49 to 110 form an integral part of these financial statements.

Northern Powergrid (Northeast) plc

Statement of Cash Flows for the Year Ended 31 December 2022 (continued)

Consolidated 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 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.

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 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.

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022

1 General information

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

The address of its registered office is:

Lloyds Court
78 Grey Street
Newcastle upon Tyne
Tyne and Wear
NE1 6AF
United Kingdom

These financial statements were authorised for issue by the Board on 28 April 2023.

2 Accounting policies

Statement of compliance

The financial statements have been prepared in accordance with United Kingdom adopted international accounts standards as issued by the IASB.

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

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

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Going concern

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

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

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

- The Company's revenue derives principally from regulated electricity distribution. The regulatory regime allows for the recovery of allowed costs in full over the long term;
- The Northern Powergrid Group's main subsidiaries, the Company and Northern Powergrid (Yorkshire) plc, are stable electricity distribution businesses operating an essential public service and are regulated by GEMA. In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that distribution licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Company is profitable with strong underlying cash flows. Northern Powergrid Holdings Company, the Company and Northern Powergrid (Yorkshire) plc hold investment grade credit ratings
- The Company is financed by long-term borrowings with an average maturity of 27 years and has access to borrowing facilities provided by Barclays Bank plc, Lloyds Bank plc, HSBC UK Bank plc and Royal Bank of Canada;
- The Northern Powergrid Group benefits from strong investment-grade credit ratings and has access to a range of financing options including the capital markets. A successful bond issue by the Northern Powergrid Group in April 2022, demonstrates that the Northern Powergrid Group's bonds remain attractive to investors and there is an active market with strong appetite to invest;
- The Northern Powergrid Group has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Northern Powergrid Group has sufficient resources to settle its liabilities as they fall due for at least the 12 months from the date of these accounts. The directors have had discussions with the bank who have indicated that they would continue to provide the short-term facilities to the Northern Powergrid Group for the foreseeable future on acceptable terms; and
- Consideration was also given to the obligations contained in the Company's and Northern Powergrid (Yorkshire) plc's distribution licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Company and Northern Powergrid (Yorkshire) plc will have sufficient financial and operational resources available for the continuation of business for a period of at least 12 months. The board determined any material variations to the assumptions used when providing those certificates were unlikely within the eight-year period or beyond.

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Critical Judgements in applying accounting policies

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

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

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

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

The amounts of overheads capitalised in the year was £45.0 million (2021: £38.4 million), this was an increase from 53.2% to 54.3%.

Key sources of estimation uncertainty

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Changes in accounting policy

New standards, interpretations and amendments effective

Effective for periods beginning on or after 1 January 2022

- Amendments to IFRS 3: Reference to the Conceptual Framework
- Amendments to IAS 16: Property, Plant & Equipment - Proceeds before Intended Use
- Amendments to IAS 37: Onerous Contracts - Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards 2018-2020

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

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

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

Revenue recognition

Recognition

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

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

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

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

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Fee arrangements

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

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

The main performance obligations in contracts consist of the provision of a distribution network to electricity suppliers. For these contracts, through the distribution and connection use of system agreement (DCUSA) the delivery of performance obligations are measured at the balance sheet date, primarily recognised on a per unit (volumetric i.e. kWh and capacity (kVA)) and fixed (per 'customer' per day) basis;

Finance income and costs policy

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

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

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

Tax

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

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

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.

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Property, plant and equipment

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

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

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

Depreciation

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

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

Intangible assets

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

Amortisation

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

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

Derecognition

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Investments

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

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

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

Cash and cash equivalents

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

Trade receivables

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

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

Inventories

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

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

Trade payables

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

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

Borrowings

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

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

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

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.

Leases

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

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

The Group has taken practical expedients as per below:

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

The weighted average lessee's incremental borrowing rate applied to determine the present value of the lease liabilities during the current period was 2.33% (2021: 1.753%)

The Group recognises depreciation 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.

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Impairment of non-financial assets

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

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

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

Share capital

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

Dividends

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

Defined benefit pension obligation

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

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

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Financial instruments

Initial recognition

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

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

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

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

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

Classification and measurement

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

Financial assets are classified into one of the following three categories:-

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at 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.

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Financial assets at fair value through other comprehensive income (FVTOCI)

A financial asset is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVPTL:-

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Financial assets at fair value through the profit or loss (FVTPL)

Financial assets not otherwise classified above are classified and measured as FVTPL.

Financial liabilities at amortised cost

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

Financial liabilities at fair value through the profit or loss

Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Derecognition

Financial assets

The Group derecognises a financial asset when;

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

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

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

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

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

- (a) The carrying amount of the assets and liabilities that are recognised in the entity's statement of financial position and represent the entity's continuing involvement in the derecognised financial assets, and the line items in which those assets and liabilities are recognised.
- (b) The fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised financial assets;
- (c) The amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognised financial assets, and how the maximum exposure to loss is determined
- (d) The undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee for the transferred assets

Financial liabilities

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Modification of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Impairment of financial assets

Measurement of Expected Credit Losses

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

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

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

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

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

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

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

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

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

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

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

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

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

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

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

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

Definition of default

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

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

Accounting estimates and assumptions

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

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

Provisions for impairment

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

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.

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

3 Revenue

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

	2022 £ 000	2021 £ 000
Distribution use of system revenue	377,481	325,208
Work for related parties	26,081	24,784
Deferred revenue amortisation	29,253	27,945
Other revenue	9,044	7,278
	<u>441,859</u>	<u>385,215</u>

Segmental Analysis

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

In practice, the President and Chief Executive Officer allocates resources and assesses performance based upon the aggregate results of the Company and Northern Powergrid (Yorkshire) plc, another distribution network operator in the Northern Powergrid Group. As there is only one operating segment, this constructs the segmental reporting note in full.

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

4 Other gains and losses

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

	2022 £ 000	2021 £ 000
Gain on disposal of property, plant and equipment	<u>198</u>	<u>410</u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

5 Operating profit

Arrived at after charging/(crediting)

	2022 £ 000	2021 £ 000
Depreciation expense	95,465	91,470
Depreciation on right of use asset	4,501	4,719
Amortisation expense	11,487	11,875
Research and development	1,598	826
Amortisation of deferred revenue	(29,253)	(27,945)
Loss allowance on trade and other receivables	<u>(3)</u>	<u>3,839</u>

Amortisation expense is included within administration costs in the consolidated income statement on page 38.

6 Finance income and costs

	2022 £ 000	2021 £ 000
Finance income		
Interest income on financial assets measured at amortised cost	199	203
Other finance income measured at amortised cost	<u>3,423</u>	<u>7</u>
Total finance income	<u>3,622</u>	<u>210</u>
Finance costs		
Interest on bank overdrafts and borrowings	(30,054)	(21,452)
Interest paid to group undertakings	(5,692)	(5,917)
Interest expense on leases	(641)	(358)
Borrowing costs included in cost of qualifying asset	<u>606</u>	<u>666</u>
Total finance costs	<u>(35,781)</u>	<u>(27,061)</u>
Net finance costs	<u>(32,159)</u>	<u>(26,851)</u>

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 3.14% (2021: 3.28%) to expenditure on such assets.

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

7 Staff costs

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

	2022	2021
	£ 000	£ 000
Salaries	61,083	59,100
Social security costs	7,214	6,586
Defined benefit pension costs	6,867	12,103
Defined contribution pension costs	4,292	3,918
	<u>79,456</u>	<u>81,707</u>
Less charged to plant, property and equipment	<u>(46,318)</u>	<u>(43,804)</u>
	<u><u>33,138</u></u>	<u><u>37,903</u></u>

A large proportion of the Company's employees are members of the DB Scheme, most of the remaining employees are members of the Northern Powergrid Scheme, details of both are given in the employee benefits note 25.

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

	2022	2021
	No.	No.
Technical	369	364
Industrial	463	465
Administration	282	291
Other departments	134	127
	<u>1,248</u>	<u>1,247</u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

8 Directors' remuneration

The directors' remuneration for the year was as follows:

	2022	2021
	£ 000	£ 000
Short-term employee benefits	521	527
Post-retirement benefits - defined contribution	9	9
Other long-term benefits	394	461
	<u>924</u>	<u>997</u>

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

	2022	2021
	No.	No.
Accruing benefits under defined benefit pension scheme	-	-
Accruing benefits under money purchase pension scheme	6	3

In respect of the highest paid director:

	2021	2020
	£ 000	£ 000
Short-term employee benefits	287	353
Long-term benefits	304	387
	<u>591</u>	<u>740</u>

In respect of key personnel:

	2022	2021
	£ 000	£ 000
Short-term employee benefits	523	466
Post-retirement benefits - defined benefit	32	22
Post-retirement benefits - defined contribution	68	80
Other long-term benefits	153	196
	<u>776</u>	<u>764</u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

9 Auditors' remuneration

	2022 £ 000	2021 £ 000
Fees payable to the auditor for audit of the Company's annual accounts	181	159
Fees payable to the auditor for audit of the Company's subsidiaries	23	20
Other audit services	59	96
	<u>263</u>	<u>275</u>

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

10 Income tax

Tax charged/(credited) in the income statement

	2022 £ 000	2021 £ 000
Current taxation		
UK corporation tax	25,313	24,143
UK corporation tax adjustment to prior periods	(676)	(843)
	<u>24,637</u>	<u>23,300</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	2,047	28,804
Deferred tax adjustment to prior periods	716	574
Total deferred taxation	<u>2,763</u>	<u>29,378</u>
Tax expense in the income statement	<u>27,400</u>	<u>52,678</u>

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2021 - higher than the standard rate of corporation tax in the UK) of 19% (2021 - 19%)

The differences are reconciled below:

	2022 £ 000	2021 £ 000
Profit before tax	<u>129,658</u>	<u>121,194</u>
Corporation tax at standard rate	24,635	23,027
Decrease in current tax from adjustment for prior periods	(676)	(843)
Increase/(decrease) from effect of expenses not deductible in determining taxable profit/(tax loss)	1,066	(173)
Deferred tax expense from unrecognised temporary difference from a prior period	716	574
Deferred tax expense relating to changes in tax rates or laws	1,723	30,031
Other tax effects for reconciliation between accounting profit and tax (income)/expense	(64)	62
Total tax charge	<u>27,400</u>	<u>52,678</u>

The Autumn Budget 2022, confirmed that the corporation tax rate will increase to 25% from 1 April 2023 as previously enacted. Deferred tax balances are therefore measured at 25% at 31 December 2022 (2021 - 25%) 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.

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

10 Income tax (continued)

Deferred tax

Group

Deferred tax movement during the year:

	At 1 January 2022 £ 000	Recognised in income £ 000	At 31 December 2022 £ 000
Accelerated tax depreciation	132,292	2,673	134,965
Other items	(1,540)	90	(1,450)
Net tax liabilities	<u>130,752</u>	<u>2,763</u>	<u>133,515</u>

Deferred tax movement during the prior year:

	At 1 January 2021 £ 000	Recognised in income £ 000	At 31 December 2021 £ 000
Accelerated tax depreciation	102,416	29,876	132,292
Other items	(1,042)	(498)	(1,540)
Net tax liabilities	<u>101,374</u>	<u>29,378</u>	<u>130,752</u>

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

Company

Deferred tax movement during the year:

	At 1 January 2022 £ 000	Recognised in income £ 000	At 31 December 2022 £ 000
Accelerated tax depreciation	132,292	2,673	134,965
Other	(1,540)	90	(1,450)
Net tax liabilities	<u>130,752</u>	<u>2,763</u>	<u>133,515</u>

Deferred tax movement during the prior year:

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

10 Income tax (continued)

	At 1 January 2021 £ 000	Recognised in income £ 000	At 31 December 2021 £ 000
Accelerated tax depreciation	102,416	29,876	132,292
Other	(1,042)	(498)	(1,540)
Net tax liabilities	<u>101,374</u>	<u>29,378</u>	<u>130,752</u>

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

11 Property, plant and equipment

Group and Company

	Non - Operational Land and buildings £ 000	Distribution system £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation				
At 1 January 2021	4,191	3,520,710	49,360	3,574,261
Additions	-	188,605	2,443	191,048
Disposals	-	(9,005)	(1)	(9,006)
At 31 December 2021	<u>4,191</u>	<u>3,700,310</u>	<u>51,802</u>	<u>3,756,303</u>
At 1 January 2022	4,191	3,700,310	51,802	3,756,303
Additions	-	157,530	5,316	162,846
Disposals	-	(6,266)	-	(6,266)
At 31 December 2022	<u>4,191</u>	<u>3,851,574</u>	<u>57,118</u>	<u>3,912,883</u>
Depreciation				
At 1 January 2021	3,171	845,352	43,193	891,716
Charge for year	252	88,720	2,498	91,470
Eliminated on disposal	-	(9,005)	(1)	(9,006)
At 31 December 2021	<u>3,423</u>	<u>925,067</u>	<u>45,690</u>	<u>974,180</u>
At 1 January 2022	3,423	925,067	45,690	974,180
Charge for the year	235	92,537	2,693	95,465
Eliminated on disposal	-	(6,266)	-	(6,266)
At 31 December 2022	<u>3,658</u>	<u>1,011,338</u>	<u>48,383</u>	<u>1,063,379</u>
Carrying amount				

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

11 Property, plant and equipment (continued)

	Non - Operational Land and buildings £ 000	Distribution system £ 000	Furniture, fittings and equipment £ 000	Total £ 000
At 31 December 2022	<u>533</u>	<u>2,840,236</u>	<u>8,735</u>	<u>2,849,504</u>
At 31 December 2021	<u>768</u>	<u>2,775,243</u>	<u>6,112</u>	<u>2,782,123</u>

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

	31 December 2022 £ 000	31 December 2021 £ 000
Distribution system	<u>167,998</u>	<u>187,697</u>

Contractual commitments for the acquisition of property, plant and equipment

	31 December 2022 £ 000	31 December 2021 £ 000
Distribution system	<u>20,757</u>	<u>21,104</u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

12 Right of use assets

Group and Company

	Fleet £ 000	Property £ 000	Land £ 000	Total £ 000
Cost or valuation				
At 1 January 2021	12,117	1,383	8,324	21,824
Additions	3,344	-	-	3,344
Disposals	(501)	(46)	(6,401)	(6,948)
At 31 December 2021	14,960	1,337	1,923	18,220
At 1 January 2022	14,960	1,337	1,923	18,220
Additions	1,903	-	16,685	18,588
Disposals	(1,253)	-	-	(1,253)
At 31 December 2022	15,610	1,337	18,608	35,555
Depreciation				
At 1 January 2021	3,663	409	4,725	8,797
Charge for year	2,722	230	1,767	4,719
Eliminated on disposal	(501)	(46)	(6,401)	(6,948)
At 31 December 2021	5,884	593	91	6,568
At 1 January 2022	5,884	593	91	6,568
Charge for the year	2,848	199	1,454	4,501
Eliminated on disposal	(1,253)	-	-	(1,253)
At 31 December 2022	7,479	792	1,545	9,816
Carrying amount				
At 31 December 2022	8,131	545	17,063	25,739
At 31 December 2021	9,076	744	1,832	11,652

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

13 Intangible assets

Group and Company

	Internally generated software development costs £ 000
Cost or valuation	
At 1 January 2021	121,011
Additions	9,544
Disposals	<u>(714)</u>
At 31 December 2021	<u>129,841</u>
At 1 January 2022	129,841
Additions	<u>9,956</u>
At 31 December 2022	<u>139,797</u>
Amortisation	
At 1 January 2021	69,792
Amortisation charge	11,875
Amortisation eliminated on disposals	<u>(714)</u>
At 31 December 2021	<u>80,953</u>
At 1 January 2022	80,954
Amortisation charge	<u>11,487</u>
At 31 December 2022	<u>92,441</u>
Carrying amount	
At 31 December 2022	<u><u>47,356</u></u>
At 31 December 2021	<u><u>48,888</u></u>

During the year the amount of contractual commitments for the acquisition of intangible assets amounted to £2.3 million (2021: £2.9 million).

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

14 Investments

Summary of the Company investments

	31 December 2022 £ 000	31 December 2021 £ 000
Investments in subsidiaries	<u>50</u>	<u>50</u>

Subsidiaries

£ 000

Cost or valuation

At 1 January 2021	<u>50</u>
At 31 December 2021	<u>50</u>
At 1 January 2022	<u>50</u>
At 31 December 2022	<u>50</u>

Provision

Carrying amount

At 31 December 2022	<u>50</u>
At 1 January 2021	<u>50</u>

Group subsidiaries

Details of the Group subsidiaries as at 31 December 2022 are as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2022	2021
Northern Electric Finance plc +	Finance company	Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF England and Wales	100%	100%

All subsidiaries are included within consolidation.

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

14 Investments (continued)

Group associates

Details of the Group associates as at 31 December 2022 are as follows:

Name of associate	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2022	2021
ElectraLink Limited +	Data transfer network operator	Northumberland House, 303-306 Holborn, WC1V 7JZ, England and Wales	6.2%	6.2%
MRA Service Company Limited +	Governance of the electricity industry's Master Registration Agreement	8 Fenchurch Place, London, EC3M 4AJ, England and Wales	0.36%	0.36%
DCUSA Limited +	Governance of Distribution Connection and Use of System Agreement	Northumberland House, 303-306 Holborn, WC1V 7JZ, England and Wales	1.69%	1.69%
Smart Energy Code Company Ltd +	Governance of smart metering energy agreement	8 Fenchurch Place, London, EC3M 4AJ	0.32%	0.32%

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

15 Inventories

	Group		Company	
	31 December 2022 £ 000	31 December 2021 £ 000	31 December 2022 £ 000	31 December 2021 £ 000
Inventory	24,976	19,637	24,976	19,637
Work in progress	430	261	430	261
	<u>25,406</u>	<u>19,898</u>	<u>25,406</u>	<u>19,898</u>

16 Trade and other receivables

	Group		Company	
	31 December 2022 £ 000	31 December 2021 £ 000	31 December 2022 £ 000	31 December 2021 £ 000
Distribution use of system receivables and accrued income	57,273	56,769	57,273	56,769
Trade receivables	7,364	5,509	7,364	5,509
Provision for impairment of trade receivables	<u>(5,619)</u>	<u>(5,754)</u>	<u>(5,619)</u>	<u>(5,754)</u>
Net trade receivables	59,018	56,524	59,018	56,524
Accrued income	-	93	-	93
Prepayments	<u>5,126</u>	<u>3,165</u>	<u>5,126</u>	<u>3,165</u>
	<u>64,144</u>	<u>59,782</u>	<u>64,144</u>	<u>59,782</u>

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

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

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

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

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

16 Trade and other receivables (continued)

Movement in the loss allowance

	31 December 2022 £ 000	31 December 2021 £ 000
At 1 January	5,754	3,123
Amounts utilised/written off in the year	(132)	(1,208)
Amounts recognised in the statement of profit or loss	<u>(3)</u>	<u>3,839</u>
At 31 December	<u><u>5,619</u></u>	<u><u>5,754</u></u>

The loss allowance is made on amount due net of VAT which would be recoverable from Her Majesty's Revenue and Customs when the debt is written off. The decrease in the amount recognised in the year follows the failure of a number of electricity supply companies in 2021. Subject to certain conditions mentioned below, losses arising in relation to distribution use of system debts will be recovered through an increase in future allowed income.

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £3.7 million (2021: £4.0 million), which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

16 Trade and other receivables (continued)

Distribution Use of System Receivables

The customers served by the Group's distribution network are supplied predominantly by a number of electricity supply businesses (circa 110) with the E.ON group accounting for approximately 20.2% of distribution revenues in 2022 (2021: 21.5%) and British Gas plc accounting for approximately 14.1% of distribution revenues in 2022 (2021: 11.4%). Ofgem under Code Governance arrangements, set out a framework known as Credit Cover within the Distribution Connection and Use of System Agreement (DCUSA), which sets credit limits for each supply business based on its credit rating (taken from a credit agency). If no score is available, then they can build up their credit limit through good payment history. In addition, suppliers can provide other forms of collateral to cover their value at risk (measured as being equivalent to 45 days usage) or if their credit rating alone is not sufficient to cover their value at risk. Acceptable collateral typically is provided in the form of a parent company guarantee, letter of credit, cash or an escrow account. Included within other payables are customer cash deposits of which there was £3.2m as at 31st December 2022 (2021: £1.9m).

Provided the Group has implemented credit control, billing and collection processes in line with Ofgem's best practice guidelines and can demonstrate compliance with the guidelines or is able to satisfactorily explain departure from the guidelines, any bad debt losses arising from supplier default will be recovered through an increase in future years allowed income. Losses incurred in 2022 have been material due to the unprecedented number of suppliers falling into administration over the course of the year. Included in the Group's use of system ("UoS") receivables are 39 debtors with a carrying value of £3.0m, which have been placed into administration and have therefore been provided in full at the year-end (2021: £2.5m).

The following table details the age of DUoS receivables:

	Not due £ 000	Current £ 000	1-3 months £ 000	3-6 months £ 000
2022				
Total balance	27,388	26,865	7	2,965
Less specific provisions	-	-	(3)	(2,962)
Balance on which ECL made	<u>27,388</u>	<u>26,865</u>	<u>4</u>	<u>3</u>
Expected credit loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2021				
Total balance	31,375	22,590	1,703	1,100
Less specific provisions	-	(255)	(1,696)	(844)
Balance on which ECL made	<u>31,375</u>	<u>22,335</u>	<u>7</u>	<u>256</u>
Expected credit loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

16 Trade and other receivables (continued)

Other Trade Receivables

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

Damages

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

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

Non Damages

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 on which ECL made	313	315	1,224	222	319
Lifetime ECL	0%	0%	0%	50%	87%
Expected credit loss	-	-	-	111	278

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

16 Trade and other receivables (continued)

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

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

Significant Increase in Credit Risk

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

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

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.

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

17 Cash and cash equivalents

	Group		Company	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
	£ 000	£ 000	£ 000	£ 000
Cash at bank	1,697	3	1,697	3
Other cash and cash equivalents	274,429	-	272,832	-
	<u>276,126</u>	<u>3</u>	<u>274,529</u>	<u>3</u>

18 Share capital

Allotted, called up and fully paid shares

	31 December 2022		31 December 2021	
	No. 000	£ 000	No. 000	£ 000
Ordinary Share Capital of £1 each	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

19 Reserves

Group

	Retained earnings £ 000
At 1 January 2022	962,103
Profit for the year	<u>102,258</u>
Total comprehensive income	102,258
Dividends	<u>(27,700)</u>
At 31 December 2022	<u><u>1,036,661</u></u>

	Retained earnings £ 000
At 1 January 2021	919,587
Profit for the year	<u>68,516</u>
Total comprehensive income	68,516
Dividends	<u>(26,000)</u>
At 31 December 2021	<u><u>962,103</u></u>

Company

	Retained earnings £ 000
At 1 January 2022	963,901
Profit for the year	<u>102,246</u>
Total comprehensive income	102,246
Dividends	<u>(27,700)</u>
At 31 December 2022	<u><u>1,038,447</u></u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

19 Reserves (continued)

	Retained earnings £ 000
At 1 January 2021	921,424
Profit for the year	68,477
Total comprehensive income	68,477
Dividends	(26,000)
At 31 December 2021	963,901

20 Loans and borrowings

	Group		Company	
	31 December 2022 £ 000	31 December 2021 £ 000	31 December 2022 £ 000	31 December 2021 £ 000
Non-current loans and borrowings	1,057,069	810,454	1,057,064	810,449
Current loans and borrowings	54,263	42,159	50,949	40,430
	<u>1,111,332</u>	<u>852,613</u>	<u>1,108,013</u>	<u>850,879</u>

Group

	Book value		Fair value	
	31 December 2022 £ 000	31 December 2021 £ 000	31 December 2022 £ 000	31 December 2021 £ 000
Short-term loan	35,058	2	35,058	2
Intercompany short-term loan	-	31,506	-	31,506
European Investment Bank 2027 – 2.564%	120,128	120,128	103,252	126,098
Northern Electric Finance plc 2035 – 5.125%	153,457	153,366	150,066	204,175
Northern Powergrid Holdings Company 2037 – 5.9%	-	100,016	-	148,285
Northern Electric Finance plc 2049 – 2.75%	150,098	150,037	100,507	172,211
Northern Powergrid (Northeast) plc 2052 - 3.25%	354,942	-	259,793	-
Northern Powergrid (Northeast) plc 2062 - 1.875%	297,649	297,558	154,267	289,945
	<u>1,111,332</u>	<u>852,613</u>	<u>802,943</u>	<u>972,222</u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

20 Loans and borrowings (continued)

Company

	Book value		Fair value	
	31 December 2022 £ 000	31 December 2021 £ 000	31 December 2022 £ 000	31 December 2021 £ 000
Short-term loan	35,058	2	35,058	2
Intercompany short-term loan - Yorkshire Electricity Group plc	-	33,091	-	33,091
European Investment Bank 2027 - 2.564%	120,128	120,128	103,252	126,098
Northern Electric Finance plc 2035 – 5.125%	50,208	50,117	50,065	68,101
Northern Powergrid Holdings Company 2037 - 5.9%	-	100,016	-	148,285
Northern Electric Finance plc 2037 - 5.125%	99,884	99,884	95,341	137,852
Northern Electric Finance plc 2049 - 2.8%	150,144	150,083	101,617	173,804
Northern Powergrid (Northeast) plc 2052 3.25%	354,942	-	259,793	-
Northern Powergrid (Northeast) plc 2062 1.875%	<u>297,649</u>	<u>297,558</u>	<u>154,267</u>	<u>289,945</u>
	<u>1,108,013</u>	<u>850,879</u>	<u>799,393</u>	<u>977,178</u>

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

In April 2022, the Group issued a £350 million bond at 3.25% maturing in 2051, the funds will be used for general corporate purposes including the repayment of debt maturities in 2022.

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

21 Lease Liabilities

Group and Company

Lease commitments

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

Maturity analysis - contractual undiscounted cash flows:

	31 December 2022 £ 000	31 December 2021 £ 000
Within one year	5,812	3,147
In two to five years	17,243	7,335
In over five years	6,101	2,699
Total lease payment	29,156	13,181
Unearned interest	(2,946)	(1,244)
Total lease liability	<u>26,210</u>	<u>11,938</u>

The total cash outflow for leases during the year was £5m (2021: £5.0m). Within the cash outflow is lease expense of £4.3m (2021: £4.6m).

22 Provisions

Group and Company

	Legal proceedings £ 000	Other provisions £ 000	Total £ 000
At 1 January 2022	773	1,979	2,752
Additional provisions	1,951	335	2,286
Provisions used	<u>(1,579)</u>	<u>(1,807)</u>	<u>(3,386)</u>
At 31 December 2022	<u>1,145</u>	<u>507</u>	<u>1,652</u>
Non-current liabilities	<u>-</u>	<u>55</u>	<u>55</u>
Current liabilities	<u>1,145</u>	<u>452</u>	<u>1,597</u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

22 Provisions (continued)

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

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

23 Trade and other payables

	Group		Company	
	31 December 2022 £ 000	31 December 2021 £ 000	31 December 2022 £ 000	31 December 2021 £ 000
Trade payables	2,978	3,756	2,978	3,756
Accrued expenses	8,973	10,307	8,971	10,302
Social security and other taxes	10,735	9,218	10,735	9,218
Other payables	2,949	3,414	2,949	3,414
Payments on Account	54,169	37,143	54,169	37,143
Capital Accruals	17,040	22,856	17,040	22,856
	<u>96,844</u>	<u>86,694</u>	<u>96,842</u>	<u>86,689</u>

The Group's and Company's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in Note 29 "Financial Risk Review".

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

24 Deferred Revenue

Group and Company

	31 December 2022 £ 000	31 December 2021 £ 000
Opening balance	677,658	669,356
Additions	33,397	36,247
Amortisation	<u>(29,253)</u>	<u>(27,945)</u>
Closing balance	<u>681,802</u>	<u>677,658</u>
	31 December 2022 £ 000	31 December 2021 £ 000
Current	29,326	28,645
Non-current	<u>652,476</u>	<u>649,013</u>
	<u>681,802</u>	<u>677,658</u>

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.

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

25 Pension and other schemes

Defined benefit pension schemes

Northern Powergrid Group of the ESPS

The Group contributes to two pension schemes, which it operates on behalf of the participating companies within the Group. All below disclosures are that of the group scheme to which the Company contributes but the assets and liabilities are reflected in Northern Electric plc.

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.

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

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 last actuarial valuation of the DB Scheme was carried out by the Trustee's actuarial advisors, Aon, as at 31 March 2022. 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 2019, the funding deficit was assessed to be £116.3 million. In light of this and subsequent changes in the funding position, the Group agreed with the Trustees in September 2020 to pay £2.44 million per month from 1 April 2019 to 31 March 2021. A further £29.3 million will be paid on 30 November 2021 and 30 November 2022 and £14.1 million on 30 November 2023 and 30 November 2024. These amounts are in 2019/20 prices and will be updated on 1 April 2020 and on each 1 April thereafter in line with annual changes in RPI inflation. If the actuarial assumptions are borne out in practice then the funding deficit is expected to be removed by 31 March 2025. The amounts due each November may be reduced by up to 100% depending on the updated funding position. Due to a significantly improved funding position, the November 2021 and 2022 deficit contributions were suspended. The next actuarial valuation is underway as at 31 March 2022 and is expected to be completed by 30 June 2023.

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

In addition, the Group pays contributions to cover the expenses of running the DB Scheme are 6.3% of pensionable pay from 1 October 2020.

The Northern Powergrid Group's total contribution to the DB Scheme for the next financial year are expected to be £11.2m (subject to a new contribution schedule being put in place).

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.

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

25 Pension and other schemes (continued)

Profile of the scheme

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

As at 31 March 2019, broadly about 30% of the liabilities are attributable to current employees (duration about 24 years), 10% to former employees (duration about 23 years) and 60% to current pensioners (duration about 13 years). Given increases in yields, we anticipate that the overall duration of the Scheme's obligation will have reduced to around 14 years at 31 December 2022.

Investment objectives for the DB Scheme

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

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

25 Pension and other schemes (continued)

Risks

Volatile asset returns

The DBO is calculated using a discount rate set with reference to corporate bond yields. If assets underperform this discount rate, this will create an element of deficit. The DB Scheme aims to hold a 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 a higher DBO.

Mitigation

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

Life expectancy risk

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

Mitigation

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

Currency risk

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

Mitigation

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

25 Pension and other schemes (continued)

Other risks

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

Reporting at 31 December 2022

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

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

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

Principal actuarial assumptions

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

	31 December 2022 %	31 December 2021 %
Discount rate	4.80	1.95
Future salary increases	3.20	3.45
Future pension increases	2.75	2.85
Inflation - CPI	2.95	2.95

Post retirement mortality assumptions

	31 December 2022 Years	31 December 2021 Years
Current UK pensioners at retirement age - male	26.70	26.70
Current UK pensioners at retirement age - female	28.60	28.60
Future UK pensioners at retirement age - male	27.40	27.40
Future UK pensioners at retirement age - female	29.70	29.60

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

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 2022 £ 000	31 December 2021 £ 000
Fair value of scheme assets	1,117,000	1,742,600
Present value of scheme liabilities	(965,500)	(1,480,400)
Defined benefit pension scheme surplus	<u>151,500</u>	<u>262,200</u>

Scheme assets

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

	31 December 2022 £ 000	31 December 2021 £ 000
Fair value at start of year	1,742,600	1,700,700
Interest income	33,600	23,800
Remeasurement gains on scheme assets	(582,000)	87,900
Employer contributions	12,100	20,800
Contributions by scheme participants	400	400
Benefits paid	(88,300)	(89,700)
Administrative expenses paid	(1,400)	(1,300)
Fair value at end of year	<u>1,117,000</u>	<u>1,742,600</u>

Analysis of assets

The major categories of scheme assets are as follows:

	31 December 2022 £ 000	31 December 2021 £ 000
Developed market equity	78,400	124,000
Emerging market equity	4,400	3,200
Property	169,400	194,300
Reinsurance	80,800	80,200
Listed infrastructure	62,800	95,300
Investment grade corporate bonds	15,900	201,300
Other debt (non-investment grade)	32,800	133,100
Fixed interest gilts	6,500	46,400
Index-linked gilts	-	3,800
Liability driven investments	584,300	703,200
Cash and cash equivalents including derivatives	<u>81,700</u>	<u>157,800</u>
	<u>1,117,000</u>	<u>1,742,600</u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

25 Pension and other schemes (continued)

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 2022 £ 000	31 December 2021 £ 000
Present value at start of year	1,480,400	1,612,600
Current service cost	11,100	12,000
Past service cost	16,500	-
Actuarial gains and losses arising from changes in demographic assumptions	(900)	(2,900)
Actuarial gains and losses arising from changes in financial assumptions	(530,100)	(55,100)
Actuarial gains and losses arising from experience adjustments	47,900	(19,200)
Interest cost	28,500	22,300
Benefits paid	(88,300)	(89,700)
Contributions by scheme participants	<u>400</u>	<u>400</u>
Present value at end of year	<u><u>965,500</u></u>	<u><u>1,480,400</u></u>

Amounts recognised in the income statement

	31 December 2022 £ 000	31 December 2021 £ 000
Amounts recognised in operating profit		
Current service cost	11,100	12,000
Past service cost	16,500	-
Losses (gains) on curtailments and settlements	1,490	1,300
Net interest	<u>(5,100)</u>	<u>(1,500)</u>
Recognised in arriving at operating profit	<u>23,990</u>	<u>11,800</u>
Amounts recognised in finance income or costs		
Recognised in other finance costs	<u>(6,800)</u>	<u>(8,000)</u>
Total recognised in the income statement	<u><u>17,190</u></u>	<u><u>3,800</u></u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

25 Pension and other schemes (continued)

Amounts taken to the Statement of Comprehensive Income

	31 December 2022 £ 000	31 December 2021 £ 000
Actuarial gains and losses arising from changes in demographic assumptions	(900)	(2,900)
Actuarial gains and losses arising from changes in financial assumptions	(530,100)	(55,100)
Actuarial gains and losses arising from experience adjustments	47,900	(19,200)
Return on plan assets, excluding amounts included in interest income/(expense)	582,000	(87,900)
Amounts recognised in the Statement of Comprehensive Income	<u>98,900</u>	<u>(165,100)</u>

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 2022			31 December 2021		
	+ 0.1% £ 000	0.0% £ 000	- 0.1% £ 000	+ 0.1% £ 000	0.0% £ 000	- 0.1% £ 000
Adjustment to discount rate						
Present value of total obligation	<u>952,700</u>	<u>965,500</u>	<u>979,300</u>	<u>1,455,600</u>	<u>1,480,400</u>	<u>1,505,600</u>
	31 December 2022			31 December 2021		
	+ 0.1% £ 000	0.0% £ 000	- 0.1% £ 000	+ 0.1% £ 000	0.0% £ 000	- 0.1% £ 000
Adjustment to rate of inflation						
Present value of total obligation	<u>978,700</u>	<u>965,500</u>	<u>933,300</u>	<u>1,503,900</u>	<u>1,480,400</u>	<u>1,466,300</u>
	31 December 2022			31 December 2021		
	+ 1 Year £ 000	None £ 000	- 1 Year £ 000	+ 1 Year £ 000	None £ 000	- 1 Year £ 000
Adjustment to mortality age rating assumption						
Present value of total obligation	<u>995,300</u>	<u>965,500</u>	<u>934,900</u>	<u>1,545,600</u>	<u>1,480,400</u>	<u>1,415,600</u>

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.

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

26 Dividends

	31 December 2022 £ 000	31 December 2021 £ 000
Interim dividend of 13.9p (2021 - 13.0p) per ordinary share	<u>27,700</u>	<u>26,000</u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

27 Reconciliation of liabilities arising from financing activities

Group

			Non-cash changes		
	At 1 January 2022 £ 000	Financing cash flows £ 000	New finance leases £ 000	Other changes £ 000	At 31 December 2022 £ 000
Borrowings	852,613	249,922	-	8,797	1,111,332
Lease liabilities	11,938	(4,957)	19,229	-	26,210
	<u>864,551</u>	<u>244,965</u>	<u>19,229</u>	<u>8,797</u>	<u>1,137,542</u>

			Non-cash changes		
	At 1 January 2021 £ 000	Financing cash flows £ 000	New finance leases £ 000	Other changes £ 000	At 31 December 2021 £ 000
Borrowings	836,456	15,926	-	231	852,613
Lease liabilities	13,294	(5,058)	3,702	-	11,938
	<u>849,750</u>	<u>10,868</u>	<u>3,702</u>	<u>231</u>	<u>864,551</u>

Company

			Non-cash changes		
	At 1 January 2022 £ 000	Financing cash flows £ 000	New finance leases £ 000	Other changes £ 000	At 31 December 2022 £ 000
Borrowings	850,879	248,337	-	8,797	1,108,013
Lease liabilities	11,938	(4,957)	19,229	-	26,210
	<u>862,817</u>	<u>243,380</u>	<u>19,229</u>	<u>8,797</u>	<u>1,134,223</u>

			Non-cash changes		
	At 1 January 2021 £ 000	Financing cash flows £ 000	New finance leases £ 000	Other changes £ 000	At 31 December 2021 £ 000
Borrowings	834,684	15,964	-	231	850,879
Lease liabilities	13,294	(5,058)	3,702	-	11,938
	<u>847,978</u>	<u>10,906</u>	<u>3,702</u>	<u>231</u>	<u>862,817</u>

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

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

Group

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

	Financial assets at amortised cost £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets			
Non-current assets			
Property, plant and equipment	-	-	2,849,504
Right of use assets	-	-	25,739
Intangible assets	-	-	47,356
	<u>-</u>	<u>-</u>	<u>2,922,599</u>
Current assets			
Inventories	-	-	25,406
Trade and other receivables	64,126	-	18
Cash and cash equivalents	276,126	-	-
	<u>340,252</u>	<u>-</u>	<u>25,424</u>
Total assets	<u>340,252</u>	<u>-</u>	<u>2,948,023</u>
Liabilities			
Non-current liabilities			
Long term lease liabilities	-	(21,152)	-
Loans and borrowings	-	(1,057,069)	-
Provisions	-	-	(55)
Deferred revenue	-	(652,476)	-
Deferred tax liabilities	-	-	(133,515)
	<u>-</u>	<u>(1,730,697)</u>	<u>(133,570)</u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

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

	Financial assets at amortised cost £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Current liabilities			
Current portion of long term lease liabilities	-	(5,058)	-
Trade and other payables	-	(96,844)	-
Loans and borrowings	-	(54,263)	-
Income tax liability	(259)	-	-
Deferred revenue	-	(29,326)	-
Provisions	-	-	(1,597)
	<u>(259)</u>	<u>(185,491)</u>	<u>(1,597)</u>
Total liabilities	<u>(259)</u>	<u>(1,916,188)</u>	<u>(135,167)</u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

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 ended 31 December 2021 was as follows:

	Financial assets at amortised cost £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets			
Non-current assets			
Property, plant and equipment	-	-	2,782,123
Right of use assets	-	-	11,652
Intangible assets	-	-	48,888
	-	-	2,842,663
Current assets			
Inventories	-	-	19,898
Trade and other receivables	59,356	-	426
Income tax asset	2,164	-	-
Cash and cash equivalents	3	-	-
	61,523	-	20,324
Total assets	61,523	-	2,862,987
Liabilities			
Non-current liabilities			
Long term lease liabilities	-	(9,062)	-
Loans and borrowings	-	(810,454)	-
Provisions	-	-	(55)
Deferred revenue	-	(649,013)	-
Deferred tax liabilities	-	-	(130,752)
	-	(1,468,529)	(130,807)
Current liabilities			
Current portion of long term lease liabilities	-	(2,876)	-
Trade and other payables	-	(86,694)	-
Loans and borrowings	-	(42,159)	-
Deferred revenue	-	(28,645)	-
Provisions	-	-	(2,697)
	-	(160,374)	(2,697)
Total liabilities	-	(1,628,903)	(133,504)

Fair values are derived from level 1 inputs.

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

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

Company

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

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets				
Non-current assets				
Property, plant and equipment	-	-	-	2,849,504
Right of use assets	-	-	-	25,739
Intangible assets	-	-	-	47,356
Investments in subsidiaries, joint ventures and associates	-	50	-	-
	<u>-</u>	<u>50</u>	<u>-</u>	<u>2,922,599</u>
Current assets				
Inventories	-	-	-	25,406
Trade and other receivables	64,126	-	-	18
Cash and cash equivalents	274,529	-	-	-
	<u>338,655</u>	<u>-</u>	<u>-</u>	<u>25,424</u>
Total assets	<u>338,655</u>	<u>50</u>	<u>-</u>	<u>2,948,023</u>
Liabilities				
Non-current liabilities				
Long term lease liabilities	-	-	(21,152)	-
Loans and borrowings	-	-	(1,057,064)	-
Provisions	-	-	-	(55)
Deferred revenue	-	-	(652,476)	-
Deferred tax liabilities	-	-	-	(133,515)
	<u>-</u>	<u>-</u>	<u>(1,730,692)</u>	<u>(133,570)</u>
Current liabilities				
Current portion of long term lease liabilities	-	-	(5,058)	-
Trade and other payables	-	-	(96,842)	-
Loans and borrowings	-	-	(50,949)	-
Income tax liability	(247)	-	-	-
Deferred revenue	-	-	(29,326)	-
Provisions	-	-	-	(1,597)
	<u>(247)</u>	<u>-</u>	<u>(182,175)</u>	<u>(1,597)</u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

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

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Total liabilities	<u>(247)</u>	<u>-</u>	<u>(1,912,867)</u>	<u>(135,167)</u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

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 ended 31 December 2021 was as follows:

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets				
Non-current assets				
Property, plant and equipment	-	-	-	2,782,123
Right of use assets	-	-	-	11,652
Intangible assets	-	-	-	48,888
Investments in subsidiaries, joint ventures and associates	-	50	-	-
	<u>-</u>	<u>50</u>	<u>-</u>	<u>2,842,663</u>
Current assets				
Inventories	-	-	-	19,898
Trade and other receivables	59,356	-	-	426
Income tax asset	2,173	-	-	-
Cash and cash equivalents	3	-	-	-
	<u>61,532</u>	<u>-</u>	<u>-</u>	<u>20,324</u>
Total assets	<u>61,532</u>	<u>50</u>	<u>-</u>	<u>2,862,987</u>
Liabilities				
Non-current liabilities				
Long term lease liabilities	-	-	(9,062)	-
Loans and borrowings	-	-	(810,449)	-
Provisions	-	-	-	(55)
Deferred revenue	-	-	(649,013)	-
Deferred tax liabilities	-	-	-	(130,752)
	<u>-</u>	<u>-</u>	<u>(1,468,524)</u>	<u>(130,807)</u>
Current liabilities				
Current portion of long term lease liabilities	-	-	(2,876)	-
Trade and other payables	-	-	(86,689)	-
Loans and borrowings	-	-	(40,430)	-
Deferred revenue	-	-	(28,645)	-
Provisions	-	-	-	(2,697)
	<u>-</u>	<u>-</u>	<u>(158,640)</u>	<u>(2,697)</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>(1,627,164)</u>	<u>(133,504)</u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

29 Financial risk review

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

Capital Management

The Northern Powergrid Group manages its capital centrally to ensure that entities in the Northern Powergrid Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Northern Powergrid Group's overall strategy remains unchanged from 2021.

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

The Group has no externally imposed capital requirements.

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

The Company's Senior Total Net Debt as of 31 December 2022 totalled £828.9m. Using the RAV value as of March 2023, as outlined by Ofgem in its ED2 price control financial model published in February 2023, and adjusting for the effects of movements in the value of the Retail Price Index gives an approximation for the RAV value as at 31 March 2023 of £1,793.1m. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 46.2% (2021: 53.7%).

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

Credit risk

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

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

Group

		Gross carrying amount £ 000	Loss allowance £ 000	Net carrying amount £ 000
2022	Notes			
Trade and other receivables	16	<u>69,763</u>	<u>(5,619)</u>	<u>64,144</u>
2021				
Trade and other receivables	16	<u>65,536</u>	<u>(5,754)</u>	<u>59,782</u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

29 Financial risk review (continued)

Company

		Gross carrying amount £ 000	Loss allowance £ 000	Net carrying amount £ 000
2022	Notes			
Trade and other receivables	16	69,763	(5,619)	64,144
Equity investments at FVTPL		<u>50</u>	<u>-</u>	<u>50</u>
2021				
Trade and other receivables	16	65,536	(5,754)	59,782
Equity investments at FVTPL		<u>50</u>	<u>-</u>	<u>50</u>

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.

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 Company 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 Company entered into a new Facility Agreement in December 2021 for a period of three years, with two 1 year extension options. During the year the Company exercised the first extension option which extended the termination date to December 2025. In addition, the Company has access to further short-term borrowing facilities provided by YEG and to a £19 million overdraft facility provided by Lloyds Bank plc, which is reviewed annually, these borrowings are repayable on demand.

At 31 December 2022, the Group had available £85.5m (2021: £119.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

29 Financial risk review (continued)

Maturity analysis for financial liabilities and financial assets

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

Group

	Less than 3 month £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
2022					
Non-derivative liabilities					
Non-interest bearing	60,127	-	-	-	60,127
Variable Interest Rate Liabilities	35,058	-	-	-	35,058
Fixed Interest Rate Liabilities	-	31,889	247,557	1,583,500	1,862,946
Total	95,185	31,889	247,557	1,583,500	1,958,131

	Less than 3 month £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
2021					
Non-derivative liabilities					
Non-interest bearing	44,314	-	-	-	44,314
Variable Interest Rate Liabilities	35,668	-	-	-	35,668
Fixed Interest Rate Liabilities	-	26,414	105,657	1,254,540	1,386,611
Total	79,982	26,414	105,657	1,254,540	1,466,593

Company

	Less than 3 month £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
2022					
Non-derivative liabilities					
Non-interest bearing	60,127	-	-	-	60,127
Variable interest rate liabilities	35,058	-	-	-	35,058
Fixed interest rate liabilities	-	31,964	247,857	1,595,400	1,875,221
Total	95,185	31,964	247,857	1,595,400	1,970,406

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

29 Financial risk review (continued)

2021	Less than 3 month £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
Non-derivative liabilities					
Non-interest bearing	44,314	-	-	-	44,314
Variable interest rate liabilities	37,253	-	-	-	37,253
Fixed interest rate liabilities	-	26,489	105,957	1,266,515	1,398,961
Total	<u>81,567</u>	<u>26,489</u>	<u>105,957</u>	<u>1,266,515</u>	<u>1,480,528</u>

Market risk

The Group's definition of market risk is Market risk is the risk of loss arising from movements in market variables such as interest rates, exchange rates and commodity prices. Risks are mitigated by utilising appropriate risk management products. The group manage this by The Group's policy on interest rate risk is designed to limit the Group's exposure to floating interest rates. Consistent with this policy, at 31 December 2022 the Group had 99% (2021: 99%) of net debt at fixed rates. Short-term loans and inter-company short term loans is charged at a floating rate of interest based on Sonia plus a margin of 0.20% plus a credit adjustment spread, 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 £0.1m 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. .

30 Related party transactions

Summary of transactions with joint ventures

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

Summary of transactions with other related parties

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

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

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

30 Related party transactions (continued)

Income and receivables from related parties - Group and Company

	Sales to related parties £ 000	Purchases from £ 000
2022		
Northern Powergrid (Yorkshire) Plc	25,984	9,635
Northern Powergrid Metering Limited	29	-
Integrated Utility Services Limited (registered in Eire)	4	1,832
Integrated Utility Services Limited	269	7,225
Northern Electric Plc	6	4,793
Vehicle Lease and Service Limited	28	5,175
CE Gas Limited	54	-
	<u>26,374</u>	<u>28,660</u>
	<u>26,374</u>	<u>28,660</u>
	Sales to related parties £ 000	Purchases from £ 000
2021		
Northern Powergrid (Yorkshire) Plc	24,358	10,548
Northern Powergrid Metering Limited	92	-
Integrated Utility Services Limited (registered in Eire)	9	1,982
Integrated Utility Services Limited	277	7,616
Northern Electric Plc	7	4,552
Vehicle and Lease Services Limited	37	4,951
CE Gas Limited	4	-
	<u>24,784</u>	<u>29,649</u>
	<u>24,784</u>	<u>29,649</u>

Loans (to)/from related parties - Group

	Other related parties £ 000
2022	
At start of period	131,522
Net movement	<u>(405,951)</u>
At end of period	<u>(274,429)</u>
	Other related parties £ 000
2021	
At start of period	115,596
Net movement	<u>15,926</u>
At end of period	<u>131,522</u>

Northern Powergrid (Northeast) plc

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

30 Related party transactions (continued)

Loans (to)/from related parties - Company

	Subsidiary £ 000	Other related parties £ 000
2022		
At start of period	300,084	133,107
Net movement	<u>282</u>	<u>(405,939)</u>
At end of period	<u><u>300,366</u></u>	<u><u>(272,832)</u></u>
	Subsidiary £ 000	Other related parties £ 000
2021		
At start of period	299,938	117,143
Net movement	<u>146</u>	<u>15,964</u>
At end of period	<u><u>300,084</u></u>	<u><u>133,107</u></u>

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

31 Parent and ultimate parent undertaking

The Company's immediate parent is Northern Electric plc.

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

Relationship between entity and parents

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

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

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

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