

Registered number: 04112320 (England and Wales)

Northern Powergrid (Yorkshire) plc

Annual Report and Financial Statements

for the Year Ended 31 December 2023

Northern Powergrid (Yorkshire) plc

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Company Information

Directors	A J Maclellan A P Jones A R Marshall P A Jones P C Taylor T H France
Company Secretary	J C Riley
Registered office	Lloyds Court 78 Grey Street Newcastle upon Tyne NE1 6AF
Registered number	04112320 (England and Wales)
Auditor	Deloitte LLP Statutory auditor Newcastle upon Tyne United Kingdom

Northern Powergrid (Yorkshire) plc

Strategic Report for the Year Ended 31 December 2023

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

BUSINESS MODEL

The Company is an authorised distributor under the Electricity Act 1989 and holds a Licence granted by the Secretary of State. As a distribution network operator ("DNO"), the Company is regulated by the Office of Gas and Electricity Markets ("Ofgem"), which in turn, is governed by the Gas and Electricity Markets Authority ("GEMA"). Ofgem requires the DNOs to operate within a regulatory framework known as a price control, the purpose of which is to protect the interests of end consumers by setting an upper limit on the amount the DNOs can charge for the use of their networks. The completion of the 2022/23 Regulatory Year (on 31 March 2023), represented the final year of the RII0-ED1 price control, which became effective on 1 April 2015 and ended on 31 March 2023 (the "ED1 period"). 1 April 2023 denoted the start of the RII0-ED2 price control, which will run for a period of five years to 31 March 2028 (the "ED2 period").

The principal activity of the Company is the distribution of electricity to approximately 2.3 million customers connected to its electricity distribution network (the "Network") throughout the areas of West Yorkshire, East Yorkshire, almost all of South Yorkshire, together with parts of North Yorkshire, Derbyshire, Nottinghamshire, Lincolnshire and Lancashire. The Company's Network includes over 55,000 kilometres of overhead and underground cables and over 36,000 substations. Electricity is received from National Grid's transmission system and from generators connected directly to the Network, and then distributed at voltages of up to 132 kilovolts.

Revenue generated by the Company is primarily controlled by a distribution price control formula which is set out in the 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 Company's costs. Allowed revenue is recovered from electricity suppliers via the application of Distribution use of System charges. These charges account for approximately 15% of the electricity end user's overall electricity bill. The Company's opening base allowed revenue (excluding the effects of incentive schemes, volume or legislative driven adjustment mechanisms and any contract liabilities ("deferred revenues") from the prior price control) has been set and therefore provides the Company with some stability in terms of its income for each Regulatory Year from 1 April 2023 through to 31 March 2028. Nominal opening base allowed revenues increased in line with inflation (as measured by the average of the United Kingdom's Retail Prices Index and Consumer Prices Index "CPI-H" in the month of April 2023, and as measured by CPI-H there onwards).

STRATEGY

In common with Northern Powergrid Holdings Company and its subsidiaries (the "Northern Powergrid Group"), the Company operates a strategy based on six core principles (the "Core Principles"), which comprise Financial Strength, Customer Service, Operational Excellence, Employee Commitment, Environmental Respect and Regulatory Integrity. The Core Principles (which are applied by the Northern Powergrid Group's parent company, Berkshire Hathaway Energy Company ("Berkshire Hathaway Energy"), set out the basis on which the Company generates shareholder value over the longer-term and defines the standards by which the Northern Powergrid Group holds itself accountable. Each Core Principle is defined by a strategic objective which is linked to the commitments made in the Company's business plan for the ED2 period (the "Business Plan").

Submitted to Ofgem in December 2021, the Business Plan (available via the Northern Powergrid Group website) described the long-term strategy that the Company would achieve during the ED2 period in order to support decarbonisation whilst delivering sustainable growth with regard to those with whom the Company interacted and served.

Developed after a period of consultation with stakeholders, and in conjunction with the work of the Customer Engagement Group ("CEG"), which was established for the purpose of providing independent scrutiny and challenge to ensure that customers' interests were adequately reflected, the Business Plan focused on a number of output areas. The output areas, which link to the Core Principles, are described throughout the Strategic Report and include (amongst others) reliability and availability, climate resilience, decarbonisation, safety, vulnerable customers and customer service. These areas are supported by three enablers, being workforce resilience, innovation and data and digitalisation. The directors refer to the values established by the Core Principles and the commitments contained within the Business Plan when considering the consequence of decisions they make.

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Strategic Report for the Year Ended 31 December 2023 (continued)

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

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

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

FINANCIAL STRENGTH

Strategic objective: Strong finances that enable improvement and growth.

KPI	2023	2022
Operating profit (million)	£200.0	£230.0
Net cash from operating activities (million)	£327.7	£345.2
Net cash used in investing activities (million)	(£295.1)	(£286.4)
Credit Rating (Standard & Poor's)	A	A

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

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

Revenue: The Company's revenue at £523.6 million was £20.7 million lower than the prior year (2022: £544.3 million) primarily due to a fall in distribution use of system revenues.

Operating profit and position at the year-end: The Company's operating profit of £200.0 million was £30.0 million lower than the previous year (2022: £230.0 million), primarily reflecting an increase in distribution (£15.7 million) and admin (£16.4 million) costs. In part, this increase was driven by higher depreciation (£5.6 million), higher staff costs (£1.9 million), and higher R&D (£1.1 million). This was slightly offset by favourable gross margin movement (£2.2m) driven by higher Supplier of Last Resort ("SoLR") recovery net of SoLR payments. The statement of financial position shows that, at 31 December 2023 the Company had total equity of £1,832.4 million (2022: £1,747.5 million). The increase in assets was reflective of the continued capital investment being in excess of the depreciation charge and proceeds of a bond issuance being partly distributed across companies within the Group. The directors consider the Company to have a strong financial position which, when coupled with the preference of its parent company, Berkshire Hathaway Energy for operating with lower levels of debt than equivalent companies in the sector, creates a stable base for continued strong performance during the ED2 period.

Finance costs and investments: Finance costs net of finance income at £36.3 million was £1.3 million higher than the prior year (2022: £35.0 million) mainly reflecting higher interest paid to group undertakings and increased debt due to bond issuance.

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

- Cash flow from operating activities at £327.7 million was £17.5 million lower than the previous year (2022: £345.2m), reflecting lower operating profit before depreciation and amortisation offset by an increase in receipt of customer contributions.

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Strategic Report for the Year Ended 31 December 2023 (continued)

- The net cash used in investing activities at £295.1 million was £8.7 million higher than the previous year (2022: £286.4m), reflecting higher purchases of plant, property and equipment.
- The net cash outflow from financing activities at £34.4 million was £136.4 million higher than the previous year (2022: £170.8m) mainly due to a bond issuance (£246.9 million), no repayment of long-term borrowing (£151.0 million prior year), offset by movement in intercompany loans (£191.8 million).

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

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

CUSTOMER SERVICE

Strategic objective: Delivering exceptional customer service.

KPI	2023	2022
Broad Measure of Customer Satisfaction ("BMCS")	89.8%	87.5%
BMCS Rank (out of 14)	10	13
BMCS Power Cuts	87.3%	87.9%
BMCS General Enquiries	93.1%	93.3%
BMCS Connections	90%	85%
Stakeholder Engagement and Customer Vulnerability ("SECV") rank (out of 6) (combined with Northern Powergrid (Northeast) plc)	6	6

Business plan commitment: To provide a best in class customer service offering by being, clear, reliable, trustworthy flexible and proactive through a range of channels to suit stakeholder needs.

Performance during the year: In respect of BMCS performance, an independent market research company carried out telephone surveys with the Company's customers to find out how satisfied they were with services related to unplanned or planned power cuts, quotations and subsequent connections, and general enquiries. An increase was recorded in overall satisfaction scores at 89.8% compared to the prior year (87.5%) and an improved overall BMCS rank of 10 was achieved.

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

In respect of overall performance during the ED1 period, significant progress was made in terms of the BMCS, with an increase in overall satisfaction from 84.1% at the start of the ED1 period to the 89.8% reported in respect of the 2023 financial year. However, it is acknowledged that as the other DNOs also continue to invest in customer service, even making incremental improvements in the BMCS ranking can be challenging. Regardless, the Company will strive to achieve its Business Plan commitments during the ED2 period by continuing to focus on the ways it can improve the service it provides to its customers.

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

Connections to the network

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

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Strategic Report for the Year Ended 31 December 2023 (continued)

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

In relation to the Company's Incentive on Connections Engagement commitments for the 2022/23 Regulatory Year, the 11 actions included in the service improvement work plan were delivered by 31 March 2023.

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

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

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

Corporate responsibility

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

Performance during the year: In April 2023, the Company (together with Northern Powergrid (Northeast) plc) put forward its SECV submission to Ofgem in respect of work undertaken during the 2022/23 Regulatory Year. The material provided an overview of activities and case studies in areas such as support for vulnerable customers, decarbonisation, safety, environment, customer service, reliability and availability.

Following the review by Ofgem's panel, the Company achieved sixth place (of six) in the context of the DNOs (2021/22: sixth place (of six)). In response, an external assessment of the approach to engagement, fuel poverty provision and the support provided to vulnerable customers was undertaken and improvement plans were established. This was the last year of the SECV incentive as the measurement of stakeholder engagement in future years will be via issue specific incentives such as DSO and Consumer Vulnerability.

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

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Strategic Report for the Year Ended 31 December 2023 (continued)

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

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

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Strategic Report for the Year Ended 31 December 2023 (continued)

OPERATIONAL EXCELLENCE

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

KPI	2022/23		2021/22	
	Actual	Target	Actual	Target
Customer minutes lost ("CML")	52.1	<51.8	43.6	<53.5
Customer interruptions ("CI")	59.3	<60.9	51.1	<62.0
	2023		2022	
Network investment (millions)	£283.8		£287.8	
High voltage restoration time (minutes)	75.7		71.1	

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

Performance during the year: CML and CI are the KPIs set by Ofgem to measure (on a regulatory year basis) the quality of supply and system performance. CML measures the average number of supply minutes lost for every connected customer due to both planned and unplanned power cuts that last for three minutes or longer. CI measures the average number of supply interruptions per every 100 connected customers due to planned and unplanned power cuts that last for three minutes or longer. Performance was better than target for CI, but marginally behind on CML due to prolonged periods of adverse weather conditions.

From a high voltage restoration perspective, the Company averaged 75.7 minutes (2022: 71.1 minutes), after allowing for severe weather incidents and other exemptions.

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

The Company invested £283.8 million during the year through its approved Network investment strategy (2022: £287.8 million), which was designed to deliver improvements in Network performance and increase resilience. Various major projects were undertaken to reinforce the primary Network, refurbish transformers, rebuild overhead lines, remove and replace oil-filled cables, change deteriorated poles, replace switchgear and install and commission new remote-control points.

Further Network enhancements included the continued roll-out of the automatic power restoration system on the high voltage Network. At low voltage, the implementation of next generation technology devices continued with the addition of low-cost Network monitoring sensors which detect developing faults so that they can be proactively managed. Initiatives were also implemented as a result of the Reliability Improvement Plan including increasing the use of mobile generation to restore supplies.

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

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Strategic Report for the Year Ended 31 December 2023 (continued)

EMPLOYEE COMMITMENT

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

KPI	2023		2022	
	Actual	Target	Actual	Target
Northern Powergrid Group occupational safety and health administration ("OSHA") rate	0.43	0.09	0.26	0.09
Preventable vehicle accidents (PVAs)	15	14	18	14
Lost time accidents	5	0	3	
Restricted duty accidents	1	0	2	0
Medical treatment accidents	2	1	1	1
Operational incidents	7	4	7	4
Northern Powergrid Group absence rate	3.4%		3.3%	

Health and safety

Business Plan commitment: To maintain industry leading safety performance and reduce the accident rate by 50% over the ED2 period.

Performance during the year: In common with the Berkshire Hathaway Energy group, the Northern Powergrid Group measures its safety performance using the OSHA rate, which is a measure used to capture safety incidents down to minor levels of medical treatment. The Northern Powergrid Group failed to meet its target of 0.09, having achieved an OSHA rate of 0.43 (2022: 0.26), which equated to 11 recordable incidents against a goal of two or fewer. Whilst the majority were relatively minor in nature (dog bites), three incidents involved minor burn injuries, and as such, an intervention plan was implemented. The Company also had a disappointing year in terms of PVAs, with 15 recorded against a target of 14 or fewer. This total was the lowest annual total recorded by the Company to date and therefore does demonstrate continuous progress, albeit not at the desired level. In terms of the five lost time accidents recorded, these predominantly comprised several trips, slips and lifting injuries. Mitigating actions were initiated accordingly.

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

The mental health and wellbeing of staff continues to form an integral part of the HSPIP. Existing support includes an independent employee assistance service, which is a confidential, self-referral counselling and information service to assist with personal or work-related problems and access to services including counselling and physiotherapy referrals.

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

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Strategic Report for the Year Ended 31 December 2023 (continued)

Employees

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

Performance during the year: Agile working continued to be successfully utilised, allowing eligible colleagues to adopt flexible ways of working with a renewed focus on collaboration and teamwork, whilst supporting retention and recruitment. Health, safety and wellbeing remained a key commitment with initiatives run in conjunction with services provided by an occupational health provider being further developed to cultivate a healthy workplace.

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

During the year, 68 new recruits (2022: 41) joined the Company and Northern Powergrid (Northeast) plc's workforce renewal programme. At 31 December 2023, the Company had 1,163 employees (2022: 1,122).

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

Further information concerning how the Northern Powergrid group is supporting gender diversity in the energy industry can be found in the Northern Powergrid Group's gender pay gap report via the Northern Powergrid Group's corporate website.

Employee Engagement

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

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

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

The Berkshire Hathaway Energy code of business conduct ("Code of Conduct")

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

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Strategic Report for the Year Ended 31 December 2023 (continued)

Employment of disabled persons

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

ENVIRONMENTAL RESPECT

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

KPI	2023		2022	
	Actual	Target	Actual	Target
Total oil/fluid lost (litres)	14,004	<16,113	10,966	<17,694
SF6 gas discharges (kg)	99.74	36.75	112.28	38.25
Environmental incidents	2	<3	6	<3
KWh Energy Consumed	23,188,013		22,832,460	
Business carbon footprint	Tonnes	Per km ²	Tonnes	Per km ²
Fleet fuel use	2,003	0.18	1,920	0.18
Other (including fugitive emissions)	2,337	0.21	2,781	0.26
<i>Total scope 1</i>	<i>4,340</i>	<i>0.39</i>	<i>4,701</i>	<i>0.44</i>
Building electricity use	810	0.07	782	0.07
Substation electricity use	2,437	0.22	2,377	0.22
<i>Total scope 2</i>	<i>3,247</i>	<i>0.29</i>	<i>3,159</i>	<i>0.29</i>
Business fuel use	981	0.09	955	0.09
Contractor emissions	10,802	0.99	8,057	0.74
<i>Total scope 3</i>	<i>11,783</i>	<i>1.08</i>	<i>9,012</i>	<i>0.83</i>
Total carbon footprint (tonnes)	19,370	1.78	16,872	1.55

Notes:

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

The chosen business carbon footprint intensity ratio is based on the Company's licence area which equals 14,394km.

The methodology adopted to calculate energy and business carbon footprint data is aligned with international standards, those required by Defra and BEIS and is compliant with ISO 14064-1:2006.

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

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Strategic Report for the Year Ended 31 December 2023 (continued)

Performance during the year: The volume of SF6 gas loss during the year combined with an increase in contractor works and associated emissions, resulted in the Company's overall carbon footprint increasing to 19,370 tonnes (2022: 16,872 tonnes). Whilst this was disappointing, significant progress has been made over the ED1 period, with the Company's and its affiliates' carbon footprint having reduced by 36%, well ahead of the original 10% reduction commitment. In terms of scope 3 emissions, the Company has committed to collect data for all applicable scope 3 emissions categories in order to enhance a more robust, multiyear baseline. This will inform the actions taken to implement meaningful and actionable steps to further reduce emissions resulting from the Company's operations.

In support of the target to further reduce oil and fluid loss, the 2023 annual environmental improvement plan included a transition to a blended strategy of both asset replacement of fluid-filled cables and enhanced tracer applications to facilitate earlier interventions. Nonetheless, the 2023 loss of fluid did increase year-on-year with a loss of 14,004 litres (2022: 10,966). The increase was primarily a result of a single failure on one of the Company's largest oil filled cable assets.

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

To maintain the policy of environmental protection and legal compliance, the Company 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 the Company's activity does result in a leak or spill, the services of an appointed 24-hour a day environmental response consultancy is used to minimise the effects of any incident.

The Company takes its environmental responsibilities seriously and has a proven track record of lowering emissions and minimising the wider environmental impact of Network activity. Reducing the level of internal carbon footprint is a key priority and consequently, plans have been developed to achieve the ambition to become carbon net neutral by 2040 across the Company's controllable emissions. Controllable internal sources of emission are captured through Ofgem's Regulatory Reporting Process and include operational fleet, company car miles, other business travel and office, depot and substation energy use. The Company's supply chain also contributes to the overall carbon footprint as contractors are used to undertake work on the Network and deploy generators to support customers during power cuts.

Initiatives in place to reduce internal sources of emission include increasing the number of ultra-low emission or zero emission vehicles to 40% of the Company's fleet of vehicles by 2028 and the adoption of science-based targets. The fleet vehicle target was aligned to stakeholder ambition levels and was therefore designed to balance costs, technology readiness and charging infrastructure availability.

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

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

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

In addition to the measures outlined above, to safeguard the environment from its direct activity, the Company also operates a habitats programme which is aimed at protecting natural habitats and increasing the variety and variability of species and ecosystems at 200 of the Company's and its affiliates' major sites.

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

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

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

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

Northern Powergrid (Yorkshire) plc

Strategic Report for the Year Ended 31 December 2023 (continued)

Environmental Sustainability

Strategic focus: Enable significant growth in customers connecting low carbon technologies, support all pathways to net zero emissions and significantly reduce our own carbon footprint

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

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

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

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

Decarbonisation continues to become more central to the Company's strategy, and the way in which the Company contributes more broadly to the evolution of the energy industry and the stakeholders with whom it interacts. The Company has been progressive in its ambition to reduce its own business carbon footprint. However, there is greater opportunity to contribute to decarbonisation through the Company's key role in facilitating regional decarbonisation by fulfilling the functions of DSO. This means investing in people, processes and systems in order to actively manage the Network and to optimise the use of assets and generated energy in the region.

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

Collectively, these objectives have been developed to achieve a number of outcomes and benefits. The Company is delivering its plans for DSO to enable open energy data sharing, transform the way decisions and plans are made, support the development of new flexible energy markets, increase customer and Network flexibility and facilitate a whole system energy system. The Company's Energy Systems directorate centralises responsibility for delivering DSO plans and has progressed, growing a team responsible for these functions throughout 2023.

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

Northern Powergrid (Yorkshire) plc

Strategic Report for the Year Ended 31 December 2023 (continued)

REGULATORY INTEGRITY

Strategic objective: Trustworthy, fair and balanced.

KPI: Completion of a quarterly regulatory compliance affirmation process.

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

Performance during the year: In order to assure compliance with distribution licence and other regulatory obligations, the Company operates a regulatory compliance affirmation process, under which ownership of approximately 2,400 regulatory obligations is assigned to 76 responsible managers. Those responsible managers are required to review compliance with the relevant obligations on a quarterly basis and report on any identified non-compliances or perceived risks which are then addressed by members of the senior management team. To minimise the risk of the Company breaching its licence conditions and other statutory requirements (which could lead to financial penalties), the board reviews the outcomes of each exercise. Each quarterly regulatory compliance affirmation process was completed satisfactorily during the year.

The Company submitted its annual Data Assurance Report to Ofgem in March 2023, which included risk assessments of the regulatory returns to be submitted during the Regulatory Year ahead (April 2023 to March 2024), together with a report detailing the assurance work actually carried out in the year ended 31 March 2023 and the findings of that work.

In March 2023, the Company and its affiliate were granted permission by the Competition and Markets Authority (the "CMA") to appeal against the licence modifications that gave effect to Ofgem's Final Determination in respect of the ED2 price control. The appeal related to two specific grounds:

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

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

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

The Company submitted its response to the statutory consultation on 29 November 2023 and, having considered that response, Ofgem issued the statutory notice formally modifying the special conditions of the Company's electricity distribution licence on 13 February 2024. The Company confirmed to the CMA that it would not appeal Ofgem's redetermination.

Further information concerning the outcome of the appeal process can be found via the CMA website.

Northern Powergrid (Yorkshire) plc

Strategic Report for the Year Ended 31 December 2023 (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The Northern Powergrid Group operates a structured and disciplined approach to the management of risk as part of its overall risk management policy and in support of its financial reporting practices. A system is in place to facilitate the identification of new and emerging opportunities and risks, including those associated with the achievement of the Northern Powergrid Group's strategic objectives and Core Principles. This includes regular reviews of the macro environment as well as risks that arise from within functional business areas (see the non-financial and sustainability information statement for further detail).

Once identified, key risks and their respective controls and mitigation plans are continually assessed and formally reviewed on a quarterly basis by the Risk Advisory Board ("RAB") in order that they are managed to an acceptable level in accordance with the Northern Powergrid Group's risk appetite. The Northern Powergrid Group's risk appetite is determined by a process based on risks, issues and consequences. The level of tolerance varies in accordance with the pursuit of objectives and with caution or acceptance adopted depending on whether risks can be influenced or mitigated fully, partly or not at all. The RAB routinely reports its findings to the board to ensure the directors are sufficiently appraised of the risk exposure associated with the pursuit of the Company's long-term strategy.

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

Principal Risks

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

Cyber Security

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

Mitigation

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

Regulatory and policy positioning

Decisions taken resulting in negative impacts to our business model.

Mitigation

- Ofgem ruled out an Out or Underperformance true up in respect of high inflation on the performance of the Cost of Debt.
- Innovation projects in place to develop and demonstrate future technologies and commercial practices.
- The Company engages in a robust regulatory and stakeholder engagement programme, the latter of which is scrutinised by the CEG.
- The Company is actively involved in consultations on price controls.

Northern Powergrid (Yorkshire) plc

Strategic Report for the Year Ended 31 December 2023 (continued)

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.

Mitigation

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

Safety

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

Mitigation

- Overseen by the Health and Safety Committee.
- Safety Health and Improvement Plan and associated policies and procedures.
- Health and safety training, enhanced audit programme and inspection regimes are in place.
- ISO45001 safety management system in place.

Environment and climate protection

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

Northern Powergrid (Yorkshire) plc

Strategic Report for the Year Ended 31 December 2023 (continued)

Mitigation

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

Resource availability

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

Mitigation

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

Transmission Related Connections Delays

Significantly delayed connection delivery timescales due to transmission constraints.

Mitigation

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

Regulatory Price Control Outcome

A regulatory settlement that is insufficient to provide fair and balanced outcomes.

Mitigation

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

Northern Powergrid (Yorkshire) plc

Strategic Report for the Year Ended 31 December 2023 (continued)

Efficiency and output performance

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

Mitigation

- Robust business planning process.
- Robust financial controls in place.
- Monthly executive business performance review.
- Comprehensive “Efficient Output Delivery” programme.

Financial risks

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

Mitigation

- The Company is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest.
- As at 31 December 2023, 100% of the Company's long-term borrowings were at fixed rates and the average maturity for these borrowings was 14 years.
- Financial covenant monitoring is in place.
- Regulatory adjustments control the effect of taxation changes.

Northern Powergrid (Yorkshire) plc

Strategic Report for the Year Ended 31 December 2023 (continued)

Internal control

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

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

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

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

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

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

Section 172(1) statement

Decision-making at the Board

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

Long-term sustainability

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

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

Northern Powergrid (Yorkshire) plc

Strategic Report for the Year Ended 31 December 2023 (continued)

Employees

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

Customers

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

Producers and suppliers

The Company works closely with its supply chain and has measures in place to ensure the treatment of all supplies is fair and equitable. Relations with suppliers is managed using a supplier registration system which supports a robust and transparent procurement process and ensures strict compliance with the prevention of slavery and human trafficking. As a consequence, the system allows the Company to make informed decisions which align with its values when awarding contracts. When considering suppliers, the board advocates prompt payment practices, which are reviewed regularly by the internal audit function, and the implementation of procedures to reduce the risk of modern slavery in supply chains - as set out in the Company's annual modern slavery statement.

Financial stakeholders

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

Community and environment

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

Regulator

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

Acting fairly as between the Company's owners

The Company has one class of ordinary shares which are all held by YEG, a company in the Northern Powergrid Group. During the year the directors declared an interim dividend and approved the Business Plan. As outlined in 'Strategy', the Northern Powergrid Group is owned by Berkshire Hathaway Energy. Further details of the shareholder relationship is set out in the 'Corporate Governance Statement'.

Northern Powergrid (Yorkshire) plc
Strategic Report for the Year Ended 31 December 2023 (continued)

Non-financial and sustainability information statement

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

Approved by the Board on 01 May 2024 and signed on its behalf by:

A handwritten signature in blue ink, appearing to be 'A P Jones', with a horizontal line extending to the right.

A P Jones
Director

Northern Powergrid (Yorkshire) plc

Directors' Report for the Year Ended 31 December 2023

The directors present their report together with the auditor's report and the financial statements financial statements for the year ended 31 December 2023.

Dividends

During the year, an interim dividend of £42.5 million was paid (2022: £36.8 million). The directors recommend that no final dividend be paid in respect of the year (2022: £nil).

An interim dividend of £400.0 million was paid on the 26 March 2024.

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

Directors of the Company

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

T H France
A J MacLennan
A R Marshall
A P Jones
P A Jones
P C Taylor

During the year:

- None of the directors had an interest in any contract which was material to the business of the Company; and
- Up to the date of approval of the Report of the Directors, an indemnity contained in the Company's Articles of Association was in force for the benefit of the directors of the Company and as directors of associated companies, which was a qualifying indemnity provision for the purposes of the Companies Act 2006.

Future developments

The financial position of the Company, as at 31 December 2023, is shown in the statement of financial position. There have been no significant events since the year end. The directors intend that the Company will continue to implement the Business Plan during the remainder of the ED2 period, and by delivering the strategic objectives linked to the Core Principles, the Company will continue to develop its business by efficiently investing in the Network and improving the quality of supply and service provided to customers. The Company intends to continue to embrace the role of DSO by expanding its energy systems operations in order to allow its Network to form a key part of a whole energy system, which fosters flexibility and facilitates decarbonisation.

Research and development

The Company supports a programme of research that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. During the year, the Company invested £2.3 million (2022: £1.2 million) (Note 5 to the financial statements) in its research and development activities.

Northern Powergrid (Yorkshire) plc

Directors' Report for the Year Ended 31 December 2023 (continued)

Financial instruments

Details of financial risks are included in the Principal Risks and Uncertainties on pages 15 - 17 of the Strategic Report and Note 28 to the financial statements on page 87.

As at 31 December 2023 and during the Year it was the Company's policy not to hold any derivative financial instruments.

Stakeholder engagement and environmental disclosures

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

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 7.2.8AR in a separate statement, a copy of which can be found on the Northern Powergrid Group's corporate website.

Audit Committee

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

Committee members:

- J Reynolds - Non-executive Director (Chair)
- AP Jones, Finance Director
- M Knowles - Independent member

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

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

Northern Powergrid (Yorkshire) plc

Directors' Report for the Year Ended 31 December 2023 (continued)

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

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

Directors' responsibility statement pursuant to DTR 4

Each of the directors as at the date of the annual reports and financial statements, whose names are set out on page 22 in the Director's Report confirms that, to the best of their knowledge:

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

Northern Powergrid (Yorkshire) plc

Directors' Report for the Year Ended 31 December 2023 (continued)

Going Concern

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

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

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

- The Company's revenue derives principally from regulated electricity distribution and this was not materially affected by the Pandemic. The regulatory regime allows for the recovery of allowed costs in full over the long term;
- The Company is a stable electricity distribution business operating an essential public service and is regulated by GEMA. In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Company is profitable with strong underlying cash flows and holds investment grade credit ratings;
- The Northern Powergrid Group is financed by long-term borrowings with an average maturity of 17 years and has access to short-term committed borrowing facilities of £242 million provided by Barclays Bank plc, Lloyds Bank plc, HSBC UK Bank plc and Royal Bank of Canada;
- The Northern Powergrid Group benefits from strong investment-grade credit ratings and has access to a range of financing options including the capital markets. A successful bond issued by the Northern Powergrid Group in November 2023, demonstrates that the Northern Powergrid Group's bonds remain attractive to investors and there is an active market with strong appetite to invest.
- Consideration was also given to the obligations contained in the Company's and Northern Powergrid (Northeast) plc's distribution licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Company and Northern Powergrid (Northeast) plc will have sufficient financial and operational resources available for the continuation of business for a period of at least 12 months. The board determined any material variations to the assumptions used when providing those certificates were unlikely within the eight-year period or beyond.

Consequently, after making their assessment, the directors have a reasonable expectation that the Company and the Northern Powergrid Group has adequate resources to continue in operational existence and meet its liabilities as they fall due over the next ten-year period. In addition, a letter of support was received from Northern Powergrid Holdings Company. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Northern Powergrid (Yorkshire) plc
Directors' Report for the Year Ended 31 December 2023 (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. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Reappointment of auditor

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

Approved by the Board on 01 May 2024 and signed on its behalf by:

A handwritten signature in blue ink, appearing to be 'A P Jones', with a horizontal line extending to the right.

A P Jones
Director

Northern Powergrid (Yorkshire) plc

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

Report on the audit of the financial statements

Opinion

- In our opinion the financial statements of Northern Powergrid (Yorkshire) plc (the 'company'):
- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its profit for the year then ended;
- the company's financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.
-
- We have audited the financial statements which comprise:
- the statement of profit or loss;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related Notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

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 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 company for the year are disclosed in note 9 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

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

Northern Powergrid (Yorkshire) plc

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

(continued)

Summary of our audit approach

-Key audit matters

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

- Accounting for capital spend - overhead model.

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

- Similar level of risk

-Materiality

The materiality we used in the current year was £8.1m which was determined on the basis of 5% of profit before tax.

-Scoping

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

-Significant changes in our approach

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

Conclusions relating to going concern

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

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

- assessing financing facilities including nature of facilities, repayment terms and covenants;
- evaluating the linkage to business model and medium-term risks;
- assessing assumptions used in the forecasts, including forecasts and performing sensitivity analysis;
- calculating the amount of headroom in the forecasts, specifically relating to cash and covenants on borrowings;
- assessing the impact of the current macroeconomic conditions such as inflation to the business; and
- evaluating sophistication of the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts prepared by management.

The company is a subsidiary of the group headed by Northern Powergrid Holdings Company (the 'Powergrid group') and the going concern of the company is closely linked to the Powergrid group.

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 company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Northern Powergrid (Yorkshire) plc

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

(continued)

Key audit matters

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

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

-Accounting for capital spend - overhead model

-Key audit matter description

Total additions to property, plant and equipment in the year were £292m (2022: £292m) 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 capitalised overheads of £59m (2022: £54m). 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 Property, Plant and Equipment and the company's policies. Management uses a model to allocate overheads to capital resulting from analysis of the costs incurred and their relevant cost drivers. The allocation model is reviewed annually.

The calculation of capitalised overheads remains an area at risk of potential bias due to the level of subjectivity in the percentage of overheads capitalised, which also creates a potential fraud risk. In particular, the key risk is that management's judgement in the percentage amounts capitalised are not reflective of the capital spend, as disclosed in Note 2 "Critical judgements in applying accounting policies."

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

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

- Obtained an understanding of the relevant controls surrounding accounting for capital spend and the process by which capitalisation rates are determined;
- Tested a sample of cost centres for which we have assessed the capitalisation percentages applied;
- Obtained and inspected breakdowns of transactions included within each cost centre and assessed the classification for a sample of these costs;
- Tested a sample costs by obtaining documentary evidence to assess the consistency of those costs with our understanding of the activities performed by the cost centre and the capitalisation rates applied;
- Tested the accuracy of total overheads included within the allocation model which are subsequently capitalised based on management's assessment of percentage allocation;
- Tested the integrity and mechanics of the cost allocation model to assess its mathematical accuracy; and
- Assessed the appropriateness of the company's disclosures of its capitalisation policy, including the judgement involved in assessing expenditure as capital and the judgement relating to the allocation of overhead cost.

-Key observations

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

Northern Powergrid (Yorkshire) plc

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

Our application of materiality

-Materiality

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

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

-Materiality

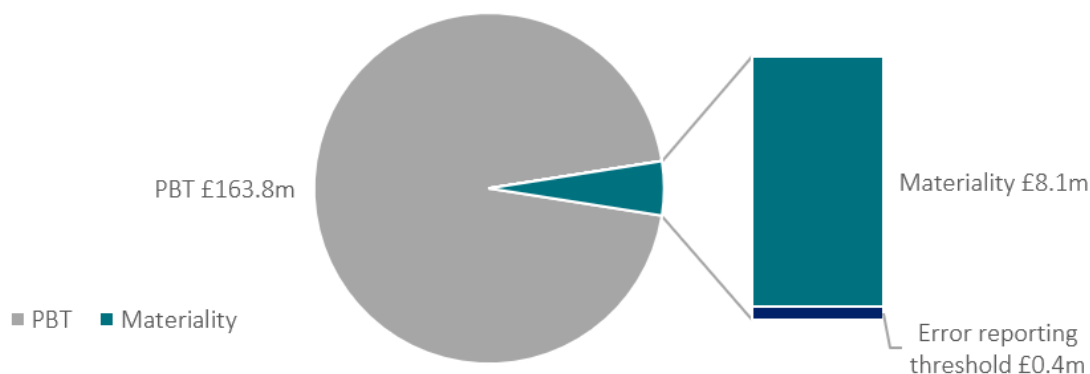
£8.1m (2022: £9.7m)

-Basis for determining materiality

5% (2022: 5%) of pre-tax profit earned during the year.

-Rationale for the benchmark applied

As a trading entity, profit is a key driver of the value of the company.



-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. Performance materiality was set at 50% of materiality for the 2023 audit (2022: 60%).

In determining performance materiality, we considered the following factors which led to a reduction in the performance materiality:

- our risk assessment, including our assessment of the group's overall control environment;
- we continued to identify control deficiencies and were not able to take a controls reliant approach; and
- the volume and value of uncorrected misstatements in the prior period.

-Error reporting threshold

We agreed with the Board of Directors that we would report to the directors all audit differences in excess of £0.41m (2022: £0.49m), 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.

Northern Powergrid (Yorkshire) plc

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

(continued)

An overview of the scope of our audit

-Scoping

The company operates as a regulated distribution network operator (DNO) in the areas of West Yorkshire, East Yorkshire, and parts of South Yorkshire, North Yorkshire, Derbyshire, Nottinghamshire, Lincolnshire and Lancashire in the UK. Our audit was scoped by obtaining an understanding of the company and its environment, as well as assessing the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatements. Following this assessment and our determination of materiality, we applied professional judgement to determine the extent of testing required over each balance in the financial statements. Audit work to respond to the risks of material misstatement was performed directly by audit engagement team and we note there has been no material changes in scope from prior year.

-Our consideration of the control environment

With the involvement of our IT specialists we assessed relevant controls over the Powergrid group's IT landscape which contains a number of IT systems and tools used to support business processes. These included relevant controls within the Oracle and Durabill systems integral to relevant business cycles. We have obtained an understanding of the key manual controls of all material business cycles through a combination of tests of inquiry, inspection and observation.. However, we continued to identify control deficiencies and reported these to the Board of Directors and were not able to take a controls reliant approach . We evaluated the impact of these deficiencies on our audit and revised our risk assessment as appropriate. The directors discuss their assessment of the control environment on page 20 of the annual report.

-Our consideration of the climate related risks

We have made enquiries with management to understand the impact of climate-related risks and controls relevant to the business, assessed the risks, and adapted our assessment of the risks of material misstatement as appropriate. We performed our own risk assessment of the potential impact of climate change on the group's account balances and class of transactions and have read the annual report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit. Management have disclosed their climate change adaptation in the strategic report on page 12.

As disclosed in note 2, there has been no material impact in the financial year.

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

Other information

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

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

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

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

We have nothing to report in this regard.

Northern Powergrid (Yorkshire) plc

Independent Auditor's Report to the Members of Northern Powergrid (Yorkshire) 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of 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 company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Board of Directors about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company'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;
- the matters discussed among the audit engagement and relevant internal specialists, including tax, valuations, pensions, ESG and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

Northern Powergrid (Yorkshire) plc

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

(continued)

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

We also obtained an understanding of the legal and regulatory framework that the company 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 company's ability to operate or to avoid a material penalty. These included the company's operating licence regulated by the Gas and Electricity Markets Authority (GEMA).

-Audit response to risks identified

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

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

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

Other matters which we are required to address

-Auditor tenure

Following the recommendation of the Board of Directors, we were appointed by the Board of Northern Powergrid Holdings Company in 1998 to audit the financial statements for the year ending 31 December 1998 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 26 years, covering the years ending 31 December 1998 to 31 December 2023. As set out in the Director's report on page 25, the financial year ended 31 December 2023 is the final year of our audit tenure.

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

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

Use of our report

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



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

London
United Kingdom

01 May 2024

Northern Powergrid (Yorkshire) plc
Statement of Profit or Loss for the Year Ended 31 December 2023

	Note	2023 £ 000	2022 £ 000
Revenue	3	523,625	544,304
Cost of sales		<u>(53,763)</u>	<u>(76,570)</u>
Gross profit		469,862	467,734
Distribution costs		(192,331)	(176,612)
Administrative expenses		<u>(77,560)</u>	<u>(61,172)</u>
Operating profit	5	199,971	229,950
Other gains	4	154	276
Finance costs	6	(36,984)	(35,481)
Finance income	6	<u>665</u>	<u>439</u>
Profit before tax		163,806	195,184
Income tax expense	10	<u>(36,352)</u>	<u>(38,831)</u>
Profit for the year		<u><u>127,454</u></u>	<u><u>156,353</u></u>

Northern Powergrid (Yorkshire) plc**Statement of Comprehensive Income for the Year Ended 31 December 2023**

	2023	2022
	£ 000	£ 000
Profit for the year	<u>127,454</u>	<u>156,353</u>
Total comprehensive income for the year	<u><u>127,454</u></u>	<u><u>156,353</u></u>

The notes on pages 42 to 90 form an integral part of these financial statements.

Northern Powergrid (Yorkshire) plc
(Registration number: 04112320)
Statement of Financial Position as at 31 December 2023

	Note	31 December 2023 £ 000	31 December 2022 £ 000
Assets			
Non-current assets			
Property, plant and equipment	11	4,054,015	3,895,728
Right of use assets	12	7,424	9,296
Intangible assets	13	30	21
		<u>4,061,469</u>	<u>3,905,045</u>
Current assets			
Inventories	14	1,384	893
Trade and other receivables	15	229,819	78,326
Income tax asset		1,130	1,401
Cash and cash equivalents	16	244	2,043
		<u>232,577</u>	<u>82,663</u>
Total assets		<u>4,294,046</u>	<u>3,987,708</u>
Equity and liabilities			
Equity			
Share capital	17	(290,000)	(290,000)
Retained earnings	18	<u>(1,542,431)</u>	<u>(1,457,477)</u>
Total equity		<u>(1,832,431)</u>	<u>(1,747,477)</u>
Non-current liabilities			
Long-term lease liabilities		(5,302)	(6,956)
Loans and borrowings	19	(1,216,999)	(969,367)
Provisions	21	(555)	(555)
Deferred revenue	23	(863,214)	(852,005)
Deferred tax liabilities	10	<u>(182,409)</u>	<u>(180,875)</u>
		<u>(2,268,479)</u>	<u>(2,009,758)</u>
Current liabilities			
Current portion of long-term lease liabilities		(2,400)	(2,590)
Trade and other payables	22	(129,834)	(114,989)
Loans and borrowings	19	(19,769)	(73,986)
Deferred revenue	23	(38,928)	(37,359)
Provisions	21	<u>(2,205)</u>	<u>(1,549)</u>
		<u>(193,136)</u>	<u>(230,473)</u>
Total liabilities		<u>(2,461,615)</u>	<u>(2,240,231)</u>
Total equity and liabilities		<u>(4,294,046)</u>	<u>(3,987,708)</u>

Approved by the Board of Directors on 01 May 2024 and signed on its behalf by:



A P Jones
Director

The notes on pages 42 to 90 form an integral part of these financial statements.
Page 38

Northern Powergrid (Yorkshire) plc
Statement of Changes in Equity for the Year Ended 31 December 2023

		Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2023		290,000	1,457,477	1,747,477
Profit for the year		-	127,454	127,454
Total comprehensive income		-	127,454	127,454
Dividends	24	-	(42,500)	(42,500)
At 31 December 2023		290,000	1,542,431	1,832,431
		Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2022		290,000	1,337,924	1,627,924
Profit for the year		-	156,353	156,353
Total comprehensive income		-	156,353	156,353
Dividends	24	-	(36,800)	(36,800)
At 31 December 2022		290,000	1,457,477	1,747,477

Northern Powergrid (Yorkshire) plc
Statement of Cash Flows for the Year Ended 31 December 2023

(As restated)

	Note	2023 £ 000	2022 £ 000
Cash flows from operating activities			
Profit for the year		127,454	156,353
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	5	133,476	127,737
Depreciation on right of use assets	5	2,634	2,743
Amortisation of deferred revenue	5	(37,108)	(35,505)
Profit on disposal of property plant and equipment	4	(154)	(276)
Finance income	6	(665)	(439)
Finance costs	6	36,984	35,481
Income tax expense	10	36,352	38,831
		<u>298,973</u>	<u>324,925</u>
Increase in inventories	14	(491)	(405)
Increase in trade and other receivables	15	(7,585)	(4,953)
Increase in trade and other payables	22	4,260	1,346
Increase in provisions	21	656	20
		<u>295,813</u>	<u>320,933</u>
Cash generated from operations			
Receipt of customer contributions *	10	66,447	60,609
Income taxes paid	10	(34,547)	(36,296)
Net cash flow from operating activities		<u>327,713</u>	<u>345,246</u>
Cash flows used in investing activities			
Acquisitions of property plant and equipment		(295,923)	(287,136)
Proceeds from sale of property plant and equipment		154	276
Acquisition of intangible assets	13	(18)	(5)
Interest received		665	439
		<u>(295,122)</u>	<u>(286,426)</u>
Net cash flows from / (used in) investing activities			
Cash flows used in financing activities			
Movement in intercompany loans		(23,990)	23,990
Movement in intercompany debtors		(143,796)	-
Proceeds from short-term borrowing		(32,076)	35,581
Repayment of long-term borrowing		-	(150,991)
Interest expense on leases		(216)	(242)
Interest paid		(36,117)	(39,591)
Proceeds from issuance of bonds		248,428	-
Transaction costs relating to loans and borrowings		(1,517)	-
Payments to finance lease creditors		(2,606)	(2,725)
Dividends paid	24	(42,500)	(36,800)
		<u>(34,390)</u>	<u>(170,778)</u>
Net cash flows from / (used in) financing activities			
Net movement in cash and cash equivalents		(1,799)	(111,958)
Cash and cash equivalents at 1 January	16	2,043	114,001

The notes on pages 42 to 90 form an integral part of these financial statements.

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

(As restated)

	Note	2023 £ 000	2022 £ 000
Cash and cash equivalents at 31 December	16	<u>244</u>	<u>2,043</u>

* Following a review of sector general practice and to align with the accounting treatment of customer contributions within revenue these amounts have been presented within operating activities rather than investing activities with the comparatives restated. Accordingly this has resulted in an increase in cash from operating activities and increase in cash used in investing activities in the comparative period by £60.6 million. There has been no other impact on the financial statements from this change.

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

Northern Powergrid (Yorkshire) plc

Notes to the Financial Statements for the Year Ended 31 December 2023

1 General Information

The company is a public company limited by share capital, incorporated under the Companies Act and domiciled in England and Wales.

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

2 Accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards as issued by the IASB.

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Accounting policies related to immaterial transactions, other events or conditions themselves are immaterial and as such need not be disclosed. The accounting estimates are defined as the monetary amounts in the financial statements that are subject to measurement uncertainty.

Basis of preparation

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

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

Climate change

No material impact from climate change within the accounts.

Principal activity

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

Going Concern

A review of the Company's business activities during the year, together with details regarding its future development, performance and position, its objectives, policies and processes for managing its capital, its financial risk management objectives and details of its exposures to trading risk, credit risk and liquidity risk are set out in the Strategic Report, the 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 Northern Powergrid Group, and companies may lend within the Northern Powergrid Group. For that reason, financial health is considered with reference to the Northern Powergrid Group. Those entities with net current liabilities position obtaining a letter of support from Northern Powergrid Holdings Company.

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

- The Company's revenue derives principally from regulated electricity distribution. The regulatory regime allows for the recovery of allowed costs in full over the long term;

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

- The Company is a stable electricity distribution business operating an essential public service and is regulated by GEMA. In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Company is profitable with strong underlying cash flows and holds investment grade credit ratings.
- The Northern Powergrid Group is financed by long-term borrowings with an average maturity of 17 years and has access to short-term committed borrowing facilities of £242 million provided by Barclays Bank plc, Lloyds Bank plc, HSBC UK Bank plc and Royal Bank of Canada;
- The Northern Powergrid Group benefits from strong investment-grade credit ratings which allow access to a range of financing options. A successful bond issue by the Northern Powergrid Group in November 2023, demonstrates that the Northern Powergrid Group's bonds remain attractive to investors and there is an active market with strong appetite to invest.
- The Northern Powergrid Group has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Northern Powergrid Group has sufficient resources to settle its liabilities as they fall due for at least the 12 months from the date of these accounts. The directors have had discussions with the bank who have indicated that they would continue to provide the short-term facilities to the Northern Powergrid Group for the foreseeable future on acceptable terms; and
- Consideration was also given to the obligations contained in the Company's and Northern Powergrid (Northeast) plc's distribution licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Company and Northern Powergrid (Northeast) plc will have sufficient financial and operational resources available for the continuation of business for a period of at least 12 months. The board determined any material variations to the assumptions used when providing those certificates were unlikely within the eight-year period or beyond.

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

Northern Powergrid (Yorkshire) plc

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Critical Judgements in applying accounting policies

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

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

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

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

The amounts of overheads capitalised in the year was £59.8 million (2022: £53.7 million). The capitalisation rate was 70.3% (2022: 73.4%).

Key sources of estimation uncertainty

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

Changes in accounting policy

New standards, interpretations and amendments effective

Effective for periods beginning on or after 1 January 2023

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

Effective for periods beginning on or after 1 January 2023

- Amendments to IAS 12: Income Taxes

The accounting policies have been updated to reflect the Amendments to IAS 1 and IAS 8. The other amendments have had no material impact on the financial statements including the comparatives.

New standards issues that are not yet applicable

Effective for periods beginning on 1 January 2024

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

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

Northern Powergrid (Yorkshire) plc

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Revenue recognition

Recognition

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

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

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

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

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

Fee arrangements

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

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

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

Northern Powergrid (Yorkshire) plc

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Leases

The Company applies IFRS 16 to all leases which include buildings, land and fleet vehicles. The right-of-use assets are initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. These values can be found in the Statement of Financial Position.

The 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 below £5k (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 the implicit rate in the lease, and uses the IBR when this isn't readily available;
- 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 5.5% (2022: 2.33%).

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.

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 Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

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 company 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 financial statements and on unused tax losses or tax credits in the company. 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.

Property, plant and equipment

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

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

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

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (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. Depreciation is recognised on a straight-line basis as follows:

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

Intangible assets

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

Amortisation

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

<i>Asset class</i>	<i>Amortisation method and rate</i>
Software development costs	up to 10 years

Derecognition

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

Northern Powergrid (Yorkshire) plc

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

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.

Intercompany Short-term loans (Current Accounts)

The Northern Powergrid group operates a central treasury function operated through its subsidiary Yorkshire Electricity Group plc. As a result, every company within the Northern Powergrid group has a relationship with Yorkshire Electricity Group plc as either an intercompany debtor or creditor.

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

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

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

Trade receivables

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

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

Inventories

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

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

Northern Powergrid (Yorkshire) plc

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

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

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

Impairment of non-financial assets

At the balance sheet date, the Company 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.

Northern Powergrid (Yorkshire) plc

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Dividends

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

Defined benefit pension obligation

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

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

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

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 company recognises financial assets and financial liabilities in the statement of financial position when, and only when, the company 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 company commits to purchase or sell the financial assets or financial liabilities. All regular way purchases and sales of other financial assets and financial liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

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

Northern Powergrid (Yorkshire) plc

Notes to the Financial Statements for the Year Ended 31 December 2023 (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 company'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 company 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 (FVTOCI)

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 company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

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

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

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

Financial liabilities at amortised cost

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

Northern Powergrid (Yorkshire) plc

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

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.

Derecognition

Financial assets

The company 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 company 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 company is recognised as a separate asset or liability.

The company 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 company 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 company 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 company 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 company 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.

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Financial liabilities

If the terms of a financial liabilities are modified, the company 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 company 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 company recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVPTL, namely:

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

The company 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 company 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 company recognises an allowance for the lifetime ECL.

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

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

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

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

Northern Powergrid (Yorkshire) plc

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

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

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

For trade receivables, the company 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 company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2023 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 company has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Definition of default

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

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

Accounting estimates and assumptions

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

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

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

3 Revenue

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

	2023	2022
	£ 000	£ 000
Distribution use of system revenue	458,643	486,072
Work for related parties	15,367	10,615
Amortisation of deferred revenue	37,108	35,505
Other revenue	12,507	12,112
	<u>523,625</u>	<u>544,304</u>

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

Segmental analysis

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

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

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

4 Other gains

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

	2023	2022
	£ 000	£ 000
Gain on disposal of property, plant and equipment	<u>154</u>	<u>276</u>

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

5 Operating profit

Arrived at after charging/(crediting)

	2023	2022
	£ 000	£ 000
Depreciation expense	133,467	127,708
Depreciation on right of use assets	2,634	2,743
Amortisation expense	9	29
Amortisation of deferred revenue	(37,108)	(35,505)
Research and development cost	2,273	1,152
Trade and other receivables loss allowance	<u>1,237</u>	<u>236</u>

Amortisation expense is included in administration costs in the statement of profit or loss on page 37.

6 Finance income and costs

	2023	2022
	£ 000	£ 000
Finance income		
Interest income on financial assets measured at amortised cost	4	3
Other finance income measured at amortised cost	<u>661</u>	<u>436</u>
Total finance income	<u>665</u>	<u>439</u>
Finance costs		
Interest on bank overdrafts and borrowings	(36,588)	(36,818)
Interest paid to group undertakings	(2,200)	(656)
Borrowing costs included in cost of qualifying asset	2,020	2,235
Interest expense on leases	<u>(216)</u>	<u>(242)</u>
Total finance costs	<u>(36,984)</u>	<u>(35,481)</u>
Net finance costs	<u>(36,319)</u>	<u>(35,042)</u>

Borrowing costs included in the costs of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 3.35% (2022: 3.28%) to expenditure on such assets.

Terms and Conditions for intercompany loans are disclosed in Accounting Policies.

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

7 Staff costs

	2023	2022
	£ 000	£ 000
Salaries	65,891	61,876
Social security costs	7,451	7,421
Defined benefit pension costs	3,836	4,578
Defined contribution pension costs	5,453	4,851
	<u>82,631</u>	<u>78,726</u>
Less capitalised to plant, property and equipment	<u>(55,400)</u>	<u>(53,410)</u>
	<u>27,231</u>	<u>25,316</u>

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

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

	2023	2022
	No.	No.
Technical	408	384
Industrial	510	509
Administration and support	126	117
Other departments	119	112
	<u>1,163</u>	<u>1,122</u>

8 Directors and other key personnel remuneration

The directors' remuneration for the year was paid by a related party company (Northern Electric plc) and recharged as follows:

	2023	2022
	£ 000	£ 000
Short-term employee benefits	589	521
Post-retirement benefits - defined contribution	9	9
Other long-term benefits	283	394
	<u>881</u>	<u>924</u>

During the year the number of directors who were receiving retirement benefits was as follows:

	2023	2022
	No.	No.
Accruing benefits under money purchase pension scheme	<u>4</u>	<u>6</u>

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

8 Directors and other key personnel remuneration (continued)

In respect of the highest paid director:

	2023	2022
	£ 000	£ 000
Short-term employee benefits	287	287
Long-term benefits	195	304
	<u>482</u>	<u>591</u>

In respect of other key personnel:

	2023	2022
	£ 000	£ 000
Short-term employee benefits	580	523
Post-retirement benefits - defined benefit	23	32
Post-retirement benefits - defined contribution	108	68
Long-term benefits	131	153
	<u>842</u>	<u>776</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 the activities of the Company.

The directors and key personnel are remunerated for their services to the Northern Powergrid Group, of which the Company is a subsidiary. The figures above represent the share of the costs borne by the Company.

Long-term benefits relate to deferred bonus plan vested over the period of the plan.

9 Auditor's remuneration

	2023	2022
	£ 000	£ 000
Fees payable to the auditor for the audit of the Company's annual accounts	198	181
Other audit services	149	59
Total fees payable to the Company's auditor	<u>347</u>	<u>240</u>

Other services relate to non statutory audit services including; regulatory reporting, apprentice levy, and for work related to the bond issuance discussed in the Financial Strength section of the Strategic Report.

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

10 Income tax

Tax charged/(credited) in the income statement

	2023	2022
	£ 000	£ 000
Current taxation		
UK corporation tax	35,346	36,875
UK corporation tax adjustment to prior periods	(528)	(774)
	<u>34,818</u>	<u>36,101</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	2,475	733
Deferred tax adjustment to prior periods	(1,302)	1,088
Effect of changes in legislation	361	909
	<u>1,534</u>	<u>2,730</u>
Total deferred taxation	<u>1,534</u>	<u>2,730</u>
Tax expense in the income statement	<u><u>36,352</u></u>	<u><u>38,831</u></u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2022 -higher than the standard rate of corporation tax in the UK) of 19% to 31 March and 25% thereafter (2022 - 19%).

The differences are reconciled below:

	2023	2022
	£ 000	£ 000
Profit before tax	<u>163,806</u>	<u>195,184</u>
Corporation tax at standard rate	38,528	37,085
Increase/(decrease) in current tax from adjustment for prior periods	(528)	(774)
Increase/(decrease) in deferred tax from adjustment for prior periods	(1,302)	1,088
Effect of income and expenses not deductible in determining taxable profit	(1,079)	35
Arising from changes in tax rates or laws	361	1,623
Other tax effects for reconciliation between accounting profit and tax expense	372	(226)
Total tax charge	<u><u>36,352</u></u>	<u><u>38,831</u></u>

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

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

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

10 Income tax (continued)

Deferred tax

Deferred tax movement during the year:

	At 1 January 2023 £ 000	Recognised in income £ 000	At 31 December 2023 £ 000
Accelerated tax depreciation	182,528	1,744	184,272
Other items	(1,653)	(210)	(1,862)
Net tax liabilities	<u>180,875</u>	<u>1,534</u>	<u>182,409</u>

Deferred tax movement during the prior year:

	At 1 January 2022 £ 000	Recognised in income £ 000	At 31 December 2022 £ 000
Accelerated tax depreciation	179,902	2,626	182,528
Other items	(1,757)	104	(1,653)
Net tax liabilities	<u>178,145</u>	<u>2,730</u>	<u>180,875</u>

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

The Company included a group relief claim from a Berkshire Hathaway group company for losses of £90.6m within its corporation tax return for the year ended 31 December 2015, the parties agreed a discounted payment for these losses. This would give rise to a potential tax asset to recognise in the Company of £6.8m. However, this tax asset has not been recognised to date on the basis the surrendering company was dissolved prior to the formal group relief surrender being made and as a result the surrenderers previous shareholder is currently in ongoing discussions with HM Revenue & Customs to establish and agree a mechanism which will permit a valid group relief surrender of the losses which meets the requirements of the tax legislation. There has been no significant progress on these discussions in the past 12 months but this is continually monitored by the Company on a regular basis.

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

11 Property, plant and equipment

	Land and buildings £ 000	Distribution system £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation				
At 1 January 2022	4,680	5,031,274	48,401	5,084,355
Additions	-	287,767	4,664	292,431
Disposals	-	(12,081)	-	(12,081)
At 31 December 2022	<u>4,680</u>	<u>5,306,960</u>	<u>53,065</u>	<u>5,364,705</u>
At 1 January 2023	4,680	5,306,960	53,065	5,364,705
Additions	-	283,814	7,940	291,754
Disposals	-	(13,075)	(47)	(13,122)
At 31 December 2023	<u>4,680</u>	<u>5,577,699</u>	<u>60,958</u>	<u>5,643,337</u>
Depreciation				
At 1 January 2022	3,304	1,309,438	40,608	1,353,350
Charge for year	105	124,472	3,131	127,708
Eliminated on disposal	-	(12,081)	-	(12,081)
At 31 December 2022	<u>3,409</u>	<u>1,421,829</u>	<u>43,739</u>	<u>1,468,977</u>
At 1 January 2023	3,409	1,421,829	43,739	1,468,977
Charge for the year	69	129,261	4,137	133,467
Eliminated on disposal	-	(13,075)	(47)	(13,122)
At 31 December 2023	<u>3,478</u>	<u>1,538,015</u>	<u>47,829</u>	<u>1,589,322</u>
Carrying amount				
At 31 December 2022	<u>1,271</u>	<u>3,885,131</u>	<u>9,326</u>	<u>3,895,728</u>
At 31 December 2023	<u>1,202</u>	<u>4,039,684</u>	<u>13,129</u>	<u>4,054,015</u>

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

11 Property, plant and equipment (continued)

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

	31 December 2023 £ 000	31 December 2022 £ 000
Distribution system	<u>295,561</u>	<u>264,485</u>

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

	31 December 2023 £ 000	31 December 2022 £ 000
Distribution system	<u>50,639</u>	<u>45,202</u>

12 Right of use assets

	Property £ 000	Fleet £ 000	Total £ 000
Cost or valuation			
At 1 January 2022	1,264	13,066	14,330
Additions	-	3,457	3,457
Disposals	<u>-</u>	<u>(1,349)</u>	<u>(1,349)</u>
At 31 December 2022	<u>1,264</u>	<u>15,174</u>	<u>16,438</u>
At 1 January 2023	1,264	15,174	16,438
Additions	-	762	762
Disposals	<u>-</u>	<u>(1,188)</u>	<u>(1,188)</u>
At 31 December 2023	<u>1,264</u>	<u>14,748</u>	<u>16,012</u>
Depreciation			
At 1 January 2022	293	5,455	5,748
Charge for year	117	2,626	2,743
Eliminated on disposal	<u>-</u>	<u>(1,349)</u>	<u>(1,349)</u>
At 31 December 2022	<u>410</u>	<u>6,732</u>	<u>7,142</u>
At 1 January 2023	410	6,732	7,142
Charge for the year	117	2,517	2,634
Eliminated on disposal	<u>-</u>	<u>(1,188)</u>	<u>(1,188)</u>
At 31 December 2023	<u>527</u>	<u>8,061</u>	<u>8,588</u>
Carrying amount			
At 31 December 2023	<u>737</u>	<u>6,687</u>	<u>7,424</u>
At 31 December 2022	<u>854</u>	<u>8,442</u>	<u>9,296</u>

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

13 Intangible assets

	Internally generated software development costs £ 000
Cost or valuation	
At 1 January 2022	34,919
Additions	5
	<hr/>
At 31 December 2022	34,924
At 1 January 2023	34,924
Additions	18
	<hr/>
At 31 December 2023	34,942
	<hr/>
Amortisation	
At 1 January 2022	34,874
Amortisation charge	29
	<hr/>
At 31 December 2022	34,903
At 1 January 2023	34,903
Amortisation charge	9
	<hr/>
At 31 December 2023	34,912
	<hr/>
Carrying amount	
At 1 January 2022	45
	<hr/>
At 31 December 2022	21
	<hr/>
At 31 December 2023	30
	<hr/>

14 Inventories

	31 December 2023 £ 000	31 December 2022 £ 000
Inventory	43	-
Work in progress	1,341	893
	<hr/>	<hr/>
	1,384	893
	<hr/>	<hr/>

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

15 Trade and other receivables

	31 December 2023 £ 000	31 December 2022 £ 000
Distribution use of system receivables and accrued income *	72,605	73,963
Trade receivables	13,961	7,869
Loss allowance	<u>(8,221)</u>	<u>(7,522)</u>
Net trade receivables	78,345	74,310
Receivables from related parties	143,796	-
Prepayments	<u>7,678</u>	<u>4,016</u>
	<u>229,819</u>	<u>78,326</u>

* *Accrued income in 2023 was £39.5m (2022: £35.5m).*

Terms and Conditions for intercompany loans are disclosed in Accounting Policies.

The average credit period on receivables is 30 days (2022: 30 days). No interest is charged on outstanding trade receivables.

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

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

Movement in the loss allowance

	31 December 2023 £ 000	31 December 2022 £ 000
At 1 January	7,522	7,464
Amounts utilised/written off in the year	(538)	(178)
Amounts recognised in the statement of profit or loss	<u>1,237</u>	<u>236</u>
At 31 December	<u>8,221</u>	<u>7,522</u>

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

15 Trade and other receivables (continued)

The loss allowance is made on amount due net of VAT which would be recoverable from His Majesty's Revenue and Customs when the debt is written off. Subject to certain conditions mentioned below, losses arising in relation to distribution use of system debts will be recovered through an increase in future allowed income.

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £5.5 million (2022: £4.7 million), which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

Distribution use of system receivables

The customers served by the Company's distribution network are supplied predominantly by a number of electricity supply businesses (circa 110) with the E.ON Group accounting for approximately 20.1% of distribution revenues in 2023 (2022: 22.9%) and British Gas plc accounting for approximately 15.5% of distribution revenues in 2023 (2022: 15.0%). Ofgem, under Code Governance arrangements set-out a framework known as Credit Cover within the Distribution Connection and Use of System Agreement (DCUSA), which set credit limits for each supply business based on its credit rating (taken from a credit rating agency). If no credit score is available then they can build up their credit limit through good payment history. In addition, suppliers can provide other forms of collateral to cover their value at risk (measured as being equivalent to 45 days usage) or if their credit rating alone is not sufficient to cover their value at risk. Acceptable collateral typically is provided in the form of a parent company guarantee, letter of credit, cash or an escrow account. Included within other payables are customer cash deposits of which there was £8.2 million as at 31 December 2023 (2022: £4.0m) due to an increase in the Octopus Energy security deposit by £4.4 million.

Provided the Company has implemented credit control, billing and collection processes in line with Ofgem's best practice guidelines and can demonstrate compliance with the guidelines or is able to satisfactorily explain departure from the guidelines, any bad debt losses arising from supplier default will be recovered through an increase in future years allowed income. Losses incurred to date have been material due to the unprecedented number of suppliers falling into liquidation over the course of the year. Included in the Company's use of system ("UoS") receivables are 39 debtors with a carrying value of £4.1 million which have been placed into administration and have therefore been provided in full at the year-end (2022: £4.1m).

The following table details the age of DUoS receivables and accrued income:

2023	Not due £ 000	Current £ 000	1-3 months £ 000	Over 3 months £ 000
Total balance	39,533	28,980	67	4,025
Less specific provisions	-	(115)	-	(3,995)
Balance on which ECL made	39,533	28,865	67	30
Lifetime ECL	-	2%	2%	2%
Expected credit loss	-	651	-	1
2022	Not due £ 000	Current £ 000	1-3 months £ 000	Over 3 months £ 000
Total balance	45,339	34,611	82	4,019
Less specific provisions	-	(48)	(8)	(4,005)
Balance on which ECL made	45,339	34,563	74	14
Lifetime ECL	-	-	-	-
Expected credit loss	-	-	-	-

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

15 Trade and other receivables (continued)

Other trade receivables

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

Damages

2023	1-6 months £ 000	6-12 months £ 000	1-2 years £ 000	2-3 years £ 000	Over 3 years £ 000
Total balance	2,132	602	1,676	360	130
Less specific provisions	(164)	(61)	(898)	(64)	(32)
Balance on which ECL made	1,968	541	778	296	98
Lifetime ECL	20%	25%	30%	40%	80%
Expected credit loss	394	135	233	118	78

2022	1-6 months £ 000	6-12 months £ 000	1-2 years £ 000	2-3 years £ 000	Over 3 years £ 000
Total balance	2,133	822	775	271	46
Less specific provisions	(59)	(12)	(288)	(86)	(8)
Balance on which ECL made	2,074	810	487	185	38
Prior ECL	20%	25%	30%	40%	80%
Expected credit loss	415	203	146	74	30

Non-damages

2023	Not due £ 000	Current £ 000	1-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	212	741	865	566	1,128
Less specific provisions	(6)	-	-	(4)	(130)
Balance on which ECL made	206	741	865	562	998
Lifetime ECL	0%	0%	0%	50%	86%
Expected credit loss				281	858

2022	Not due £ 000	Current £ 000	1-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	449	384	687	347	553
Lifetime ECL	0%	0%	0%	50%	88%
Expected credit loss	-	-	-	174	487

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

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

15 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.

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.

16 Cash and cash equivalents

	31 December 2023 £ 000	31 December 2022 £ 000
Cash at bank	<u>244</u>	<u>2,043</u>

17 Share capital

Allotted, called up and fully paid shares

	31 December 2023		31 December 2022	
	No.	£	No.	£
Ordinary Share Capital of £1 each	290,000,000	290,000,000	290,000,000	290,000,000

The Company has 400 million shares authorised for use. The Company has one class of ordinary shares which carries no right to fixed income.

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

18 Reserves

	Retained earnings £ 000
At 1 January 2023	1,457,477
Profit for the year	<u>127,454</u>
Total comprehensive income	127,454
Dividends	<u>(42,500)</u>
At 31 December 2023	<u><u>1,542,431</u></u>
	Retained earnings £ 000
At 1 January 2022	1,337,924
Profit for the year	<u>156,353</u>
Total comprehensive income	156,353
Dividends	<u>(36,800)</u>
At 31 December 2022	<u><u>1,457,477</u></u>

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

19 Loans and borrowings

	31 December 2023 £ 000	31 December 2022 £ 000
Non-current loans and borrowings	1,216,999	969,367
Current loans and borrowings	19,769	73,986
	<u>1,236,768</u>	<u>1,043,353</u>

	Book value		Fair value	
	31 December 2023 £ 000	31 December 2022 £ 000	31 December 2023 £ 000	31 December 2022 £ 000
Short-term loan	3,507	35,583	3,507	35,583
Intercompany loan	-	23,990	-	23,990
2033 - 5.265% bonds	248,791	-	269,739	-
2025 - European Investment Bank - 2.073%	50,086	50,086	47,135	45,163
2025 - 2.5% bonds	152,445	152,148	147,688	142,411
2027 - European Investment Bank 2.564%	130,139	130,139	120,983	111,856
2032 - 4.375% bonds	151,526	151,365	150,007	143,659
2035 - 5.125% bonds	204,725	204,599	211,117	200,337
2059 - 2.25% bonds	295,549	295,443	173,238	169,829
	<u>1,236,768</u>	<u>1,043,353</u>	<u>1,123,414</u>	<u>872,828</u>

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

The fair value of the bonds is determined with reference to quoted market prices. The directors' estimates of the fair value of bank loans and 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 fair value of short-term borrowings is equal to their book value. All loans are non-secured and are denominated in sterling.

The Company's exposure to market and liquidity risk in respect of loans and borrowings is disclosed in financial risk review Note 28.

Information on the new bond issuance during the year can be found in the financial strength section of the strategic report.

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

20 Lease Liabilities

Lease Commitments

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

The operational land lease are between 10 and 999 years, but in the majority are between 20 and 60 years. As the leases are regarded as a business tenancy, the Company has the option to renew the lease under the 1954 Landlord and Tenant Act unless a landlord is to redevelop or has grounds to recover land as prescribed under the Act, and may acquire the freehold at any time by agreement. The Company also has the ability to compulsory purchase the freehold.

Maturity analysis - contractual undiscounted cash flows:

	31 December 2023 £ 000	31 December 2022 £ 000
Within one year	2,471	2,797
In two to five years	4,947	6,396
In over five years	795	1,091
Total lease payment	<u>8,213</u>	<u>10,283</u>
Unearned interest	<u>(512)</u>	<u>(737)</u>
Total lease liabilities	<u><u>7,702</u></u>	<u><u>9,546</u></u>

The discounted amount due within one year totalled £2.4 million (2022: £2.6 million).

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

The total cash outflow for leases during the year was £2.8 million (2022: £3.0 million), of which £0.2 million (2022: £0.3 million) relates to interest and £2.6 million (2022: £2.7 million) relates to repayment of principal.

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

21 Provisions

	Claims £ 000	Employee benefits £ 000	Other provisions £ 000	Total £ 000
At 1 January 2023	1,221	-	884	2,105
Additional provisions	1,583	150	478	2,211
Provisions used	<u>(754)</u>	<u>(150)</u>	<u>(652)</u>	<u>(1,556)</u>
At 31 December 2023	<u>2,050</u>	<u>-</u>	<u>710</u>	<u>2,760</u>
Non-current liabilities	<u>-</u>	<u>-</u>	<u>555</u>	<u>555</u>
Current liabilities	<u>2,050</u>	<u>-</u>	<u>155</u>	<u>2,205</u>

Claims: Legal proceedings provision has been made to cover costs arising from utility damages, public liability, and motoring third party claims. Settlement is expected substantially within 12 months.

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

22 Trade and other payables

	31 December 2023 £ 000	31 December 2022 £ 000
Payments on Account	78,502	57,048
Trade payables	2,249	2,299
Accrued expenses	7,712	7,016
Capital Accruals	25,585	31,774
Social security and other taxes	12,248	13,864
Other payables	<u>3,538</u>	<u>2,988</u>
	<u>129,834</u>	<u>114,989</u>

Payments on Account are primarily advanced customer contributions.

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

There are various costs and services shared between, or performed on behalf of, one distribution company for the other. These are borne initially through creditors and recharged to the other distribution company through revenue as disclosed in note 3.

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

23 Deferred revenue

	31 December 2023 £ 000	31 December 2022 £ 000
Opening balance	889,364	873,306
Additions	49,886	51,563
Amortisation	<u>(37,108)</u>	<u>(35,505)</u>
Closing Balance	<u>902,142</u>	<u>889,364</u>

	31 December 2023 £ 000	31 December 2022 £ 000
Current	38,928	37,359
Non-current	<u>863,214</u>	<u>852,005</u>
	<u>902,142</u>	<u>889,364</u>

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

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

24 Dividends

	31 December 2023 £ 000	31 December 2022 £ 000
Interim dividend of 14.66p (2022 - 12.7p) per ordinary share	<u>42,500</u>	<u>36,800</u>

An interim dividend of £400.0 million was paid on 26 March 2024.

25 Pension and other schemes

Defined benefit pension schemes

Northern Powergrid Group of the ESPS

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

Those pension schemes are:

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

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

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

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

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

Northern Powergrid (Yorkshire) plc

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

25 Pension and other schemes (continued)

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.

Role of Trustees

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

Funding requirements

UK legislation requires that pension schemes are funded prudently (i.e. to a level in excess of the current expected cost of providing benefits). The next actuarial valuation of the DB Scheme will be carried out by the Trustee's actuarial advisors, Aon, at a date no later than 31 March 2025. Such valuations are required by law to take place at intervals of no more than three years. Following each valuation, the Trustees and the Northern Powergrid Group must agree the contributions required (if any) such that the DB Scheme is fully funded over time on the basis of suitably prudent assumptions.

At the latest funding valuation as at 31 March 2022, the funding deficit was assessed to be £2.9 million. In light of this and subsequent changes in the funding position, the Group are not currently paying any deficit contributions. The next actuarial valuation will be at 31 March 2025 and is expected to be completed by 30 June 2026, by which time a new contribution schedule will be agreed.

The contributions payable by the Group to the DB Scheme in respect of future benefits which are accruing is 49.1% to 46.1% of pensionable pay with effect from 1 July 2023. These contributions were determined as part of the 31 March 2022 actuarial valuation and will remain in place until such a time as a new schedule of contributions is agreed between the Trustees and the Group as part of the 31 March 2025 valuation.

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

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

Northern Powergrid (Yorkshire) plc

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

25 Pension and other schemes (continued)

Profile of the scheme

The defined benefit obligation ("DBO") includes benefits for current employees, former employees and current pensioners. The overall duration of the DB Scheme's obligation was assessed to be about 17 years based on the results of the 31 March 2022 funding valuation. This is the weighted-average time over which benefit payments are expected to be made.

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

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

Investment objectives for the DB Scheme

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

The Company and Trustees have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes the use of Liability Driven Investment (LDI) from October 2016 to more closely match the nature and duration of the DB Scheme's liabilities through the use of derivatives such as swaps and repurchase agreements. The portfolio is designed to hedge a proportion of the interest rate and inflation risk inherent in the Scheme's liabilities. The target hedging level is currently 99% (2022: 99%) of the DB Scheme's liabilities as measured on the basis used for the funding valuation.

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

Risks

Volatile asset returns

The DBO is calculated using a discount rate set with reference to corporate bond yields. If assets underperform this discount rate, this will create an element of deficit. The DB Scheme aims to hold a significant proportion (27%) of its assets in return-seeking assets (such as equities) which, although expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term.

Mitigation

The allocation to return-seeking assets is monitored to ensure it remains appropriate given the DB Scheme's long-term objectives. The Trustees regularly review the strategy from return-seeking assets and have diversified some return-seeking assets from equities into Reinsurance and Listed Infrastructure to reduce overall risk. To avoid concentration risk, the allocation to UK equity is restricted to 35% of the total equity allocation.

Changes in bond yields

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

Mitigation

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

Inflation risk

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

Northern Powergrid (Yorkshire) plc

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

25 Pension and other schemes (continued)

Mitigation

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

Life expectancy risk

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

Mitigation

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

Currency risk

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

Mitigation

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

Other risks

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

Reporting at 31 December 2023

For the purposes of this disclosure, the current and future pension costs of the Northern Powergrid Group have been assessed by Aon, a qualified independent actuary, using the assumptions set out below, which the actuary has confirmed represent a reasonable best estimate of those costs. The review has been based on the same membership and other data as at 31 March 2022. The board of Northern Powergrid Holdings Company has accepted the advice of the actuary and formally approved the use of these assumptions for the purpose of calculating the pension cost of the Northern Powergrid Group.

The results of the latest funding valuation at 31 March 2022 have been adjusted 31 December 2023. Those adjustments take account of experience over the period since 31 March 2022, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the DBO and the related current service cost were measured using the Projected Unit Credit Method.

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

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

25 Pension and other schemes (continued)

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 2023	31 December 2022
	%	%
Discount rate	4.55	4.80
Future salary increases	3.00	3.20
Future pension increases	2.65	2.75
Inflation	2.35	2.95

Post retirement mortality assumptions

	31 December 2023	31 December 2022
	Years	Years
Life expectancy for male currently aged 60	26.70	26.10
Life expectancy for female currently aged 60	28.90	27.90
Life expectancy at 60 for male currently aged 45	27.40	26.90
Life expectancy at 60 for female currently aged 45	30.10	29.30

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

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

Scheme assets

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

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

25 Pension and other schemes (continued)

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

Analysis of assets

The major categories of scheme assets are as follows:

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

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

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

25 Pension and other schemes (continued)

Scheme liabilities

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

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

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

25 Pension and other schemes (continued)

Amounts recognised in the income statement

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

Amounts taken to the Statement of Comprehensive Income

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

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

25 Pension and other schemes (continued)

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:

The sensitivity analysis presented below 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.

	31 December 2023			31 December 2022		
Adjustment to discount rate	+ 0.1%	0.0%	- 0.1%	+ 0.1%	0.0%	- 0.1%
£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	<u>937,100</u>	<u>957,600</u>	<u>962,500</u>	<u>952,700</u>	<u>965,500</u>	<u>979,300</u>
	31 December 2023			31 December 2022		
Adjustment to rate of inflation	+ 0.1%	0.0%	- 0.1%	+ 0.1%	0.0%	- 0.1%
£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	<u>958,800</u>	<u>957,600</u>	<u>938,700</u>	<u>978,700</u>	<u>965,500</u>	<u>933,300</u>
	31 December 2023			31 December 2022		
Adjustment to mortality age rating assumption	+ 1 Year	None	- 1 Year	+ 1 Year	None	- 1 Year
£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	<u>985,900</u>	<u>957,600</u>	<u>912,700</u>	<u>995,300</u>	<u>965,500</u>	<u>934,900</u>

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

26 Reconciliation of liabilities arising from financing activities

	At 1 January 2023 £ 000	Financing cash flows £ 000	Other changes £ 000	At 31 December 2023 £ 000
Borrowings	(1,043,353)	(190,876)	(2,539)	(1,236,768)
Lease liabilities	(9,546)	2,822	(978)	(7,702)
	<u>(1,052,899)</u>	<u>(188,054)</u>	<u>(3,517)</u>	<u>(1,244,470)</u>
	At 1 January 2022 £ 000	Financing cash flows £ 000	Other changes £ 000	At 31 December 2022 £ 000
Borrowings	(1,136,904)	91,420	2,131	(1,043,353)
Lease liabilities	(8,814)	2,967	(3,699)	(9,546)
	<u>(1,145,718)</u>	<u>94,387</u>	<u>(1,568)</u>	<u>(1,052,899)</u>

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

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

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

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

	Financial assets at amortised cost £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets			
Non-current assets			
Property, plant and equipment	-	-	4,054,015
Right of use assets	-	-	7,424
Intangible assets	-	-	30
	<u>-</u>	<u>-</u>	<u>4,061,469</u>
Current assets			
Inventories	-	-	1,384
Trade and other receivables	229,819	-	-
Income tax asset	-	-	1,130
Cash and cash equivalents	244	-	-
	<u>230,063</u>	<u>-</u>	<u>2,514</u>
Total assets	<u>230,063</u>	<u>-</u>	<u>4,063,983</u>
Liabilities			
Non-current liabilities			
Long term lease liabilities	-	(5,302)	-
Loans and borrowings	-	(1,216,999)	-
Provisions	-	-	(555)
Deferred revenue	-	(863,214)	-
Deferred tax liabilities	-	-	(182,409)
	<u>-</u>	<u>(2,085,515)</u>	<u>(182,964)</u>
Current liabilities			
Current portion of long term lease liabilities	-	(2,400)	-
Trade and other payables	-	(117,586)	(12,248)
Loans and borrowings	-	(19,769)	-
Deferred revenue	-	(38,928)	-
Provisions	-	-	(2,205)
	<u>-</u>	<u>(178,683)</u>	<u>(14,453)</u>
Total liabilities	<u>-</u>	<u>(2,264,198)</u>	<u>(197,417)</u>

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

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

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

	Financial assets at amortised cost £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets			
Non-current assets			
Property, plant and equipment	-	-	3,895,728
Right of use assets	-	-	9,296
Intangible assets	-	-	21
	<u>-</u>	<u>-</u>	<u>3,905,045</u>
Current assets			
Inventories	-	-	893
Trade and other receivables	78,326	-	-
Income tax asset	1,401	-	-
Cash and cash equivalents	<u>2,043</u>	<u>-</u>	<u>-</u>
	<u>81,770</u>	<u>-</u>	<u>893</u>
Total assets	<u><u>81,770</u></u>	<u><u>-</u></u>	<u><u>3,905,938</u></u>
Liabilities			
Non-current liabilities			
Long term lease liabilities	-	(6,956)	-
Loans and borrowings	-	(969,367)	-
Provisions	-	-	(555)
Deferred revenue	-	(852,005)	-
Deferred tax liabilities	<u>-</u>	<u>-</u>	<u>(180,875)</u>
	<u>-</u>	<u>(1,828,328)</u>	<u>(181,430)</u>
Current liabilities			
Current portion of long term lease liabilities	-	(2,590)	-
Trade and other payables	-	(114,989)	-
Loans and borrowings	-	(73,986)	-
Deferred revenue	-	(37,359)	-
Provisions	<u>-</u>	<u>-</u>	<u>(1,549)</u>
	<u>-</u>	<u>(228,924)</u>	<u>(1,549)</u>
Total liabilities	<u><u>-</u></u>	<u><u>(2,057,252)</u></u>	<u><u>(182,979)</u></u>

Fair values are derived from level 1 inputs.

Northern Powergrid (Yorkshire) plc

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

28 Financial risk review

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

Capital management

The Group manages its capital centrally to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2022.

The covenants associated with the 2035 bonds issued by Northern Electric Finance plc, a wholly-owned subsidiary of the Company, include restrictions on the issuance of new indebtedness and the making of distributions dependent on the scale of the ratio of Senior Total Net Debt to Regulatory Asset Value ("RAV"). The Senior Total Net Debt to RAV restriction is 65% and 75% respectively. The definition of Senior Total Net Debt excludes any subordinated debt and any debt incurred on a non-recourse basis. In addition, it excludes interest payable, any fair value adjustments and unamortised issue costs.

The Company's Senior Total Net Debt as of 31 December 2023 totalled £1,233.3. Using the RAV value as at March 2024, as outlined by Ofgem in its electricity distribution price control financial model published in January 2024 and adjusting for the effects of movements in the value of the CPIH Index gives an approximation for the RAV value as of 31 March 2024 of £2,676.8m. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 46.1% (2022: 42.7%).

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 Company. The Company has adopted a policy of only dealing with creditworthy counterparties. The Company'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 Company's maximum exposure to credit risk as no collateral or other credit enhancements are held.

The Company'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 Company.

		Gross carrying amount £ 000	Loss allowance £ 000	Net carrying amount £ 000
2023	Notes			
Trade and other receivables	15	<u>238,040</u>	<u>(8,221)</u>	<u>229,819</u>
2022				
Trade and other receivables	15	<u>85,848</u>	<u>(7,522)</u>	<u>78,326</u>

For trade receivables the Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Company 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 15 includes further details on the loss allowance for these assets.

The carrying amount of the Company's financial assets at FVTPL as disclosed in note 27 best represents their respective maximum exposure to credit risk. The Company holds no collateral over any of these balances.

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

28 Financial risk review (continued)

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 Company's short, medium, and long-term funding and liquidity management requirements. The Company manages liquidity by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The Company has access to £100 million revolving credit facility provided by Barclays Bank plc, Lloyds Bank plc, HSBC UK Bank plc and Royal Bank of Canada. The Company entered into a new Facility Agreement in December 2021 for a period of three years, with two 1 year extension options. During the year the Company exercised the second extension option which extended the termination date to December 2026. In addition, the Company has access to further short-term borrowing facilities provided by YEG and to a £19.0 million overdraft facility provided by Lloyds Bank plc, which is reviewed annually, these borrowings are repayable on demand.

At 31 December 2023, the Company had available £85.5 million (2022: £119.0 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Maturity analysis for financial liabilities

The following tables set out the remaining contractual maturities of the company's financial liabilities by type.

2023	Less than 3 month £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
Non-derivative liabilities					
Non-interest bearing	-	-	-	-	-
Variable interest rate liabilities	3,507	-	-	-	3,507
Fixed interest rate liabilities	-	45,745	495,286	1,277,563	1,818,594
Total	3,507	45,745	495,286	1,277,563	1,822,101

2022	Less than 3 month £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
Non-derivative liabilities					
Variable interest rate liabilities	58,959	-	-	-	58,959
Fixed interest rate liabilities	-	31,682	447,156	980,813	1,459,651
Total	58,959	31,682	447,156	980,813	1,518,610

Market risk

The Group's definition of market risk is Market risk is the risk of loss arising from movements in market variables such as interest rates, exchange rates and commodity prices. Risks are mitigated by utilising appropriate risk management products. The group manage this by The Group's policy on interest rate risk is designed to limit the Group's exposure to floating interest rates. Consistent with this policy, at 31 December 2023 the Group had 99% (2022: 99%) of net debt at fixed rates. Short-term loans and inter-company short term loans is charged at a floating rate of interest based on Sonia plus a margin of 0.20% plus a credit adjustment spread, thus exposing the Group to cash flow interest rate risk. A 1% movement in interest rates would subject the Group to an approximate change in interest costs of £0.1m per year. This is considered an acceptable level of risk. All other loans are at fixed interest rates and expose the Group to fair value interest rate risk.

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

29 Related party transactions

Summary of transactions with joint ventures

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

Summary of transactions with other related parties

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

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

Transaction with related parties

	Sales to £ 000	Purchases from £ 000	Amounts owed (to)/from £ 000
2023			
Northern Powergrid (Northeast) plc	14,415	31,153	-
Northern Powergrid Metering Limited	864	-	-
Integrated Utility Services (Eire)	-	377	(231)
Integrated Utility Services Limited	80	4,070	(2,218)
Northern Electric plc	-	2,311	-
Vehicle Lease and Service Limited	78	5,093	-
Yorkshire Electricity Group	-	-	143,796
	<u>15,437</u>	<u>43,004</u>	<u>141,347</u>
2022			
Northern Powergrid (Northeast) plc	9,635	25,984	-
Northern Powergrid Metering Limited	841	-	-
Integrated Utility Services (Eire)	-	458	(336)
Integrated Utility Services Limited	114	4,270	-
Northern Electric plc	-	2,092	-
Vehicle Lease and Service Limited	52	5,363	-
	<u>10,642</u>	<u>38,167</u>	<u>(336)</u>

Terms and Conditions for intercompany loans are disclosed in Accounting Policies.

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

29 Related party transactions (continued)

Loans (to)/from related parties

	Parent £ 000
2023	
At start of period	23,990
Net movement	(167,786)
At end of period	<u>(143,796)</u>
	Parent £ 000
2022	
At start of period	113,998
Net movement	(90,008)
At end of period	<u>23,990</u>

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

30 Parent and ultimate parent undertaking

The Company's immediate parent is Yorkshire Electricity Group plc.

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

The ultimate controlling party is Berkshire Hathaway, Inc.

Relationship between entity and parents

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

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

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

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