

Registered number: 07647856 (England and Wales)

Northern Powergrid Metering Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2023

Northern Powergrid Metering Limited

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Northern Powergrid Metering Limited Company Information

Directors	A P Jones T H France A J Maclellan P A Jones
Company Secretary	J C Riley
Registered office	Lloyds Court 78 Grey Street Newcastle upon Tyne Tyne and Wear NE1 6AF
Registered number	07647856 (England and Wales)
Auditor	Deloitte LLP Statutory auditor Newcastle upon Tyne United Kingdom

Northern Powergrid Metering Limited

Strategic Report for the Year Ended 31 December 2023

The directors present the Strategic Report for the year ended 31 December 2023 of Northern Powergrid Metering Limited (the "Company"), which have been drawn up and presented in accordance with the Companies Act 2006.

BUSINESS MODEL

The Company is part of the Northern Powergrid Holdings Company and its subsidiaries group of companies (the "Northern Powergrid Group") and acts as a meter asset provider of conventional and smart meters (and associated equipment) to domestic and commercial energy suppliers.

In common with the Northern Powergrid Group, the Company operates a business model and strategy based on core principles (the "Core Principles"). The Core Principles relevant to the Company comprise Financial Strength, Customer Service, Operational Excellence, Environmental Respect and Regulatory Integrity. The Strategic Report focuses on each Core Principle and the achievement of associated strategic objectives which are measured by a number of financial and non-financial key performance indicators ("KPIs").

FINANCIAL STRENGTH

Strategic objective: Strong finances that enable improvement and growth.

KPI	2023	2022
Operating profit (million)	£ 37.6	£ 29.1
Net cash flow generated from operating activities (million)	£ 81.1	£ 80.7
Net cash flow used in investing activities (million)	£ 62.3	£ 55.5
Net cash flows used in financing activities (million)	£ 22.1	£ 42.4

Performance during the year: The Company's revenue at £89.7 million was £3.3 million higher than the prior year (2022: £86.3m) mainly due to additional meters installed and premature removal charges. Profit after tax at £20.4 million was £3.8 million higher (2022: £16.6m) mainly due to higher revenues and lower bad debt charges offset by lower depreciation, driven by higher disposals and additional draw downs on the short term loan.

Cash flow: The Company aims to collect cash from customers and pay suppliers within contracted terms.

- Cash flow from operating activities at £81.1 million was £0.4 million higher than the previous year, mainly as a result of higher profit before depreciation offset by working capital movements.
- The net cash used in investing activities at £62.3 million was £6.8 million higher than the previous year, reflecting a higher purchase of meters due to a step change offset by higher receipts from disposals.
- The net cash outflow from financing activities at £22.1 million was £20.4 million lower than the previous year, driven by a reduced dividend paid of £16.6 million (vs. £75 million prior year) and net movements on borrowings used to finance business operations.

CUSTOMER SERVICE

Strategic objective: Provide competitive pricing and a high-level of customer service.

Performance during the year: The Company continued to offer services including flexible funding options and the management of the meter assets comprising logistics, triage, refurbishments, storage and software updates. The Company has developed close and effective relationships with meter manufacturers in order to deliver an excellent service to its customers.

Northern Powergrid Metering Limited

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

OPERATIONAL EXCELLENCE

Strategic objective: Market leader in the rental provision of smart metering systems and equipment.

Performance during the year: The Company has in place effective asset management systems and processes that utilise industry data flows as well as additional reporting mechanisms to manage its assets throughout their lifecycle. These processes ensure that assets are tracked appropriately when energy users switch between energy suppliers.

The Company's contract managers liaise with agents, manufacturers and stakeholders, ensuring the smooth delivery and management of the meter contracts and recovery of churned and removed meters. The Company's meter logistics provider ensures an enhanced and market-leading service to ensure that meters are triaged, repaired, returned or disposed of in a manner that is compliant with the Company's obligations. The Company completes independent due diligence on all meters and equipment to ensure that the standards specified by the manufacturer are met.

ENVIRONMENTAL RESPECT

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

Performance during the year: In accordance with the Northern Powergrid Group's environmental policy, whenever practicable, meters are recycled and reinstalled. In addition, meters and their components are always disposed of using an approved agent to ensure that the Company's environmental obligations are met. To ensure the life of SMETS 2 smart meters are optimized, the Company continues to participate in activity aimed to allow the re-use of SMETS 2 smart meters following the removal of the meter.

The installation of smart meters has an important part to play in the United Kingdom's transition to a low-carbon economy. Smart meters enable energy-users to monitor their consumption levels and the times at which they consume energy, allowing them to understand their energy usage and therefore make decisions as to how to use energy more efficiently. Smart meters also provide information to energy-network operators to allow them to make more efficient investment decisions and optimize their networks, in anticipation for increased demand as a result of decarbonisation.

REGULATORY INTEGRITY

Strategic objective: Trustworthy, fair and balanced.

Performance during the year: The Company manages its business to the highest behavioural standards and adheres to a policy of strict compliance with all relevant standards and legislation. Activity in respect of engagement with The Office of Gas and Electricity Markets ("Ofgem"), and The Department for Energy Security and Net Zero ("DESNZ") was prevalent during the year and included discussions regarding the level of specific energy supplier debt, churn contract arrangements, energy supplier licence compliance and the enrolment of meters into the smart meter programme.

SECTION 172(1) STATEMENT

The information pursuant to Section 414CZA of the Companies Act 2006 which describes how the directors have had regard to the matters set out in Section 172(1) (a) to (f) when performing their duty under Section 172 is set out below:

Northern Powergrid Metering Limited

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

(a) the likely consequences of any decision in the long term.

Decisions are made with due regard to the principal activity of the Company, the Core Principles and the wider impact upon stakeholders including the Northern Powergrid Group. See 'Business Relationships' in the Directors' report for further detail.

(b) the interests of the Company's employees.

The Company does not have any employees.

(c) the need to foster the Company's business relationships with suppliers, customers and others.

Detail is provided in 'Business Relationships' in the directors' report.

(d) the impact of the Company's operations on the community and the environment.

Detail is provided in 'Environmental Respect' in the strategic report.

(e) the desirability of the Company maintaining a reputation for high standards of business conduct.

Detail is provided in 'Regulatory Integrity' in the strategic report.

(f) the need to act fairly as between members of the Company.

The Company has one class of shares which are held by Northern Electric plc, a company owned by the Northern Powergrid Group.

PRINCIPAL RISKS AND UNCERTAINTIES

Details regarding the main features of the Northern Powergrid Group's internal control and risk management systems can be found in the annual reports and financial statements of Northern Electric plc for the year to 31 December 2023. The principal risks and uncertainties specific to the Company are outlined as follows:

Risk/Uncertainty and Mitigations

Financial risks: The exposure to interest rate, tax, liquidity, debt, supplier failure and treasury risks.

Mitigation

- Strict policies for credit checking, payment terms (including credit cover), payment performance tracking and debt management in place.
- Financed by long-term borrowings at fixed and floating rates and short-term borrowings at floating rates.
- At 31 December 2023, 80% of the Company's long-term borrowings were at fixed rates and the average maturity for these borrowings was 2 years.
- Interest rate swaps are used to mitigate exposure to uncertain future interest rates.
- The supplier of last resort process results in customers transferring to the supplier of last resort, most of whom are covered by churn contracts with the Company.

Northern Powergrid Metering Limited

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

Churn: Failure to receive payment from incoming suppliers.

Mitigation:

-Incoming suppliers without agreed terms for the provision meters are obliged (under their operating licence) to:

- a) pay for or remove the smart meter;
- b) enter into contracts with meter asset providers for the smart meters it acquires; and
- c) inform meter asset providers of the location of meters owned by the meter asset provider.

Regulatory: Delay of the UK smart meter roll-out to 2025.

Mitigation:

- Contracts with suppliers and manufacturers accommodate the delay to the smart meter programme.
- SMETS 1 meters not enrolled into the DCC are protected under the churn contract provisions.

Environment: Failure to source or disposed of meters responsibly.

Mitigation:

- Robust due diligence is in place for all assets purchased to ensure relevant standards of environmental compliance are observed.
- Meters are disposed of using responsible logistics providers who have the appropriate environmental standards accreditation.
- Any materials which give rise to hazardous waste are also handled and disposed of in line with Health and Safety Executive guidelines.

As we have seen in previous years, the electricity and gas supply market continues to be a challenging environment to operate in. There has been some market consolidation during the year with Octopus acquiring Bulb and Shell, this in effect means that the market is back to having six key energy suppliers (EDF, E.on, British Gas, OVO, Octopus and Scottish Power). Churn started to increase toward the end of 2023 with the market starting to become more competitive on prices.

Approved by the Board of Directors on 1 May 2024 and signed on its behalf by:



A J MacLennan
Director

Northern Powergrid Metering Limited

Directors' Report for the Year Ended 31 December 2023

The directors present their annual report along with the audited financial statements of the Company for the year ended 31 December 2023.

Dividends

During the year, an interim dividend of £16.6 million was paid (2022: £75.0 million). The directors recommend that no final dividend be paid in respect of the year (2022: £nil).

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 P Jones
P A Jones

During the year and up to the date of approval of the Director's report, 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.

Research and development

The Company does not undertake research and development.

Carbon Reporting

The Company uses less than 40k Kwh and is therefore exempt from SECR reporting.

Future developments

The financial position of the Company, as at the year end, is shown in the statement of financial position on page 16. There have been no significant events since the year end and it is the intention of the directors that the Company will continue to rent meters to energy suppliers and in doing so, support the smart meter roll-out. There are no plans to change the existing business model.

Financial risk management

As at 31 December 2023 the Company held one derivative financial instrument (2022: one derivative financial instrument) to mitigate the interest rate risk on a floating interest rate loan. More details on derivative financial instruments are available in Note 19 to the financial statements.

Financial derivatives

As at 31 December 2023 the Company held one derivative financial instrument (2022: one derivative financial instrument) to mitigate the interest rate risk on a floating interest rate loan. More details on derivative financial instruments are available in Note 19 to the financial statements.

Political donations

During the year, no contributions were made to political organisations (2022: £nil).

Business relationships

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.

Relations with energy 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 Group's annual Modern Slavery Act statement.

Northern Powergrid Metering Limited

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

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. Further detail of the Company's relationship with customers, the support programmes provided and the decisions made during the year is discussed in the Strategic Report.

As outlined in the Strategic Report activity in respect of Regulatory Integrity which included frequent engagement and interaction with regulatory bodies was undertaken throughout the year. Given the implications on the Company's long-term strategy, the relationship with Ofgem and BEIS were regular items on the board agenda throughout the year.

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 have elected 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 ("IFRS's") as issued by the International Accounting Standards Board ("IASB"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

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

Northern Powergrid Metering Limited

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 report and financial statements, the directors have taken into account a number of factors, including the following:

- The Northern Powergrid Group's main subsidiaries, Northern Powergrid (Northeast) plc and Northern Powergrid (Yorkshire) plc, are stable electricity distribution businesses operating an essential public service and are regulated by the Gas and Electricity Markets Authority ("GEMA"). In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Northern Powergrid Group is profitable with strong underlying cash flows. Northern Powergrid Holdings Company, a company in the Northern Powergrid Group, Northern Powergrid (Northeast) plc and Northern Powergrid (Yorkshire) plc hold investment grade credit ratings;
- The Northern Powergrid Group is financed by long-term borrowings with an average maturity of 17 years and has access to short-term committed borrowing facilities of £242 million provided by Barclays Bank plc, Lloyds Bank plc, HSBC UK Bank plc and Royal Bank of Canada;
- The Northern Powergrid Group benefits from strong investment-grade credit ratings which allow access to a range of financing options including the capital markets. A successful bond issue by the Northern Powergrid Group in November 2023, demonstrates that the Northern Powergrid Group's bonds remain attractive to investors and there is an active market with strong appetite to invest.
- 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 Northern Powergrid (Northeast) plc and Northern Powergrid (Yorkshire) plc licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Northern Powergrid Group will have sufficient financial and operational resources available for the continuation of business for a period of at least 12 months.

Consequently, after making an assessment, 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 Metering Limited
Directors' Report for the Year Ended 31 December 2023 (continued)

Disclosure of information to the auditor

Each of the directors, who is a director of the Company as at the date of this report, confirms that, so far as they're aware, there is no relevant audit information of which the Company's auditor is unaware, and they have taken all the steps they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Change 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 of Directors on 1 May 2024 and signed on its behalf by:



A J MacLennan
Director

Northern Powergrid Metering Limited

Independent auditor's report to the members of Northern Powergrid Metering Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Northern Powergrid Metering Limited (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;
- 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
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity;
- the Statement of Cash Flows; and
- the material accounting policy information; and
- the related Notes 1 to 21

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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Metering Limited

Independent auditor's report to the members of Northern Powergrid Metering Limited (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 the financial statements

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

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

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

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

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and the board of directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, tax legislation; and
- 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 Electricity Act 1989 and industry regulations monitored by Ofgem.

We discussed among the audit engagement team including relevant internal specialists such as tax, financial instrument and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

Northern Powergrid Metering Limited

Independent auditor's report to the members of Northern Powergrid Metering Limited (continued)

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address are described below:

Revenue recognition relating to churn contracts

Revenue recognition relating to churn contracts has been identified as a significant risk due to fraud. This is due to the subjectivity involved in revenue recognised on churned meters whilst new contracts are agreed. To address this risk, we have completed the following:

- Obtained an understanding of the relevant controls relating to churn revenue;
- Selected a sample of contracts and tested accuracy through corroboration to underlying contracts and correspondence;
- Selected a sample from a reciprocal population and agreed through to churn revenue recognised to confirm completeness of the balance; and
- Assessed the appropriateness of the company's revenue disclosures made within the financial statements,

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, in-house and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinion on other matter 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 Metering Limited
Independent auditor's report to the members of Northern Powergrid Metering Limited
(continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

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

1 May 2024

Northern Powergrid Metering Limited
Income Statement for the Year Ended 31 December 2023

	Note	2023 £ 000	2022 £ 000
Revenue	3	89,679	86,334
Operating expenses		<u>(52,055)</u>	<u>(57,225)</u>
Operating profit	6	37,624	29,109
Finance costs	5	(11,497)	(8,618)
Finance income	5	<u>553</u>	<u>-</u>
Profit before tax		26,680	20,491
Income tax expense	8	<u>(6,270)</u>	<u>(3,893)</u>
Profit for the year		<u><u>20,410</u></u>	<u><u>16,598</u></u>

Northern Powergrid Metering Limited

Statement of Comprehensive Income for the Year Ended 31 December 2023

	Note	2023 £ 000	2022 £ 000
Profit for the year		<u>20,410</u>	<u>16,598</u>
Items that may be reclassified subsequently to profit or loss			
Unrealised profit/(loss) on cash flow hedges before tax	19	(7,015)	20,559
Deferred tax credit/(expense) relating to movement on cash flow hedge		<u>1,754</u>	<u>(5,140)</u>
		<u>(5,261)</u>	<u>15,419</u>
Total comprehensive income for the year		<u><u>15,149</u></u>	<u><u>32,017</u></u>

Northern Powergrid Metering Limited
(Registration number: 07647856)
Statement of Financial Position as at 31 December 2023

		31 December 2023 £ 000	31 December 2022 £ 000
	Note		
Assets			
Non-current assets			
Property, plant and equipment	9	273,702	260,953
Derivative assets	19	8,831	18,926
		<u>282,533</u>	<u>279,879</u>
Current assets			
Trade and other receivables	10	22,308	18,314
Cash and cash equivalents	11	14,159	17,551
Derivative assets	19	5,861	2,781
		<u>42,328</u>	<u>38,646</u>
Total assets		<u>324,861</u>	<u>318,525</u>
Equity and liabilities			
Equity			
Paid Up Share Capital	12	-	-
Cash flow hedging reserve		(11,019)	(16,280)
Retained earnings		<u>(20,407)</u>	<u>(16,597)</u>
Total equity	13	<u>(31,426)</u>	<u>(32,877)</u>
Non-current liabilities			
Loans and borrowings	18	(94,557)	(134,945)
Deferred tax liabilities	8	<u>(3,567)</u>	<u>(5,338)</u>
		<u>(98,124)</u>	<u>(140,283)</u>
Current liabilities			
Trade and other payables	14	(7,182)	(5,958)
Loans and borrowings	18	(185,897)	(139,407)
Income tax liability		<u>(2,232)</u>	<u>-</u>
		<u>(195,311)</u>	<u>(145,365)</u>
Total liabilities		<u>(293,435)</u>	<u>(285,648)</u>
Total equity and liabilities		<u>(324,861)</u>	<u>(318,525)</u>

Approved by the Board of Directors on 1 May 2024 and signed on its behalf by:



A J MacLennan
Director

Northern Powergrid Metering Limited
Statement of Changes in Equity for the Year Ended 31 December 2023

	Share capital £ 000	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2023	-	16,280	16,597	32,877
Profit for the year	-	-	20,410	20,410
Other comprehensive expense	-	(5,261)	-	(5,261)
Total comprehensive (expense)/income	-	(5,261)	20,410	15,149
Dividends	-	-	(16,600)	(16,600)
At 31 December 2023	-	11,019	20,407	31,426

	Share capital £ 000	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2022	-	861	74,999	75,860
Profit for the year	-	-	16,598	16,598
Other comprehensive income	-	15,419	-	15,419
Total comprehensive (expense)/income	-	15,419	16,598	32,017
Dividends	-	-	(75,000)	(75,000)
At 31 December 2022	-	16,280	16,597	32,877

Northern Powergrid Metering Limited
Statement of Cash Flows for the Year Ended 31 December 2023

	Note	2023 £ 000	2022 £ 000
Cash flows from operating activities			
Profit for the year		20,410	16,598
Adjustments to cash flows from non-cash items			
Depreciation	6	52,059	54,643
Profit on disposal of property plant and equipment	6	(1,473)	(870)
Finance income	5	(553)	-
Finance costs	5	11,497	8,618
Income tax expense	8	6,270	3,893
		<u>88,210</u>	<u>82,882</u>
(Increase)/decrease in trade and other receivables	10	(3,845)	4,766
Increase/(decrease) in trade and other payables	14	760	(2,996)
Cash generated from operations		85,125	84,652
Income taxes paid	8	(4,055)	(3,947)
Net cash flow generated from operating activities		<u>81,070</u>	<u>80,705</u>
Cash flows used in investing activities			
Acquisitions of property plant and equipment		(65,306)	(56,891)
Proceeds from sale of property plant and equipment		2,435	1,387
Interest received	5	553	-
Net cash flow used in investing activities		<u>(62,318)</u>	<u>(55,504)</u>
Cash flows used in financing activities			
Movement in intercompany loans	18	8,226	50,245
Interest paid		(10,060)	(7,240)
Proceeds from external borrowings	18	37,291	28,500
Repayment of other borrowing		(41,001)	(38,858)
Dividends paid		(16,600)	(75,000)
Net cash flows used in financing activities		<u>(22,144)</u>	<u>(42,353)</u>
Net decrease in cash and cash equivalents		(3,392)	(17,152)
Cash and cash equivalents at 1 January		<u>17,551</u>	<u>34,703</u>
Cash and cash equivalents at 31 December		<u>14,159</u>	<u>17,551</u>

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

Northern Powergrid Metering Limited

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

1 General information

The company is a private 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, Tyne and Wear NE1 6AF.

The Company acts as a meter asset provider of conventional and smart meters (and associated equipment) to domestic and commercial energy suppliers. Further details are found within the Business Review section of the Strategic Report.

2 Accounting policies

Statement of compliance

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

Summary of material 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 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, except for derivative financial instruments that have been measured at fair value.

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

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions which are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

2 Accounting policies (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Northern Powergrid Metering Limited

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

2 Accounting policies (continued)

Going Concern

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

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

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

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

Consequently, after making an assessment, 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 Metering Limited

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

2 Accounting policies (continued)

Changes in accounting policy

New standards and amendments

Effective for periods beginning on 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
- Amendments to IAS 12: Income Taxes (deferred tax related to assets and liabilities arising from a single transaction and International Tax Reform - Pillar Two Model Rules)

The accounting policies have been updated to reflected 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 issued that are not yet applicable

Effective for periods beginning on 1 January 2024:

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback
- Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 1: Non-Current Liabilities with Covenants

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

Critical judgements in applying accounting policies

There are no critical judgements that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on amounts recognised in the financial statements.

Key sources of estimation uncertainty

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

Northern Powergrid Metering Limited

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

2 Accounting policies (continued)

Revenue recognition

Revenue is only recognised when the risks and rewards of ownership have been transferred to a third party. No revenue is recognised where there are significant uncertainties regarding the consideration to be received or the costs associated with the transaction.

All revenue within the Company relates to the provision of meter assets; this is accounted for under IFRS 16 Leases and is outside the scope of IFRS 15.

Leases

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

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

The Group has taken practical expedients as per below:

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

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

The Group recognises 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 10 Right of use assets.

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.

Northern Powergrid Metering Limited

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

2 Accounting policies (continued)

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.

Borrowing costs

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

Foreign currencies transactions and balances

Transactions in foreign currencies are recognised at the rate of exchange prevailing at the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at that date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

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.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method.

Metering Equipment- up to 15 years

Furniture, fittings and equipment - up to 10 years

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

Northern Powergrid Metering Limited
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.

Impairment of tangible and intangible 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.

Northern Powergrid Metering Limited

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.

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.

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 FVTPL.

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

- financial liabilities at amortised cost; or
- financial liabilities at 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:

Northern Powergrid Metering Limited

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

2 Accounting policies (continued)

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 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.

Financial liabilities at fair value through the profit or loss

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

Northern Powergrid Metering Limited

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

2 Accounting policies (continued)

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 Metering Limited

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 liability are modified, the Company evaluates whether the cash flows of the modified liability 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 liability is derecognised and a new financial liability 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 liability. In this case, the Company recalculates the gross carrying amount of the financial liability 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 FVTPL, 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 Metering Limited

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 months 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.

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.

Derivative financial instruments

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

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

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

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

Northern Powergrid Metering Limited

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

2 Accounting policies (continued)

Hedge accounting

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

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

These hedging relationships are discussed below.

Cash flow hedges

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

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

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

Northern Powergrid Metering Limited
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
Income from meter asset rentals	<u>89,679</u>	<u>86,334</u>

Segmental analysis

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

In practice, the President and Chief Executive Officer allocates resources and assesses performance based upon the aggregate results of the Company. 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 meter asset rentals. Revenue is all in respect of sales to United Kingdom customers and all Non-Current assets are held in the United Kingdom.

4 Directors and other key personnel remuneration

The directors' remuneration for the year was as follows:

	2023	2022
	£ 000	£ 000
Remuneration	<u>152</u>	<u>157</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>4</u>

In respect of the highest paid director:

	2023	2022
	£ 000	£ 000
Short-term employee benefits	47	38
Other long-term benefits	<u>17</u>	<u>40</u>
	<u>64</u>	<u>78</u>

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

4 Directors and other key personnel remuneration (continued)

In respect of other key personnel:

	2023	2022
	£ 000	£ 000
Short-term employee benefits	63	67
Post retirement benefits - defined benefit	35	38
Defined contribution	1	1
Other long-term benefits	3	4
	<u>102</u>	<u>110</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.

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

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.

The Company did not have any employees during the year (2022: Nil).

5 Finance income and costs

	2023	2022
	£ 000	£ 000
Finance income		
Interest income on financial assets measured at amortised cost	553	-
Finance costs		
Interest on overdrafts and borrowings	(8,543)	(7,818)
Interest paid to group undertakings	<u>(2,954)</u>	<u>(800)</u>
Total interest expense for financial liabilities not classified as FVTPL	<u>(11,497)</u>	<u>(8,618)</u>
Net finance costs	<u>(10,944)</u>	<u>(8,618)</u>

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

6 Operating profit

Arrived at after charging/(crediting)

	2023	2022
	£ 000	£ 000
Depreciation expense	52,059	54,643
Intercompany charge for salaries, social security and pension costs	1,126	1,173
Loss allowance on trade and other receivables	(1,057)	971
(Profit)/loss on disposal of property, plant and equipment	<u>(1,473)</u>	<u>(870)</u>

7 Auditor's remuneration

	2023	2022
	£ 000	£ 000
Fees payable for audit of the financial statements	<u>57</u>	<u>56</u>

There were no non-audit services for current or prior year.

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

8 Income tax

Tax charged in the income statement

	2023 £ 000	2022 £ 000
Current taxation		
UK corporation tax	6,286	3,892
Increase/(decrease) in current tax from adjustment for prior periods	<u>1</u>	<u>-</u>
	6,287	3,892
Deferred taxation		
Arising from origination and reversal of temporary differences	<u>(17)</u>	<u>1</u>
Tax expense in the income statement	<u><u>6,270</u></u>	<u><u>3,893</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 25% to 31 March 2023 and 25% thereafter (2022 - 19%).

The differences are reconciled below:

	2023 £ 000	2022 £ 000
Profit before tax	<u>26,680</u>	<u>20,491</u>
Corporation tax at standard rate	6,287	3,892
Increase/(decrease) in current tax from adjustment for prior periods	1	-
Decrease in deferred tax from adjustment for prior periods	(5)	1
Other	<u>(13)</u>	<u>-</u>
Total tax charge	<u><u>6,270</u></u>	<u><u>3,893</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 Metering Limited
Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

8 Income tax (continued)

Deferred tax

Deferred tax assets and liabilities

Deferred tax movement during the year:

	At 1 January 2023 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 31 December 2023 £ 000
Accelerated tax depreciation	13	8	-	21
Revaluation of cash flow hedges	(5,427)	-	1,754	(3,673)
Other	76	9	-	85
Net tax (liabilities)/asset	<u>(5,338)</u>	<u>17</u>	<u>1,754</u>	<u>(3,567)</u>

Deferred tax movement during the prior year:

	At 1 January 2022 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 31 December 2022 £ 000
Accelerated tax depreciation	9	4	-	13
Revaluation of cash flow hedges	(287)	-	(5,140)	(5,427)
Other	82	(5)	-	77
Net tax (liabilities)/asset	<u>(197)</u>	<u>(1)</u>	<u>(5,140)</u>	<u>(5,338)</u>

Other includes expenses deductible for tax on a paid basis.

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

9 Property, plant and equipment

	Metering equipment £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation			
At 1 January 2022	427,973	193	428,166
Additions	53,266	-	53,266
Disposals	(35,860)	-	(35,860)
At 31 December 2022	445,379	193	445,572
At 1 January 2023	445,379	193	445,572
Additions	65,772	-	65,772
Disposals	(25,530)	-	(25,530)
At 31 December 2023	485,621	193	485,814
Depreciation			
At 1 January 2022	165,189	117	165,306
Charge for year	54,604	39	54,643
Eliminated on disposal	(35,329)	-	(35,329)
At 31 December 2022	184,464	156	184,620
At 1 January 2023	184,464	156	184,620
Charge for the year	52,027	32	52,059
Eliminated on disposal	(24,567)	-	(24,567)
At 31 December 2023	211,924	188	212,112
Carrying amount			
At 31 December 2022	260,916	37	260,953
At 31 December 2023	273,697	5	273,702

All items included within metering equipment are subject to operating leases where the Company is the lessor. The total SMETS 1 value is £114.1m with nil impairment for 2023. All those within furniture, fixture and fittings are not subject to operating leases.

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

10 Trade and other receivables

	31 December 2023 £ 000	31 December 2022 £ 000
Current:		
Trade receivables and accrued income	21,346	19,211
Loss allowance	<u>(1,393)</u>	<u>(3,802)</u>
Net trade receivables	19,953	15,409
Prepayments	<u>2,355</u>	<u>2,905</u>
	<u><u>22,308</u></u>	<u><u>18,314</u></u>

The directors consider that the carrying amount of trade and other receivables approximates their fair value calculated by discounting the future cash flows at the market rate at the end of the reporting period. The maximum exposure to risk to the Company is the book value of these receivables less any provisions for impairment. The average credit period on lease payments is 30 days. Interest is not generally charged on the trade receivables paid after the due date.

Movement in the loss allowance

	31 December 2023 £ 000	31 December 2022 £ 000
At 1 January	3,802	2,841
Amounts recognised in the statement of profit or loss	(1,057)	971
Amounts utilised/written off in the year	<u>(1,352)</u>	<u>(10)</u>
At 31 December	<u><u>1,393</u></u>	<u><u>3,802</u></u>

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.

The significant reduction on loss allowance for 2023 is due to a relaxation of the bad debt provision policy as a result of a more stabilised market and energy prices compared to prior years.

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

10 Trade and other receivables (continued)

Contracted

2023	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	7,604	1,833	10	-	-
Lifetime ECL	0%	10%	50%	100%	100%
Expected credit loss	-	183	5	-	-
2022	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	6,774	2,145	27	4	58
Less specific provisions	-	(2,145)	(27)	(4)	(58)
Balance on which ECL made	6,774	-	-	-	-
Lifetime ECL	0%	100%	100%	100%	100%
Expected credit loss	-	-	-	-	-

Churn Contract

2023	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	3,881	4,879	376	6	11
Lifetime ECL	0%	20%	50%	100%	100%
Expected credit loss	-	996	189	6	11
2022	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	4,164	1,128	270	117	1,053
Less specific provisions	-	(1,128)	(270)	(117)	(1,053)
Balance on which ECL made	4,164	-	-	-	-
Lifetime ECL	0%	100%	100%	100%	100%
Expected credit loss	-	-	-	-	-

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

10 Trade and other receivables (continued)

Non-contracted churn

2023	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	346	40	1	-	-
Lifetime ECL	0%	40%	100%	100%	100%
Expected credit loss	-	16	1	-	-
2022	Current £ 000	1-3 months £ 000	3-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	347	36	1	33	660
Less specific provisions	-	(36)	(1)	(33)	(660)
Balance on which ECL made	347	-	-	-	-
Lifetime ECL	0%	100%	100%	100%	100%
Expected credit loss	-	-	-	-	-

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

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the 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 changed 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.

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

10 Trade and other receivables (continued)

Operating leases

Operating leases relate to the leasing out of metering assets owned by the Company with lease terms of 10-15 years. The lessee does not have an option to purchase the meters at the expiry of the lease period. The following receivables are the future receipts from leases.

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

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

11 Cash and cash equivalents

	31 December 2023 £ 000	31 December 2022 £ 000
Cash at bank	209	17,551
Other cash and cash equivalents	13,950	-
	<u>14,159</u>	<u>17,551</u>

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

12 Share capital

Allotted, called up and fully paid shares

	31 December 2023		31 December 2022	
	No.	£	No.	£
Ordinary Share Capital of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

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

13 Reserves

	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2023	16,280	16,597	32,877
Profit for the year	-	20,410	20,410
Other comprehensive income	(5,261)	-	(5,261)
Total comprehensive (expense)/income	(5,261)	20,410	15,149
Dividends	-	(16,600)	(16,600)
At 31 December 2023	11,019	20,407	31,426

	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2022	861	74,999	75,860
Profit for the year	-	16,598	16,598
Other comprehensive income	15,419	-	15,419
Total comprehensive income	15,419	16,598	32,017
Dividends	-	(75,000)	(75,000)
At 31 December 2022	16,280	16,597	32,877

14 Trade and other payables

	31 December 2023 £ 000	31 December 2022 £ 000
Trade payables	5	-
Accrued expenses	1,184	1,095
Social security and other taxes Capital accruals	740	74
	5,253	4,789
	7,182	5,958

Capital accruals is largely comprised of manual accruals (£3.3m) for meter asset and installation costs paid in arrears, and system generated accruals (£1.9m) where we have receipted costs but not yet received the invoice.

The directors consider that the carrying amount of other financial liabilities approximates their fair value, calculated by discounting future cash flows at market rate at the end of the reporting period. The valuation of liabilities set out above is based on level 1 inputs. Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Invoices are paid at the end of the month following the date of the invoice. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

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

15 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 assets & liabilities at FVTOCI £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets				
Non-current assets				
Property, plant and equipment	-	-	-	273,702
Other non-current financial assets	-	8,831	-	-
	<u>-</u>	<u>8,831</u>	<u>-</u>	<u>273,702</u>
Current assets				
Trade and other receivables	20,794	-	-	1,514
Cash and cash equivalents	14,159	-	-	-
Other current financial assets	-	5,861	-	-
	<u>34,953</u>	<u>5,861</u>	<u>-</u>	<u>1,514</u>
Total assets	<u>34,953</u>	<u>14,692</u>	<u>-</u>	<u>275,216</u>
Liabilities				
Non-current liabilities				
Loans and borrowings	-	-	(94,557)	-
Deferred tax liabilities	-	-	-	(3,567)
	<u>-</u>	<u>-</u>	<u>(94,557)</u>	<u>(3,567)</u>
Current liabilities				
Trade and other payables	-	-	(7,182)	-
Loans and borrowings	-	-	(185,897)	-
Income tax liability	-	-	(2,232)	-
	<u>-</u>	<u>-</u>	<u>(195,311)</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>(289,868)</u>	<u>(3,567)</u>

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

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

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

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTOCI £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets				
Non-current assets				
Property, plant and equipment	-	-	-	260,952
Other non-current financial assets	-	18,926	-	-
	<u>-</u>	<u>18,926</u>	<u>-</u>	<u>260,952</u>
Current assets				
Trade and other receivables	15,409	-	-	2,905
Cash and cash equivalents	17,551	-	-	-
Other current financial assets	-	2,781	-	-
	<u>32,960</u>	<u>2,781</u>	<u>-</u>	<u>2,905</u>
Total assets	<u>32,960</u>	<u>21,707</u>	<u>-</u>	<u>263,857</u>
Liabilities				
Non-current liabilities				
Loans and borrowings	-	-	(134,945)	-
Deferred tax liabilities	-	-	-	(5,338)
	<u>-</u>	<u>-</u>	<u>(134,945)</u>	<u>(5,338)</u>
Current liabilities				
Trade and other payables	-	-	(5,958)	-
Loans and borrowings	-	-	(139,406)	-
	<u>-</u>	<u>-</u>	<u>(145,364)</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>(280,309)</u>	<u>(5,338)</u>

Northern Powergrid Metering Limited

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

16 Financial risk review

This Note presents information about the Company's exposure to financial risks.

Capital management

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

The capital structure of the Company consists of net debt (borrowings as detailed in Note 18 offset by cash and cash equivalents as detailed in Note 11) and equity of the Company (comprising issued capital, reserves and retained earnings as detailed in Note 12 and 13). The Company is not subject to externally imposed capital requirements.

The Company is financed by long-term borrowings and short-term borrowings at fixed and floating rates of interest. As at 31 December 2023, 80% of the Company's long-term borrowings were at fixed rates and the average maturity for these borrowings was 2 years. The Company uses interest rate swaps to mitigate exposure to uncertain future interest rates.

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 customers are the energy suppliers, not the end user, thus credit risk and operational complexity are reduced. The regulated nature of the wider market also offers an additional level of security over future cash flows.

If an energy supplier fails, the OFGEM governed Supplier of Last Resort process is activated and allows for energy suppliers to bid and take on the failed energy supplier's customers and associated obligations (including meter rentals). This ensures that end-users are not impacted by the supplier failure and to oversee the continued operation of the energy market for the benefit of customers.

		Gross carrying amount £ 000	Loss allowance £ 000	Net carrying amount £ 000
2023	Notes			
Trade and other receivables		23,701	(1,393)	22,308
Cash and cash equivalents		14,159	-	14,159
		<u>37,860</u>	<u>(1,393)</u>	<u>36,467</u>
2022				
Trade and other receivables		22,116	(3,802)	18,314
Cash and cash equivalents		17,551	-	17,551
		<u>39,667</u>	<u>(3,802)</u>	<u>35,865</u>

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

16 Financial risk review (continued)

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 10 includes further details on the loss allowance for these assets.

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 Northern Powergrid Group manages liquidity by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Maturity analysis for financial liabilities

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

	Less than 3 month £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
2023					
Non-derivative liabilities					
Non-interest bearing	7,182	-	-	-	7,182
Variable interest rate liabilities	78,985	23,414	21,254	-	123,653
Fixed interest rate liabilities	-	88,930	80,133	-	169,063
Total	86,167	112,344	101,387	-	299,898

	Less than 3 month £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
2022					
Non-derivative liabilities					
Non-interest bearing	5,968	-	-	-	5,968
Variable interest rate liabilities	71,670	3,717	30,386	-	105,773
Fixed interest rate liabilities	-	70,897	116,054	-	186,951
Total	77,638	74,614	146,440	-	298,692

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

16 Financial risk review (continued)

Market Risk

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

Interest on inter-company short-term loans is charged at a floating rate of interest at SONIA plus 0.20% plus a credit adjustment spread. In aggregate, 20% of the amortising long-term loan and the capital expenditure facility loans are at a floating rate of interest at SONIA plus 1.55% and 1.60% respectively, thus exposing the Company to cash flow interest rate risk. A 1% movement in interest rates would subject the Company to an approximate change in interest costs of £0.9m per year. This is considered an acceptable level of risk.

17 Net debt reconciliation

	At 1 January 2023 £ 000	Cash flows £ 000	Other changes £ 000	At 31 December 2023 £ 000
Cash and Cash Equivalents	17,551	(3,392)	-	14,159
Borrowings	<u>(274,351)</u>	<u>(4,516)</u>	<u>(1,587)</u>	<u>(280,454)</u>
	<u>(256,800)</u>	<u>(7,908)</u>	<u>(1,587)</u>	<u>(266,295)</u>
	At 1 January 2022 £ 000	Cash flows £ 000	Other changes £ 000	At 31 December 2022 £ 000
Cash and Cash Equivalents	34,703	(17,152)	-	17,551
Borrowings	<u>(233,087)</u>	<u>(39,887)</u>	<u>(1,377)</u>	<u>(274,351)</u>
	<u>(198,384)</u>	<u>(57,039)</u>	<u>(1,377)</u>	<u>(256,800)</u>

Other changes relate to amortisation of financing fees, accrued interest and discounts.

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

18 Loans and borrowings

	31 December 2023 £ 000	31 December 2022 £ 000
Non-current loans and borrowings		
Borrowings	94,557	134,945
Current loans and borrowings		
Borrowings	106,770	68,505
Intercompany borrowings	79,127	70,901
	<u>185,897</u>	<u>139,406</u>
	<u>280,454</u>	<u>274,351</u>

	Book value		Fair value	
	31 December 2023 £ 000	31 December 2022 £ 000	31 December 2023 £ 000	31 December 2022 £ 000
Short term loan	65,825	28,534	65,825	28,534
Inter-company short-term loan	79,127	70,902	79,127	71,670
2026 £218m amortising loan at 3.037% ***	<u>135,502</u>	<u>174,915</u>	<u>137,476</u>	<u>174,380</u>
	<u>280,454</u>	<u>274,351</u>	<u>282,428</u>	<u>274,584</u>

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

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

The fair value of the loans 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 fair valuation of long-term liabilities above is based on Level 2 inputs.

The inter-company short term loan relates to a £200.0 million unsecured sterling revolving loan facility provided by Yorkshire Electricity Group plc.

The Company's exposure to market and liquidity risk; including maturity analysis, in respect of loans and borrowings is disclosed in financial risk review Note 16.

19 Derivatives held for risk management and hedge accounting

Derivatives held for risk management

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

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

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

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

	2023		2022	
	Assets £ 000	Liabilities £ 000	Assets £ 000	Liabilities £ 000
Non-current	8,831	-	18,926	-
Current	5,861	-	2,781	-
	<u>14,692</u>	<u>-</u>	<u>21,707</u>	<u>-</u>
	3 months to 1 year £ 000	1 year to 5 years £ 000	More than 5 years £ 000	Total £ 000
2023				
Notional principal	33,403	129,880	-	163,283
Cash flow hedge	<u>5,861</u>	<u>8,831</u>	<u>-</u>	<u>14,692</u>
	<u>39,264</u>	<u>138,711</u>	<u>-</u>	<u>177,975</u>
	3 months to 1 year £ 000	1 year to 5 years £ 000	More than 5 years £ 000	Total £ 000
2022				
Notional principal	32,801	145,179	-	177,980
Cash flow hedge	<u>2,781</u>	<u>18,926</u>	<u>-</u>	<u>21,707</u>
	<u>35,582</u>	<u>164,105</u>	<u>-</u>	<u>199,687</u>

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

The interest rate swaps are settled on a quarterly basis and are based on receiving a floating rate of SONIA and paying a fixed rate of 0.8955% on the amortising long-term loan and 0.8505% on the capital expenditure facility loans. The Company will settle the difference between the fixed and floating interest rate on a net basis. This is a level 1 disclosure.

Effectiveness testing

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

Nature of the risk being hedged

The Company is hedging the risk of variability in cash flows indexed to SONIA. Further details of the company's risk management is available in the strategic report, and in the financial risk review, Note 16.

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

20 Related party transactions

Summary of transactions with other related parties

Included within these amounts are:

- Integrated Utility Services that provide use of staff and resources;
- Northern Electric plc that provides use of staff and resources;
- Northern Powergrid (Northeast) plc that provides use of staff and resources;
- Northern Powergrid (Yorkshire) plc that provides use of staff and resources ; and
- Yorkshire Electricity Group plc that operates the group intercompany treasury account.

Expenditure with and payables to related parties

	Parent	Other related	Amounts owed
	£ 000	parties	(to)/from
		£ 000	£ 000
2023			
Purchase of goods and services	108	960	-
	Parent	Other related	Amounts owed
	£ 000	parties	(to)/from
		£ 000	£ 000
2022			
Purchase of goods and services	282	914	-

Loans from related parties

	Other related
	parties
	£ 000
2023	
At start of period	70,902
Advanced	8,255
Interest charged	2,954
Interest paid	(2,954)
At end of period	79,127
	Other related
	parties
	£ 000
2022	
At start of period	20,656
Advanced	50,246
Interest charged	800
Interest paid	(800)
At end of period	70,902

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

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

21 Parent and ultimate parent undertaking

The Company's immediate parent is Northern Electric 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.

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

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

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