

## **NORTHERN POWERGRID HOLDINGS COMPANY (THE “COMPANY”) AND ITS SUBSIDIARIES (THE “GROUP”) CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2023**

The Company has sought to apply the UK Corporate Governance Code 2018 (the "Code") and report on the application of the Principles and supporting Provisions.

The directors confirm that the governance framework in place is appropriate to the circumstances of the Company and the Group. The framework is agreed with the Group's shareholder, Berkshire Hathaway Energy. The Company and the Group has not complied with Provisions 4, 9, 12, 17, 18, 19, 20, 23, 26, 32, 33, 35, 38, 40 and 41 as they are deemed not to be relevant to the Company's or the Group's circumstances (given it is privately owned) or for the reasons explained in the pages that follow. Consequently, the Company and Group do not intend to put actions in place in order to comply with the aforementioned provisions at this time. A copy of the Code can be found at <https://frc.org.uk/>.

### **BOARD LEADERSHIP AND COMPANY EXPOSURE**

#### **Strategic Ownership**

The board is collectively responsible for generating value for the Group's shareholder and wider society which is achieved through the delivery of a strategy which corresponds to Berkshire Hathaway Energy's six Core Principles. The strategy is set out in two forms of business plan (the Business Plan and Annual Plan), both of which are approved and monitored by the board and are designed to promote the long-term sustainable success of the Company and the Group whilst achieving the commitments developed to address stakeholder requirements.

For the purpose of scrutinising performance in respect of both business plans, the board review a range of financial and non-financial KPIs which correspond to the Core Principles and have been established to operate within a framework of internal controls.

The deliverables set out in the business plans shape the allocation of both financial and operational resource for which the board delegates the responsibility to a single senior management team who have specific functional responsibilities in respect of operations, safety, health and environment, asset management, customer service, business development, policy and markets, regulation, human resources, organisation development, legal and finance.

#### **Engagement and Values**

The Company and Group has an established relationship with its shareholder, reflected by the leadership structure, whereby the President and Chief Executive Officer of the Group reports directly to the President and Chief Executive Officer of Berkshire Hathaway Energy. Frequent interaction and dialogue with Berkshire Hathaway Energy (which is maintained through regular reporting and meetings with the Group's President and Chief Executive Officer and senior management team) ensures that strategic views are understood and aligned, and that appropriate values, standards and a desired culture of integrity, openness and transparency are set. Demonstrated by the adoption of Berkshire Hathaway Energy's 'Core Leadership Expectations', required behaviour and standards include the delivery of quality and improvement (for which all employees are responsible) to developing individuals and teams, building stakeholder relationships and establishing strategic direction (predominantly responsibilities of the senior management team and the board).

Employee engagement (and the investment therein) is implemented through consistent messaging and regular training which commences with the induction programme, during which colleagues are introduced to the Group, its business model, strategy and the Core Leadership Expectations. Throughout the year, every employee has regular meetings with line management and communications from the President and Chief Executive Officer in addition to having access to the board and senior leadership team during events (whether virtual or physical), via engagement visits and as a result of rotational working locations. Whilst there is direct exposure, given the Group's large and disparate workforce, the board elect to engage with employees via the senior management team and the reporting hierarchy which is deemed to be very effective. However, to supplement the existing arrangement, the board is planning to engage directly with members of each of the trade unions which represent the workforce.

A number of policies such as the Code of Conduct and Code of Practice and Business Ethics support the employee engagement programme and underpin the onward dissemination of the values, desired culture and expected standards of behaviour to the wider employee population. The board is able to reassure itself that corporate messaging concerning behaviour and culture is provided on an annual basis in the form of training on the aforementioned policies. In addition, the Group's non-executive directors and independent member routinely challenge the executive team on topics that are more difficult to track, including cultural change and diversity. In the event employees have concerns regarding behaviour, ethics or compliance related matters, they are able to raise these confidentially via either internal or externally facilitated independent channels.

Throughout the year, the board routinely monitored the effectiveness of engagement with the Group's various stakeholders via updates and bespoke briefings. In addition, the directors participate in direct engagement with the Group's shareholder, Chair of the CEG, the external auditor, employees (as detailed above) as well as various political and regulatory representatives. Further detail concerning the way in which the Company and Group participates in engagement with stakeholders can be found in the annual report and accounts.

## **DIVISION OF RESPONSIBILITIES**

### **The role of the President and Chief Executive Officer**

The President and Chief Executive Officer combines the executive responsibility of running the Group's business with the responsibility for the leadership of the Company and Group's various boards of directors, which includes directing the Company and the Group, ensuring its effectiveness and facilitating a constructive and open board culture. The Group's shareholder supports the role undertaken by the President and Chief Executive Officer and, through the shareholder's regular interaction with the President and Chief Executive Officer and input into and oversight of the principles governing to whom the board of the Company (and the wider Group) delegates its authority, ensures no one person has unfettered powers of decision. Chairpersons and senior independent non-executive directors are not routinely appointed to the Group's boards.

### **Non-executive directors**

The board of the Company comprises four executive directors and one non-executive director. There are two additional non-executive directors appointed to Group. Each of the Group's non-executive directors and Mr Knowles (a member of the Group's audit committee) are considered to be independent. Although the board of the Company (nor that of any other Group company) does not include a balanced number of executive and non-executive directors, the board believes that the combination is appropriate, and it possesses the requisite skills and experience necessary to provide effective leadership, stewardship and control of the Company and the Group. The non-executive directors of the Company and the Group constructively challenge the executive board and senior management team on the delivery of the Company's and the Group's strategic objectives. In accordance with their individual areas of specialism, the non-executive directors chair a number of the Group's board sub-groups, which combined with the guidance and challenge they provide during routine board meetings, gives them additional opportunity to hold the executive directors and senior management team to account.

### **Time Commitment and Resources**

To facilitate the delivery of their duties, the directors continually update their knowledge of and familiarity with the operations of the Company and the Group. This is supported by robust reporting arrangements, access to the Group's operations and interaction with its staff. Under the direction of the President and Chief Executive Officer, information is provided to the board in a timely manner to enable directors to commit sufficient time to the preparation for and attendance at board meetings. In addition, updates and briefings are circulated during the course of the regular board meeting cycle. The directors are able to utilise the advice and services of the Company Secretary and her team. Upon request, the directors have access to independent professional advice. A register of situational conflicts is held centrally to ensure independent judgment is maintained and time commitment is not jeopardised. Conflicts of interests are declared as a matter of routine pursuant to individual director's duties.

The board meet on a quarterly basis to review business performance, strategic initiatives and operational and risk-related issues. Additional board meetings are held as required. Meetings of the board are chaired by the President and Chief Executive.

### Board committees and sub-groups

During the year, there were a number of committees and board sub-groups in operation, acting under delegated terms of reference which oversee the Group and report regularly on their activities. Attendance at meetings by the Company and Group's appointed representatives during the year was as follows:

Name	Position	Board meeting	Audit Committee	Health and Safety Committee	Risk Advisory Board	Science and Technology Advisory Panel
P A Jones	President and Chief Executive Officer	7/8 (Chair)		2/2 (Chair)		
T H France	General Counsel	8/8		2/2	1/4	
J N Reynolds	Independent non-executive Director	7/8	2/2 (Chair)			
J C Riley	Company Secretary	8/8	2/2	2/2	3/4	1/2
A P Jones	Finance Director		2/2	1/1	2/4	
A J MacLennan	Commercial Director			2/2	3/4	2/2
A R Marshall	Independent non-executive Director			2/2	4/4(Chair)	
P C Taylor	Independent non-executive Director					2/2 (Chair)
M Knowles	Independent member (Audit Committee)		2/2		3/4	

The executive directors who hold office at Berkshire Hathaway Energy do not routinely attend board meetings of the Company or Group. The senior leadership team attend meetings of the RAB and relevant members also attend meetings of the Health and Safety Committee and Science and Technology Advisory Panel ("STAP"). A number of independent members are also appointed to the STAP.

### Health and Safety Committee

Role: Meets bi-annually to manage the health and safety policy and performance of the Group.

Duties:

- oversee the implementation and review the effectiveness of health and safety policy;
- develop the strategy for managing health and safety issues;
- monitor health and safety performance consider policy changes; and
- report to the board.

### STAP

Role: Meets bi-monthly to provide independent and expert challenge and assurance to the Group's plans, as the sector transitions to the low-carbon energy future embodied in the national targets for decarbonisation.

Duties:

- provide strategic oversight and challenge of the Group's science, data and technology programmes, initiatives or projects, and promote a culture of change, creativity and innovative thinking;
- keep under review progress against ED2 (including decarbonisation) commitments;
- monitor the level of risk and opportunity associated with the programme; and
- report to the board.

Further detail concerning the Audit Committee and RAB can be found in 'Audit, risk and internal control' below.

## **COMPOSITION, SUCCESSION AND EVALUATION**

### **Appointments**

Given the nature of the relationship between the Group and its shareholder, a nominations committee has not been established for the purpose of identifying board appointments, or indeed considering the removal of directors. Instead, this function is undertaken by the appropriate representative of Berkshire Hathaway Energy and the President and Chief Executive Officer of the Group. All board appointments are subject to a formal and rigorous process and are considered with due regard to the board's overall composition including the balance of skills and experience ahead of recommendations being put to the board. Succession plans are in place for all board and senior management positions and are reviewed and agreed by the President and Chief Executive Officer of Berkshire Hathaway Energy. Prior to appointment, the commitments already held by directors are considered so as to ensure each individual has sufficient time to discharge their duties.

### **Evaluation**

The board of the Company (and that of each Group subsidiary) is subject to thorough evaluation as a consequence of its performance being continually monitored and assessed by Berkshire Hathaway Energy through the delivery of the Annual Plan. In addition, each year, the President and Chief Executive Officer of the Group considers the composition of the board as a whole and its effectiveness in achieving strategic objectives during the annual performance evaluation process. Off cycle reviews of the Group's governance arrangements (including the composition of board and sub-board groups) is also undertaken at regular intervals to ensure its structure remains fit for purpose and evolves to reflect changes to strategic priorities. The Group does not and is not required to undertake external evaluation of its boards.

As a matter of routine, the committees and sub-groups that have been constituted on behalf of the Group have historically been evaluated through the activity delivered in accordance with their terms of reference. In addition, board committees and sub-groups are also subject to the aforementioned off-cycle governance reviews, whereby the scope, purpose, duties and membership are revisited so as to ensure they remain effective, are refreshed as appropriate and have the requisite level of skill and expertise.

The Company's Articles of Association do not require the periodic retirement and re-election of directors. Therefore, the letters of appointment in place for each of the Group's non-executive directors are reviewed regularly allowing for a mutual evaluation of the benefit of individuals remaining in post. The notice period for all board members is less than one year.

### **Diversity policy**

The Group has adopted a number of policies (including the policy on diversity at work and the Code of Conduct) that collectively comprise the policy on diversity. Diversity is actively supported through recruitment, educational programmes, employee opportunities and the Global Days of Service charitable support programme. All appointments (which includes board, board committee, and senior management appointments) are based on merit with due regard for diversity, including gender, social and ethnic backgrounds, and cognitive and personal strengths. During the year, the Company implemented a number of initiatives from its Diversity, Equality and Inclusion plan ("DEI Plan") (a copy of which can be found on the Group's website). The DEI Plan sets out the way in which the Company (although it is also applicable to the wider Group) intends to go beyond gender and ethnicity diversity in order to benefit from a wider range of skills, backgrounds, perspectives and experiences. Further information concerning how the Group is supporting gender diversity in the energy industry can be found in the Group's gender pay gap report via the Group's corporate website.

## **AUDIT, RISK AND INTERNAL CONTROL**

Each of the Company's and Group's directors is responsible for the management of risk and the internal control environment which is designed to address Berkshire Hathaway Energy's United States Sarbanes-Oxley Act requirement. As part of this responsibility, the board has established robust procedures and processes which ensure the effectiveness of both the internal and external audit functions.

### **Audit committee**

The audit committee meets twice per year as a minimum to consider the application of corporate reporting, risk management and internal control principles. Membership comprises, an independent non-executive director (chair), an independent member and the Director of Finance. All members are considered to have relevant financial experience. Its duties include:

- carrying out the functions required by DTR 7.1.3R;
- overseeing the RAB;
- monitoring the internal audit plan;
- sub-delegating activities to another person or body as seen fit. At the December 2023 meeting, duties were sub-delegated to Berkshire Hathaway Energy's audit committee; and
- reporting to the board.

As referenced above, the performance of the audit committee is evaluated each year via a review process whereby its remit, terms of reference and the attributes of its members is assessed by the board and through the process whereby Berkshire Hathaway Energy's audit committee and the board retains oversight and responsibility of most duties including the financial audit process.

### **Internal Audit**

The internal audit team operates in an independent and objective manner without interference from the Company or the Group. This provides the flexibility to refocus the scope of the annual internal audit plan to align with changing priorities if required. Internal audit findings including the resilience of internal controls are reported to the board on a quarterly basis in order to keep the directors sufficiently apprised of areas of risk. An external assessment of the activity of the internal audit team confirmed it operates at the highest level in accordance with the Institute of Internal Audit standards.

### **External Audit**

An appropriate relationship is maintained with the Group's external auditor to ensure independence and rigour is preserved. The Audit Partner has regular interaction with the Director of Finance and routinely attends two board meetings per year to present the audit plan for the forthcoming year and subsequently disseminate the findings. It is at such meeting where the board consider the effectiveness of the external audit process, in terms of quality, timeliness, preparation and insight into technical matters and discuss any comments and issues raised. Matters (predominantly routine) raised by Deloitte and considered by the board and Berkshire Hathaway Energy's audit committee during the year included forthcoming environmental disclosures, the valuation of the defined benefit obligation and goodwill impairment. Any control findings raised by the external auditor are allocated to an owner and are tracked by the Finance Director or managed via the internal audit team, both of whom report their findings to the board.

Deloitte LLP staff have full access to the Group's systems and premises for the purpose of conducting their audit work in a robust and efficient manner. In addition to a series of internal checks and comprehensive reviews, the external audit process supports the verification of the integrity of the annual reports and financial statements and the fair, balanced and understandable assessment of the Company's and the Group's position and prospects being presented.

Deloitte LLP has been the Northern Powergrid Group's external auditor since 1998. As such, and in accordance with the Statutory Auditors and Third Country Auditors Regulations 2016, Deloitte LLP can only be appointed until 2023. The Audit Committee, in conjunction with the Northern Powergrid Group's procurement team, undertook a selection process, following which, a recommendation was put to the board to appoint KPMG as the Northern Powergrid Group's external auditor.

### **RAB**

The RAB is chaired by one of the Group's independent non-executive directors and meets quarterly to ensure effective risk management and internal control processes are in place. Its duties include:

- contributing to the setting of the Group's risk tolerance and appetite;
- keeping under review current business risks and the effectiveness of internal controls;
- overseeing the processes for the identification of emerging risks; and
- reporting to the board, Berkshire Hathaway Energy and the Audit Committee.

Further detail concerning the procedures to manage risk, oversee the internal framework, set the boards risk appetite and the Company's principal risks can be found in the Strategic Report.

## **REMUNERATION**

As outlined above, the board has not elected to establish a remuneration committee for the purpose of determining executive directors' and senior managers' compensation. However, this does not reflect a lack of policy or rigour given the process is instead managed by the Group's shareholder. As a consequence, remuneration is strictly aligned to both the Company's and the Group's long-term strategy, the delivery of sustainable growth and Berkshire Hathaway Energy's values as defined by the Core Principles. No individual is involved in determining their own remuneration.

The Company's and the Group's executive directors' and senior managers' remuneration is considered on an annual basis and is explicitly linked to the employee performance evaluation process. Each individual's effectiveness is measured against both personal and Berkshire Hathaway Energy goals with all resulting awards based on merit and linked to the delivery of stretching accountabilities. Only basic salary is pensionable.

Non-executive director remuneration is also reviewed on an annual basis and is reflective of time commitment and level of responsibility. Any increases are made in line with the wider Group's employee population and is subject to continued satisfactory performance.