

Northern Electric plc

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2020

Northern Electric plc
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Northern Electric plc
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Northern Electric plc

Strategic Report for the Year Ended 31 December 2020

The directors present their annual report and audited financial statements for the year ended 31 December 2020 of Northern Electric plc (the "Company"), which have been drawn up and are presented in accordance with the Companies Act 2006.

Business model

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

NPg Northeast is an authorised distributor under the Electricity Act 1989 and holds an electricity distribution licence granted by the Secretary of State. As a distribution network operator ("DNO"), NPg Northeast is regulated by the Office of Gas and Electricity Markets ("Ofgem"), which in turn, is governed by the Gas and Electricity Markets Authority ("GEMA"). The completion of the 2018/19 Regulatory Year (31 March 2019) represented the mid-point of the current RIIO-ED1 price control which became effective on 1 April 2015 and is due to end on 31 March 2023 (the "ED1 period"). NPg Northeast distributes electricity, to approximately 1.6 million customers connected to its electricity distribution network within its distribution services area in the northeast of England. As NPg Northeast is the largest contributor to the Group in terms of revenue, the Strategic Report predominantly concentrates on the performance and progress of that entity throughout the reporting year.

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

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

Strategy

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

Submitted to Ofgem in March 2014, the Business Plan described the long-term strategy and commitments that the NPg Northeast would achieve during the ED1 period in order to deliver sustainable growth with regard to those with whom NPg Northeast interacted and served. Developed after a period of consultation with stakeholders, the Business Plan focused on a number of priorities (described throughout the Strategic Report) including minimising costs, improving flood defences, enhancing customer service, prioritising employee safety, supporting vulnerable customers, protecting the environment and transitioning to low carbon technologies. Following the publication of RIIO-ED2 ("ED2") Business Planning guidance by Ofgem in August 2020, NPg Northeast commenced the development of its regulatory business plan for the ED2 period (1 April 2023 to 31 March 2028) (the "ED2 Plan"), ahead of submission to Ofgem in December 2021. As part of this process, NPg Northeast continues to work with the Customer Engagement Group ("CEG"), which was established for the purpose of providing independent scrutiny and challenge to ensure that customers' interests are adequately reflected in the ED2 Plan.

The delivery of the Business Plan is supported by an annual business plan (the "Annual Plan") which is submitted to the Northern Powergrid Group's shareholder each financial year and is designed to phase progress towards the achievement of each commitment over the duration of the ED1 period. The phasing ensures that the deliverables in both plans can be measured effectively by using a mix of financial and non-financial Key Performance Indicators ("KPI").

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

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Strategic Report for the Year Ended 31 December 2020 (continued)

FINANCIAL STRENGTH

Strategic objective: Strong finances that enable improvement and growth.

KPI	2020	2019
Operating Profit	£ 185.6 million	£ 183.4 million
Cash from operating activities	£ 260.5 million	£ 229.5 million
Cash used in investing activities	£ 206.4 million	£ 189.7 million
Credit Rating (Standard & Poor's)	A	A

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

Performance during the year: The Group continued to maintain good control in respect of both its capital and operating costs by effectively managing the financial risks that could have had an adverse impact on its business. At half way through the ED1 Period, NPG Northeast has implemented efficiencies equivalent to a 3% reduction in base costs relative to the prior regulatory period.

Revenue: The Group's revenue at £454.3 million was £6.7 million higher than the prior year due to increased distribution revenues and higher meter rentals, partially offset by lower contracting volumes.

Operating profit and position at the year-end: The Group's operating profit of £185.6 million was £2.2 million higher than the previous year, primarily reflecting higher revenues, offset by increased depreciation, contracting costs and higher business rates. The statement of financial position on pages 30 and 31 shows that, as at 31 December 2020, the Group had total equity of £1,280.2 million (2019: £1,236.8 million). The directors consider the Group to have a strong financial position which, when coupled with the preference of Berkshire Hathaway Energy for operating with lower levels of debt than equivalent companies in the sector, creates a stable base for continued strong performance during the ED1 period.

Finance costs and investments: Finance costs net of investment income at £46.3 million were £0.5 million higher than the prior year reflecting changes in financing in the year.

Taxation: The effective tax rate in the year was 28.9%. Tax charge for the year was £40.3 million which was £10.4 million higher than prior year of £26.5 million primarily due to the impact the tax rate change had on the deferred tax balance. Details of the income tax expense are provided in Note 10 to the financial statements.

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

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

- **Operating activities:** Cash flow from operating activities at £260.5 million was £31.0 million higher than the previous year due to favourable working capital movements offset slightly by higher tax paid.
- **Investing activities:** Cash flow used in investing activities at £206.4 million was £16.7 million higher than the previous year reflecting reduced customer contributions and lower disposal proceeds, partially offset by lower purchases of plant, property and equipment.
- **Financing activities:** Cash outflow from financing activities at £54.9 million was £9.7 million higher than the previous year of £45.2 million, mainly due to the movement of borrowings.

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

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

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Strategic Report for the Year Ended 31 December 2020 (continued)

CUSTOMER SERVICE

Strategic objective: Delivering exceptional customer service.

KPI	2020	2019
Broad Measure of Customer Satisfaction ("BMCS")	91.4%	90%
BMCS Rank (out of 14)	9	10
BMCS Power Cuts	90.7%	89.6%
BMCS General Enquiries	94.7%	92.3%
BMCS Connections	90.4%	89.4%
Stakeholder Engagement and Customer Vulnerability ("SECV") rank (out of 13) (combined with Northern Powergrid (Yorkshire) plc)	3	3

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

Performance during the year: Under the BMCS, an independent market research company carried out telephone surveys with NPG Northeast's customers to find out how satisfied they were with services related to unplanned or planned power cuts, quotations and subsequent connections, and general enquiries. NPG Northeast recorded an improvement in overall satisfaction scores at 91.4% compared to the prior year (90.0%) which had resulted in an overall BMCS rank of 9 out of 14. The BMCS rank improved by one place year-on-year, demonstrating the incremental progress made across all BMCS categories.

To further enhance the service provided to customers a number of initiatives from NPG Northeast's customer service improvement plan were implemented during the year. This included the continued development of the customer relationship management ("CRM") system, the introduction of quote-on-site technology for connections small works and the rollout of a 'Customer First' training programme which was introduced to improve the proactivity and effectiveness of communication with customers.

Activity scheduled to take place during 2021 is to focus on technology enablement including extending the CRM system to include Unplanned Power Cuts, thereby enabling real-time updates to be provided to customers, investing in a new contact centre telephony platform and upgrading the Northern Powergrid Group's external website. The programme of work will be supported by the appointment of regional Customer Service Managers and extending the Customer First training to include all employees and contractors.

Connections to the network

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

Performance during the year: Reducing end-to-end connections lead times continued to pose a challenge and, as such, work to improve the level of customer service within the small works connections business (measured by the BMCS connections KPI) continued. In support of this, the process whereby one individual assumes responsibility throughout each connections process from creating a quotation on site (using the quote-on-site technology) to the final delivery of the connection itself was further embedded. By continuing to introduce further enhancements, NPG Northeast's remains confident that whilst a 30% reduction in end-to-end lead times will be challenging, (currently at 19%) it remains achievable by the end of the ED1 period. Performance during 2020 was adversely impacted by the Pandemic due to the challenges associated with accessing customer premises, which resulted in the postponement of many jobs. In conjunction with the Group's wider response to the Pandemic, safe ways of working were developed to protect employees and customers and allow connections work to recommence.

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

In relation to NPG Northeast's ICE commitments for the 2019/20 regulatory period, the 13 actions included in the service improvement work plan were successfully delivered.

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Strategic Report for the Year Ended 31 December 2020 (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 2020, NPG Northeast (together with Northern Powergrid (Yorkshire) plc) put forward its SECV submission to Ofgem in respect of work undertaken during the 2019/20 Regulatory Year. The material provided an overview of activities and case studies in areas such as decarbonisation, safety, environment, customer service, reliability and availability. Following the review by Ofgem's panel, NPG Northeast achieved fifth place (of 14) in the context of the wider gas distribution, gas transmission and DNO group, a step down from third place in the prior Regulatory Year. In response to the drop in performance, an external assessment of the approach to engagement, fuel poverty provision and support provided to vulnerable customers was undertaken and improvement plans were subsequently established.

During the year, NPG Northeast continued to develop its routine engagement activity by enhancing existing relationships with elected representatives at the local council and parliamentary level as well as with civic leaders from Local Enterprise Partnerships, particularly during periods of severe weather and when providing support to vulnerable customers. In addition, virtual one-to-one and group engagement sessions were held (and attended by the CEG) for the purpose of understanding stakeholders' priorities and opinion on the level of necessary investment, in response to the various business plan options as set out in NPG Northeast's Emerging Thinking document (published in August 2020). The feedback provided useful insight, enabling the board and senior managers to critically evaluate a range of stakeholder opinions in order to inform and contributed to the development of the ED2 Plan.

The Pandemic challenged the way in which NPG Northeast and its partners had traditionally provided support to vulnerable customers at a time when the effects of the Pandemic itself- meant that the demand for assistance increased dramatically, particularly for those customers experiencing financial difficulties. In response, community partners such as Citizens Advice and Green Doctors moved to online models to allow them to continue supporting the most vulnerable in the community and provide advice on issues including energy saving measures, tariff switching, debt and benefits advice and offer emotional support. NPG Northeast's Community Partnering Fund (in conjunction with Northern Gas Networks) deployed an additional £50,000 to the resilience funds in Bradford and Newcastle as part of a £1 million wider regional campaign which supported the immediate needs of community groups and small charitable organisations. Funding was also provided to local initiatives concerning fuel and food poverty, promoting education in the science, technology, engineering, and mathematics subjects, public safety campaigns and the services utilised by Priority Services Register customers.

OPERATIONAL EXCELLENCE

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

KPI	2019/20		2018/19	
	Actual	Target	Actual	Target
Customer minutes lost ("CML")	44.1	<57.0	47.6	<59.1
Customer interruptions ("CI")	47.0	<60.7	54.3	<61.4
KPI	2020		2019	
High voltage restoration time (minutes)	64.0		57.0	
Network investment (million)	£189.0		£189.7	

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

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

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Strategic Report for the Year Ended 31 December 2020 (continued)

In respect of the Business Plan commitments, NPG Northeast together with its affiliate (Northern Powergrid (Yorkshire) plc) had achieved 25.5% fewer unplanned power cuts and a reduction of the average length of unplanned power cuts by 34.8% (relative to performance in April 2015). Progress remains on track to achieve the continuous improvement target of 30% for the number of unplanned power cuts and 20% to 40% for the average duration.

NPG Northeast invested £189.0 million during the year through its approved Network investment strategy (2019: £189.7 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. Whilst certain aspects of routine Network maintenance were rescheduled due to the Pandemic (to ensure operational integrity and uninterrupted Network performance to critical locations such as hospitals), all required maintenance work was completed during the year. This was facilitated by the utilisation of a supply of essential assets, held in stock specifically for such an eventuality.

Further Network enhancements included the continued roll-out of the automatic power restoration system on the high voltage Network. This enabled the restoration of supply in under three minutes following an interruption available to a further 74,257 customers during 2020, taking the total to 1,125,325. At low voltage, in addition to the previous deployment of smart fuses to restore supplies in under three minutes to customers affected by intermittent faults, the implementation of next generation innovative low voltage technology devices continued with the addition of low-cost Network monitoring sensors. The devices enable the detection of developing faults so that they can be proactively managed whilst enabling the gathering of Network condition information.

By the end of the ED1 Period, NPG Northeast expects to deliver a more resilient Network and enhanced outputs to customers that exceed those originally targeted in the Business Plan. Specifically, NPG Northeast (together with Northern Powergrid (Yorkshire) plc) aims to accommodate additional investment in the region of £6.4 million in upgrading flood defences, £2.1 million in the visual amenity programme (to underground overhead lines in areas of outstanding natural beauty) and a further £50 million on removing fluid and gas filled cables from the Network. The overall forecast remains in line with the allowances for the period and NPG Northeast will continue to review those costs to ensure the best outcome for customers.

In relation to high voltage restoration, NPG Northeast's high-voltage restoration performance during the year averaged 64.0 minutes (2019: 57.0 minutes), after allowing for severe weather incidents and other exemptions.

EMPLOYEE COMMITMENT

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

KPI	2020		2019	
	Actual	Target	Actual	Target
Occupational safety and health administration rate (Northern Powergrid Group)	0.13	0.13	0.18	0.22
Preventable vehicle accidents	17	15	18	15
Lost time accidents	0	1	3	1
Medical treatment accidents	2	0	0	1
Operational incidents	4	5	6	5
Absence rate	2.80		3.50	

Health and safety

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

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Strategic Report for the Year Ended 31 December 2020 (continued)

Performance during the year: In common with the Berkshire Hathaway Energy group, the Northern Powergrid Group measures its safety performance in terms of the OSHA rate, which is a measure used in the United States ("US") to capture safety incidents down to minor levels of medical treatment. The Northern Powergrid Group met its target of 0.13 in 2020 by achieving an OSHA rate of 0.13 (2019: 0.18), which equated to three recordable incidents against the goal of three or fewer. The Northern Powergrid Group achieved its best ever safety performance, hitting both its lost time accident and operational incident targets. However, NPg Northeast concluded the year with 17 preventable vehicle accidents, missing the target of 15 as a result of a number of minor incidents, for which, mitigation plans are now in place. In respect of the Business Plan commitment, at 31 December 2020, NPg Northeast's accident rate had been reduced by 56%, which was ahead of the target to achieve a 50% reduction by 31 March 2023. NPg Northeast successfully retained its ISO 45001 accreditation scheme for its health and safety management system.

The challenges posed by the Pandemic in respect of safe working practices and procedures were, and remain, constantly under review by members of the safety team, senior management team, Health and Safety Committee and the Board, in conjunction with trade union representatives. Robust business continuity plans and risk management procedures meant that the Group was adequately prepared for such an event (including purchasing stocks of personal protective equipment) and quickly adapted to new ways of home working. All Group facilities were risk assessed and tailored procedures were implemented to ensure the safety of all staff in accordance with the latest government guidance.

The mental health and wellbeing of staff also forms an integral part of the SHIP. Existing support available to employees includes an independent employee assistance service, which is a confidential, self-referral counselling and information service to assist with personal or work-related problems and access to services including counselling and physiotherapy referrals. In response to the effects of the Pandemic on the mental and physical wellbeing of employees, the Group proactively provided guidance and promoted the support available via a targeted 'Wellbeing Wednesday' campaign.

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

Employees

Business Plan commitment: To emphasise the importance of leadership and high standards of performance by engaging, collaborating and working with employees and their trade union representatives.

Performance during the year: The Pandemic required the Group to quickly accommodate considerable adjustments to its usual employee working arrangements such as introducing home working, flexibly supporting working parents and ensuring the safety and wellbeing of all employees, particularly those key-workers operating in the field environment. Any required changes or updates were communicated regularly via multiple channels to ensure that all colleagues were able to continue to perform their duties safely and effectively. As outlined above, the Group remains committed to the wellbeing of its staff and is aware that as the Pandemic continues, factors including isolation can have a significant effect. Consequently, regular wellbeing advice covering topics such as mental health, exercise and working continue to be promoted alongside the standard support services which are available.

Alongside the new measures introduced in the year, the Group continued to ensure that all colleagues had regular meaningful conversations with their line managers and that leadership engagement continued. To accommodate remote working and social distancing requirements, a number of routine training programmes were also made available via e-learning such as Customer First training and the 'Best Welcome' corporate induction.

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

During the year, 40 new recruits (2019 92) joined NPg Northeast's and Northern Powergrid (Yorkshire) plc's workforce renewal programme. At 31 December 2020, the Group had 1,431 employees (2019: 1,308). 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.

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Strategic Report for the Year Ended 31 December 2020 (continued)

ENVIRONMENTAL RESPECT

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

KPI	2020		2019	
	Actual	Target	Actual	Target
Total oil/fluid lost (litres)	7,205	<11,583	11,660	<12,255
SF6 gas discharges (kg)	16.80	<14.25	16.55	<18.00
Environmental incidents	0	<4	1	<3
KPI	2020		2019	
	Carbon footprint (tonnes)		15,110	15,677
KWh Energy Consumed	21,269,487		21,315,793	

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

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

Performance during the year: NPg Northeast and IUS operates a United Kingdom Accreditation Service scheme for environmental management and is certified to the environmental management systems standard ISO 14001:2015. The ISO 14001 standard is designed to enhance environmental performance, fulfil compliance obligations and achieve environmental objectives, all of which contribute to the achievement of NPg Northeast’s KPIs. A full recertification assessment was carried out in March 2020 and surveillance audits are carried out twice per calendar year, the last one being conducted in October 2020. Continued certification was confirmed following each audit.

NPg Northeast’s and IUS’ carbon footprint reporting framework is certified under the Certified Emissions Measurement and Reduction Scheme for compliance with ISO 14064-1:2006. The last full audit was undertaken in August 2020, where continued certification was confirmed. Initiatives including the introduction of electric vehicles and continued deployment of a forward looking infra-red camera and an SF6 spectrum imager (which both aid the identification of leaking gas-filled equipment), led to a further improvement in reducing NPg Northeast’s carbon footprint during the year to 15,110 tonnes (2019: 15,677 tonnes). This improvement (combined with Northern Powergrid (Yorkshire) plc) demonstrated a carbon footprint reduction of 46% at 31 December 2020, well ahead of the original 10% commitment and in line with the 40% stretch target applied for the 2019/20 Regulatory Year.

In support of the target to further reduce oil and fluid loss, the 2020 annual environmental improvement plan included replacing fluid-filled cables and locating cable fluid leaks more quickly which resulted in a total fluid loss of 7,205 litres (2019: 11,660). In relation to the Business Plan commitment, at 31 December 2020, NPg Northeast and its affiliate (Northern Powergrid (Yorkshire) plc) had achieved a 41% reduction in oil and fluid loss (relative to 1 April 2015) and in line with achieving a 47% reduction by the end of the ED1 period.

To maintain its strict policy of environmental protection and legal compliance, NPg Northeast continues to assess environmental risks and mitigate threats through programmes of work such as fluid-filled cable replacement, undergrounding overhead lines in areas of outstanding natural beauty, installing flood defences, implementing secondary containment in high-risk substations and removing equipment containing polychlorinated biphenyl from the network. Whilst prevention is paramount, in the event NPg Northeast’s activity does result in a leak or spill, the services of an appointed 24-hour a day environmental response consultancy is used to minimise the effects of any incident. In addition to safeguarding the environment from its direct activity, NPg Northeast also operates a habitats programme which is aimed at protecting flora and fauna.

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

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Strategic Report for the Year Ended 31 December 2020 (continued)

Sustainability

Business Plan commitment: To help facilitate the United Kingdom's transition to a low-carbon economy in NPG Northeast's capacity as a major participant in the United Kingdom energy industry and in terms of its own carbon footprint.

Performance during the year: As the country takes action to make significant reductions in its carbon emissions following the establishment of a net zero carbon emissions target by 2050, the way in which electricity is produced and used is expected to have a substantial impact on the Network over time. NPG Northeast laid out its intention to act as a key facilitator in the country's net zero transition by placing decarbonisation at the heart of its plans for the ED2 period (as set out in the Emerging Thinking document). The Group is actively exploring how best to contribute to the achievement of this target through the decarbonisation of its own operations, including electrifying the fleet and enabling the uptake of low-carbon technology installations for its customers, such as photovoltaic solar panels, electric vehicles and heat pumps. The volume and total capacity of decentralised energy generation has also been growing steadily and, given the greater range of load and generation technologies now connected to the Network, NPG Northeast is taking action to develop innovative solutions that will reduce the need for traditional and potentially expensive reinforcement of the Network. In the past year, NPG Northeast has continued to market test flexible solutions, whereby customers are invited to support the Network by changing their energy consumption and generation patterns, facilitating a more efficient and greener Network. To understand how to most efficiently prepare the Network for the future needs of its customers, NPG Northeast has continued to build on its views of potential pathways to net zero in its region through its publication of Distribution Future Energy Scenarios in December 2020.

From an innovation perspective, NPG Northeast continues to run and develop a portfolio of projects in the priority areas of smart meters, digital-enabled customer service and affordability. During the year NPG Northeast successfully launched its Silent Power vans following a successful innovation project which enable the dispatch of mobile battery technology vehicles to provide restoration of the electricity supply following a power cut in place of traditional diesel generators. In addition, the collaboration with Northern Gas Networks at the Intergel demonstrator site continued to assess the potential future benefits of integrating both gas and electricity energy systems.

NPG Northeast's climate change adaptation strategy recognises the impact that climate change is anticipated to have on operations, the risks this poses and the proposed actions to mitigate these risks including vegetation management, Network specifications for changing temperatures and improved weather prediction. The installation of flood defences is one such key activity that is already underway and the delivery of the committed programme in the ED1 period remains on track.

REGULATORY INTEGRITY

Strategic objective: Trustworthy, fair and balanced.

KPI: Completion of a quarterly regulatory compliance affirmation process.

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

Performance during the year: In order to assure compliance with distribution licence and other regulatory obligations, NPG Northeast operates a regulatory compliance affirmation process, under which ownership of approximately 2,000 regulatory obligations are assigned to around 80 responsible managers. Those responsible managers are required to review compliance with the relevant obligations on a quarterly basis and report on any identified non-compliances or perceived risks which are then addressed by members of the senior management team. To minimise the risk of NPG Northeast breaching its licence conditions and other statutory requirements (which could lead to financial penalties), the board reviews the outcomes of each exercise. Each quarterly regulatory compliance affirmation process was completed satisfactorily during the year.

NPG Northeast submitted its annual Data Assurance Report to Ofgem in February 2020, which included risk assessments of the regulatory returns to be submitted for the Regulatory Year ahead (April 2020 - March 2021), together with a report detailing the assurance work actually carried out in the year ended 29 February 2020 and the findings of that work.

During the year, activity continued in respect of the ED2 period review process, which was initiated by Ofgem in August 2019. That process is expected to conclude in December 2022, with GEMA determining the charges that DNOs are able to levy over the ED2 period. In December 2019, Ofgem published its decision on the sector-specific methodology that will be applied to the ED2 period, which focussed mainly on implementing new arrangements to support net zero targets, the operation of a smart and flexible energy system, delivering value for money services and keeping bills low. A decision on the finance aspects of the methodology is expected no earlier than February 2021. NPG Northeast is currently preparing its ED2 Plan, the final version of which is due to be submitted to Ofgem in December 2021.

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Strategic Report for the Year Ended 31 December 2020 (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 robust system is in place to facilitate the identification of new opportunities and risks, including those associated with the achievement of the Northern Powergrid Group's strategic objectives and Core Principles. Once identified, key risks and their respective controls and mitigation plans are continually assessed and formally reviewed 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 reports its findings to the board on a regular basis to ensure the directors are sufficiently appraised of the risk exposure associated with the pursuit of the Group's long-term strategy.

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

Principal Risks

Cyber and Information Security

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

Mitigations:

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

Regulatory and policy positioning

Decisions taken resulting in negative impacts to our business model.

Mitigations:

- NPg Northeast policy position supporting the expanded role of DSO is being set out.
- Innovation projects in place to develop and demonstrate future technologies and commercial practices.
- NPg Northeast engages in a robust regulatory and stakeholder engagement programme.
- NPg Northeast is actively involved in consultations on the RIIO-2 price controls.

Network resilience

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

Mitigations:

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

Northern Electric plc

Strategic Report for the Year Ended 31 December 2020 (continued)

Safety

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

Mitigations:

- Overseen by the Health and Safety Committee.
- Clear policies and procedures exist that comply with legislation to ensure the safety of the employees and customers.
- Health and safety training is provided to employees on a continuous basis.
- Audit programme and inspection regimes are in place.
- ISO18001 safety management system in place.

Environment

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

Mitigations:

- Incident response process and robust policies and procedures in place
- Programme to reduce fluid loss and the Group's business carbon footprint.
- Investment in technology to minimise environmental incidents and 'self-heal' the network.
- Asset inspection programme.
- ISO14001 environmental management system in place.

Brexit

Britain's departure from the European Union

Mitigations:

- Brexit is not considered to be a principal risk to the Group.

Efficiency and output performance

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

Mitigations:

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

Financial risks

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

Mitigations:

- Monitored by the Treasury department.
- The Group is financed by long-term borrowings at fixed rates has access to short-term borrowing facilities at floating rates of interest.
- As at 31 December 2020, 95% of the Group's long-term borrowings were at fixed rates and the average maturity for the long-term borrowings was 22 years.
- Financial covenant monitoring is in place.

Resource availability

Access to and availability of skilled resource resulting in an inability to deliver work programmes during the ED1 period .

Mitigations:

- Mix of direct labour and contracted resource is used.

Northern Electric plc

Strategic Report for the Year Ended 31 December 2020 (continued)

Coronavirus Pandemic

Infection rate leads to high staff absence.

Mitigations:

- Pandemic mitigation plan in place.
- Geographical distribution of facilities and staff.
- Briefings and advice provided.

At the time of writing this report, the Northern Powergrid Group's response to the coronavirus pandemic is fully operational. As a provider of a key national infrastructure, the Northern Powergrid Group has robust policies and processes in place to minimise the effect of disruptions to service and has considerable experience of invoking its major incident procedures. The pandemic management plan has been developed to provide a dynamic approach to the way in which the Northern Powergrid Group is run so as to ensure essential operations are maintained to normal standards whilst supporting the health and well-being of staff. Staff absence has not risen above normal levels. The Northern Powergrid Group response is aligned to UK Government advice and formulated with the oversight of the Department for Business, Energy & Industrial Strategy.

The Northern Powergrid Group's revenue derives principally from regulated electricity distribution and this is not expected to be materially affected by the current pandemic. The regulatory regime allows for the recovery of allowed costs in full over the long term. In addition, the Northern Powergrid Group has reviewed its liquidity levels and has concluded that these remain sufficient. The Northern Powergrid Group has access to long-term financing from a range of sources, principally the sterling bond market, which has offered funding at rates commensurate with Northern Powergrid Group companies' strong credit ratings. The Group continues to monitor cash flows and liquidity.

Internal control

A rigorous internal control environment exists within the Group to support the financial reporting process, the key features of which include regular reporting, a series of operational and financial policies, investigations undertaken by internal audit and a stringent process for ensuring the implementation of internal audit recommendations. In addition, the Group utilises comprehensive business planning procedures, regularly reviews KPIs to assess progress towards its goals, and has a strong internal audit function to provide independent scrutiny. Financial controls include a centralised treasury operations and established procedures for the planning, approving and monitoring of major capital expenditure. The RAB monitors the effectiveness of internal controls and reports on its findings to the board and Berkshire Hathaway Energy.

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

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

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

To ensure that the Northern Powergrid Group maintains the highest level of ethical standards in the conduct of its business, Berkshire Hathaway Energy's Code of Conduct has been adopted, further details of which can be found on page 9. The Northern Powergrid Group has robust procedures in place to meet the requirements of the Bribery Act 2010. Every employee must undertake training in respect of the Northern Powergrid Group's anti-corruption and anti-bribery policy each year.

Northern Electric plc
Strategic Report for the Year Ended 31 December 2020 (continued)

Section 172(1) statement

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

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

Non-financial information statement

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 can be found on the Northern Powergrid Group's corporate website.

Approved by the Board on 30 April 2021 and signed on its behalf by:



T H France
Director

Northern Electric plc

Directors' Report for the Year Ended 31 December 2020

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2020.

Dividends

During the year, an interim dividend of £25.4 million was paid (2019: £24.6 million). The directors recommend that no final dividend be paid in respect of the year (2019: £nil).

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

Directors of the Company

The directors who held office during the year under review and to the date of signing this report were:

T E Fielden (resigned 15 February 2021)

T H France

P J Goodman (resigned 29 May 2020)

C D Haak (appointed 7 July 2020)

P A Jones

J N Reynolds

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

Future developments and future outlook

The financial position of the Group, as at 31 December 2020, is shown in the consolidated statement of financial position on pages 30 and 31. There have been no significant events since the year end and the directors intend that:

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

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

Research and development

The Group supports a programme of research (see page 9 for further details) that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. During the year, the Group invested £1.4 million (2019: £1.6 million) (Note 5 to the financial statements) in its research and development activities.

Northern Electric plc

Directors' Report for the Year Ended 31 December 2020 (continued)

Political donations

During the year, no contributions were made to political organisations (2019: £nil).

Financial instruments

Financial risk management

Details of financial risks are included in the Principal Risks and Uncertainties on page 11 of the Strategic Report and in Note 30 to the financial statements.

Financial derivatives

As at 31 December 2020 the Group held one derivative financial instrument (2019: one) to mitigate the interest rate risk on a floating interest rate loan. More details on derivative financial instruments are available in Note 31 to the financial statements.

Employment of disabled persons

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

Engagement with employees

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

Employee engagement continues to show improvement with local action plans augmented by routine communication channels including regular staff briefings, meetings with staff and their representatives, and utilising the Northern Powergrid Group's intranet.

During the year, the President and Chief Executive Officer and members of the senior management team of the Northern Powergrid Group continued to provide colleagues with updates on the Northern Powergrid Group's response to the Pandemic and financial, organisational, safety and customer service performance through weekly recorded electronic briefings. In addition, group wide text messages were used to quickly disseminate key information concerning the Pandemic or the invoking of major incident responses. Where appropriate, the executive directors and senior leaders engaged with employees during operational and office-based site visits ensuring safety measures were maintained throughout.

In accordance with Section 414C of the Companies Act 2006 further disclosures details concerning the Group's relationship with employees (including the principal decisions taken during the year) and information concerning greenhouse gas emissions can be found on pages 7, 8 and 9 of the Strategic Report.

Business relationships

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

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

Northern Electric plc

Directors' Report for the Year Ended 31 December 2020 (continued)

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

Customers, whether they are domestic or commercial, are the primary stakeholder group served by the Group and therefore the services offered are all tailored to provide a benefit or enhance an experience. Further detail of the Group's (and in particular NPg Northeast's) relationship with customers, the support programmes provided and the decisions made during the year is discussed on page 4. The independent scrutiny and challenge provided by the CEG during the year has helped determine those areas most important to customers and what they expect to be achieved during the ED2 period.

As outlined on page 10, activity in respect of Regulatory Integrity and engagement with Ofgem was prevalent during the year and included participation in various consultations concerning the ED2 period. Given the implications on NPg Northeast's long-term strategy, the relationship with Ofgem, the evolving ED2 framework, the transition to DSO as well as the effects of the Pandemic were regular items on the board agenda throughout the year.

Vote holder and issuer notification

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

Directors' biographies

Thomas H France

Appointed in March 2018, Mr France joined the Northern Powergrid Group in November 2013 and he became General Counsel in July 2015. He is a solicitor, having qualified with Herbert Smith in their corporate energy and infrastructure team.

Calvin D Haak

Appointed in September 2020, Mr Haak is the Senior Vice President and Chief Financial Officer of Berkshire Hathaway Energy. Mr Haack is responsible for managing all aspects of Berkshire Hathaway Energy's financial operations including domestic and international financings, acquisitions, and project developments. Prior to his current appointment, he was Berkshire Hathaway Energy's Vice President and Treasurer and had held numerous finance and accounting roles at subsidiaries of Berkshire Hathaway Energy since 1997.

Philip A Jones

Appointed in April 2007, Dr Jones is President and Chief Executive Officer of the Northern Powergrid Group, the UK platform in the global portfolio of Berkshire Hathaway Energy. Prior to his appointment as President and Chief Executive Officer, he was Strategy and Investment Director and, as such, was responsible for technical, economic and regulatory strategy within the organisation. Dr Jones is a chartered electrical engineer and has been working in the UK power distribution sector since completing his PhD in Electronic and Electrical Engineering in 1993. He has held a range of technical and managerial roles, mostly in the engineering field. He is also actively involved in a range of other industry bodies. He is Chairman of the Energy Networks Association, the trade association that represents the power transmission and distribution companies.

John N Reynolds OBE

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

Northern Electric plc
Directors' Report for the Year Ended 31 December 2020 (continued)

CORPORATE GOVERNANCE STATEMENT

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

Audit committee

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

Composition:

- J N Reynolds, non-executive Director (Chairman)
- T E Fielden, Finance Director (resigned 15 February 2021)
- M Knowles, independent member - Northern Powergrid Holdings Company
- S J Lockwood, interim Finance Director (appointed 11 February 2021)

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 (IFRS's) as issued by the International Accounting Standards Board ("ISAB"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group and Company for that period.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement pursuant to DTR 4

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

- the financial statements, prepared in accordance with applicable UK law and in conformity with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties it faces; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders.

Northern Electric plc
Directors' Report for the Year Ended 31 December 2020 (continued)

Going Concern

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

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

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

- The Northern Powergrid Group's main subsidiaries, NPg Northeast and NPg Yorkshire are stable electricity distribution businesses operating an essential public service and are regulated by the Gas and Electricity Markets Authority ("GEMA"). In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Northern Powergrid Group is profitable with strong underlying cash flows. The Northern Powergrid Group, NPg Northeast and NPg Yorkshire hold investment grade credit ratings;
- The Northern Powergrid Group is financed by long-term borrowings with an average maturity of 17 years and has access to short-term committed borrowing facilities of £192 million provided by Lloyds Bank plc, National Westminster Bank plc and Santander UK plc;
- The Northern Powergrid Group plans to issue long-term borrowings within the next 12 months and benefits from strong investment-grade credit ratings which allow access to a range of financing options. Recent successful bond issues by the Group and by other issuers in the weeks immediately prior to the date of these accounts suggest that the Group's bonds remain attractive to investors;
- The Northern Powergrid Group has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Northern Powergrid Group has sufficient resources to settle its liabilities as they fall due for at least the 12 months from the date of these accounts. The directors have had discussions with the bank who have indicated that they would continue to provide the short term facilities to the Northern Powergrid Group for the foreseeable future on acceptable terms; and
- Consideration was also given to the obligations contained in NPg Northeast's and NPg Yorkshire's licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Group will have sufficient financial and operational resources available for the continuation of business for a period of at least 12 months. The board determined any material variations to the assumptions used when providing those certificates were unlikely within the eight-year period or beyond.

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

Northern Electric plc
Directors' Report for the Year Ended 31 December 2020 (continued)

Disclosure of information to the auditor

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

Reappointment of auditor

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

Approved by the Board on 30 April 2021 and signed on its behalf by:



T H France
Director

Northern Electric plc

Independent Auditor's Report to the Members of Northern Electric plc

Opinion

In our opinion the financial statements of Northern Electric Plc (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit for the year then ended; and
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

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

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements 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 the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

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

Summary of our audit approach

Key audit matters

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

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

Materiality

The materiality that we used for the group financial statements was £7.4m which was determined on the basis of income before tax.

Scoping

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

Significant changes in our approach

In the previous year, "Impact of Covid-19" was identified as a key audit matter, however, this has not been included as such in the current year. The inclusion as a key audit matter in the prior year was due to the uncertainty of the economic impacts of the virus on the industry and wider economy. Given the passage of time and additional information available, it has been concluded that the impact of Covid-19 need not be included as a key audit matter in the current year.

Northern Electric plc

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

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;
- calculating the amount of headroom in the forecasts (cash and covenants);
- performing sensitivity analysis; and
- evaluating sophistication of the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts prepared by management.

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

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

Key audit matters

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

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

In the previous year, "Impact of Covid-19" was identified as a key audit matter, however this has not been included as such in the current year. The inclusion as a key audit matter in the prior year was due to the uncertainty of the economic impacts of the virus on the industry and wider economy. Given the passage of time and additional information available, it has been concluded that the impact of Covid-19 need not be included as a key audit matter in the current year.

Accounting for capital spend - overhead allocation model

Key audit matter description

Total additions to property, plant and equipment in the year, with the main trading subsidiary of the group, Northern Powergrid (Northeast) Plc were £192m (2019: £194m) 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 £39m capitalised overheads (2019: £41m). A portion of overheads are capitalised to the extent that it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the item can be measured reliably in accordance with IAS 16 and the Company's policies. The allocation of overheads to capital results from analysis of the costs incurred and their relevant cost drivers. This is reviewed annually.

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

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

- We have obtained an understanding of relevant controls surrounding accounting for capital spend;
- We have analysed the capital spend and the overhead allocation percentages in the year and compared these to prior year 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 changes introduced in the current year;
- We have performed testing of the total overheads included within the allocation model which are subsequently capitalised based on management's assessment of percentage allocation.

Northern Electric plc

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

Key observations

Based on the work performed above, 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.

Valuation of defined benefit obligations

Key audit matter description

The group operates a defined pension scheme, for which key judgement relate to the determination of the present value of the defined benefit obligation. Within this, we also consider consistency with International Accounting Standard 19: Employee benefits (IAS 19). The present value of the funding surplus is £88m (2019: £93m), with an underlying obligation of £1,612m (2019: £1,553m). The present value of the defined benefit obligation is derived and is subject to judgement in the assumption setting. Due to the continued settlements in the year for the scheme, there continues to be an additional risk around the valuation modelling of each settlement and the impact to the actuarial assumptions due to the change in the profile of the membership of the scheme. The accounting policy and disclosure is found in note 25 to the financial statement.

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

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

Key observations

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

Our application of materiality

Materiality

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

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

Group financial statements

Materiality

£7.0m (2019: £7.6m)

Basis for determining materiality

5% of income before tax (2019: 5% of income before tax)

Rationale for the benchmark applied

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

Parent company financial statements

Materiality

£4.7m (2019: £7.0m)

Basis for determining materiality

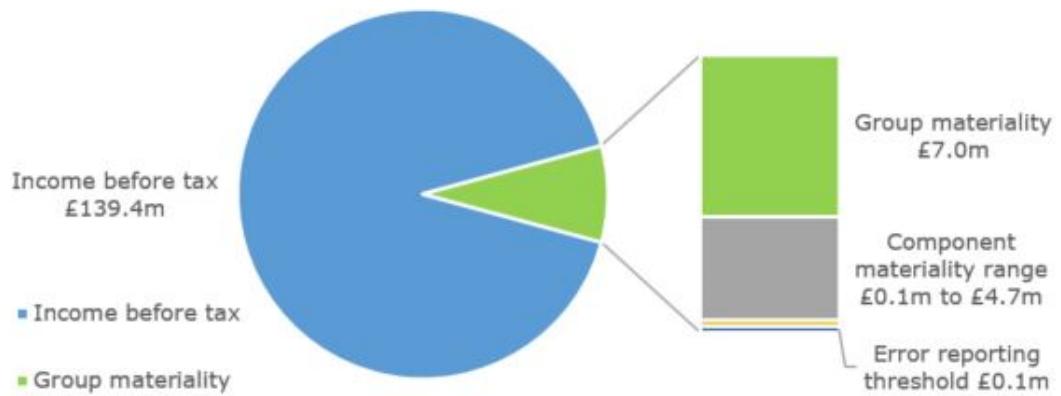
Parent company materiality equates to 16.8% of net assets, which is capped at 53.4% of group materiality (2019: in the prior year, parent company materiality was not capped but instead 3% of the parent company net assets was used).

Northern Electric plc

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

Rationale for the benchmark applied

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



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following:

- our risk assessment, including our assessment of the group's overall control environment and whether we consider it appropriate to rely on controls; and
- the low number of uncorrected misstatements in prior year statutory audits of the material subsidiaries.

Error reporting threshold

We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £0.1m (2019: £0.4m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board of Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Identification and scoping of components

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

Northern Electric plc

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

The focus of our audit work was on the main regulated business, Northern Powergrid (Northeast) Plc, with work performed at a combination of the group's offices in the North East and Yorkshire regions, and we have audited the significant sub consolidations in the group. Other sizeable companies within the group include Integrated Utility Services Limited, which provides contracting and maintenance services to the electricity, rail and water industries, and Northern Powergrid Metering Limited which leases smart meters to energy providers. Our audit scope provides full scope audit coverage 100% of the group's revenue (2019: 92%) , 99% of profit before tax (2019: 98%) as well as 100% of net assets (2019: 99%).

A component materiality was used to perform the audit work for all component entities and for FY20 this ranged from £0.1m to £4.7m (2019: £1m to £5m). Component materiality is used to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds materiality for the group financial statements as a whole.

At the group level, we have tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specific balances.

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

Our consideration of the control environment

We involved our IT specialists to assess relevant controls over the Group's IT systems. These include controls within the Oracle and Durabill systems integral to relevant business cycles. We have not relied on controls over any business cycle, due to control deficiencies within the Group's IT systems. We have therefore adopted a fully substantive audit approach.

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.

Northern Electric plc

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Board 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;
 - o the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, valuations, pensions, debt market specialists, IT, actuarial and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

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

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

Northern Electric plc

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

Audit response to risks identified

As a result of performing the above, we identified the following key audit matters related to fraud:

- Accounting for capital spend - overhead allocation model.

The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to that key audit matters.

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

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

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

Report on other legal and regulatory requirements

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.

Northern Electric plc

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

Other matters

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 23 years, covering the years ending 31 December 1998 to 31 December 2020.

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

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

Use of our report

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



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

30 April 2021

Northern Electric plc
Consolidated Income Statement for the Year Ended 31 December 2020

	Note	2020 £ 000	2019 £ 000
Revenue	3	454,302	447,615
Cost of sales		(31,660)	(37,366)
Gross profit		422,642	410,249
Distribution costs		(128,457)	(124,572)
Administrative expenses		(108,614)	(102,269)
Operating profit	5	185,571	183,408
Other gains	4	72	2,694
Finance income	6	1,150	1,476
Finance costs	6	(47,407)	(47,215)
Profit before tax		139,386	140,363
Income tax expense	10	(40,303)	(26,542)
Profit for the year		99,083	113,821
Profit attributable to:			
Owners of the Company		99,083	113,821

The above results were derived from continuing operations.

Northern Electric plc
Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2020

	Note	2020 £ 000	2019 £ 000
Profit for the year		99,083	113,821
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post employment benefit obligations (net)	26	(28,319)	(19,795)
Items that may be reclassified subsequently to profit or loss			
Loss on cash flow hedges (net)		(1,998)	(1,880)
Total comprehensive income for the year		<u>68,766</u>	<u>92,146</u>
Total comprehensive income attributable to:			
Owners of the Company		<u>68,766</u>	<u>92,146</u>

Northern Electric plc
(Registration number: 02366942)
Consolidated Statement of Financial Position as at 31 December 2020

		31 December 2020	31 December 2019
	Note	£ 000	£ 000
Assets			
Non-current assets			
Property, plant and equipment	11	2,889,678	2,806,106
Right of use assets	12	14,031	9,164
Intangible assets	13	51,219	52,289
Equity accounted investments	14	3,648	3,539
Retirement benefit obligations	26	88,100	93,400
Trade and other receivables	16	4,598	7,730
		<u>3,051,274</u>	<u>2,972,228</u>
Current assets			
Inventories	15	18,699	20,192
Trade and other receivables	16	82,492	84,673
Cash and cash equivalents	17	21,874	22,667
Restricted cash	18	16,758	13,873
Contract assets		6,214	8,132
		<u>146,037</u>	<u>149,537</u>
Total assets		<u>3,197,311</u>	<u>3,121,765</u>
Equity and liabilities			
Equity			
Share capital	19	(72,173)	(72,173)
Share premium		(158,748)	(158,748)
Capital redemption reserve		(6,185)	(6,185)
Cash flow hedging reserve	20	3,089	1,091
Retained earnings		(1,046,186)	(1,000,822)
Equity attributable to owners of the Company		<u>(1,280,203)</u>	<u>(1,236,837)</u>
Non-current liabilities			
Lease liabilities		(11,295)	(7,002)
Loans and borrowings	21	(946,185)	(652,294)
Provisions	23	(2,737)	(1,808)
Deferred revenue	25	(641,727)	(637,700)
Deferred tax liabilities	10	(106,852)	(98,466)
Other non-current financial liabilities	31	(3,174)	(1,131)
		<u>(1,711,970)</u>	<u>(1,398,401)</u>

Northern Electric plc**(Registration number: 02366942)****Consolidated Statement of Financial Position as at 31 December 2020 (continued)**

		31 December 2020	31 December 2019
	Note	£ 000	£ 000
Current liabilities			
Lease liabilities		(3,036)	(2,289)
Trade and other payables	24	(94,015)	(104,952)
Loans and borrowings	21	(77,060)	(346,502)
Income tax liability	10	(1,260)	(5,092)
Deferred revenue	25	(27,629)	(26,280)
Provisions	23	(1,498)	(1,228)
Other current financial liabilities	31	(640)	(184)
		<u>(205,138)</u>	<u>(486,527)</u>
Total liabilities		<u>(1,917,108)</u>	<u>(1,884,928)</u>
Total equity and liabilities		<u>(3,197,311)</u>	<u>(3,121,765)</u>

Approved by the Board on 30 April 2021 and signed on its behalf by:



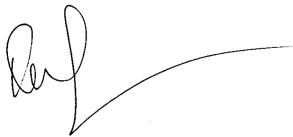
Tom France
Director

Northern Electric plc
(Registration number: 02366942)
Company Statement of Financial Position as at 31 December 2020

		31 December 2020 £ 000	31 December 2019 £ 000
	Note	£ 000	£ 000
Assets			
Non-current assets			
Property, plant and equipment	11	1,562	1,569
Right of use assets	12	1,290	-
Investments in subsidiaries, joint ventures and associates	14	242,902	243,282
Deferred tax asset	10	469	108
		<u>246,223</u>	<u>244,959</u>
Current assets			
Trade and other receivables	16	1,291	545
Income tax asset	10	-	3,493
Cash and cash equivalents	17	<u>38,148</u>	<u>36,187</u>
		<u>39,439</u>	<u>40,225</u>
Total assets		<u>285,662</u>	<u>285,184</u>
Equity and liabilities			
Equity			
Share capital	19	(72,173)	(72,173)
Share premium		(158,748)	(158,748)
Capital redemption reserve		(6,185)	(6,185)
Retained earnings		<u>(25,836)</u>	<u>(33,246)</u>
Total equity		<u>(262,942)</u>	<u>(270,352)</u>
Non-current liabilities			
Long term lease liabilities		(1,205)	-
Loans and borrowings	21	(1,117)	(1,117)
Provisions	23	<u>(2,217)</u>	<u>(1,488)</u>
		<u>(4,539)</u>	<u>(2,605)</u>
Current liabilities			
Current portion of long term lease liabilities		(141)	-
Trade and other payables	24	(4,029)	(3,627)
Loans and borrowings	21	(9,741)	(8,600)
Income tax liability	10	(4,168)	-
Provisions	23	<u>(102)</u>	<u>-</u>
		<u>(18,181)</u>	<u>(12,227)</u>
Total liabilities		<u>(22,720)</u>	<u>(14,832)</u>
Total equity and liabilities		<u>(285,662)</u>	<u>(285,184)</u>

Northern Electric plc
(Registration number: 02366942)
Company Statement of Financial Position as at 31 December 2020 (continued)

Approved by the Board on 30 April 2021 and signed on its behalf by:



T H France
Director

The Directors have taken the exemption offered under section 408 of the Act from publishing a separate statement of profit or loss. The Company reported a profit for the financial year ended 31 December 2020 of £18.0 million (2019: £18.4 million).

Northern Electric plc
Consolidated Statement of Changes in Equity for the Year Ended 31 December 2020

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

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2019	72,173	158,748	6,185	789	931,396	1,169,291
Profit for the year	-	-	-	-	113,821	113,821
Other comprehensive expense	-	-	-	(1,880)	(19,795)	(21,675)
Total comprehensive income	-	-	-	(1,880)	94,026	92,146
Dividends	-	-	-	-	(24,600)	(24,600)
At 31 December 2019	<u>72,173</u>	<u>158,748</u>	<u>6,185</u>	<u>(1,091)</u>	<u>1,000,822</u>	<u>1,236,837</u>

The notes on pages 38 to 104 form an integral part of these financial statements.

Northern Electric plc
Company Statement of Changes in Equity for the Year Ended 31 December 2020

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2020	72,173	158,748	6,185	33,246	270,352
Profit for the year	-	-	-	17,990	17,990
Total comprehensive income	-	-	-	17,990	17,990
Dividends	-	-	-	(25,400)	(25,400)
At 31 December 2020	<u>72,173</u>	<u>158,748</u>	<u>6,185</u>	<u>25,836</u>	<u>262,942</u>
	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2019	72,173	158,748	6,185	39,409	276,515
Profit for the year	-	-	-	18,437	18,437
Total comprehensive income	-	-	-	18,437	18,437
Dividends	-	-	-	(24,600)	(24,600)
At 31 December 2019	<u>72,173</u>	<u>158,748</u>	<u>6,185</u>	<u>33,246</u>	<u>270,352</u>

The notes on pages 38 to 104 form an integral part of these financial statements.

Northern Electric plc
Consolidated Statement of Cash Flows for the Year Ended 31 December 2020

	Note	2020 £ 000	2019 £ 000
Cash flows from operating activities			
Profit for the year		99,083	113,821
Depreciation and amortisation	5	142,843	135,099
Depreciation on right of use assets		2,957	2,319
Amortisation of deferred revenue		(26,284)	(25,731)
Profit on disposal of property plant and equipment	4	(72)	(2,694)
Retirement benefit obligation		(32,000)	(31,095)
Finance income	6	(1,150)	(1,476)
Finance costs	6	47,407	47,215
Income tax expense	10	40,303	26,542
		273,087	264,000
Decrease/(increase) in inventories	15	1,493	(6,783)
Decrease/(increase) in trade and other receivables	16	5,313	(3,901)
Increase/(decrease) in trade and other payables	24	3,737	(2,006)
Decrease/(increase) in contract assets		1,918	(2,127)
Increase in provisions	23	1,199	250
Cash generated from operations		286,747	249,433
Income taxes paid		(26,266)	(19,955)
Net cash flow from operating activities		260,481	229,478
Cash flows used in investing activities			
Acquisitions of property plant and equipment		(220,905)	(226,032)
Proceeds from sale of property plant and equipment		725	4,541
Acquisition of intangible assets	13	(9,145)	(8,963)
Receipt of customer contributions		21,927	39,316
Interest received		280	673
Dividend income	6	761	758
Net cash flows used in investing activities		(206,357)	(189,707)
Cash flows used in financing activities			
Proceeds from long-term borrowing draw downs		324,078	147,377
Repayment of long-term borrowing		(166,875)	(65,047)
Repayment of short-term borrowing		-	(44,537)
Payments to finance lease creditors		(2,784)	(2,192)
Movement in intercompany treasury account		(133,661)	(9,365)
Movement in restricted cash		(2,885)	(64)
Interest expense on leases		(374)	(314)
Interest paid		(47,016)	(46,505)
Dividends paid	27	(25,400)	(24,600)
Net cash flows used in financing activities		(54,917)	(45,247)
Net decrease in cash and cash equivalents		(793)	(5,476)
Cash and cash equivalents at 1 January		22,667	28,143
Cash and cash equivalents at 31 December		21,874	22,667

Northern Electric plc
Company Statement of Cash Flows for the Year Ended 31 December 2020

	Note	2020 £ 000	2019 £ 000
Cash flows from operating activities			
Profit for the year		17,990	18,437
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	5	7	(14)
Depreciation on right of use assets		76	-
Finance income		(26,246)	(25,552)
Finance costs		9,722	9,017
Income tax expense		(152)	(109)
		1,397	1,779
Working capital adjustments			
Increase in trade and other receivables	16	(746)	(243)
Increase/(decrease) in trade and other payables	24	91	(283)
Increase/(decrease) in provisions	23	831	(47)
Cash generated from operations		1,573	1,206
Income taxes received/(paid)		7,452	(531)
Net cash flow from operating activities		9,025	675
Cash flows from investing activities			
Interest received		846	952
Dividend income		25,400	24,600
Net cash flows from investing activities		26,246	25,552
Cash flows used in financing activities			
Movement in intercompany treasury account		1,143	(57)
Interest expense on leases		(18)	-
Interest paid		(9)	(17)
Payments to finance lease creditors		(20)	-
Interest on preference shares		(9,001)	(9,001)
Dividends paid	27	(25,400)	(24,600)
Foreign exchange (losses)/gains		(5)	2
Net cash flows used in financing activities		(33,310)	(33,673)
Net increase/(decrease) in cash and cash equivalents		1,961	(7,446)
Cash and cash equivalents at 1 January		36,187	43,633
Cash and cash equivalents at 31 December		38,148	36,187

Northern Electric plc
Notes to the Financial Statements for the Year Ended 31 December 2020

1 General information

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

The address of its registered office is:

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

2 Accounting policies

Statement of compliance

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

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

The financial statements have been prepared in accordance with adopted IFRSs and under the historical cost convention as modified by financial instruments recognised at fair value.

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

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

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Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Going Concern

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

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

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

- The Northern Powergrid Group's main subsidiaries, NPG Northeast and NPG Yorkshire, are stable electricity distribution businesses operating an essential public service and are regulated by the Gas and Electricity Markets Authority ("GEMA"). In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Northern Powergrid Group is profitable with strong underlying cash flows. The Northern Powergrid Group, NPG Northeast and NPG Yorkshire hold investment grade credit ratings;
- The Northern Powergrid Group is financed by long-term borrowings with an average maturity of 17 years and has access to short-term committed borrowing facilities of £192 million provided by Lloyds Bank plc, National Westminster Bank plc and Santander UK plc;
- The Northern Powergrid Group plans to issue long-term borrowings within the next 12 months and benefits from strong investment-grade credit ratings which allow access to a range of financing options. Recent successful bond issues by the Group and by other issuers in the weeks immediately prior to the date of these accounts suggest that the Group's bonds remain attractive to investors; and
- The Northern Powergrid Group has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Northern Powergrid Group has sufficient resources to settle its liabilities as they fall due for at least the 12 months from the date of these accounts. The directors have had discussions with the bank who have indicated that they would continue to provide the short-term facilities to the Northern Powergrid Group for the foreseeable future on acceptable terms; and
- Consideration was also given to the obligations contained in NPG Northeast's and NPG Yorkshire's licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Group will have sufficient financial and operational resources available for the continuation of business for a period of at least 12 months. The board determined any material variations to the assumptions used when providing those certificates were unlikely within the eight-year period or beyond.

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

Critical judgements in applying accounting policies

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

- The split of operating and capital expenditure and the allocation of overheads to property, plant and equipment: The allocation of overheads to capital is derived from a detailed analysis of the costs and their cost drivers which is reviewed on annual basis. The percentage allocation of overheads across the workstream categories are obtained from section managers who are asked to provide reasoning and supporting evidence for the allocation. Finance then undertake a financial impact assessment review and the rationale to ensure it complies with IFRS. The amount of overheads capitalised in the year was £38.6 million (2019: £40.5 million), this was a decrease from 55.2% to 53.9%.

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Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Key sources of estimation uncertainty

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

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

Changes in accounting policy

New standards and amendments

Effective for periods beginning on or after 1 January 2020

- Amendments to IFRS 3 - definition of a business;
- Amendments to IAS 1 (presentation of financial statements) and IAS 8 (accounting policies, changes in accounting estimates and errors) - Definition of material;
- Amendments to References to the Conceptual Framework in IFRS Standards; and
- Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform.

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

Effective for periods beginning on or after 1 June 2020

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

This amendment is not expected to have a material impact on the financial statements.

Leases

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

The Company has taken practical expedients as per below:

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

The weighted average lessee's incremental borrowing rate applied to determine the present value of the lease liabilities during the current period was 2.43% (2019:3.48%).

The Company 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.

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Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Revenue recognition

Recognition

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

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

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

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

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

Fee arrangements

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

- For regulated use of system income the revenue for the service is recognised on the basis of agreed charging methodologies on a per GWh basis.
- For fixed price for contracted service revenue is recognised based on the stage of completion and performance obligations met for actual services provided as a proportion of the total fixed fee agreed in the contract.
- For stage payment on long-term contracts revenue is recognised by reference to stage of manufacture at the year end date using contractual rates specified in the contract. Revenue on materials is measured at the actual amount of the material used on the contract at the price specified in the contract.

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

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

2 Accounting policies (continued)

Other performance obligations include but are not limited to:

- Provision of vehicles over a specified period accounted for under lease accounting; and
- Passage of milestones and completion of installation of equipment for engineering contracting.

Contract modifications

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

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

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

Investments in associates and joint ventures

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

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

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

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

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

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less impairment.

Cash and cash equivalents

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

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Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Trade receivables

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

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

Inventories

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

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

Trade payables

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

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

Borrowings

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

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

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

Provisions

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

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

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Notes to the Financial Statements for the Year Ended 31 December 2020 (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.

Tax

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

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

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

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

Amortisation

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

Asset class

Software development

Amortisation method and rate

up to 10 years

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2019.

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Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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

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

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

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

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

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

Financial instruments

Initial recognition

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

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

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

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

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

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Classification and measurement

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

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

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

Financial liabilities are classified into one of the following two categories:

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVTPL).

The classification and the basis for measurement are subject to the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Financial assets at fair value through other comprehensive income

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

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

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

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

Financial assets at fair value through the profit or loss

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

Financial liabilities at amortised cost

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

Financial liabilities at fair value through the profit or loss

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

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (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; and
- (d) The undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee for the transferred assets.

Financial liabilities

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

Modification of financial assets and financial liabilities

Financial assets

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

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

2 Accounting policies (continued)

Financial liabilities

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

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

Impairment of financial assets

Measurement of Expected Credit Losses

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

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

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

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Derivative financial instruments

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

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

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

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

Hedge accounting

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

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

These hedging relationships are discussed below.

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Cash flow hedges

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

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

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

Accounting estimates and assumptions

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

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

Provisions for impairment

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

Fair value of financial assets and liabilities

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

Property, plant and equipment

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

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

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

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

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

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

Intangible assets

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

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

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

Finance income and costs policy

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

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

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

Northern Electric plc**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****3 Revenue**

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

	2020 £ 000	2019 £ 000
Distribution revenue	328,775	321,762
Amortisation of deferred revenue	26,284	25,731
Contracting revenue	15,832	25,721
Meter asset rental	76,741	70,109
Other revenue	6,670	4,292
	<hr/> 454,302	<hr/> 447,615

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

Reportable segments are those that meet two or more of the following criteria under IFRS 8:

- Its reported revenue is 10% or more of the combined revenue of all segments;
- The absolute measure of its profit or loss is 10% or more of the combined reported profit; and
- Its assets are 10% or more of the combined assets of all segments.

The Group is separated into the following segments:

Distribution: Northern Powergrid (Northeast) plc

Contracting: Integrated Utility Services Limited

Metering: Northern Powergrid Metering Services Limited

Other: Includes support activities

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

3 Revenue (continued)

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

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

3 Revenue (continued)

2019	Distribution £ 000	Contracting £ 000	Metering £ 000	Other £ 000	Total £ 000
Revenue	347,493	25,721	70,109	4,292	447,615
Inter-segment sales	367	5,208	-	(5,575)	-
Total revenue	<u>347,860</u>	<u>30,929</u>	<u>70,109</u>	<u>(1,283)</u>	<u>447,615</u>
Operating profit	<u>123,395</u>	<u>1,028</u>	<u>24,041</u>	<u>34,944</u>	<u>183,408</u>
Other gains					2,694
Finance costs					(47,215)
Finance income					1,476
Profit before tax					<u>140,363</u>
Capital additions	203,285	304	26,486	(983)	229,092
Depreciation and amortisation	97,043	396	41,772	(1,793)	137,418
Amortisation of deferred revenue	<u>25,731</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,731</u>
Segment assets	<u>2,701,932</u>	<u>12,224</u>	<u>353,730</u>	<u>50,331</u>	<u>3,118,217</u>
Unallocated corporate assets					<u>3,548</u>
Total assets					<u>3,121,765</u>
Segment liabilities	<u>(854,604)</u>	<u>(8,642)</u>	<u>(171,029)</u>	<u>(35,256)</u>	<u>(1,069,531)</u>
Unallocated corporate liabilities					<u>(815,389)</u>
Total liabilities					<u>(1,884,928)</u>
Segment net assets	<u>1,847,328</u>	<u>3,582</u>	<u>182,701</u>	<u>15,075</u>	<u>2,048,686</u>
Unallocated net corporate liabilities					<u>(811,849)</u>
Total net assets					<u>1,236,837</u>

Sales to RWE Npower plc in 2020 of £49.9 million (2019: £59.1 million) and to British Gas plc in 2020 of £40.3 million (2019: £41.7 million) are included within the Distribution segment.

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

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

3 Revenue (continued)

Assets recognised from costs to fulfil a contract with customers

	31 December	31 December
	2020	2019
	£ 000	£ 000
Contract costs incurred plus recognised profit less recognised losses to date	35,938	28,208
Less: progress billings	<u>(29,724)</u>	<u>(20,076)</u>
	<u>6,214</u>	<u>8,132</u>

At 31 December 2020, retentions held by customers for contract work amounted to £0.4 million (2019: £0.4 million).

Advances received from customers for contract work amounted to £nil (2019: £nil).

The Company had no contract assets at 31 December 2020 (2019: £nil).

4 Other gains and losses

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

	2020	2019
	£ 000	£ 000
Gain on disposal of property, plant and equipment	<u>72</u>	<u>2,694</u>

5 Operating profit

Arrived at after charging/(crediting)

	2020	2019
	£ 000	£ 000
Depreciation expense	132,628	125,820
Depreciation of right-of-use assets	2,957	2,319
Amortisation expense	10,215	9,279
Research and development	1,407	1,572
Loss allowance	1,114	2,216
Amortisation of deferred revenue	<u>(26,284)</u>	<u>(25,731)</u>

Amortisation expense is included in administration costs within the statement of profit or loss on page 28.

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

6 Finance income and costs

	2020 £ 000	2019 £ 000
Finance income		
Dividend income	-	62
Other finance income	1,150	1,414
Total finance income	1,150	1,476
Finance costs		
Interest on borrowings at amortised cost	(47,938)	(48,573)
Interest expense on leases	(374)	(314)
Borrowing costs included in cost of qualifying asset	905	1,672
Total finance costs	(47,407)	(47,215)
Net finance costs	(46,257)	(45,739)

Borrowing costs included in the costs of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.16% (2019: 5.06%) to expenditure on such assets.

7 Staff costs

	2020 £ 000	2019 £ 000
Salaries	65,112	64,900
Social security costs	7,735	7,683
Defined benefit pension credit	(2,484)	(3,886)
Defined contribution pension cost	3,859	3,392
	74,222	72,089
Less charged to property plant and equipment	(41,954)	(39,872)
	32,268	32,217

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

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

	2020 No.	2019 No.
Distribution	1,175	1,129
Engineering contracting	143	143
Other	14	14
	1,332	1,286

The Company had an average of 14 employees during the year ended 31 December 2019 (2019:14).

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

8 Directors' remuneration

The directors' remuneration for the year was as follows:

	2020 £	2019 £
Highest paid		
Short-term employee benefits	419,232	431,380
Other long-term benefits	<u>410,600</u>	<u>491,184</u>
	<u>829,832</u>	<u>922,564</u>
Total		
Short-term employee benefits	634,907	663,765
Post retirement benefits - defined contribution	9,041	7,617
Other long-term benefits	<u>496,386</u>	<u>616,002</u>
	<u>1,140,334</u>	<u>1,287,384</u>
Post retirement benefits		
Directors who are members of a defined contribution scheme	<u>3</u>	<u>3</u>
Directors who are members of a defined benefit scheme	<u>-</u>	<u>-</u>
	2020 £	2019 £
Key personnel remuneration		
Short-term employee benefits	582,572	592,567
Post retirement benefits - defined benefit	5,462	28,723
Post retirement benefits - defined contribution	58,146	50,107
Other long-term benefits	<u>169,467</u>	<u>267,642</u>
	<u>815,647</u>	<u>939,039</u>

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

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

9 Auditor's remuneration

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

	2020 £ 000	2019 £ 000
Fees payable to the auditor for audit of the Company's annual accounts	120	27
Fees payable to the auditor for audit of the Company's subsidiaries pursuant to legislation	336	244
Total audit fees	456	271
Audit of regulatory reporting	51	46
Other services	7	7
Total auditor's remuneration	514	324

Other services relate to non-statutory audit services including apprentice levy and pensions.

10 Income tax

Tax charged in the income statement

	2020 £ 000	2019 £ 000
Current taxation		
UK corporation tax	29,008	28,494
UK corporation tax adjustment to prior periods	(494)	(302)
	28,514	28,192
Deferred taxation		
Arising from origination and reversal of temporary differences	(1,497)	(497)
Deferred tax expense/(credit) from unrecognised temporary difference from prior period	(403)	(658)
Deferred tax credit relating to changes in tax rates or laws	13,689	(495)
Total deferred taxation	11,789	(1,650)
Tax expense in the income statement	40,303	26,542

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

10 Income tax (continued)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2019 - lower than the standard rate of corporation tax in the UK) of 19.0% (2019 - 19.0%).

The differences are reconciled below:

	2020 £ 000	2019 £ 000
Profit before tax	139,386	140,363
Corporation tax at standard rate	26,483	26,669
Increase in deferred tax due to changes in tax rates or laws	13,689	(495)
Tax effect of result of joint venture entities	(165)	(141)
Increase/(decrease) in current tax from adjustment for prior periods	(494)	(302)
Permanent differences (including non-taxable dividends)	(343)	(275)
Pension contributions recognised in other comprehensive income	(262)	199
Increase/(decrease) in deferred tax from adjustment for prior periods	(403)	(658)
Non-deductible interest	1,710	1,710
Other tax effects for reconciliation between accounting profit and tax expense/(income)	88	(165)
Total tax charge	40,303	26,542

Finance Bill 2020 was enacted in July 2020 and as a result, the rate of corporation tax has been held at 19% as the Finance Bill 2020 effectively removed the proposed reduction to 17% which was included within Finance Bill 2016. As a result, deferred tax balances have been re-measured at the 19% rate and this remeasurement has given rise to an increased deferred tax liability of £13.7m which is reflected within the above tax charge.

In addition, the March 2021 Budget announced that the Corporation Tax Rate will increase from 19% to 25% from 1 April 2023. As this has not been enacted by the balance sheet date, balances as at 31 December 2020 continue to be measured at 19%, the amended tax rate would cause an estimated increase of £33.7 million in the deferred tax liability.

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

Amounts recognised in other comprehensive income

	2020		
	Before tax £ 000	Tax (expense) benefit £ 000	Net of tax £ 000
Loss on cash flow hedges (net)	(2,500)	502	(1,998)
Remeasurements of post employment benefit obligations (net)	(37,300)	8,981	(28,319)
	(39,800)	9,483	(30,317)
2019			
Tax (expense)			
	Before tax £ 000	benefit £ 000	Net of tax £ 000
Gain on cash flow hedges (net)	(2,265)	385	(1,880)
Remeasurements of post employment benefit obligations (net)	(24,100)	4,305	(19,795)
	(26,365)	4,690	(21,675)

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

10 Income tax (continued)

Deferred tax

Group

Deferred tax movement during the year:

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

Deferred tax movement during the prior year:

	Recognised in other			At 31 December 2019 £ 000
	Recognised in comprehensive		income	
	At 1 January 2019 £ 000	income £ 000	income £ 000	
Accelerated tax depreciation	90,162	(740)	-	89,422
Rollover/holdover relief	901	-	-	901
Other items	(300)	(330)	(385)	(1,015)
Pension benefit obligations	7,792	(580)	1,946	9,158
Net tax liabilities/(assets)	<u>98,555</u>	<u>(1,650)</u>	<u>1,561</u>	<u>98,466</u>

The other deferred tax asset of £2.0m (2019:£1.0m) includes the deferred tax impact of cash flow hedges, provisions and employee benefits which are deductible on a paid basis. Within pension benefit obligations the movement in the year represents deferred tax on the movement in retirement benefit obligation/asset. A proportion of the movement has been capitalised in property, plant and equipment.

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

10 Income tax (continued)

Company

Deferred tax movement during the year:

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

Deferred tax movement during the prior year:

	At	At	At
	At 1 January	Recognised in	31 December
	2019	income	2019
	£ 000	£ 000	£ 000
Accelerated tax depreciation	(11)	2	(9)
Rollover/holdover relief	151	-	151
Pension benefit obligations	(258)	8	(250)
Net tax liabilities/(assets)	<u>(118)</u>	<u>10</u>	<u>(108)</u>

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

11 Property, plant and equipment

Group

	Land and buildings £ 000	Distribution system £ 000	Metering equipment £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation					
At 1 January 2019	6,534	3,406,517	434,172	76,578	3,923,801
Additions	-	189,735	26,486	3,908	220,129
Disposals	-	(12,556)	(12,579)	(78)	(25,213)
As at 31 December 2019	<u>6,534</u>	<u>3,583,696</u>	<u>448,079</u>	<u>80,408</u>	<u>4,118,717</u>
At 1 January 2020	6,534	3,583,696	448,079	80,408	4,118,717
Additions	-	188,951	26,497	1,421	216,869
Disposals	-	(9,985)	(12,674)	-	(22,659)
At 31 December 2020	<u>6,534</u>	<u>3,762,662</u>	<u>461,902</u>	<u>81,829</u>	<u>4,312,927</u>
Depreciation					
At 1 January 2019	6,284	997,218	135,657	67,393	1,206,552
Charge for year	103	79,810	41,731	4,166	125,810
Eliminated on disposal	-	(12,556)	(7,117)	(78)	(19,751)
As at 31 December 2019	<u>6,387</u>	<u>1,064,472</u>	<u>170,271</u>	<u>71,481</u>	<u>1,312,611</u>
At 1 January 2020	6,387	1,064,472	170,271	71,481	1,312,611
Charge for the year	103	81,661	47,130	3,734	132,628
Eliminated on disposal	-	(9,985)	(12,005)	-	(21,990)
At 31 December 2020	<u>6,490</u>	<u>1,136,148</u>	<u>205,396</u>	<u>75,215</u>	<u>1,423,249</u>
Carrying amount					
At 1 January 2019	250	2,409,299	298,515	9,185	2,717,249
At 31 December 2019	147	2,519,224	277,808	8,927	2,806,106
At 31 December 2020	<u>44</u>	<u>2,626,514</u>	<u>256,506</u>	<u>6,614</u>	<u>2,889,678</u>

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

	31 December 2020 £ 000	31 December 2019 £ 000
Distribution system	<u>202,298</u>	<u>205,711</u>

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

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

11 Property, plant and equipment (continued)

		31 December 2020 £ 000	31 December 2019 £ 000
Distribution system		30,600	31,200
Company			
	Land and buildings £ 000	Distribution system £ 000	Furniture, fittings and equipment £ 000
			Total £ 000
Cost or valuation			
At 1 January 2019	280	1,259	3,634
At 31 December 2019	280	1,259	3,634
At 1 January 2020	280	1,259	3,634
At 31 December 2020	280	1,259	3,634
Depreciation			
At 1 January 2019	49	-	3,569
Charge for year	7	-	(21)
At 31 December 2019	56	-	3,548
At 1 January 2020	56	-	3,548
Charge for the year	7	-	7
At 31 December 2020	63	-	3,548
Carrying amount			
At 31 December 2020	217	1,259	86
At 31 December 2019	224	1,259	86
At 1 January 2019	231	1,259	65

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

12 Right of use assets

Group

	Fleet £ 000	Property £ 000	Land £ 000	Total £ 000
Cost or valuation				
Additions	9,045	2,438	-	11,483
At 31 December 2019	9,045	2,438	-	11,483
At 1 January 2020	9,046	2,439	-	11,485
Additions	4,489	1,410	1,923	7,822
Disposals	(335)	(198)	-	(533)
At 31 December 2020	13,200	3,651	1,923	18,774
Depreciation				
Charge for year	1,880	439	-	2,319
At 31 December 2019	1,880	439	-	2,319
At 1 January 2020	1,880	439	-	2,319
Charge for the year	2,469	461	27	2,957
Eliminated on disposal	(335)	(198)	-	(533)
At 31 December 2020	4,014	702	27	4,743
Carrying amount				
At 31 December 2020	9,186	2,949	1,896	14,031
At 31 December 2019	7,165	1,999	-	9,164

Company

	Property £ 000	Total £ 000
Cost or valuation		
Additions	1,366	1,366
At 31 December 2020	1,366	1,366
Depreciation		
Charge for the year	76	76
At 31 December 2020	76	76
Carrying amount		
At 31 December 2020	1,290	1,290

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

13 Intangible assets

Group

	Software development £ 000	Total £ 000
Cost or valuation		
At 1 January 2019	112,703	112,703
Additions	8,963	8,963
	<hr/>	<hr/>
At 31 December 2019	121,666	121,666
At 1 January 2020	121,666	121,666
Additions	9,145	9,145
	<hr/>	<hr/>
At 31 December 2020	130,811	130,811
Amortisation		
At 1 January 2019	60,098	60,098
Amortisation charge	9,279	9,279
	<hr/>	<hr/>
At 31 December 2019	69,377	69,377
At 1 January 2020	69,377	69,377
Amortisation charge	10,215	10,215
	<hr/>	<hr/>
At 31 December 2020	79,592	79,592
Carrying amount		
At 31 December 2020	51,219	51,219
At 31 December 2019	52,289	52,289
At 1 January 2019	52,605	52,605
	<hr/>	<hr/>

During the year the amount of contractual commitments for the acquisition of intangible assets amounted to £4.5 million (2019: £2.5m).

14 Investments

	Investment in joint ventures £ 000	Investment in associate £ 000	Share in other undertakings £ 000	Total £ 000
At 1 January 2019	3,473	-	21	3,494
Profit from investments	741	-	-	741
Dividends paid by investments	(696)	-	-	(696)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019	3,518	-	21	3,539
Profit from investments	870	-	-	870
Dividends paid by investments	(761)	-	-	(761)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2020	3,627	-	21	3,648
	<hr/>	<hr/>	<hr/>	<hr/>

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

14 Investments (continued)

Summary of the Company investments

	31 December 2020 £ 000	31 December 2019 £ 000
Investments in subsidiaries	242,902	243,282

Group subsidiaries

Details of the Group subsidiaries as at 31 December 2020 are as follows:

Name of subsidiary	Principal activity	Registered office and country of incorporation	Proportion of ownership interest and voting rights held	
			2020	2019
CE Electric Services Limited	Dormant	England and Wales	100%	100%
Central PowerGrid Limited	Dormant	England and Wales	100%	100%
East PowerGrid Limited	Dormant	England and Wales	100%	100%
Eastern PowerGrid Limited	Dormant	England and Wales	100%	100%
Infrastructure North Limited	Dormant	England and Wales	100%	100%
Integrated Utility Services Limited	Engineering contracting	England and Wales	100%	100%
IUS Limited	Dormant	England and Wales	100%	100%
Midlands PowerGrid Limited	Dormant	England and Wales	100%	100%
NEDL Limited	Dormant	England and Wales	100%	100%
North East PowerGrid Limited	Dormant	England and Wales	100%	100%
North Eastern PowerGrid Limited	Dormant	England and Wales	100%	100%
North PowerGrid Limited	Dormant	England and Wales	100%	100%
North West PowerGrid Limited	Dormant	England and Wales	100%	100%
North Western PowerGrid Limited	Dormant	England and Wales	100%	100%
Northern Electric Distribution Limited	Dormant	England and Wales	100%	100%
Northern Electric Properties Limited*	Property holdings & management company	England and Wales	100%	100%
Northern Electric Share Scheme Trustee Limited	Dormant	England and Wales	100%	100%
Northern Electricity (North East) Limited	Dormant	England and Wales	100%	100%
Northern Electricity (Yorkshire) Limited	Dormant	England and Wales	100%	100%
Northern Electricity Limited	Dormant	England and Wales	100%	100%

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

14 Investments (continued)

Name of subsidiary	Principal activity	Registered office and country of incorporation	Proportion of ownership interest and voting rights held	
			2020	2019
Northern Electricity Networks Company (North East) Limited	Dormant	England and Wales	100%	100%
Northern Electricity Networks Company (Yorkshire) Limited	Dormant	England and Wales	100%	100%
Northern Electricity Networks Company Limited	Dormant	England and Wales	100%	100%
Northern Electrics Limited	Dormant	England and Wales	100%	100%
Northern Energy Funding Company Limited	Dormant	England and Wales	100%	100%
Northern Powergrid Metering Limited	Meter asset provider	England and Wales	100%	100%
Northern Powergrid (Northeast) plc	Distribution of electricity	England and Wales	100%	100%
Northern Powergrid (North West) Limited	Dormant	England and Wales	100%	100%
Northern Power Networks Company (North East) Limited	Dormant	England and Wales	100%	100%
Northern Power Networks Company (Yorkshire) Limited	Dormant	England and Wales	100%	100%
Northern Power Networks Company Limited	Dormant	England and Wales	100%	100%
Northern Transport Finance Limited	Car finance company	England and Wales	100%	100%
Northern Utility Services Limited	Dormant	England and Wales	100%	100%
PowerGrid (Central) Limited	Dormant	England and Wales	100%	100%
PowerGrid (East) Limited	Dormant	England and Wales	100%	100%
PowerGrid (Eastern) Limited	Dormant	England and Wales	100%	100%
PowerGrid (Midlands) Limited	Dormant	England and Wales	100%	100%
PowerGrid (North East) Limited	Dormant	England and Wales	100%	100%
PowerGrid (North Eastern) Limited	Dormant	England and Wales	100%	100%
PowerGrid (North West) Limited	Dormant	England and Wales	100%	100%
PowerGrid (North Western) Limited	Dormant	England and Wales	100%	100%
PowerGrid (North) Limited	Dormant	England and Wales	100%	100%
PowerGrid (Northern) Limited	Dormant	England and Wales	100%	100%

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

14 Investments (continued)

Name of subsidiary	Principal activity	Registered office and country of incorporation	Proportion of ownership interest and voting rights held	
			2020	2019
PowerGrid (South East) Limited	Dormant	England and Wales	100%	100%
PowerGrid (South Eastern) Limited	Dormant	England and Wales	100%	100%
PowerGrid (South West) Limited	Dormant	England and Wales	100%	100%
PowerGrid (South Western) Limited	Dormant	England and Wales	100%	100%
PowerGrid (South) Limited	Dormant	England and Wales	100%	100%
PowerGrid (Southern) Limited	Dormant	England and Wales	100%	100%
PowerGrid (West) Limited	Dormant	England and Wales	100%	100%
PowerGrid (Western) Limited	Dormant	England and Wales	100%	100%
PowerGrid (Yorkshire) Limited	Dormant	England and Wales	100%	100%
South East PowerGrid Limited	Dormant	England and Wales	100%	100%
South Eastern PowerGrid Limited	Dormant	England and Wales	100%	100%
South PowerGrid Limited	Dormant	England and Wales	100%	100%
South West PowerGrid Limited	Dormant	England and Wales	100%	100%
South Western Powergrid	Dormant	England and Wales	100%	100%
Southern PowerGrid Limited	Dormant	England and Wales	100%	100%
West PowerGrid Limited	Dormant	England and Wales	100%	100%
Western PowerGrid Limited	Dormant	England and Wales	100%	100%
YEDL Limited	Dormant	England and Wales	100%	100%
Yorkshire Electricity Distribution Limited	Dormant	England and Wales	100%	100%
Yorkshire PowerGrid Limited	Dormant	England and Wales	100%	100%
Northern Electric Finance plc**	Finance company	England and Wales	100%	100%

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

**These companies are indirectly owned subsidiaries, with the rest of the above being directly owned. The class of shares related to the above companies are ordinary shares.

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

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

14 Investments (continued)

Group associates

Details of the Group associates as at 31 December 2020 are as follows:

Name of associate	Principal activity	Registered office	Proportion of ownership interest and voting rights held by the Group	
			2020	2019
DCUSA Limited*	Goverance of Distribution Connection and Use of System Agreement	Northumberland House, 303-306 Holborn, WC1V 7JZ, England and Wales	1%	1%
Electralink Limited*	Data transfer network operator	Northumberland House, 303-306 Holborn, WC1V 7JZ, England and Wales	6.2%	6.2%
MRA Service Company Limited*	Goverance of the electricity industry's Master Registratruion Agreement	8 Fenchurch Place, London, EC3M 4AJ, England and Wales	0.4%	0.4%
Selectusonline Limited	Procurement vehicle	Hawaswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington, WA5 3LP, England and Wales	16.9%	16.9%

*These companies are indirectly owned subsidiaries, with the rest of the above being directly owned. The class of shares related to the above companies are ordinary shares.

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

14 Investments (continued)

Group joint ventures

Details of the Group joint ventures as at 31 December 2020 are as follows:

Name of Joint-ventures	Principal activity	Registered office	Proportion of ownership interest and voting rights held by the Group	
			2020	2019
Vehicle Lease and Service Limited	Transport services	Centre for Advanced Industry, 3rd Floor, Coble Dene, North Shields, NE29 6DE England and Wales	50%	50%
VLS Limited	Dormant	Centre for Advanced Industry, 3rd Floor, Coble Dene, North Shields, NE29 6DE England and Wales	50%	50%

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

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

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

	31 December 2020 £ 000	31 December 2019 £ 000
Current assets	17,320	16,806
Non-current assets	22,297	20,627
Current liabilities	(14,299)	(13,043)
Non-current liabilities	(18,066)	(17,353)
Net assets	7,252	7,037
Groups share of net assets	3,627	3,518
Revenue	17,898	17,926
Profit for the year	1,740	1,483
Groups share of profit for the year	870	741

15 Inventories

	Group		Company	
	31 December 2020 £ 000	31 December 2019 £ 000	31 December 2020 £ 000	31 December 2019 £ 000
Raw materials and consumables	17,870	19,444	-	-
Work in progress	289	218	-	-
Vehicle inventory	540	530	-	-
	18,699	20,192	-	-

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

16 Trade and other receivables

	Group		Company	
	31 December	31 December	31 December	31 December
	2020	2019	2020	2019
	£ 000	£ 000	£ 000	£ 000
Distribution use of system receivables	53,617	48,319	-	-
Trade receivables	21,261	28,066	81	140
Finance lease receivable	4,252	5,103	-	-
Loss allowance	(6,154)	(5,153)	-	-
Net trade receivables	72,976	76,335	81	140
Social security and other taxes	-	-	1,001	184
Prepayments	5,182	4,702	209	221
Other receivables	4,334	3,636	-	-
	82,492	84,673	1,291	545
Non-current Finance lease receivables	4,598	7,730	-	-
	87,090	92,403	1,291	545

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

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

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

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

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

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

	31 December	31 December
	2020	2019
	£ 000	£ 000
At 1 January	5,153	2,974
Amounts utilised/written off in the year	(113)	(37)
Amounts recognised in the income statement	1,114	2,216
At 31 December	6,154	5,153

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

16 Trade and other receivables (continued)

Significant increase in credit risk

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

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

Distribution use of system receivables

The customers served by the Group's distribution networks are supplied predominantly by a small number of electricity supply businesses with RWE NPower plc accounting for approximately 14% of distribution revenues in 2020 (2019: 17%) and British Gas plc accounting for approximately 11% of distribution revenues in 2020 (2019: 12%). Ofgem has determined a framework which sets credit limits for each supply business based on its credit rating or payment history and requires them to provide credit cover if their value at risk (measured as being equivalent to 45 days usage) exceeds the credit limit. Acceptable credit typically is provided in the form of a parent company guarantee, letter of credit or an escrow account.

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

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

	Not due £ 000	Current £ 000	1-3 months £ 000	3-6 months £ 000
2020				
Total balance	29,114	21,975	110	2,357
Less specific provisions	-	(152)	(109)	(1,326)
Balance eligible for ECL	29,114	21,823	1	1,031
Lifetime ECL	0%	0%	0%	0%
Expected credit loss	-	-	-	-
2019				
Total balance	27,283	19,896	79	1,061
Less specific provisions	-	(68)	(76)	(1,057)
Balance eligible for ECL	27,283	19,828	3	4
Lifetime ECL	0%	0%	0%	0%
Expected credit loss	-	-	-	-

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

16 Trade and other receivables (continued)

Other distribution trade receivables

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

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

Non-damages receivables

	Not due £ 000	Current £ 000	1-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
2020					
Total balance	260	323	144	87	156
Less specific provisions	-	-	-	-	-
Balance eligible for ECL	260	323	144	87	156
Lifetime ECL	0%	0%	0%	50%	50%
Expected credit loss	-	-	-	44	78
2019					
Total balance	248	95	269	103	117
Less specific provisions	-	-	-	-	-
Balance eligible for ECL	248	95	269	103	117
Lifetime ECL	0%	0%	0%	15%	20%
Expected credit loss	-	-	-	15	23
Damages receivables					
2020	0-6 months £ 000	6-12 months £ 000	1-2 years £ 000	2-3 years £ 000	Over 3 year £ 000
Total balance	788	205	617	69	37
Less specific provisions	(183)	(54)	(430)	(22)	-
Balance eligible for ECL	605	151	187	47	37
Lifetime ECL	20%	25%	30%	40%	80%
Expected credit loss	121	38	56	19	30
2019	0-6 months £ 000	6-12 months £ 000	1-2 years £ 000	2-3 years £ 000	Over 3 year £ 000
Total balance	797	547	483	358	192
Less specific provisions	(39)	(66)	(33)	(324)	(133)
Balance eligible for ECL	758	481	450	34	59
Lifetime ECL	10%	10%	15%	30%	60%
Expected credit loss	76	48	68	10	35

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

16 Trade and other receivables (continued)

Meter asset provision

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

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

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

Contracted

	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
2020					
Total balance	5,306	2,977	2	159	565
Less specific provisions	-	-	-	-	565
Balance eligible for ECL	5,306	2,977	2	159	1,130
Lifetime ECL	0%	0%	10%	50%	100%
Expected credit loss	-	-		80	1,130
	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
2019					
Total balance	3,848	2,883	74	612	842
Less specific provisions	-	-	-	(492)	(842)
Balance eligible for ECL	3,848	2,883	74	120	-
Lifetime ECL	0%	0%	10%	50%	100%
Expected credit loss	-	-	7	60	-
Contracted churn					
	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
2020					
Total balance	1,653	1,439	294	95	703
Less specific provisions	(11)	(34)	(19)	(95)	(703)
Balance eligible for ECL	1,642	1,405	275	-	-
Lifetime ECL	0%	0%	10%	50%	100%
Expected credit loss	-	-	28	-	-
	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
2019					
Total balance	1,862	716	123	63	55
Less specific provisions	-	(214)	(84)	(25)	(55)
Balance eligible for ECL	1,862	502	39	38	-
Lifetime ECL	0%	0%	10%	50%	100%
Expected credit loss	-	-	4	19	-

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

16 Trade and other receivables (continued)

Non-contracted churn

	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
2020					
Total balance	931	1,029	3	9	1,244
Less specific provisions	(6)	(166)	(3)	(9)	(1,244)
Balance eligible for ECL	925	863	-	-	-
Lifetime ECL	0%	0%	10%	50%	100%
Expected credit loss	-	-	-	-	-
	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
2019					
Total balance	5,922	1,539	107	266	196
Less specific provisions	(1,268)	(43)	(48)	(176)	(187)
Balance eligible for ECL	4,654	1,496	59	90	9
Lifetime ECL	0%	0%	10%	50%	100%
Expected credit loss	-	-	6	45	9

Engineering contracting receivables

The average credit period on Engineering contracting receivables is 30 days. Interest is not generally charged on receivables paid after due date. Included in the Group's construction contracts balance are debtors with a carrying amount of £2.1 million (2019: £2.0 million), which are past due at the reporting date for which the Group has provided for an irrecoverable amount of £0.1 million (2019: £0.1 million) based on past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 52 days (2019: 51 days).

Included in the Group's construction contracts balance are debtors with a carrying amount of £nil (2019: £nil) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

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

	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
2020					
Total balance	1,621	1,719	240	49	70
Less specific provisions	-	-	-	-	(70)
Balance eligible for ECL	1,621	1,719	240	49	-
Lifetime ECL	0%	1%	10%	50%	100%
Expected credit loss	-	17	24	25	-
	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
2019					
Total balance	1,680	1,740	90	62	87
Less specific provisions	-	-	(1)	(33)	(87)
Balance eligible for ECL	1,680	1,740	89	29	-
Lifetime ECL	0%	1%	10%	50%	100%
Expected credit loss	-	17	9	15	-

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

16 Trade and other receivables (continued)

Finance lease receivables

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

The interest rate inherent in the agreements is fixed at the contract date for all of the term of the agreement. The average effective interest rate contracted is approximately 6.5% (2019: 6.5%) per annum. None of these debts are past due and there are no indicators of impairment.

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

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

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

	Minimum lease payments £ 000	Interest £ 000	Present value £ 000
2020			
Within one year	6,021	(1,769)	4,252
In two to five years	<u>6,281</u>	<u>(1,683)</u>	<u>4,598</u>
	<u><u>12,302</u></u>	<u><u>(3,452)</u></u>	<u><u>8,850</u></u>
2019			
Within one year	4,888	(198)	4,690
In two to five years	<u>10,695</u>	<u>(3,294)</u>	<u>7,401</u>
In over five years	<u>1,526</u>	<u>(1,198)</u>	<u>328</u>
	<u><u>17,109</u></u>	<u><u>(4,690)</u></u>	<u><u>12,419</u></u>

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

16 Trade and other receivables (continued)

Operating lease receivables

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

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

	31 December 2020 £ 000	31 December 2019 £ 000
Within one year	71,375	66,177
In two to five years	133,381	264,796
Over five years	245,350	148,227
	<hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/>
	450,106	479,200

17 Cash and cash equivalents

	Group		Company	
	31 December 2020 £ 000	31 December 2019 £ 000	31 December 2020 £ 000	31 December 2019 £ 000
	Cash at bank	21,874	22,667	-
Cash at bank	21,874	22,667	-	-
Other cash and cash equivalents	<hr/>	<hr/>	38,148	36,187
	<hr/>	<hr/>	<hr/>	<hr/>
	21,874	22,667	38,148	36,187

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

18 Restricted cash

	Group		Company	
	31 December 2020 £ 000	31 December 2019 £ 000	31 December 2020 £ 000	31 December 2019 £ 000
	Restricted cash	<hr/>	16,758	13,873
Restricted cash	<hr/>	<hr/>	<hr/>	<hr/>

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

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

19 Share capital

Allotted, issued, and fully paid:

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

	Share value	Number	2020 £ 000	2019 £ 000
Ordinary shares	56 12/13p	127,689,809	72,173	72,173

20 Reserves

Group

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

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

Prior period

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

	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
Gain on cash flow hedge (net)	(1,880)	-	(1,880)
Remeasurements of post employment benefit obligations (net)	-	(19,795)	(19,795)
	<u>(1,880)</u>	<u>(19,795)</u>	<u>(21,675)</u>

21 Loans and borrowings

	Group 2020 £ 000	2019 £ 000	Company 2020 £ 000	2019 £ 000
Non-current loans and borrowings	946,185	652,294	1,117	1,117
Current loans and borrowings	77,060	346,502	9,741	8,600
	<u>1,023,245</u>	<u>998,796</u>	<u>10,858</u>	<u>9,717</u>

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

21 Loans and borrowings (continued)

Group

	Carrying value		Fair value	
	2020 £ 000	2019 £ 000	2020 £ 000	2019 £ 000
Short-term loans	28	29	28	29
Inter-company short-term loans	35,372	169,039	35,372	169,039
Bond 2020 - 8.875%	-	101,695	-	101,695
Amortising loan 2026 - 2.9573%*	133,871	160,889	135,348	162,259
Amortising loan 2026 - 2.0245%**	29,736	-	30,005	-
Bond 2035 - 5.125%	153,279	153,194	225,276	213,560
2049- 2.75%	149,978	149,920	194,134	163,477
Bond 2062 - 1.875%	297,469	-	338,377	-
European Investment Bank 2020 - 4.386%	-	40,518	-	40,518
European Investment Bank 2027 - 2.564%	120,128	120,128	134,428	128,780
Cumulative preference shares	3,368	3,368	192,076	158,019
Yorkshire Electricity Group - 5.9%	100,016	100,016	164,723	155,207
	<u>1,023,245</u>	<u>998,796</u>	<u>1,449,767</u>	<u>1,292,583</u>

*2026 £136m Amortising Loan is 89% swapped at a fixed rate of 3.0682%, with the remaining 11% floating at 3 month LIBOR plus 2.00%.

**2026 £ 30m Amortising Loan is a Floating rate loan at 3 month LIBOR plus 2.00%.

Company

	Carrying value		Fair value	
	2020 £ 000	2019 £ 000	2020 £ 000	2019 £ 000
Short-term loans	7,490	6,349	8,180	6,348
Cumulative preference shares	3,368	3,368	192,076	158,019
	<u>10,858</u>	<u>9,717</u>	<u>200,256</u>	<u>164,367</u>

Of the total financial liabilities for the Group of £1,023.2 million, £887.8 million (2019: £729.7 million) relates to external borrowings and preference shares whose fair value is determined with reference to quoted market prices. The directors' estimates of the fair value of internal borrowings are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments. The valuation of liabilities set out above is based on Level 1 inputs.

The borrowings from the European Investment Bank were drawn down in four tranches, repayable in 2020. The interest rates shown are average rates for those repayment dates.

The terms of the cumulative preference shares:

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

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

21 Loans and borrowings (continued)

- are redeemable in the event of the revocation by the Secretary of State of Northern Electric plc's Public Electricity Supply Licence at the value given above.

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

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

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

22 Obligations under leases and hire purchase contracts

Group

Lease liability

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

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

	31 December 2020 £ 000	31 December 2019 £ 000
Within one year	3,404	2,568
In two to five years	8,834	7,084
In over five years	3,766	416
Total lease payment	<u>16,004</u>	<u>10,068</u>
Unearned interest	<u>(1,673)</u>	<u>(777)</u>
Total lease liability	<u>14,331</u>	<u>9,291</u>

The Company has no lease commitments.

23 Provisions

Group

	Claims £ 000	Other £ 000	Total £ 000
At 1 January 2020	417	2,619	3,036
Additional provisions	865	1,944	2,809
Provisions used	<u>(636)</u>	<u>(974)</u>	<u>(1,610)</u>
At 31 December 2020	<u>646</u>	<u>3,589</u>	<u>4,235</u>
Non-current liabilities	<u>-</u>	<u>2,737</u>	<u>2,737</u>
Current liabilities	<u>647</u>	<u>851</u>	<u>1,498</u>

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

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

23 Provisions (continued)

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

Also included within 'other' are pension provisions which relate to the Group's share of expected settlements of liabilities relating to pension deficit repair of Electricity Association Technology Limited ("EATL") and are expected to be settled over a period of approximately eight years. As at 31 December 2020 the provision relating to the EATL is £0.8m (2019: £nil).

Company

	Other provisions £ 000	Total £ 000
At 1 January 2020	1,488	1,488
Additional provisions	831	831
At 31 December 2020	2,319	2,319

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

Also included above are pension provisions which relate to the Group's share of expected settlements of liabilities relating to pension deficit repair of Electricity Association Technology Limited ("EATL") and are expected to be settled over a period of approximately eight years. As at 31 December 2020 the provision relating to the EATL is £0.8m (2019: £nil).

24 Trade and other payables

	Group		Company	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	£ 000	£ 000	£ 000	£ 000
Payments on account	35,938	45,671	-	-
Trade payables	2,823	5,536	1,658	1,993
Capital creditors	25,629	30,579	-	-
Accrued expenses	11,000	12,546	1,424	1,475
Social security and other taxes	5,310	5,537	116	95
Other payables	13,315	5,083	831	64
	94,015	104,952	4,029	3,627

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

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

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

25 Deferred revenue

	Group		Company	
	31 December	31 December	31 December	31 December
	2020	2019	2020	2019
	£ 000	£ 000	£ 000	£ 000
Opening balance	663,980	652,349	-	-
Additions	31,660	37,362	-	-
Amortisation	(26,284)	(25,731)	-	-
	<u>669,356</u>	<u>663,980</u>	<u>-</u>	<u>-</u>

	Group		Company	
	31 December	31 December	31 December	31 December
	2020	2019	2020	2019
	£ 000	£ 000	£ 000	£ 000
Current	27,629	26,280	-	-
Non-current	641,727	637,700	-	-
	<u>669,356</u>	<u>663,980</u>	<u>-</u>	<u>-</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 Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

26 Pension and other schemes

Defined benefit pension schemes

Electricity Supply Pension Scheme

The Company contributes to two pension schemes, which it operates on behalf of the participating companies within the Group. Those pension schemes are:

- The Northern Powergrid Group of the ESPS (the "DB Scheme"); and
- The Northern Powergrid Pension Scheme.

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

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

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

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

Pension regulation

The UK pensions market is regulated by the Pensions Regulator whose key statutory objectives in relation to UK defined benefit plans are to:

- protect the benefits of members;
- promote and to improve understanding of good administration;
- reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund ("PPF"); and
- minimise any adverse impact on the sustainable growth of an employer.

The Pensions Regulator has various powers including the power to:

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

26 Pension and other schemes (continued)**Role of Trustees**

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

Funding requirements

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

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

The contributions payable by the Group to the DB Scheme in respect of future benefits which are accruing increased from 43.6% to 49.1% of pensionable pay from 1 October 2020. 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 which increased from 5.0% to 6.3% of pensionable pay from 1 October 2020.

The Group's total contributions to the DB scheme for the next financial year are expected to be £50.4m.

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

Profile of the scheme

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

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

Investment objectives for the DB Scheme

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

26 Pension and other schemes (continued)

The Company and Trustees have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes the use of Liability Driven Investment (LDI) from October 2016 to more closely match the nature and duration of the DB Scheme's liabilities through the use of derivatives such as swaps and repurchase agreements. The portfolio is designed to hedge a proportion of the interest rate and inflation risk inherent in the Scheme's liabilities. The target hedging level is currently 75% (2019: 75%) of the DB Scheme's liabilities as measured on the basis used for the funding valuation.

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

Risks

Volatile asset returns

The DBO is calculated using a discount rate set with reference to corporate bond yields. If assets underperform this discount rate, this will create an element of deficit. The DB Scheme aims to hold a significant proportion (35%) 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 (65%) as bonds and Liability Driven Investments (LDI), which provide a significant hedge against falling bond yields (falling yields which increase the DBO will also increase the value of the bond assets). There are some differences in the credit quality of bonds held by the DB Scheme and the bonds analysed to decide the DBO discount rate, such that there remains some risk should yields on different quality bond/swap assets diverge.

Inflation risk

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

Mitigation

The DB Scheme invests around 34% in LDI (included in the 65% 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 Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

26 Pension and other schemes (continued)

Other risks

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

Reporting at 31 December 2020

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 2020 %	31 December 2019 %
Discount rate	1.40	2.10
Future salary increases	3.05	3.30
Future pension increases	2.50	2.75
Inflation	2.55	2.80
Inflation- CPI	2.05	1.80
Proportion of pension exchanged for additional cash at retirement	<u>10.00</u>	<u>10.00</u>

Post retirement mortality assumptions

	31 December 2020 Years	31 December 2019 Years
Life expectancy for male currently aged 60	26.60	26.00
Life expectancy for female currently aged 60	28.70	28.30
Life expectancy at 60 for male currently aged 45	27.30	27.30
Life expectancy at 60 for female currently aged 45	<u>29.90</u>	<u>29.40</u>

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

26 Pension and other schemes (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	31 December	31 December
	2020	2019
	£ 000	£ 000
Fair value of scheme assets	1,700,700	1,616,100
Present value of scheme liabilities	(1,612,600)	(1,522,700)
Defined benefit pension scheme surplus	<u>88,100</u>	<u>93,400</u>

Scheme assets

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

	31 December	31 December
	2020	2019
	£ 000	£ 000
Fair value at start of year	1,616,100	1,552,300
Interest income	33,800	41,500
Re-measurement (loss)/gains on scheme assets	109,400	112,800
Employer contributions	44,000	43,600
Contributions by scheme participants	500	600
Benefits paid	(102,000)	(133,400)
Administrative expenses paid	(1,100)	(1,300)
Fair value at end of year	<u>1,700,700</u>	<u>1,616,100</u>

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

26 Pension and other schemes (continued)

Analysis of assets

The major categories of scheme assets are as follows:

	31 December 2020 £ 000	31 December 2019 £ 000
Developed market equity	264,100	258,400
Emerging market equity	8,000	7,500
Property	166,600	176,600
Reinsurance	79,600	76,500
Listed infrastructure	84,000	102,100
Investment grade corporate bonds	200,100	178,200
Other debt (non-investment grade)	119,700	140,500
Fixed interest gilts	55,800	65,500
Index-linked gilts	4,600	15,000
Liability driven investments	539,800	471,500
Cash and cash equivalents including derivatives	178,400	124,300
	<hr/>	<hr/>
	1,700,700	1,616,100

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 2020 £ 000	31 December 2019 £ 000
Present value at start of year	(1,522,700)	(1,467,700)
Current service cost	(12,500)	(12,500)
Actuarial gains/(losses) arising from changes in demographic assumptions	(20,300)	33,200
Actuarial losses arising from changes in financial assumptions	(128,000)	(168,600)
Actuarial gains/(losses) arising from experience adjustments	900	(1,500)
Interest cost	(31,500)	(38,400)
Benefits paid	102,000	133,400
Contributions by scheme participants	(500)	(600)
	<hr/>	<hr/>
Present value at end of year	(1,612,600)	(1,522,700)

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

26 Pension and other schemes (continued)

Amounts recognised in the income statement

	31 December 2020 £ 000	31 December 2019 £ 000
Current service cost	12,500	12,500
Administrative expenses paid	1,100	1,300
Net interest	(2,300)	(3,100)
Prior service cost	700	-
Amounts recognised	12,000	10,700
Costs included in cost of qualifying assets	(8,000)	(7,977)
Total recognised in the income statement	<u>4,000</u>	<u>2,723</u>

Amounts taken to the Statement of Comprehensive Income

	31 December 2020 £ 000	31 December 2019 £ 000
Actuarial (gains) and losses arising from changes in demographic assumptions	20,300	(33,200)
Actuarial (gains) and losses arising from changes in financial assumptions	127,300	168,600
Actuarial (gains) and losses arising from experience adjustments	(900)	1,500
Return on plan assets in excess of that recognised in net interest	(109,400)	(112,800)
Amounts recognised in the Statement of Comprehensive Income	<u>37,300</u>	<u>24,100</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 2020			31 December 2019		
	+ 0.1%	0.0%	- 0.1%	+ 0.1%	0.0%	- 0.1%
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Adjustment to discount rate						
Present value of total obligation	<u>1,582,500</u>	<u>1,612,600</u>	<u>1,643,900</u>	<u>1,496,100</u>	<u>1,522,700</u>	<u>1,549,700</u>
	31 December 2020			31 December 2019		
	+ 0.1%	0.0%	- 0.1%	+ 0.1%	0.0%	- 0.1%
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Adjustment to rate of inflation						
Present value of total obligation	<u>1,641,900</u>	<u>1,612,600</u>	<u>1,594,700</u>	<u>1,548,500</u>	<u>1,522,700</u>	<u>1,498</u>
	31 December 2020			31 December 2019		
	+ 1 Year	None	- 1 Year	+ 1 Year	None	- 1 Year
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Adjustment to mortality age rating assumption						
Present value of total obligation	<u>1,685,900</u>	<u>1,612,600</u>	<u>1,539,900</u>	<u>1,588,800</u>	<u>1,522,700</u>	<u>1,457,100</u>

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

26 Pension and other schemes (continued)

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

27 Dividends

	31 December 2020 £ 000	31 December 2019 £ 000
Interim dividend of £Nil (2019 - £0.19) per ordinary share	<u>25,400</u>	<u>24,600</u>

28 Net debt reconciliation

Group

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

	At 1 January 2019 £ 000	Cash flows £ 000	New leases £ 000	Other changes £ 000	At 31 December 2019 £ 000
Cash and cash equivalents	28,143	(5,476)	-	-	22,667
Lease liabilities	-	-	(9,291)	-	(9,291)
Borrowings	<u>(968,164)</u>	<u>(28,428)</u>	<u>-</u>	<u>(2,204)</u>	<u>(998,796)</u>
	<u>(940,021)</u>	<u>(33,904)</u>	<u>(9,291)</u>	<u>(2,204)</u>	<u>(985,420)</u>

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

28 Net debt reconciliation (continued)

Company

	At 1				At 31 December 2020 £ 000
	January 2020 £ 000	Cash flows £ 000	New leases £ 000	Other changes £ 000	
Cash and cash equivalents	36,187	1,961	-	-	38,148
Lease liabilities	-	-	(1,346)	-	(1,346)
Borrowings	(9,717)	(1,143)	-	2	(10,858)
	26,470	818	(1,346)	2	25,944
At 31 December 2019 £ 000					
	At 1 January 2019 £ 000	Cash flows £ 000	Other changes £ 000		At 31 December 2019 £ 000
	43,633	(7,446)	-		36,187
	(9,773)	57	(1)		(9,717)
	33,860	(7,389)	(1)		26,470

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

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

Group

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

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial assets & liabilities at FVTOCI £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Non-current assets					
Property, plant and equipment	-	-	-	-	2,889,678
Right of use assets	-	-	-	-	14,031
Intangible assets	-	-	-	-	51,219
Investments in subsidiaries, joint ventures and associates	-	3,648	-	-	-
Retirement benefit obligations	-	-	88,100	-	-
Trade and other receivables	4,598	-	-	-	-
	<u>4,598</u>	<u>3,648</u>	<u>88,100</u>	<u>-</u>	<u>2,954,928</u>
Current assets					
Inventories	-	-	-	-	18,699
Trade and other receivables	82,492	-	-	-	-
Cash and cash equivalents	21,874	-	-	-	-
Restricted cash	16,758	-	-	-	-
Contract assets	6,214	-	-	-	-
	<u>127,338</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,699</u>
Total assets	<u>131,936</u>	<u>3,648</u>	<u>88,100</u>	<u>-</u>	<u>2,973,627</u>
Non-current liabilities					
Long term lease liabilities	-	-	-	(11,295)	-
Loans and borrowings	-	-	-	(946,185)	-
Provisions	-	-	-	-	(2,737)
Deferred revenue	-	-	-	(641,727)	-
Deferred tax liabilities	-	-	-	-	(106,852)
Other non-current financial liabilities	-	-	(3,174)	-	-
	<u>-</u>	<u>-</u>	<u>(3,174)</u>	<u>(1,599,207)</u>	<u>(109,589)</u>
Current liabilities					
Current portion of long term lease liabilities	-	-	-	(3,036)	-
Trade and other payables	-	-	-	(94,015)	-
Loans and borrowings	-	-	-	(77,060)	-
Income tax liability	-	-	-	(1,260)	-
Deferred revenue	-	-	-	(27,629)	-
Provisions	-	-	-	-	(1,498)
Other current financial liabilities	-	-	(640)	-	-
	<u>-</u>	<u>-</u>	<u>(640)</u>	<u>(203,000)</u>	<u>(1,498)</u>

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

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

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial assets & liabilities at FVTOCI £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Non-current assets					
Total liabilities	-	-	(3,814)	(1,802,207)	(1,498)

The classification of financial assets and financial liabilities by accounting categorisation for the year ended 31 December 2019 was as follows:

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial assets & liabilities at FVTOCI £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Non-current assets					
Property, plant and equipment	-	-	-	-	2,806,106
Right of use assets	9,164	-	-	-	-
Intangible assets	-	-	-	-	52,289
Investments in subsidiaries, joint ventures and associates	-	3,539	-	-	-
Retirement benefit obligations	-	-	93,400	-	-
Trade and other receivables	7,730	-	-	-	-
	<u>16,894</u>	<u>3,539</u>	<u>93,400</u>	<u>-</u>	<u>2,858,395</u>
Current assets					
Inventories	-	-	-	-	20,192
Trade and other receivables	84,673	-	-	-	-
Cash and cash equivalents	22,667	-	-	-	-
Restricted cash	13,873	-	-	-	-
Contract assets	8,132	-	-	-	-
	<u>129,345</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,192</u>
Total assets	<u>146,239</u>	<u>3,539</u>	<u>93,400</u>	<u>-</u>	<u>2,878,587</u>
Non-current liabilities					
Long term lease liabilities	-	-	-	(7,002)	-
Loans and borrowings	-	-	-	(652,294)	-
Provisions	-	-	-	(1,808)	-
Deferred revenue	-	-	-	(637,700)	-
Deferred tax liabilities	-	-	-	(98,466)	-
Other non-current financial liabilities	-	-	(1,131)	-	-
	<u>-</u>	<u>-</u>	<u>(1,131)</u>	<u>(1,397,270)</u>	<u>-</u>

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

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

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial assets & liabilities at FVTOCI £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Current liabilities					
Current portion of long term lease liabilities	-	-	-	(2,289)	-
Trade and other payables	-	-	-	(104,952)	-
Loans and borrowings	-	-	-	(346,502)	-
Income tax liability	-	-	-	(5,092)	-
Deferred revenue	-	-	-	(26,280)	-
Provisions	-	-	-	(1,228)	-
Other current financial liabilities	-	-	(184)	-	-
	-	-	(184)	(486,343)	-
Total liabilities	-	-	(1,315)	(1,883,613)	-

Fair values are derived from level 1 inputs.

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

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

Company

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

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets				
Non-current assets				
Property, plant and equipment	-	-	-	1,562
Right of use assets	-	-	-	1,290
Investments in subsidiaries, joint ventures and associates	-	242,902	-	-
Deferred tax asset	-	-	-	469
	<hr/>	<hr/>	<hr/>	<hr/>
		242,902		3,321
Current assets				
Trade and other receivables	1,291	-	-	-
Cash and cash equivalents	38,148	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	39,439	-	-	-
Total assets	<hr/>	242,902	<hr/>	3,321
Liabilities				
Non-current liabilities				
Long term lease liabilities	-	-	(1,205)	-
Loans and borrowings	-	-	(1,117)	-
Provisions	-	-	-	(2,217)
	<hr/>	<hr/>	<hr/>	<hr/>
		-	(2,322)	(2,217)
Current liabilities				
Current portion of long term lease liabilities	-	-	(141)	-
Trade and other payables	-	-	(4,029)	-
Loans and borrowings	-	-	(9,741)	-
Income tax liability	-	-	(4,168)	-
Provisions	-	-	-	(102)
	<hr/>	<hr/>	<hr/>	<hr/>
		-	(18,079)	(102)
Total liabilities	<hr/>	-	(20,401)	(2,319)

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

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

The classification of financial assets and financial liabilities by accounting categorisation for the year ended 31 December 2019 was as follows:

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets				
Non-current assets				
Property, plant and equipment	-	-	-	1,569
Investments in subsidiaries, joint ventures and associates	-	243,282	-	-
Deferred tax asset	108	-	-	-
	<u>108</u>	<u>243,282</u>	<u>-</u>	<u>1,569</u>
Current assets				
Trade and other receivables	545	-	-	-
Income tax asset	3,493	-	-	-
Cash and cash equivalents	36,187	-	-	-
	<u>40,225</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>40,333</u>	<u>243,282</u>	<u>-</u>	<u>1,569</u>
Liabilities				
Non-current liabilities				
Loans and borrowings	-	-	(1,117)	-
Provisions	-	-	(1,488)	-
	<u>-</u>	<u>-</u>	<u>(2,605)</u>	<u>-</u>
Current liabilities				
Trade and other payables	-	-	(3,627)	-
Loans and borrowings	-	-	(8,600)	-
	<u>-</u>	<u>-</u>	<u>(12,227)</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>(14,832)</u>	<u>-</u>

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

30 Financial risk review

Capital management

The Group manages its capital centrally to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2019.

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

At 31 December 2020, 95% of the Group's long-term borrowings were at fixed rates (2019: 97%) and the average maturity for these borrowings was 22 years (2019: 12).

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

Credit risk

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

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

Group

	Notes	Gross carrying amount		Loss allowance £ 000	Net carrying amount £ 000
		£ 000	£ 000		
2020					
Trade and other receivables	16	93,244	(6,154)		87,090
Cash and short-term deposits	17	21,874	-		21,874
Contracts	3	6,214	-		6,214
	16	<u>121,332</u>	<u>(6,154)</u>		<u>115,178</u>
2019					
Trade and other receivables	16	97,556	(5,153)		92,403
Cash and short-term deposits	17	22,667	-		22,667
Contracts	3	8,132	-		8,132
	16	<u>128,355</u>	<u>(5,153)</u>		<u>123,202</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 29 best represents their respective maximum exposure to credit risk. The Group holds no collateral over any of these balances.

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

30 Financial risk review (continued)

Company

2020	Notes	Gross carrying amount £ 000		Loss allowance £ 000	Net carrying amount £ 000
		Trade and other receivables	Cash and cash equivalents		
Trade and other receivables	16	1,291		-	1,291
Cash and cash equivalents	17		38,148	-	38,148
2019	Notes	Gross carrying amount £ 000		Loss allowance £ 000	Net carrying amount £ 000
		Trade and other receivables	Cash and cash equivalents		
Trade and other receivables	16	545		-	545
Cash and cash equivalents	17		36,187	-	36,187

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

Liquidity risk

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

The Group has access to a £75 million revolving credit facility provided by Lloyds Bank plc, National Westminster Bank plc, and Santander UK plc. This facility was amended and restated in October 2019 for a period of three years, with two 1 year extension options. During the year the Group exercised its option to extend the expiry date by 1 year to October 2023. In addition, the Group has access to further short-term borrowing facilities provided by YEG and to a £22 million overdraft facility provided by Lloyds Bank plc, which is reviewed annually, these borrowings are repayable on demand.

At 31 December 2020, the Group had available £97.0m (2019: £97.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Maturity analysis for financial liabilities

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

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

30 Financial risk review (continued)

Group

	Less than 3 months	3 months - 1 year	1-5 years	More than 5 years	Total
	£ 000	£ 000	£ 000	£ 000	£ 000
2020					
Non-interest bearing	58,077	-	-	-	58,077
Short-term interest bearing	33,677	-	-	-	33,677
Long-term interest bearing	-	60,015	242,107	1,291,258	1,593,380
	91,754	60,015	242,107	1,291,258	1,685,134
2019					
Non-interest bearing	59,303	-	-	-	59,303
Short-term interest bearing	169,046	-	-	-	169,046
Long-term interest bearing	40,709	160,037	196,049	831,629	1,228,424
	269,058	160,037	196,049	831,629	1,456,773

Company

	Less than 3 months	3 months - 1 year	1-5 years	More than 5 years	Total
	£ 000	£ 000	£ 000	£ 000	£ 000
2020					
Non-interest bearing	4,029	-	-	-	4,029
Short-term interest bearing	7,464	-	-	-	7,464
Long-term interest bearing	-	9,001	36,004	226,144	271,149
	11,493	9,001	36,004	226,144	282,642
2019					
Non-interest bearing	3,649	-	-	-	3,649
Short-term interest bearing	6,349	-	-	-	6,349
Long-term interest bearing	-	9,001	36,004	226,114	271,119
	9,998	9,001	36,004	226,114	281,117

Market risk

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

The Group's policy on interest rate risk is designed to limit the Group's exposure to floating interest rates. Consistent with this policy, at 31 December 2020 the Group had 95% (2019: 97%) of long term debt at fixed rates. Short-term loans are charged at a floating rate of LIBOR plus 0.20%, 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 £1.2m per year. This is considered to be an acceptable level of risk. All other loans are at fixed interest rates and expose the Group to fair value interest rate risk.

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

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

30 Financial risk review (continued)

Financial risk

The Group is exposed to GBP LIBOR within its hedge accounting relationships, which are subject to interest rate benchmark reform. As listed in Note 21, the 2026 £136m Amortising loan is a floating rate loan linked to GBP LIBOR and is 89% swapped at a fixed rate of 3.0682% with the remaining 11% floating at 3 month GBP LIBOR plus 2.00%. In addition the 2026 £30m Amortising loan is a floating rate loan linked to 3 month GBP LIBOR plus 2.00%.

The Group, in conjunction with the banks, continue to monitor the market and the output from the various industry working groups managing the transition to new benchmark interest rates. When deemed necessary the Group will enter negotiations with the banks to implement any necessary amendments required to be made to the debt and hedging documents.

The Group will continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms end. The Group has assumed that this uncertainty will continue until the Group's contracts that reference GBP LIBOR are amended, if necessary, to reflect the transition to an alternative benchmark rate.

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

31 Derivatives held for risk management and hedge accounting

Derivatives held for risk management

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

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

	2020		2019	
	Assets £ 000	Liabilities £ 000	Assets £ 000	Liabilities £ 000
Non-current	-	3,174	-	1,131
Current	-	640	-	184
	<hr/>	<hr/>	<hr/>	<hr/>
	-	3,814	-	1,315

The maturity of financial instruments was as follows:

	3 months to 1 year £ 000	1 to 5 years £ 000	More than 5 years £ 000	Total £ 000
2020				
Notional principal	20,414	89,087	12,072	121,573
Cash flow hedge 2020	(640)	(2,795)	(379)	(3,814)
	<hr/>	<hr/>	<hr/>	<hr/>
	19,774	86,292	11,693	117,759
2019				
Notional principal	19,799	86,021	35,553	141,373
Cash flow hedge	(184)	(800)	(331)	(1,315)
	<hr/>	<hr/>	<hr/>	<hr/>
	19,615	85,221	35,222	140,058

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

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

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

The interest rate swaps are settled on a quarterly basis and are based on receiving a floating rate of 3-month LIBOR and paying a fixed rate of 1.0682%. The Group will settle the difference between the fixed and floating interest rate on a net basis.

Effectiveness testing

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

Nature of the risk being hedged

The Company is hedging the risk of variability in cash flows indexed to 3-month LIBOR. Further details of the Group's risk management is available in the strategic report, pages 10 to 13, and in financial risk review, Note 30.

32 Related party transactions

Directors' advances, credits and guarantees

During the year, 2 directors (2019: 2) and 3 key personnel (2019: 4) utilised the services provided by Northern Transport Finance Limited. The amounts included in finance lease receivables owed by these directors and key personnel were £19,000 (2019: £81,000).

Group

	Amounts				
	Sales to	Purchases	owed	Finance	Borrowings
2020	£ 000	£ 000	from/(to)	£ 000	to/(from)
Integrated Utility Services (Eire)	2,169	(4,769)	-	-	-
Northern Powergrid Gas Limited	4	-	-	-	-
Northern Powergrid Limited	-	-	-	(6,228)	-
Northern Powergrid (Yorkshire) plc	27,189	(10,630)	-	-	-
Vehicle Lease and Service Limited	21	(4,940)	-	870	-
Yorkshire Electricity Group	-	-	-	(802)	(33,677)
	<u>29,383</u>	<u>(20,339)</u>	<u>-</u>	<u>(6,160)</u>	<u>(33,677)</u>

	Amounts				
	Sales to	Purchases	owed	Finance	Borrowings
2019	£ 000	£ 000	from/(to)	£ 000	to/(from)
Integrated Utility Services (Eire)	2,518	(6,053)	-	-	-
Northern Powergrid Gas Limited	138	-	-	-	-
Northern Powergrid Limited	-	-	-	(6,228)	-
Northern Powergrid (Yorkshire) plc	25,897	(11,323)	-	-	-
Vehicle Lease and Service Limited	18	(4,868)	-	741	-
Yorkshire Electricity Group	-	-	-	(2,184)	(169,039)
	<u>28,571</u>	<u>(22,244)</u>	<u>-</u>	<u>(7,671)</u>	<u>(169,039)</u>

Northern Electric plc

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

32 Related party transactions (continued)

Company

	Sales to £ 000	Purchases from £ 000	Finance income/(costs) £ 000	Borrowings to/(from) £ 000
2020				
Northern Powergrid Gas Limited	223	-	-	-
Northern Powergrid Limited	-	-	(6,228)	-
Northern Powergrid (Northeast) Limited	4,952	-	25,400	-
Northern Powergrid (Yorkshire) plc	2,494	-	-	-
Northern Transport Finance Limited	11	-	-	-
Vehicle Lease and Service Limited	-	-	870	-
Yorkshire Electricity Group	-	-	85	38,148
	7,680	-	20,127	38,148
2019				
Northern Powergrid Gas Limited	138	-	-	-
Northern Powergrid Limited	-	-	(6,228)	-
Northern Powergrid (Northeast) Limited	4,291	-	24,600	-
Northern Powergrid (Yorkshire) plc	2,471	-	-	-
Northern Transport Finance Limited	10	-	-	-
Vehicle Lease and Service Limited	-	-	741	-
Yorkshire Electricity Group	-	-	247	36,187
	6,910	-	19,360	36,187

Northern Electric plc
Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

33 Parent and ultimate parent undertaking

The Company's immediate parent is Northern Powergrid Limited.

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

Relationship between entity and parents

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

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

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

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

34 Other reserves

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

35 Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of Northern Electric plc will be held by WebEx on Wednesday 16 June 2021 at 11.00 am.

WebEx joining instructions

For shareholders wishing to join the Annual General Meeting of Northern Electric plc please visit <https://www.webex.com/login/attend-a-meeting> and when prompted, enter 'the meeting information': 128 193 2557.

The following resolutions will be proposed as ordinary resolutions:

Annual Report and Accounts

1 To receive and consider the strategic, directors' and auditor's reports and the Group accounts for the year ended 31 December 2020.

Dividend

2 To declare that no final dividend be paid for the year ended 31 December 2020.

Re-election of Directors

3 To re-elect Mr C D Haack as a director.

4 To re-elect Mr T H France as a director.

The Auditors

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

Northern Electric plc
Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

35 Notice of annual general meeting (continued)

By order of the board

Jennifer Riley
Company Secretary
26 April 2021

Registered office:

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

Notes:

- 1 All the issued ordinary shares in the Company are held by or on behalf of Northern Powergrid Limited.
- 2 Holders of preference shares have the right to receive notice of, attend and speak at the Annual General Meeting but are only entitled to vote if, at the date of the notice of the meeting, payment of the dividend to which they are entitled is six months or more in arrears, or if a resolution is to be considered at the meeting for the winding up of the Company or abrogating, varying or modifying any of the special rights attaching to the preference shares. As none of these circumstances apply to this Annual General Meeting, preference shareholders should note that they do not have the right to vote on any of the business to be considered.
- 3 Members are entitled to appoint a proxy to exercise all or any of their rights on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the shareholder. A proxy need not be a shareholder of the Company.
- 4 Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated person does not have such a right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
- 5 Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
- 6 The current price of the Company's preference shares can be obtained from the website of the London Stock Exchange at www.londonstockexchange.com.