

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

REGULATORY ACCOUNTS

FOR THE YEAR ENDED

31 MARCH 2015

NORTHERN POWERGRID (NORTHEAST) LIMITED

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for the Year Ended 31 March 2015**

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Registered Office: Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF

The directors present the Regulatory Accounts for the year ended 31 March 2015 (the "Regulatory Year") of Northern Powergrid (Northeast) Limited (the "Company"), which include the strategic report, directors' report, corporate governance statement and audited financial statements for that year. The businesses of the affiliates of the Company that have carried out activities forming part of, or ancillary to, the distribution business of the Company have not been consolidated with the activities of the Company in the preparation of these accounts. The Regulatory Accounts are separate to and, therefore, may differ from the statutory financial statements of the Company for the year ended 31 December 2014, which were drawn up and presented in accordance with the Companies Act 2006.

Cautionary statement regarding forward-looking statements

The Regulatory Accounts have been prepared in accordance with paragraph 44.5 of standard condition 44 (Regulatory Accounts) of the electricity distribution licence granted to the Company by the Secretary of State (the "Licence"). The Company, its directors, employees or agents do not accept or assume responsibility to any other person in connection with this document, other than in respect of the obligations imposed on the Company by standard condition 44 of the Licence, and any such responsibility or liability is expressly disclaimed. The Regulatory Accounts contain certain forward-looking statements, which can be identified by the fact that they do not relate only to historical or current facts. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, business prospects, the availability of financing to the Company and anticipated cost savings are forward-looking statements.

By their nature, these statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements reflect the knowledge and information available at the date of preparation of the Regulatory Accounts and will not be updated during the year. Nothing in the Regulatory Accounts should be construed as a profit forecast.

STRATEGIC REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015

The Company is an authorised distributor under the Electricity Act 1989, holds an electricity distribution licence granted by the Secretary of State and is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group"). As a distribution network operator ("DNO"), the Company distributes electricity to approximately 1.6 million customers connected to its electricity distribution network within its distribution services area in the northeast of England, which extends from North Northumberland, south to York and west to the Pennines. The Company's distribution network of transformers, switchgear and overhead and underground cables receives electricity from generators connected to it and from the National Grid's transmission system and distributes that electricity at voltages of up to 132kV.

The main classes of asset, which make up the Company's distribution network, include:

<u>Asset class</u>	<u>Approximate number</u>
Total circuit length (underground and overhead)	41,027 kilometres
Ground-mounted distribution substations	10,785
Pole-mounted distribution substations	16,172
Major substations	245
LV services (overhead)	151,800
LV services (underground)	1.44 million

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STRATEGIC REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

In common with the Northern Powergrid Group, the Company operates a business model and strategy based on its six core principles (the "Core Principles"), which are:

Principle	Strategy	Indicator
Financial strength	Effective stewardship of the Company's financial resources, investing in assets and focusing on long-term opportunities, which contribute to the Company's future strength.	Profitability, cash flow and maintenance of investment grade credit ratings.
Customer service	Delivering reliability, dependability, fair prices and exceptional service.	Improving network resilience and performance, measured by: customer minutes lost, customer interruptions and customer satisfaction.
Operational excellence	Setting high standards for the Company's operations, system investment and maintenance.	Effective asset management, managing commercial risk and improving network resilience and performance.
Employee commitment	Equipping employees with the resources and support they need to operate successfully and in a safe and rewarding work environment.	Leading safety performance, engaging employees and effective leadership.
Environmental respect	Using natural resources wisely and protecting the environment, where it is impacted by the Company's operations.	Reducing environmental impact and promoting and pursuing long-term sustainability.
Regulatory integrity	Adhering to a policy of strict compliance with applicable laws, regulations, standards and policies.	Strong internal controls, regulatory engagement and industry influence.

Strategic objectives

The Company's strategic objectives are based on the Core Principles, remain consistent and are to build a business, which:

- continues to generate value over the long-term;
- invests in and manages its electricity distribution network in an efficient and effective manner;
- provides its customers with an excellent standard of service;
- engages with its employees so that they feel rewarded and recognised as part of a team that sets and achieves increasingly high standards of performance; and
- is viewed as being a leader in shaping the future direction of the electricity distribution sector in the United Kingdom.

As part of its strategy the Company continues to be committed to putting safety first, respecting its customers, their time and property, doing a quality job, responding effectively to major incidents on the network in times of severe weather and caring for its local environment.

STRATEGIC REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

REVIEW OF THE REGULATORY YEAR

The Company delivered a satisfactory financial performance for the Regulatory Year, which benefited from a further change to the rate of taxation and continued effective cost control, with revenue at £372.8 million being £57.8 million more than in the year ended 31 March 2014. The increase in revenue was mainly due to the five-year profile of allowed revenues inherent in the price control formula under the Distribution Price Control period to 31 March 2015 ("DPCR5"). In addition, the year ended 31 March 2014 included the voluntary rebate of £15.5 million made to the electricity suppliers in relation to domestic customers following a request by the Department of Energy and Climate Change.

One of the main priorities for the Company in the Regulatory Year was responding to Ofgem's decision that its well-justified business plan was not to proceed on the "fast track" as part of the process for setting its income for the current regulatory period, which runs from 1 April 2015 to 31 March 2023 and is known as ED1. Ofgem published its final determination in November 2014, which set out allowed revenues and rules by which Ofgem expects to adjust the Company's revenues in certain circumstances during ED1. Under Ofgem's proposals, excluding the effects of incentive schemes and any deferred revenues from DPCR5, the Company's base allowed revenue will decrease by approximately 20% in the regulatory year to 31 March 2016 before the addition of inflation, as measured by the Retail Prices Index ("RPI"), in order to derive the final price change.

On 2 March 2015 the Company sought permission from the Competition and Markets Authority (the "CMA") to appeal against the licence modifications that give effect to the ED1 price control. The appeal relates to three specific areas:

- (i) Ofgem's decision to demand further cost savings in relation to smart grid technology over and above the ones captured by its original benchmarking exercise;
- (ii) Ofgem's assessment of the variation in wage rates across the country; and
- (iii) Ofgem's projections for labour cost increases.

On 30 March 2015 the CMA granted the Company permission to appeal, such that the appeal is expected to conclude in the fourth quarter of 2015 in accordance with the timetable required of the CMA. British Gas Trading Limited was also granted permission to appeal the price control, with the same review timetable. The outcome of these appeals may increase or reduce the revenue available to the Company, if the CMA amends the price control determination.

Having again delivered its largest ever capital expenditure programme of £207.8 million in the year ended 31 March 2014, the Company continued with its policy of investing efficiently in its electricity distribution network. During the Regulatory Year, the Company invested £217.5 million in its distribution network, such that it exceeded its investment in the year ended 31 March 2014 and completed all outputs committed within the DPCR5 price control period by the end of DPCR5 on 31 March 2015.

The Company lags its industry peers in customer satisfaction and so has made this area a management priority for long-term improvement. During the Regulatory Year its customer satisfaction scores continued to improve, its performance to reduce service failures met target and its connections lead times shortened. The Company continues to be an industry leader in terms of social obligations and stakeholder engagement. Delivery of the capital expenditure programme, the provision of excellent customer service and ensuring a reliable electricity supply were some of the most significant outputs the Company was required to deliver during DPCR5. The directors consider that the Company's overall performance in that respect ensured a successful conclusion to DPCR5 was achieved.

The Company introduced a number of initiatives during the Regulatory Year that are designed to improve its services to customers including providing more information on the website such as self-service quotations for customers seeking low voltage connections and a quick calculator to give site-specific guidance on the potential price of a new connection. The Company also introduced new, higher specification customer support vehicles, engaged more effectively with its stakeholders and promoted the benefits of being on the priority service register.

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STRATEGIC REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

REVIEW OF THE REGULATORY YEAR (CONTINUED)

The Company again beat Ofgem's targets for the quality of the electricity supply provided to its customers and continued to focus on reducing the average times taken to restore supplies following a power cut. In that respect, the Company changed its Operations model to one based on a larger number of more locally-focussed zones in preparation for the introduction of a new guaranteed standard for the restoration of supply within 12 hours of a power cut occurring from 1 April 2015.

Environmental performance continued to be strong with the Company delivering its most successful year. Incidents reportable to the Environment Agency, oil spills and leaks from the Company's assets and SF₆ gas discharges from electrical plant were all better than target. Given the impact on the environment of such events, the Company is committed to reducing losses from fluid-filled cables and, during ED1, plans to replace a significant number of those assets on a phased and prioritised basis and to increase the use of perfluorocarbon tracers to improve the efficiency of oil leak identification.

The Company's safety performance continued to be strong, with an Occupational Safety and Health Administration ("OSHA") rate of 0.1 being recorded for the year to 31 December 2014 (2013: 0.31), such that it made an effective contribution to the Northern Powergrid Group delivering its best ever safety performance and the long-term trend in the Company's overall safety performance continued to compare well with that of the industry. The Company either met or beat all of its main internal targets in respect of lost time, restricted duty and medical treatment accidents, operational incidents and preventable vehicle accidents.

CORE PRINCIPLES

Financial strength

During the Regulatory Year, the Company continued to maintain good control in respect of both its capital and operating costs by effectively managing the various financial risks that could have had an adverse impact on its business.

The Company benefited from the stability provided by the arrangements agreed in respect of DPCR5 in terms of its income until 31 March 2015 and, notwithstanding the appeal to the CMA, the ED1 price control has been set for eight years with provision for a mid-period review of the outputs that the Company is required to deliver. In that respect, the Company recognises that it needs to show that it is delivering reliable services at a fair price to its customers, while operating in an efficient and effective manner.

Key aspects of financial performance for the Regulatory Year were as follows:

Revenue

The Company's revenue at £372.8 million was £57.8 million higher than the prior year mainly due to the five-year profile of allowed revenues inherent in the DPCR5 price control formula. In addition the prior year included the voluntary rebate of £15.5 million made to the electricity suppliers.

Operating profit and position at the Regulatory Year end

The Company's operating profit at £182.9 million was £41.1 million higher than the previous year, reflecting increased revenues partly offset by increases in some operating costs such as depreciation, salaries and maintenance. The statement of financial position on page 37 shows that, as at 31 March 2015, the Company had total equity of £756.8 million. The directors consider the Company to have a strong statement of financial position which, when coupled with the preference of its parent company, Berkshire Hathaway Energy Company ("Berkshire Hathaway Energy"), for operating with lower levels of debt than equivalent companies in the sector, creates a stable base for continued strong performance into ED1.

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STRATEGIC REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

CORE PRINCIPLES (CONTINUED)

Financial strength (continued)

Finance costs and investments

Finance costs net of investment income at £25.9 million were broadly in line with the prior year.

Taxation

The effective tax rate in the Regulatory Year was 21%. Details of the income tax expense are provided in Note 9 to the Regulatory Accounts.

Results and dividends

The Company made a profit after tax for the Regulatory Year of £125.2 million (2014: £107.3 million). An interim dividend of £30.0 million was paid during the Regulatory Year (2014: £30.0 million) and the directors recommended that no final dividend be paid in respect of the statutory accounting year to 31 December 2014.

Share capital and debt structure

There were no changes to the Company's share capital or debt structure during the Regulatory Year.

Dividend policy

The Company's dividend policy is that dividends may only be paid after having due regard to available distributable reserves, available liquid funds and the financial resources and facilities needed to enable the Company to carry on its business for at least the next year. In addition, the level of dividends is set to maintain sufficient equity in the Company so as not to jeopardise its investment grade issuer credit rating.

Cash flow

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

Movements in cash flows were as follows:

Operating activities: Cash flow from operating activities at £160.6 million was £28.9 million higher than the previous year, mainly as a result of higher profits.

Investing activities: Net cash used in investing activities at £171.9 million was £6.7 million lower than the previous year, reflecting higher net capital expenditure.

Financing activities: The net cash from financing activities at £11.3 million represents a £35.6 million adverse variance compared to the previous year, reflecting net movements in borrowings required to fund business operations in the year.

Liquidity risk

As at 31 March 2015, the Company had access to £75 million under a five year committed revolving credit facility provided by Lloyds Bank plc, The Royal Bank of Scotland plc and Abbey National Treasury Services plc, which was due to expire on 20 August 2017. On 30 April 2015, this revolving credit facility was restated and amended and is now due to expire on 30 April 2020. The Company expects to raise further facilities, as required, at that time.

In addition, the Company has access to further short-term borrowing facilities provided by YEG and to a £19 million overdraft facility provided by Lloyds Bank plc, which is reviewed annually.

The directors do not consider there to be any doubt over the Company's ability to raise appropriate levels of finance in the future, given its investment grade issuer credit rating and the fundamental financial strength and nature of its business.

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STRATEGIC REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

CORE PRINCIPLES (CONTINUED)

Financial strength (continued)

Interest rate risk

The Company is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 March 2015, 100% of the Company's long-term borrowings were at fixed rates and the average maturity for these borrowings was 14 years.

Currency risk

No material currency risks are faced by the Company.

Pensions

The Company is a participating employer in the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "Scheme"), a defined benefit scheme. Full details of the Company's commitments to the Scheme and the associated deficit repair payments are provided in Note 23 to the Regulatory Accounts.

The Company also participates in the Northern Powergrid Pension Scheme, which is a defined contribution scheme.

Insurance

As part of its insurance and risk strategy, the Northern Powergrid Group has in place a range of insurance policies, including policies which cover risks associated with damage to property, employer's and third party motor liability and public liability. The Northern Powergrid Group carries appropriate excesses on those policies and is effectively self-insured up to the level of those excesses. Consequently, the risk management and health and safety programmes in place are viewed as extremely important elements of the business, given the contribution they make to the elimination or reduction of exposure to such risks.

Customer service

During the Regulatory Year, the Company distributed electricity to customers in its distribution services area and continued to improve the overall performance of the distribution network through an investment strategy targeted at delivering improvements in an efficient and cost-effective manner. The Company remains focused on delivering a reliable and dependable supply of electricity and a high standard of service to its customers.

Customer service improvements are a priority for the Company, which is consistently ranked in the lower half of Ofgem's customer service league tables. The Company has a long-term goal to improve this ranking and has a programme of actions in place to support this improvement.

Customer satisfaction with the Company's response to unplanned high voltage power cuts showed some gradual improvement in early 2015 and the focus remains on improving restoration times and providing more timely and accurate information to customers in that respect. Customer satisfaction with planned power cuts also showed some encouraging improvement with the Company introducing a text and email service to remind customers three days ahead of the power cut taking place. In addition, improvements to the ways in which the Company plans for and manages power cuts are being developed.

Investment is being channelled to improve the reliability of under-performing parts of the distribution network by continuing to identify "hot spots" of particularly poor network performance and taking specific action to address the issues in those areas. In the customer service support areas, further investment is being directed toward information technology to improve contact with customers, provide quicker and more accurate information to customers and allow customers to communicate with the Company in a range of accessible and easy ways.

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STRATEGIC REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

CORE PRINCIPLES (CONTINUED)

Customer service (continued)

The Company has built on the industry-leading communications and engagement approaches used to support its regulatory business plan and maintains a number of engagement channels. Three independently chaired expert panels continue to play a key role in challenging the Company's plans, monitoring its performance and helping to deliver innovative initiatives and services. Guided by these panels, the Company has been able to direct effort towards public meetings in the new operating zones, community energy workshops aimed at enhancing the take-up of low-carbon technologies and wider collaborations such as with other utilities via Infrastructure North. The feedback received as part of the stakeholder engagement process helped the Company to further develop its customer service improvement programme.

The evolving requirements to demonstrate a transparent and market-reflective service in new connections mean that further developments are planned in this area, including using the website to provide more information such as self-service quotation facilities for customers seeking low voltage connections. The regulatory arrangements that apply to the connections activity are described in more detail under "Connections to the network" below.

In common with other DNOs, the Company is participating in the national project looking at creating a single national three-digit enquiry number for power cut calls and is leading several sub-groups within this project. Following a consultation, Ofcom agreed that there was a strong case for that three-digit number to be introduced and announced in June 2015 that the number was to be 105. The number is scheduled to go live in April 2016.

The performance of the DNOs against guaranteed standards, which are set for activities such as restoring supplies after power cuts, provides a measure of the level of customer service. Performance against these measures forms part of the Company's regular reporting to Ofgem.

Ofgem's incentive scheme for quality of service, by which the DNOs are provided with financial incentives, is based upon targets set by Ofgem with regard to each DNO's performance in terms of the number of power cuts, the duration of those power cuts and customer satisfaction.

Customer minutes lost ("CML") and customer interruptions ("CI") are the key performance indicators used by the Company to measure the quality of supply and system performance. CML measures the average number of supply minutes lost for every connected customer due to both planned and unplanned power cuts that last for three minutes or longer. CI measures the average number of supply interruptions for every 100 connected customers due to planned and unplanned power cuts that last for three minutes or longer.

In respect of these key customer service performance indicators, the goal is to achieve performance that is below Ofgem's target number in respect of CML and CI. The Company's reported performance for the Regulatory Year was as follows:

	Year to 31 March 2015		Year to 31 March 2014	
	Actual	Target	Actual	Target
CML	56.1	70.6	64.6	70.7
CI	65.3	68.1	62.9	68.1

Performance in the Regulatory Year was better than Ofgem's target for both CML and CI and contributed to the Company's improved customer service performance in that year. In June 2015 Ofgem issued its view on the impact of certain events that occurred in the regulatory year to 31 March 2014 on the Company's CML and CI performance for that year, which is reflected in the above table.

CORE PRINCIPLES (CONTINUED)

Customer service (continued)

In May 2014, the Company put forward its discretionary reward submission to Ofgem in respect of its stakeholder engagement during the regulatory year ended 31 March 2014, which included initiatives with increased focus on the Company's social obligations, such as its partnership with the Trussell Trust food banks, and improved on-line services for its customers. The Company presented its submission to Ofgem's panel on 9 July 2014 and improved its position from the previous year being ranked as the second placed DNO group and securing a reward of £0.9 million, which will be received during the regulatory year ended 31 March 2016. The Company intends to reinvest its reward in its key initiatives and to continue to build on this strong stakeholder engagement performance.

Under the Broad Measure of Customer Satisfaction, an independent market research company, Accent, carried out telephone surveys with the Company's customers to find out how satisfied they were with the services provided. During the Regulatory Year, Accent surveyed a number of customers who had contacted the Company regarding an unplanned or a planned power cut, had requested a price quotation and a subsequent connection or had a general enquiry where a service had been provided or a job completed. The Company recorded an overall satisfaction score of 81.9% for the Regulatory Year and expects that the customer service improvement plan, including the range of initiatives noted on pages 6 and 7, will improve the services provided to customers and so increase the satisfaction ratings year-on-year.

While recognising that its customer service performance can be improved, the Company made steady progress during the Regulatory Year with its customer satisfaction scores continuing to improve, its performance to reduce service failures meeting target, its connections lead times steadily shortening and it continuing to be an industry leader in terms of social obligations and stakeholder engagement.

Connections to the Network

During the Regulatory Year, the Company continued to improve the connections services provided to its customers, while also actively facilitating the development of competition from independent connections providers ("ICPs"), so providing increased choice to customers in the region. The Company continued to engage regularly with its connections customers in groups and individually, holding monthly customer surgeries, twice yearly customer events and contributing to national stakeholder forums and events.

An online application process allows customers to apply for certain types of new connection quickly, easily and conveniently and work continues on developing an online self-quotation service for high volume connections customers which, when launched, will deliver a significant reduction in the overall time to serve those customers. Other enhancements to the Company's online connections services included:

- Simplifying the solar panel installation form;
- Improving the accessibility of information and designing new reports for connections customers;
- Providing the ability to upload site plans and other attachments to online connections applications; and
- Upgrading the online shrouding service allowing customers to see all their jobs in one place.

As part of the DPCR5 final proposals, Ofgem put in place a competition test to encourage all of the DNOs to make it easier for ICPs to provide competing offers to customers and, in line with Ofgem's deadline for submission, the Company put forward a case to Ofgem, in the form of the requisite Competition Notices, to prove that competition existed in eight market segments. This was in addition to the high voltage segment, in respect of which the Company passed Ofgem's test in October 2012. Having considered and consulted on the Company's Competition Notices, Ofgem announced, on 17 April 2014, that it had not accepted any of the alternative market segments proposed by the Company and, therefore, was not allowing an unregulated margin to be charged in any of those segments because it did not have sufficient evidence that customers' interests would be protected if that price regulation were removed.

CORE PRINCIPLES (CONTINUED)

Customer service (continued)

Connections to the Network (continued)

The start of ED1 saw the introduction of the Incentive on Connections Engagement ("ICE") in respect of customers requiring larger connections to the network, so that the needs of those customers can be met more effectively. ICE is applicable to certain market segments according to the nature and volume of the connection activities being undertaken and, under ICE, the Company is required to submit two documents to Ofgem. One document will be submitted at the start of each regulatory year and will set out the Company's commitments to improve its large connections services. The second document will be submitted shortly after the end of that regulatory year and will report on how the Company performed in respect of those commitments.

Ofgem trialled ICE in relation to distributed generation ("DG") customers only and, in June 2014, the Company submitted its report to Ofgem regarding its performance in respect of DG customers during the previous regulatory year, which outlined how the Company had engaged with those customers and provided a number of examples of how the Company had acted on the feedback from that engagement. Those examples included creating a 'Simplifying Distributed Generation' guide to better inform DG customers about how DG is connected to the network and giving guide prices for different options, making the legal and wayleave processes more efficient, extending the quotation validity period from 60 to 90 days and providing a decision-support tool on the web site that allows DG customers to narrow the application choices based upon questions about their projects.

The Company provided its submission looking forward for the Regulatory Year in April 2014, which included details of the DG service improvement plan. That plan seeks to deliver efficient and effective connections services for DG customers and includes measures for making the application process easier and quicker, ensuring accurate information is readily available, exploiting developments in technology and continuing to invest in communication events and channels.

In that respect, the Company continues to seek feedback from its customers on a regular basis in order to assist with developing further improvements to its services. The services provided in future will be tailored to the requirements of customers in the different market segments so that the Company provides a faster and more flexible service.

Corporate responsibility

The Company values its relationship with its customers and other stakeholders and recognises the importance of maintaining a secure and safe power supply for its customers and their local communities. That commitment is underpinned by five customer promises, which are to put safety first, to respect the Company's customers, their time and property, to do a really good job, to be there when needed and to care for the local environment.

The Company maintained its key partnerships with the Environment Agency, the local authorities and the local resilience forums, via a Civil Contingency Co-ordinator, so that it can respond quickly to significant faults on or threats to the network. In addition, the Company has well-established emergency procedures that are triggered in times of weather-related incidents or long-duration power cuts when people are without power for some time. The Company responded well to the weather-related incidents, which impacted on its assets during the Regulatory Year. However, effective investment in the network and the relatively benign weather experienced during the Regulatory Year meant that the Company only invoked its major incident management plan on one occasion in order to deal with high winds that affected the region in January 2015.

As well as redeploying staff from planned works to help restore power as quickly as possible when major incidents occur, the Company has a number of customer service vehicles, which are dispatched to the areas affected. Those vehicles are able to support the distribution of hot drinks and microwave meals and generally assist with the welfare of customers in order to alleviate the impact of the incident.

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STRATEGIC REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

CORE PRINCIPLES (CONTINUED)

Customer service (continued)

Corporate responsibility (continued)

The Company also utilises its 'customer ambassadors' and customer liaison officers, who are allocated to each of the new operating zones, to address customers' concerns and resolve their complaints and worked with the British Red Cross in order to pay particular attention to the welfare of customers on the priority service register so that those customers are kept informed of the situation throughout the event and after the power has been restored.

The Company engaged with some of its more vulnerable customers, the people that represent them and other experts to better understand and inform how it can support those customers. That engagement included telephone interviews with a thousand customers on the priority service register, regular interaction with the Company's social issues group and focus groups with experts facilitated by voluntary sector organisations. As a result, the Company continued to improve the quality of the information held on the priority service register, promoted the benefits of being on that register more widely, including via a radio advertising campaign, and entered into an agreement with the umbrella organisations for the voluntary, community and charity sector in the region to tell their members about the priority service register and the wider support available for vulnerable customers.

The Company has in place a small donation programme, which is focused on its key priorities of support for youth, education and the environment and from which grants were made during the year to organisations such as charitable trusts and community groups.

Safety remains the Company's first priority and underpins every aspect of its operations. During the Regulatory Year, the Company continued to participate, alongside other key organisations, in 'Crucial Crew', which is a schools-based safety initiative that teaches children to recognise and avoid situations that put them in danger, such as climbing electricity pylons and fishing near power lines. The Company's safety programme includes Crucial Crew events, school visits, participation in safety days, and the "prison me - no way" campaign. The programme is delivered by two dedicated safety presenters who promote the safety messages through an interactive presentation, which includes focus on children being aware of their surroundings and the dangers of electricity and is also supported through an interactive website and mobile phone game.

Operational excellence

The Company's core service continues to be providing and maintaining an efficient distribution network that delivers electricity effectively. During the Regulatory Year, £217.5 million was invested in the improvement of the distribution network, an increase on the record amount of £207.8 million in the previous year. The Company's continued and substantial investment in its distribution network saw reliability increase throughout DPCR5. During that period, an electricity supply was available to the Company's customers for approximately 99.98% of the time and the Company has generally outperformed the targets set by Ofgem in respect of CI and CML. The Company's inspection and maintenance regimes have ensured that the underlying health of the network assets has been sustained and none of the leading indicators used by the Company suggest any diminishing performance in this respect in the future.

Operational activity

The Company continued to implement its approved network investment strategy, which is designed to deliver improvements in an efficient and cost-effective manner in order to improve the network's resilience. The Company is committed to enhancing the reliability of the network such that fewer power cuts affect customers and, when power cuts do happen, they are shorter in duration.

CORE PRINCIPLES (CONTINUED)

Operational excellence (continued)

Operational activity (continued)

The Company changed its Operations structure during the Regulatory Year in order to tailor its services and response to the needs of customers and local communities by delivering improved performance standards in the restoration of power following power cuts and in new connection activities for small works. That structure is now organised into new operating zones around the main conurbation of Tyne & Wear, the industrialised area around the Tees and the rural areas of Northumberland, Durham, North Yorkshire, including the Dales, the Vale of York and the North Yorkshire Moors.

The zonal structure is supported by several areas within Operations which remain functional, which are Network Operations, which provides the day-to-day and real time management of the network, Connections Delivery, which undertakes customer-driven work, Programme Delivery, which is responsible for primary engineering projects, technical services and bespoke connections and for the inspection, maintenance and replacement of operational assets, and Operational Services, which includes supply chain management and support services.

As a new guaranteed standard for the restoration of supply within 12 hours of a power cut occurring came into effect from 1 April 2015, the Company's new operational structure will provide a more localised focus and, therefore, improved response times in the event of a power cut. The Company has also invested in technology to support its drive to improve response times and introduced the automated power restoration system ("APRS") into its existing network management system so that, in the event of a high voltage fault, APRS will analyse the information presented by intelligent assets installed on the network and, from that information, determine where the fault is located and execute switching to restore power to the 'healthy' network. The Company expects that APRS will significantly improve the service to customers due to the speed with which it can understand the information presented and then complete the switching required to restore power. The system aims to isolate the fault and restore power to the remainder of the network in a safe manner in under three minutes. Where permanent repairs are necessary to restore the remaining customers on the faulted and isolated part of the network, if the Company fails to meet the 12 hour standard, it will make an automatic payment to those customers whenever it is aware of such a failure, rather than customers having to make a claim.

The Company's priorities during the Regulatory Year included delivering a significant level of capital expenditure on the network as in the previous year, a further reduction in the average level of fault repair work in progress, a robust approach to the control of operations on the low voltage network and continued focus on the restoration times associated with both high and low voltage power cuts, with high voltage restoration performance averaging some 62.0 minutes (2014: 58.8 minutes), after allowing for severe weather incidents and other exemptions. During the Regulatory Year, the Company completed all outputs committed within the DPCR5 price control period by the price control end date of 31 March 2015.

The Company undertook various major projects during the Regulatory Year in support of those targets and as part of the investment strategy, including:

- Replacement of 66kV circuit breakers at Coalburns, Fossway, Toronto and North Tees;
- Replacement of primary switchgear at Northallerton and Spencerbeck and primary system transformers at Harraton, Barrack Road, Maddison Street and Bowesfield;
- Completion of extensive refurbishment works at Tynemouth Central and transformer refurbishment works at Darlington East;
- Reinforcement of the primary network in Sunderland was completed with the installation of a new 66/11kV substation facilitating load transfer from the 20kV system;
- Reinforcement in the Knaresborough area to connect to the previously constructed Knaresborough 132kV substation with extensive 33kV diversionary works and 132kV circuit reconfiguration works having been completed such that commissioning is expected by October 2015;

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CORE PRINCIPLES (CONTINUED)

Operational excellence (continued)

Operational activity (continued)

- Installation of a 33kV cable interconnection in Harrogate and of a new 132/66kV transformer and 66kV switchgear at Potterhouse;
- Over 65 km of extra high voltage underground cable was replaced, including removal of 28 km of oil-filled cable and 22 km of gas insulated cable;
- 200 overhead line towers were refurbished and over 200 extra-high voltage poles were replaced either as part of circuit refurbishment works or individually based on condition;
- 197km of high voltage overhead line and 92km of low voltage overhead line was rebuilt and/or refurbished;
- 16 units of high voltage outdoor switchgear, 21 high voltage distribution substations and 131 units of high voltage indoor switchgear were replaced; and
- 264 new remote control points were installed and commissioned.

In order to deliver its investment strategy, the Company used a mix of its own staff and contractors to undertake its activities, including affiliated companies in the Northern Powergrid Group.

Employee commitment

Health and safety

The focus on health and safety continued to be of paramount importance for the directors, as it is for all employees. There is a continuous drive for improvement in safety performance through the setting of challenging goals and the pursuit of a comprehensive safety and health improvement plan, which reflects the Company's fundamental objective that none of its staff should go home injured and all employees should commit to behaving safely all of the time. The Company makes no compromise in respect of its health and safety obligations and centres its safety plans and systems on the principles found in companies with world class safety performance.

The Company's safety record over a number of years suggests that it is one of the safest in the sector in which it operates and it will strive to maintain that position over the coming years. Having identified issues that may pose an increased safety risk such as metal theft and the impending roll-out of smart meters, the Company is implementing various measures through its safety and health improvement plan that will build incrementally on the existing strong safety record and ensure that safety considerations are always a part of the investment decision-making and appraisal process.

One of the key deliverables in the Company's safety and health improvement plan has been to raise awareness and improve the concentration skills of the operational engineers and other employees via face-to-face and online training courses, which contributed to delivery of the Northern Powergrid Group's best ever operational incident performance with the number switching issues being experienced on the high voltage network reducing to 13 in the year ended 31 December 2014, five of which occurred within the Company's distribution services area. As part of the safety and health improvement plan, the Company also delivered operational seminars and stand down briefings and issued regular safety newsflashes to staff in order to cascade information on safety trends, issues and incidents.

The Company's safety and health improvement plan targets continuous improvement and delivery of the various initiatives contained in that plan contributed to the Company recording an OSHA rate for the year ended 31 December 2014 of 0.1 (2013: 0.31).

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STRATEGIC REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

CORE PRINCIPLES (CONTINUED)

Employee commitment (continued)

Health and safety (continued)

The Company measures its health and safety performance in calendar years and uses several key performance indicators to monitor safety performance, with the goal of achieving performance that is below the target number. The main key performance indicators are as follows:

	2014		2013	
	Target	Actual	Target	Actual
Lost time accidents	1	1	1	3
Restricted duty accidents	1	0	1	0
Medical treatment accidents	1	0	1	0
Operational incidents	5	5	3	9
Preventable vehicle accidents	11	10	11	11

The number of lost time accidents experienced by the Company reduced to one in the year ended 31 December 2014 as opposed to three experienced in 2013 and the Company did not record any medical treatment or restricted duty cases. In addition, performance in respect of preventable vehicle accidents was one accident below the target for the year ended 31 December 2014 and showed an improvement compared with 2013. None of those incidents gave rise to any significant safety-related risks and the positive trend continued in the first quarter of 2015.

In common with the Berkshire Hathaway Energy group, the Northern Powergrid Group measures its safety performance in terms of the OSHA rate, which is a measure used in the United States to capture safety incidents down to minor levels of medical treatment, such as a stitch or the use of prescription pain killers. As part of its plan to reduce the OSHA rate across the group, Berkshire Hathaway Energy issues daily e-mail updates in respect of performance against its overall OSHA rate and preventable vehicle accident targets, which include information on incidents that have occurred.

Delivery of the various initiatives in the safety and health improvement plan also contributed to the Northern Powergrid Group achieving an OSHA rate of 0.26 against a target of 0.4, which equated to only six recordable incidents and represented the best ever performance.

As part of the safety and health improvement plan and in order to reinforce the operational safety values, the Company continued to implement its cross-business operational assurance audit programme and its senior management field engagement programme in order to improve two-way communication on safety and other key business issues. The Company continued to implement a robust road risk management plan, which involved electronic driving licence checking, delivering road risk awareness workshops to new employees and using risk reduction tools such as online driver assessment and training followed by an on-road refresher training session if required. The driver training programme provides practical driving training to a targeted population of drivers and is the primary route to improving driver skills in the longer term. Recognising that driving is one of most hazardous activities undertaken on a daily basis, the programme is being expanded further throughout 2015 via an interactive, web-based system designed to assess skills and provide targeted training based on the assessment.

During the Regulatory Year, the Company was awarded a President's Award from the Royal Society for the Prevention of Accidents for achieving 13 consecutive Gold Awards in recognition of achievements in 2013 and for continued or improving standards of health and safety over a sustained period. The Company's health and safety management systems were subject to the regular bi-annual external surveillances and, on conclusion of those assessments, the auditor recommended that the Company maintained its OHSAS 18001 accreditation.

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STRATEGIC REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

CORE PRINCIPLES (CONTINUED)

Employee commitment (continued)

Health and safety (continued)

The sickness absence rate across the Northern Powergrid Group for the year ended 31 December 2014 was 2.32% (2013: 2.22%), which was similar to that experienced in 2013 and does not give rise to any particular cause for concern.

Management structure

Operational management of the Company and that of its affiliate, Northern Powergrid (Yorkshire) plc ("NPg Yorkshire"), is undertaken by a single senior management team with specific functional responsibilities. Those functional responsibilities are in respect of operations, health, safety and environment, asset management (including procurement), commercial (including customer service, new connections to the network and stakeholder engagement), regulation and strategy, human resources, organisation development, legal and finance (including property management and information technology). Some of those functions also provide services across the Northern Powergrid Group.

Employees

The Company continued to apply appropriate control to its headcount policy and to place significant emphasis on the importance and application of high standards of management and performance in support of the Core Principles. The Company ensures that a level of consistency is adopted in so doing and, in respect of employee relations, continued to build constructive and partnered relationships with the trades unions. In that respect, the Company has or is working towards securing long-term pay agreements with the various employment groups such that the relevant terms and conditions are fair and appropriate across the Northern Powergrid Group.

Given the demographics of the Company's workforce, the level of investment being made in the distribution network and following on from the principle introduced in DPCR5 to fund plans for workforce renewal in order to encourage investment in a sustainable workforce, the Northern Powergrid Group has made a commitment to recruit an average of 100 trainees a year under its workforce renewal programme over the next eight years. The Northern Powergrid Group recruited a total of 126 members of staff in 2014 and 60 trainees who were recruited under the workforce renewal programme in previous years graduated from their training programmes and commenced work as part of the Northern Powergrid Group's operations.

The Company is committed to proper business conduct and, in common with Berkshire Hathaway Energy, has adopted a code of business ethics that emphasises the requirement for all staff to manage their activities to achieve the highest level of ethical conduct. A "speaking up" policy is in place so that members of staff are able to raise any instances of unethical acts, malpractice or impropriety. An additional process is also available to all staff via an international, anonymous help line operated by an independent company.

In order to support the welfare of its employees, the Northern Powergrid Group launched an employee assistance programme in September 2014, which is provided by an independent company that supports over 350 organisations in the UK. The programme is a confidential, self-referral counselling and information service to assist with personal or work-related problems that may be affecting health, wellbeing or performance and is available 24 hours a day, 365 days a year. The services available include health, wellbeing and family-care information, financial information and debt counselling and legal guidance.

Human resource policies focus on skills, motivation and excellence and the promotion of high standards of probity among staff. In addition, the appropriate organisational structure has been developed to control business units and to delegate authority and accountability, having regard to acceptable levels of risk.

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STRATEGIC REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

CORE PRINCIPLES (CONTINUED)

Employee commitment (continued)

Employees (continued)

As at 31 March 2015, the Company employed 1,065 staff (2014: 1,086) and the numbers of males and females in the following categories were:

	Male	Female
Directors	7	1
Senior Managers	35	10
Total Number of Employees	857	208

As noted in the paragraph on management structure, operational management of the Company's business and that of its affiliate, NPg Yorkshire, is undertaken by a single senior management team, which is reflected in the above analysis.

Environmental respect

The Company's approach to environmental compliance is governed by its environmental policy and the policy of Environmental RESPECT (Responsibility, Efficiency, Stewardship, Performance, Evaluation, Communication and Training) implemented by Berkshire Hathaway Energy. These policies and their subordinate operational control procedures and systems address compliance with legal and other key environmental requirements, pollution prevention and continual improvement and also promote environmental awareness and best practice amongst the Company's staff and contractors.

The Company has operated a United Kingdom Accreditation Service scheme for environmental management since the late 1990s, certified to the environmental management systems standard ISO 14001: 2004. It is subject to regular six-monthly assessment visits and a three-yearly certificate renewal assessment by an accredited external certification body in order to retain that status.

The most recent visit was a surveillance assessment carried out by Lloyd's Register Quality Assurance in March 2015. The assessment report drew management attention to two minor non-conformances to be addressed by agreed proposed actions and also noted that continued improvements had been made to the environmental management system over the past three years.

Procedures and processes have been reviewed and developed to improve the effectiveness of the aspects register, legal register and internal audits. Operational controls at depots were also seen to have significantly improved over the past three years which supported the reduced number of minor non-conformances raised at surveillance visits. There were no major non-conformances noted and continued certification was recommended and subsequently confirmed.

Improvements in support of the Company's environmental policy objectives continued to focus on replacing selected fluid-filled cable sections with non-fluid polymeric equivalents, replacing oil-filled circuit breakers with vacuum and sulphur hexafluoride gas filled units at outdoor substations to reduce the potential for oil leakage and using gas tracer technology to locate cable fluid leaks quicker, where it was practicable to do so. The Company also provided environmental awareness training for all new personnel and contractors and periodic refresher training for all staff via an online system to avoid the need for travelling to central training locations.

CORE PRINCIPLES (CONTINUED)

Environmental respect (continued)

These improvements support the Company in delivering sustained environmental performance. The Company measures its environmental performance in calendar years and, in 2014, only two incidents were reportable to the Environment Agency, which was significantly ahead of the target of 10, oil spills and leaks from the Company's assets were 1% better than the target of 14,000 litres and SF₆ gas discharges from electrical plant were 41% better than the target of 26 kilograms. In addition, the Company recycled more of its waste than before and maintained its positive performance with regard to street works. Work continued with many of the Company's key stakeholders, including the Environment Agency, to enhance the advanced environmental management processes already in place and, in 2015, the Company plans to maintain this progress so that the impact on the environment in which it works is reduced and the most effective ways of doing so are utilised.

The Company's commitment to the Environmental RESPECT policy and its improved overall performance shows that it is committed to keeping its impact on the environment to a minimum. The Company benefited from the process of preparing its well-justified business plan, which involved engaging directly with the Environment Agency in respect of a number of issues and will continue with that engagement in order to maintain strong and open relationships with its various environmental stakeholders, particularly in respect of the network's visual impact.

The Company plans to mobilise significant programmes during ED1 to replace fluid-filled cables and place overhead lines underground in national parks, reduce electrical losses and implement further improvements to the network that take account of protected structures, features, areas, wildlife and habitat. Bird life will be protected by placing bird-diverters on power lines where they are in proximity to nature reserves, wetlands, flight paths or in locations where rare species of bird are known to live or breed and also in response to information obtained from incident trends.

Sustainability

The Company's activities have an important part to play in the United Kingdom's transition to a low carbon economy, both in its capacity as a major participant in the United Kingdom energy industry and in terms of its own carbon footprint. As the country takes action to make significant reductions in its carbon emissions, the way electricity is produced and used is expected to have a significant impact on the electricity network over time. The Company is taking action to develop innovative solutions so that its network will be ready to handle the energy flows its customers need when required. In addition, the Company is working with customers to assist in solving issues raised by the installation of low-carbon generation and technologies. The Company is also actively involved in working with the industry and other interested parties to develop national policies and strategies to assist the low-carbon transition.

The Company and its affiliate, NPg Yorkshire, measure and publish details of their business carbon footprints. Figures are reported per calendar year and relate solely to the regulated electricity distribution business. A monthly reporting process is in place to calculate the amount, based on an inventory of the various carbon emissions sources, identified with reference to the methodology described in the Greenhouse Gas Protocol and quantification of emissions is achieved through compilation of various operational data sources. The business carbon footprint associated with the Company's activities for the calendar year to 31 December 2014 was 22,746 tonnes carbon dioxide equivalent (which includes work undertaken on the Company's behalf by its contractors but excludes electrical losses). Over the five years of DPCR5, the Company and NPg Yorkshire reported a 2% reduction in the business carbon footprint of the regulated electricity distribution business and have set a target to reduce that carbon footprint by a further 10% by the end of ED1. The intensity ratio of emissions is measured as tonnes of greenhouse gas emissions per GWh distributed in the year and, for the Company, was 33.3 for the calendar year ended 31 December 2014, including electrical losses. This was an increase of 4% compared to 2013, largely as a result of higher electrical losses recorded in the year. In line with Ofgem's requirements, the Company has contributed to the sustainability agenda through public reporting on its carbon footprint and its reporting framework is certified under CEMARS (the Certified Emissions Measurement and Reduction Scheme) for compliance with ISO 14064.

CORE PRINCIPLES (CONTINUED)

Environmental respect (continued)

Sustainability (continued)

The number of installations by customers of low-carbon technologies such as photovoltaic solar panels and heat pumps continued to increase during the Regulatory Year. The greater range of load and generation technologies being placed on the network arising from the decarbonisation of energy means that the Company needs to develop smart solutions that avoid the need for expensive reinforcement of the network. In that respect, the Northern Powergrid Group's Customer-Led Network Revolution project, which reached the formal project completion milestone on 31 December 2014, aimed to learn how novel network technology and changes in customers' energy-usage habits may lead to the speedier and lower cost connection of low-carbon technologies to the network.

Approximately 11,000 residential and 2,000 industrial and commercial and distributed generation customers participated in the trials conducted by the project with residential participants including customers with smart meters on time-of-use tariffs, heat pumps, solar photovoltaic panels and electric vehicles. Some 17MW of industrial and commercial scale demand-side response was implemented and a wealth of customer insight and analysis was gained in internationally ground-breaking research into customers' energy practices.

The project trialled an active network management system, which is one of the most sophisticated wide area control schemes in operation in Europe, a range of novel network technologies were installed and commissioned and approximately 200 trials of electrical energy storage, voltage control and real-time thermal rating were undertaken. Advanced modelling techniques were created that predicted and validated the physical trials and facilitated the learning for its application across Great Britain.

Consequently, the Company believes that the project delivered significant learning and a comprehensive legacy. It developed practical guidance including the prototype Network Planning and Design Decision Support tool, as well as policy recommendations and equipment specifications, made recommendations to update the United Kingdom electricity industry's technical network planning standards and delivered insight into potential future commercial arrangements and learning on the practicalities of delivering end-solutions that are compatible with customers' needs.

The Company's plans for ED1 include further development of the learning delivered by the project to support the evolution of a sustainable network, which will include enabling technology, reinforcement of the network to alleviate the constraints associated with low-carbon technologies and supporting the roll-out of smart meters. The Company believes that its plans will not only create some immediate benefits for customers during ED1 but also pave the way for much greater benefits after 2023.

Regulatory integrity

The Company manages its business to the highest behavioural standards and adheres to a policy of strict compliance with all relevant standards, legislation and regulatory conditions. The Governance and Risk Management Group ("GRMG") monitored and managed performance in risk-related and compliance areas and met on three occasions during the Regulatory Year.

As has been the case for some years, breaches by a DNO of its licence conditions could lead to financial penalties, which Ofgem has stated "will have a proportionate impact on shareholder returns". In order to assure compliance with licence and other regulatory obligations, the Company operates a regulatory compliance affirmation process, under which ownership of approximately 1,720 regulatory obligations contained within the compliance database is currently assigned to around 65 responsible managers. Those responsible managers are required, on a quarterly basis, to review compliance with the relevant obligations that have been assigned to them for certification and report on any identified non-compliances or perceived risks to the compliance process, which are then addressed. The Regulation Manager reports to the board of directors on the outcome of each quarter's exercise.

STRATEGIC REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

CORE PRINCIPLES (CONTINUED)

Regulatory integrity (continued)

A revenue-related issue arose during 2010 in that the adjustment of settlements data by certain suppliers had the effect of distorting the apparent performance of the Company under the losses incentive scheme. The Company engaged with Ofgem and other industry participants between 2010 and 2014 in order to resolve the complex issues surrounding the losses incentive arrangements for previous price control periods.

Ofgem removed the DPCR5 losses incentive and, on 21 March 2014, published its decision on the restatement of the 2009/2010 data and closing out the Distribution Price Control Review 4 ("DPCR4") losses incentive, together with details of the final sums to be returned by the Company during ED1. One party to the arrangements subsequently requested leave to appeal Ofgem's decision but was not granted permission to do so on 20 November 2014, so bringing the overall process to a conclusion. In accordance with International Financial Reporting Standards, the Company has not included any recognition of the close-out of the DPCR4 losses incentive in these Regulatory Accounts.

Under the new RIIO (revenue = incentives + innovation + outputs) model for regulation, price controls are set for eight years (rather than five as has previously been the case), with provision for a mid-period review of the outputs that network companies are required to deliver. Ofgem triggered the ED1 review process in the first quarter of 2012 and published its final determination in November 2014.

The final determination set out allowed revenues and rules, by which Ofgem expects to adjust these revenues in certain circumstances during ED1. Under Ofgem's proposals, excluding the effects of incentive schemes and any deferred revenues from DPCR5, the Company's base allowed revenue will decrease by approximately 20% in the regulatory year to 31 March 2016 before the addition of inflation, as measured by RPI, in order to derive the final price change. In the following regulatory year, the Company's base revenue will decrease by a further 0.9% before the addition of inflation. In subsequent regulatory years the base allowed revenues will increase approximately in line with inflation.

Under the new price control, Ofgem also intends to:

- derive and update the allowed cost of debt by reference to a long-run trailing average based on external benchmarks of utility debt costs;
- lengthen the period over which new regulatory assets are depreciated, from the current 20 years to 45 years, with the change being phased over eight years;
- adjust revenues during ED1, rather than at the next price control review, to partially reflect cost variances relative to cost allowances;
- adjust revenues in relation to some new service standard incentives, principally relating to the speed of and service standards for new connections to the network; and
- undertake a mid-period review and adjust revenues in the latter half of ED1 for any changes in the outputs required of licensees for certain specified reasons.

Many other aspects of the current price control remain in place (either in their current or a similar form), including adjustments to revenues in relation to the number and duration of service interruptions and customer service standards.

In addition, network tariffs, from which actual revenues are derived depending on the volumes of electricity distributed by the Company, will be set further in advance than is currently the case.

Changes have also been made to the legislation that prescribes the standards of service to be provided by the DNOs in specified circumstances and payments to be made to end-customers for failure to meet those standards. The most significant of these changes reduced from 18 to 12 hours the time that is allowed for restoration of supplies following an unplanned power cut in normal weather conditions.

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STRATEGIC REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

CORE PRINCIPLES (CONTINUED)

Regulatory integrity (continued)

During the Regulatory Year, the Company continued its voluntary involvement with the other DNOs and with transmission and gas distribution licensees in developing and trialling more formalised arrangements for assuring the accuracy of the information returns submitted to Ofgem. This exercise involved the development of risk-assessment matrices and the preparation and submission to Ofgem of a risk-based data-assurance plan for the regulatory year ahead, together with a report detailing the assurance work actually carried out in the regulatory year just ended and the findings of that work. The finalised arrangements were incorporated into the licences of all the network operators in April 2015 and the new regime will continue to be developed in the light of experience gained.

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties, which could have an impact on the Company, its financial position and its operations and may cause actual results to vary materially from those expected or historically experienced. The principal risks are outlined as follows:

Financial risk

As a holder of an electricity distribution licence, the Company is subject to regulation by the Gas and Electricity Markets Authority ("GEMA"), which acts through Ofgem. Most of the revenue of the electricity distribution licence holders is controlled by the distribution price control formula set out in the electricity distribution licence. The price control formula under DPCR5 did not constrain profits from year to year but set the maximum permitted revenue for each regulatory year and was a control on revenue that operated independently of most of the electricity distribution licence holder's costs. In ED1 the price control formula will be adjusted in light of the costs incurred in respect of every regulatory year. Where the Company recovers more, or less, than this maximum the difference is carried forward, with interest. For amounts relating to the previous regulatory year, the carry forward was into the entitlement for the Regulatory Year. For amounts relating to the Regulatory Year, the carry forward will be into the entitlement for the regulatory year ended 31 March 2017, with the exception of certain pre-specified amounts relating to the rebate made to energy suppliers in 2013 which will be carried forward into the regulatory year ended 31 March 2016.

Prior to and including DPCR5, it was the practice of Ofgem to review and reset the formula at five-year intervals, although the formula has been, and may be, reviewed at other times at the discretion of Ofgem. Consequently, the five-year DPCR5 price control period became effective on 1 April 2010 and set the Company's revenues through to 31 March 2015. The price control for ED1 has been set for the eight year period commencing on 1 April 2015 and it is Ofgem's intention to use eight-year price control periods in the future. A resetting of the formula is now made by GEMA without the consent of the electricity distribution licence holder but a licensee can appeal to the CMA against a decision by GEMA to proceed with such a modification. Certain other interested parties have the same right. Details of the Company's appeal to the CMA can be found on page 3 of this Strategic Report.

During the term of the price control, the rate of inflation as measured by RPI is taken into account in setting the Company's allowed income in respect of each regulatory year. Consequently, one of the risks faced by the Company is that its costs may increase by more than RPI. Any changes in costs incurred will have a direct impact on the Company's financial results, as will changes in performance under incentive schemes, such as in customer service, which can lead to adjustments to allowed revenues.

Ofgem recognises that defined benefit pension schemes and, particularly, the current deficit positions of various schemes, represent a significant cost to the DNOs and, in its DPCR5 final proposals, Ofgem confirmed that DNOs would be allowed to recover the actuarial value of the deficits attributable to a licensee's distribution business in existence as at 31 March 2010 via its regulated revenues (after an adjustment to reflect the residual of unfunded early retirement deficiency costs as at 31 March 2010). Ofgem re-affirmed these principles in its ED1 final determination.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Financial risk (continued)

However, given the stable and regulated nature of the DNOs' businesses, Ofgem took the view that a notional repair period of 15 years from 1 April 2010 was appropriate for the purpose of assessing the DNOs' allowed revenues in respect of pension costs in DPCR5.

The other financial risks facing the Company are outlined on pages 5 and 6 of this Strategic Report.

Operational risk

There are a number of risks to the Company's operational performance in respect of which mitigating actions have been taken. Appropriate credit cover arrangements are in place with the electricity suppliers, which would allow recovery of defaulted payments through the price control mechanism and a robust major incident management plan is implemented whenever severe weather impacts on the distribution network's performance. Metal theft continued to be a significant issue for the Company during the Regulatory Year with the activities of metal thieves causing power cuts on various occasions, which affected a large number of customers in aggregate. In response, the Company maintained the programme of risk-assessed and enhanced security measures at its sites and pursued awareness raising activity at a national and local level.

The Company recognises that there are uncertainties around the future take-up of low carbon technologies and the resulting capacity requirements for the network and from the fitting of smart meters throughout the Company's distribution services areas, which is expected to result in a requirement to address a substantial number of reported defects. The Company believes that it can effectively manage these issues through its usual risk management practices.

Commercial risk

Managing commercial risk continued to be of key importance and the Company remained focused on ensuring that its policies for credit checking, payment terms, payment performance tracking and debt management were strictly adhered to.

The Company's relationship with its main customers is governed by a distribution connection and use of system agreement ("DCUSA"), which is in place with each of those customers. Those customers are the electricity suppliers who, under the terms of the DCUSA, pay charges for the use of the distribution network, in respect of which it is necessary to ensure that credit cover arrangements in line with Ofgem's guidance remain in place. The principal electricity suppliers that use the Company's network are RWE Npower, British Gas, EDF Energy, E.ON, Scottish and Southern Energy and Scottish Power.

The Company operates utilising a mix of direct labour and contracted resource and has a range of contracts in place with various service providers for delivery of its work programmes, which are subject to regular market testing and tendering exercises. Those services include vegetation management, overhead line inspection and construction, substation construction and maintenance, underground cable laying services, vehicle leasing and servicing, tower painting and information technology services. The Company also has an extensive suite of contracts in place for the procurement of all of the goods and equipment it requires to deliver its capital expenditure programme and to run its business, including for varying types of transformers, switchgear and cables.

Risk Management

The Northern Powergrid Group operates a structured and disciplined approach to the management of risk as part of its overall risk management policy and, in DPCR5 and previous price control periods, accepted and successfully managed substantial cost and delivery risks by developing a culture of cost and risk management over that period of time. Risks are assessed with due regard to probability and impact and the risk environment is reviewed continually in order that new or emerging potential risks are identified. Those risks assessed to be significantly high are logged within a risk register that the GRMG reviews regularly and key indicators are used to track and monitor those risks considered to be significant.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Risk Management (continued)

Risk mitigation and loss control plans are prepared in response to strategic risks in order that the directors can be assured that appropriate mitigating actions are in place and are being implemented. These plans are monitored through to implementation and reviewed to determine whether the residual, mitigated risk is within an acceptable level of tolerance.

The Northern Powergrid Group identifies and assesses risks associated with the achievement of its strategic objectives, including those of an environmental and social nature. Any key actions needed to further enhance the control environment are identified, along with the person responsible for the management of the specific risk. A regular review of the key risks, controls and action plans is undertaken. The risk management programme includes regular review of the crisis management, disaster recovery and major incident plans, which are periodically tested, the sharing of best practice on disaster preparedness and response, penetration tests against firewall systems and disaster recovery tests of IT servers and priority processes and a peer review of the Northern Powergrid Group's risk management systems by Berkshire Hathaway Energy.

Risk management continues to be a central theme of senior management priority setting as well as an explicit business process that helps to stimulate the senior leadership's consciousness of lower probability, high consequence threats to business success or continuity. This approach is reinforced by that of the wider Berkshire Hathaway Energy group, whose activities have continued to include a structured benchmarking of risk management activities across its business units, including the sharing of significant lessons learned associated with risk management.

A key element and requirement of the risk management process is that a written certificate is provided by the President and Chief Executive Officer of the Northern Powergrid Group confirming that the effectiveness of the system of internal controls has been reviewed during the year. A self-certification process is in place, in support of this review, whereby senior managers are required to confirm that the system of internal control in their area of the business is operating effectively.

Internal Control

A rigorous internal control environment exists within the Northern Powergrid Group based on regular reporting, a series of operational and financial policy statements, investigations undertaken by internal audit and a stringent process for ensuring the implementation of any recommendations. Berkshire Hathaway Energy requires a quarterly control risk self-assessment to be undertaken by all senior managers as part of its programme for compliance with the requirements of the United States Sarbanes-Oxley Act and, while no significant areas of weakness have been identified, any recommended improvements are implemented.

In addition, the Northern Powergrid Group employs comprehensive business planning and financial reporting procedures, regularly reviews key performance indicators to assess progress towards its goals and has a strong internal audit function to provide independent scrutiny of its internal control systems. The Northern Powergrid Group has risk management procedures in place, including the standards required by the United States Sarbanes-Oxley Act, and has centralised treasury operations and established procedures for the planning, approving and monitoring of major capital expenditure.

The Northern Powergrid Group is committed to maintaining the highest ethical standards in the conduct of its business and, in that respect, implements Berkshire Hathaway Energy's code of business conduct for employees. The code of conduct sets out and emphasises the required standards and commitment to ethical behaviour, provides reporting mechanisms for known or suspected ethical issues, helps prevent wrongdoing and creates and sustains an ethical work environment across the Northern Powergrid Group. All employees are required to complete annual training on the code of business conduct and then confirm that they understand the requirements outlined in the code. The training is available online and employees who do not have access to the online system attend a briefing with their line manager.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Internal Control (continued)

The Company does not have a specific human rights policy but, as noted in this Strategic Report, it bases its operations on the Core Principles in order to deliver its long-term objectives. Accordingly, the Company remains fully committed to operating ethically and responsibly and with fairness and integrity through the policies and procedures it has in place which set the approach to its employees, their health, safety and welfare, its dealings with customers, particularly those who are vulnerable and on the priority service register, its impact on the environment and its contribution to the sustainability agenda within the energy industry. The Core Principles are a key factor in the responsible way in which the Company operates its electricity distribution business, examples of which are described throughout this Strategic Report.

The Northern Powergrid Group is also committed to preventing corruption in all its forms and continues to have a zero-tolerance approach to corruption in its business or by those with whom it does business. The board of Northern Powergrid Holdings Company has addressed the risks introduced by the Bribery Act 2010 through a compliance policy, changes to contractual terms, training and other staff awareness measures. The introduction of annual risk assessments and enhanced due diligence in respect of new business transactions has further assisted in ensuring compliance.

The Northern Powergrid Group requires staff, suppliers of services and business partners to comply with the Bribery Act. Its policies encourage an employee who has any suspicion of bribery or other form of corruption within or related to the Northern Powergrid Group to report the suspicion to a manager or via the international, anonymous help line mentioned in the employee section.

The Company has appropriate controls in place directed at ensuring compliance with the conditions in its licence requiring any payments made to, or received from, affiliates or related undertakings in respect of goods and services provided or supplied to be on an arm's length basis and on normal commercial terms.

ON BEHALF OF THE BOARD:

A handwritten signature in black ink, appearing to read 'T E Fielden', followed by a stylized flourish.

T E Fielden
Director

17 July 2015

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015

DIVIDENDS

During the Regulatory Year, an interim dividend of £30.0 million (15p per ordinary share) was paid (2014: £30.0 million, 15p per ordinary share). The directors recommended that no final dividend be paid in respect of the statutory accounting year ended 31 December 2014. No interim dividend was paid during the period from 1 January 2015 to 31 March 2015.

RESEARCH AND DEVELOPMENT

During the Regulatory Year, the Company continued working, on behalf of the Northern Powergrid Group and in partnership with British Gas, Durham University, Newcastle University and EA Technology, on its major project under Ofgem's Low Carbon Networks Fund, known as the Customer-Led Network Revolution, and completed the project on 31 December 2014. The draft project findings were issued to Ofgem for consideration ahead of their wider dissemination during 2015 as part of a three-month consultation period with the other DNOs in order to explore and refine the conclusions.

The Customer-Led Network Revolution remains the largest project supported by Ofgem in the time that the Low Carbon Networks Fund has been in place and the Northern Powergrid Group incurred expenditure of £31.0 million over the life of the project. Of that expenditure, 90% is funded by electricity customers in Great Britain. Successful delivery of the project over the period agreed with Ofgem will enable recovery of the additional 10% from customers and potentially qualify for a further discretionary award.

The project assessed the potential for new network technology and flexible customer response to facilitate speedier and more economical take-up by customers of low-carbon technologies and the connection to the distribution network of increasing amounts of low-carbon or renewable energy generation. Equipment and operational techniques were trialled to allow the efficient application of low carbon technologies on the network. The scale of the project's output was such that Ofgem agreed to extend the project to four years in order to ensure that the quality of learning delivered was relevant, timely and provides value-for-money for all stakeholders.

Further details of the Customer-Led Network Revolution project and the Company's greenhouse gas emissions are provided in the Sustainability section on pages 16 and 17 in the Strategic Report.

The Northern Powergrid Group also supports a programme of research that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. New activities in the areas of real time asset condition monitoring and in automatic network management to improve the service provided to generation customers were initiated during the year. A major, multi-year project demonstrating a high voltage fault current limiter was unable to meet the intended technical requirements and was brought to a halt, although a great deal of learning was generated and shared while that project was ongoing. Other work completed during the Regulatory Year included the development of enhanced techniques for estimating network metrics between instrumented measuring points, which will enhance the Company's ability to accommodate low-carbon technologies on its network.

During the year, the Company invested £5.1 million (2014: £6.7 million) (Note 6 to the accounts) in its research and development activities.

FUTURE DEVELOPMENTS

The financial position of the Company, as at 31 March 2015, is shown in the statement of financial position on page 37.

Ofgem issued its final determination in respect of the Company's revised well-justified business plan for the future of its electricity distribution business in November 2014. The Company's plan set out the priorities for and the challenges it expects to see during ED1, including reducing prices in the first year of ED1 and then maintaining those prices at a relatively consistent level over the remainder of the period, delivering 20% shorter power cuts and providing a connections service that is 30% faster, together with a range of new and improved services. The directors intend that the Company will continue to develop its business by operating that business with the goal of efficiently investing in the network and improving the quality of supply and service provided to customers.

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

EVENTS SINCE THE YEAR END

On 2 March 2015 the Company sought permission from the CMA to appeal against the licence modifications that give effect to the ED1 price control. The appeal relates to three specific areas and, as the CMA granted permission to appeal on 30 March 2015, the appeal is expected to conclude in the fourth quarter of 2015 in accordance with the timetable required of the CMA. Further details are provided in the Review of the Year on page 3 of the Strategic Report.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 April 2014 to the date of this report.

J P Barnett	Policy & Markets Director
R Dixon	Non-executive Director
T E Fielden	Finance Director
J M France	Regulation Director
N M Gill	Operations Director
P A Jones	President and Chief Executive Officer
A R Marshall	Non-executive Director
P C Taylor	Non-executive Director

On 1 April 2014, Mrs A R Marshall and Professor P C Taylor were appointed to the board in the capacity of sufficiently independent directors in accordance with condition 43A of the Licence.

During and as at the end of the Regulatory Year, none of the directors was interested in any contract, which was significant in relation to the business of the Company.

FINANCIAL RISK MANAGEMENT

The Company's short-term financial objective is to ensure that it has access to sufficient liquidity to enable it to meet its obligations as they fall due and to provide adequately for contingencies. The long-term objective is to provide a stable and low cost of financing over time whilst observing approved risk parameters. The main risks are liquidity and interest rate risk.

Trading risk

Throughout the Regulatory Year, the Company's policy was that no trading in financial instruments should be undertaken.

Financial derivatives

As at 31 March 2015 and during the Regulatory Year it was the Company's policy not to hold any derivative financial instruments.

POLITICAL DONATIONS

No contributions were made to political organisations during the Regulatory Year (2014: £nil).

EMPLOYEES

Employee consultation

The Company has a constitutional framework in place for employee consultation and has agreed that framework with trade union representatives. In addition, the Company communicates directly and through the management structure with personal contract holders and keeps them informed of and involved as appropriate in developments that may impact on them now or in the future.

The Company is committed to maintaining and improving effective communication with employees, principally through regular staff briefs on current issues, meetings with staff and their representatives and increased use of the Company's intranet to improve communication and engagement with the workforce.

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

EMPLOYEES (CONTINUED)

Employee consultation

During the Regulatory Year, the President and Chief Executive Officer of the Northern Powergrid Group continued to provide employees with updates on the Northern Powergrid Group's financial, organisational, safety and customer service performance through postings and weekly blogs on the Northern Powergrid Group's intranet in order to provide updates on key elements of performance during the preceding week.

Disabled employees

The Company is committed to equality at work and, as such, its policy is to provide all protected groups, including disabled people, with equality at work in respect of employment, training, career development and promotion, having regard to their aptitudes and abilities. Should any member of staff become disabled during their employment, the Company would work to retrain and/or redeploy that member of staff, wherever possible.

Corporate Governance Statement

Although the Company does not have securities listed on the main market of the London Stock Exchange, the following statement is provided pursuant to paragraph 44.7 of standard condition 44 of the Licence, which requires the Company's Regulatory Accounts to include a Corporate Governance Statement, which has the coverage and content of such a statement that a Quoted Company is required to prepare. The statement sets out how the Company has applied the main principles in the version of the UK Corporate Governance Code made available on the Financial Reporting Council's website in September 2012 (the "Code"). To the extent that it departs from the Code, the Company explains from which parts of the Code it departs and the reasons for so doing.

Compliance statement

Set out below and in the Strategic Report are the areas in which the Company adopts and complies with the main principles of the Code. The Company has not complied with certain of the main principles of the Code, including main principles A2, A3, B2, B6, B7, C3, D1, D2 and E2. The directors confirm that such non-compliance was of a continuing nature throughout the Regulatory Year but consider the governance framework in place to be appropriate to the circumstances of the Company, given that the framework is agreed with Berkshire Hathaway Energy and includes regular reporting to and meetings with the Chairman and senior management of Berkshire Hathaway Energy, the presence of independent, non-executive directors at board meetings of the Company and a strong internal control environment designed to meet the standards required by the United States Sarbanes-Oxley Act.

The Code is based on the "comply or explain" approach and the directors are of the opinion that, in the instances noted above where the Company does not comply with the Code, this approach is justifiable, given that the Company is a wholly-owned subsidiary of Berkshire Hathaway Energy and the governance framework in place throughout the Northern Powergrid Group is agreed with Berkshire Hathaway Energy.

Section A: Leadership

Main Principle A1: The Role of the Board

The directors have agreed a quarterly schedule of board meetings at which they review performance, strategy and operational and risk-related issues. Regular items on the agenda for consideration at board meetings include general business performance, regulatory compliance, operational issues and key business activities.

In addition, the President and Chief Executive Officer participates in weekly performance review meetings with the Chairman of Berkshire Hathaway Energy and other senior managers of the Berkshire Hathaway Energy group, including the Executive Vice President and Chief Financial Officer. At those weekly meetings, the views of the Chairman of Berkshire Hathaway Energy and the senior management team regarding the key, current issues facing the Northern Powergrid Group are discussed.

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

Corporate Governance Statement (continued)

Section A: Leadership (continued)

Main Principle A1: The Role of the Board (continued)

The Chairman of Berkshire Hathaway Energy also receives weekly, monthly, quarterly and ad-hoc reports on the Northern Powergrid Group's performance from the President and Chief Executive Officer. Berkshire Hathaway Energy's Executive Vice President and Chief Financial Officer and Senior Vice President and General Counsel also hold similar weekly review meetings in respect of Berkshire Hathaway Energy's financial and legal functions, at which the Northern Powergrid Group's Finance Director and General Counsel present their respective weekly reports.

The board meets quarterly and as required to consider relevant issues and met on five occasions during the Regulatory Year, with the attendance of the directors being as follows:

J P Barnett	Policy & Markets Director	4
R Dixon	Non-Executive Director	3
T E Fielden	Finance Director	5
J M France	Regulation Director	3
N M Gill	Operations Director	4
P A Jones	President and Chief Executive Officer	3
A R Marshall	Non-Executive Director	5
P C Taylor	Non-Executive Director	4

Operational management of the Company's business (and that of its affiliate, NPg Yorkshire) is delegated to a single senior management team, with specific functional responsibilities. That senior management team meets monthly with the senior management of the Northern Powergrid Group to monitor performance and address issues of policy across all areas of the business and holds weekly conference calls to report on and consider performance-related issues for that week. Further details of the management structure of the Northern Powergrid Group are provided in the Strategic Report.

The directors have overall responsibility for the internal control environment, which, within the Northern Powergrid Group, is based on regular reporting, a series of operational and financial policy statements, investigations undertaken by internal audit and a stringent process for ensuring the implementation of any recommendations. In addition, Berkshire Hathaway Energy requires a quarterly control risk self-assessment to be undertaken by all senior managers as part of its programme for compliance with the requirements of the United States Sarbanes-Oxley Act. The assessments undertaken during the Regulatory Year did not identify any significant weaknesses in the process but resulted in the implementation of recommended improvements. The key features of the Company's internal control system and the issues addressed by the Company during the Regulatory Year can be found in the Strategic Report.

A schedule of key delegations of authority has been approved by the board, which delegates authority for decision-making to senior and other managers in respect of issues such as capital expenditure, procurement, contractual, human resource and payment matters and for the conduct of claims and litigation. That schedule reserves decision-making to the directors above certain financial limits.

During the Regulatory Year, there were a number of committees in operation, acting under delegated terms of reference, which oversee Northern Powergrid Group and, therefore, Company policy. As part of their approved terms of reference, certain of those committees report regularly to the board on their activities.

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

Corporate Governance Statement (continued)

Section A: Leadership (continued)

Main Principle A1: The Role of the Board (continued)

The committees are as follows:

Health and Safety Management Committee

The board of Northern Powergrid Holdings Company has established the Northern Powergrid Group Health and Safety Management Committee with delegated powers to manage the health and safety policy and performance of the Northern Powergrid Group. Membership of the committee comprises:

J P Barnett	Policy & Markets Director
T E Fielden	Finance Director
J M France	Regulation Director
N M Gill	Operations Director
P A Jones	President and Chief Executive Officer
A J MacLennan	Managing Director, Integrated Utility Services Limited (an affiliated company)
G M Earl	Director of Health, Safety and Environment

The committee meets on a regular basis in order to oversee implementation of the health and safety policy, review and agree strategy for the management of health and safety issues, monitor health and safety performance across the Northern Powergrid Group, review the effectiveness of the health and safety policies and the health and safety management system and consider recommendations for changes in policy due to changes in appropriate legislation, codes of practice or guidance or due to recommendations arising from investigations into significant incidents.

Treasury Committee

The Treasury Committee oversees and implements the treasury policies, which are outlined in the Strategic Report and the Directors' Report, and comprises:

G E Abel	Chairman, Berkshire Hathaway Energy
D Brady	Treasurer
T E Fielden	Finance Director
P J Goodman	Executive Vice President and Chief Financial Officer, Berkshire Hathaway Energy
P A Jones	President and Chief Executive Officer
S J Lockwood	Group Financial Controller
O Sutherland	Investor Reporting Manager
S Gormally	Corporate Accountant and Secretary to the Committee

Pensions Committee

The Pensions Committee oversees the Northern Powergrid Group's approach to the pension schemes to which it contributes and comprises:

N Dawson	Pensions Manager
T E Fielden	Finance Director
J M France	Regulation Director
L Hutchinson	Director of Human Resources
S J Lockwood	Group Financial Controller
K Mawson	Head of Regulatory Finance and Systems
L Tweedie	Head of Field Change

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

Corporate Governance Statement (continued)

Section A: Leadership (continued)

Main Principle A1: The Role of the Board (continued)

Governance and Risk Management Group

The GRMG is the principal management forum in the Northern Powergrid Group with regard to corporate governance. Its purpose is to ensure that companies in the Northern Powergrid Group apply and maintain appropriate arrangements to deliver sound corporate governance and comply with the overall strategy, framework and supporting policies. The GRMG monitors and reviews the strategic risk environment, ensuring the continued suitability, adequacy and effectiveness of risk management arrangements and reports to the Northern Powergrid Group's Audit Committee. The GRMG comprises:

D Anderson	Head of Internal Audit
J P Barnett	Policy & Markets Director
R Dixon	Non-Executive Director
M Drye	Director of Asset Management
G M Earl	Director of Safety, Health and Environment
J Elliott	Company Secretary
T E Fielden	Finance Director
J M France	Regulation Director
N M Gill	Operations Director
L Hutchinson	Director of Human Resources
A J Maclellan	Managing Director, Integrated Utility Services Limited (an affiliated company)
O Sutherland	Investor Reporting Manager

During the Regulatory Year, the GRMG undertook a review of how it operates, which resulted in a proposal that will improve the effectiveness of the risk management and control activities, better define the risk environment within the Northern Powergrid Group, rationalise the reporting procedures to focus attention on key risk movements and identify accountabilities for each risk sector. The GRMG approved the proposal at its meeting in November 2014 and the new process was implemented during Quarter 1 of 2015.

Notwithstanding the changes noted above, the risk management framework was monitored regularly during the Regulatory Year to ensure that all strategic risks, including those relating to environmental and social issues, were being addressed. Risk management policies and procedures were reviewed and updated to ensure a robust and clear approach was maintained. Mr Dixon attended meetings of the GRMG to provide an independent view in respect of the matters discussed.

Asset risk continued to be a strong focus through the Asset Risk Management Executive Review Group and comprehensive plans continued to be in place to manage risks affecting all critical property assets and to strengthen the arrangements for crisis management and business continuity planning. In that respect the Emergency Planning and Co-ordination Group (the "EPCG") was established during the Regulatory Year with a remit to develop and maintain the Northern Powergrid Group's approach to emergency planning and to provide strategic leadership and guidance in respect of such matters. The EPCG also ensures appropriate coordination between the various emergency planning disciplines, which include operational management of network incidents, property and the physical environment, non-operational management and resources and the support areas of human resources, information technology, health and safety, communications and legal services.

Further details of the Northern Powergrid Group's approach to corporate governance and the management of internal controls can be found in the Strategic Report.

As explained in respect of main principles B2 and D1, the Company does not have either a remuneration committee or a nomination committee.

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

Corporate Governance Statement (continued)

Section A: Leadership (continued)

Main Principle A2: Division of Responsibility

Mr G E Abel, the Chairman of Berkshire Hathaway Energy, is also Chairman of Northern Powergrid Holdings Company. As President and Chief Executive Officer, Dr Jones is responsible for the operation and management of both the Company and the Northern Powergrid Group and reports directly to Mr Abel.

Main Principle A3: The Chairman

The board does not have a formally appointed Chairman. Dr Jones chairs board meetings, is responsible for the operation and management of both the Company and the Northern Powergrid Group and divides his time accordingly between his various commitments within the Northern Powergrid Group. Dr Jones reports directly to Mr Abel.

Main Principle A4: Non-Executive Directors

Three non-executive directors served on the board during the Regulatory Year, each of whom acts under the terms of their individual service contracts or terms of reference. Mrs A R Marshall and Professor P C Taylor were appointed to the board as non-executive directors with effect from 1 April 2014 in accordance with the requirement in condition 43A of the Licence for the board to include two sufficiently independent directors, as defined in the Licence.

Section B: Effectiveness

Main Principle B1: The composition of the board

The board comprises five executive directors and three non-executive directors, who, collectively, bring a range of skills and experience to the board. Although the board does not include a balanced number of executive and non-executive directors, the board believes that it possesses the skills and experience necessary to provide effective leadership, stewardship and control of the Company, a position supported by the presence of the sufficiently independent directors required by the Licence.

Main Principle B2: Appointments to the board

The Company does not have a nomination committee. Appointments to the board are made by Berkshire Hathaway Energy, in conjunction with the President and Chief Executive Officer.

Main Principle B3: Commitment

The Company's non-executive directors commit sufficient time to preparation for and attendance at board meetings, although their service contracts or terms of reference do not quantify the time commitment required.

Main Principle B4: Development

The directors continually update their knowledge of and familiarity with the operations of the Company due to the robust reporting arrangements in place and have on-going access to the Company's operations and its staff. Following their appointment to the board, Mrs Marshall and Professor Taylor were provided with a series of briefings in respect of the Company's key business priorities and its plans for ED1. Those briefings included health and safety matters, the customer service improvement plan, stakeholder engagement, network operations, asset management, the regulatory environment and new connections to the network.

DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

Corporate Governance Statement (continued)

Section B: Effectiveness (continued)

Main Principle B5: Information and support

Directors receive monthly reports outlining progress against the Company's goals and targets, enabling financial performance against budget and operational performance against a number of indicators to be reviewed, and are also able to participate in weekly meetings, which consider the key issues of that week in some detail. The directors are able to utilise the advice and services of the Company Secretary, in respect of their duties and responsibilities as directors and any new legislation that may affect those duties and responsibilities. The directors also have access to external legal advice should they feel it necessary. Interim briefings are provided to the non-executive directors, as appropriate.

Main Principle B6: Evaluation

As part of their approved terms of reference, certain committees report regularly on their activities, enabling the directors to evaluate the activities of those committees. However, the board does not have a process of evaluation of its own performance or of the performance of individual directors in their capacity as directors. Berkshire Hathaway Energy has a performance appraisal and development scheme in place, under which each senior manager of the Northern Powergrid Group is subject to a formal annual appraisal of performance against his individual and Berkshire Hathaway Energy's goals.

Main Principle B7: Re-election

The Company's articles of association do not require periodic retirement and re-election of directors.

Section C: Accountability

Main Principle C1: Financial and business reporting

The board considers that the Regulatory Accounts, which include the Strategic Report and the Directors' Report, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The directors explain, at page 2, the Core Principles behind the Company's strategy and, at page 33, their responsibility for preparing the Strategic Report, the Directors' Report and the Regulatory Accounts, have reported, at page 32 in the Directors' Report that the Company is a going concern and have included the Report of the Independent Auditor to the Company at pages 34 and 35 of these Regulatory Accounts.

Main Principle C2: Risk management and internal control

Details of the principal risks and uncertainties facing the Company and its internal control system, together with details of the issues addressed by the Company during the Regulatory Year, can be found at pages 19 to 22 of the Strategic Report.

Other key features of the internal control system are:

- Comprehensive business planning and financial reporting procedures, including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- Regular review of key performance indicators to assess progress towards objectives;
- A range of policies, codes of practice and more detailed instructions that define the processes to be followed;

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

Corporate Governance Statement (continued)

Section C: Accountability (continued)

Main Principle C2: Risk management and internal control

- A strong internal audit function, which provides independent scrutiny of internal control systems and risk management procedures, including the standards required by the United States Sarbanes-Oxley Act;
- On-going health and safety performance reviews carried out by in-house safety professionals in addition to the regime of routine health and safety risk assessment and management processes carried out within each of the operating units;
- Processes and procedures to operate under OHSAS 18001, which is subject to external certification and regular assessment;
- An external obligations register, which assists with compliance with financial, legal and regulatory obligations;
- Centralised treasury operations that operate within defined limits and are subject to regular reporting requirements and audit reviews; and
- Established procedures for planning, approving and monitoring major capital expenditure, major projects and the development of new business which includes short and long-term budgets, risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews.

Main Principle C3: Audit committee and auditor

The board of Northern Powergrid Holdings Company has established an audit committee for the Northern Powergrid Group under delegated terms of reference, which include monitoring of the financial reporting process, the effectiveness of the internal control, internal audit and risk management systems, the statutory audit of the accounts and the independence of and the provision of additional services by the auditor.

The Audit Committee comprises one member who is independent and one member who has competence in accounting and receives annual reports from the GRMG and from the Northern Powergrid Group's Head of Internal Audit on the work of the Internal Audit Section during the year and the audit plan for the following year. The Audit Committee comprises:

R Dixon	Non-Executive Director
T E Fielden	Finance Director

Details of the fees paid by the Company to Deloitte LLP in relation to non-audit services during the Regulatory Year are provided in Note 6 to the accounts. The employee section on page 14 of the Strategic Report contains details of the Company's "speaking up" policy.

Section D: Remuneration

Main Principle D1: The level and components of remuneration

The Company does not have a remuneration committee. Annual remuneration awards for the senior management of the Northern Powergrid Group are subject to the performance appraisal and development scheme process and consideration by the Chairman of Berkshire Hathaway Energy and the President and Chief Executive Officer. As the Company has no equity securities listed on the London Stock Exchange, it is not required to make directors' remuneration disclosures, other than those required for private companies.

DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

Corporate Governance Statement (continued)

Section D: Remuneration

Main Principle D2: Procedure

As noted under main principle D1, the Company does not have a remuneration committee. Annual remuneration awards for the senior management of the Northern Powergrid Group are subject to the performance appraisal and development scheme process and consideration by the Chairman of Berkshire Hathaway Energy and the President and Chief Executive Officer. No director is involved in deciding his own remuneration.

Section E: Relations with shareholders

Main Principle E1: Dialogue with Shareholders

As a wholly-owned subsidiary of a privately held group of companies, the board is in continuing dialogue with Berkshire Hathaway Energy.

Main Principle E2: Constructive use of the AGM

This section of the Code is not applicable to the Company, as it is a wholly-owned subsidiary of a privately held group of companies and, therefore, has no institutional shareholders.

Going Concern

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

When considering continuing to adopt the going concern basis in preparing the Regulatory Accounts, the directors have taken into account a number of factors, including the following:

- The Company is a stable electricity distribution business operating an essential public service and is regulated by GEMA. In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Company is profitable with strong underlying cash flows and holds investment grade credit ratings; and
- The Company is financed by long-term borrowings with an average maturity of 14 years and has access to borrowing facilities provided by Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc.

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

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2015 (CONTINUED)

Responsibility statement of the Directors for the preparation of the Regulatory Accounts

The directors are responsible for preparing the Regulatory Accounts, including the Strategic Report, the Directors' Report and the Corporate Governance Statement in accordance with standard condition 44 of the Licence. Consequently, the directors are required to prepare the Regulatory Accounts in accordance with International Financial Reporting Standards ("IFRS"). These Regulatory Accounts have been prepared on a consistent basis with those for the year ended 31 March 2014.

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

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's 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, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and 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

Audit of the accounts

Each of the directors, who is a director of the Company as at the date of this report, confirms that:

- a) so far as he or she is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- b) he or she has taken all the steps he ought to have taken as a director in order to make him or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Auditor

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

ON BEHALF OF THE BOARD:



T E Fielden
Director

17 July 2015

INDEPENDENT AUDITOR'S REPORT TO THE GAS AND ELECTRICITY MARKETS AUTHORITY ("THE REGULATOR") AND NORTHERN POWERGRID (NORTHEAST) LIMITED ("THE COMPANY")

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2015 (the "Regulatory Accounts") on pages 36 to 71 which comprise the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes numbered 1 to 26. These Regulatory Accounts have been prepared under the accounting policies set out therein.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Standard Condition 44 of the Electricity Distribution Licence, (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, 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 Regulator for our audit work, for this report or for the opinions we have formed.

Basis of preparation

The Regulatory Accounts have been prepared under the historical cost convention and in accordance with the Regulatory Licence and the accounting policies set out in the notes to the Regulatory Accounts.

The Regulatory Accounts are separate from the statutory financial statements of the Company (the "Statutory Accounts") and have not necessarily been prepared under the basis of International Financial Reporting Standards as endorsed by the European Union ("IFRS"). Financial information other than that prepared on the basis of IFRS does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 2006.

Respective responsibilities of the Regulator, the Directors and auditor

The nature, form and content of the Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Condition 44 of the Regulatory Licence are set out in the statement of directors' responsibilities on page 33.

Our responsibility is to audit the Regulatory Accounts in accordance with International Standards on Auditing (UK & Ireland) issued by the Auditing Practices Board, except as stated in the 'Basis of audit opinion', below and having regard to the guidance contained in Audit 05/03 '*Reporting to Regulators of Regulated Entities*'.

We report to you our opinion as to whether the Regulatory Accounts present fairly, in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on pages 40 to 47, the results and financial position of the Company for the regulatory year ended 31 March 2015. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations that we require for our audit.

We read the other information presented with the Regulatory Accounts, being the strategic report, the directors' report, the corporate governance statement and the statement of directors' responsibilities, on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts.

**INDEPENDENT AUDITOR'S REPORT TO THE GAS AND ELECTRICITY MARKETS AUTHORITY
("THE REGULATOR") AND NORTHERN POWERGRID (NORTHEAST) LIMITED ("THE COMPANY")
(CONTINUED)**

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK & Ireland) issued by the UK Auditing Practices Board, except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts and of whether the accounting policies are consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of the Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under United Kingdom Auditing Standards.

Our opinion on the Regulatory Accounts is separate from our opinion on the Statutory Accounts, on which we reported on 26 March 2015, which are prepared for a different purpose. Our audit report in relation to the Statutory Accounts (our "statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our statutory audit, for our statutory audit report, or for the opinions we have formed in respect of that statutory audit.

Audit opinion

In our opinion the Regulatory Accounts

- present fairly in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on pages 40 to 47, the financial position of the Company as at 31 March 2015 and of its financial performance and cash flows for the year then ended; and
- have been properly prepared in accordance with Standard Condition 44 of the Regulatory Licence and the Company's accounting policies.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditor
Newcastle upon Tyne

27 July 2015

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2015

	Notes	2015 £m	2014 £m
Revenue	2	372.8	315.0
Cost of sales		<u>(24.2)</u>	<u>(12.1)</u>
Gross profit		348.6	302.9
Distribution costs		<u>(94.6)</u>	<u>(93.2)</u>
Administrative expenses		<u>(71.1)</u>	<u>(67.9)</u>
Operating profit	6	182.9	141.8
Profit on disposal of property, plant and equipment		0.7	0.4
Investment income	4	0.1	0.2
Finance costs	5	<u>(25.9)</u>	<u>(26.1)</u>
Profit before tax		157.8	116.3
Income tax expense	9	<u>(32.6)</u>	<u>(9.0)</u>
Profit on ordinary activities after taxation		125.2	107.3
Ordinary dividends on equity shares	10	<u>(30.0)</u>	<u>(30.0)</u>
Profit for the financial year		<u>95.2</u>	<u>77.3</u>

All activities relate to continuing operations.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2015

There has been no other comprehensive income for the Company. Therefore, total comprehensive income for the year is £95.2 million (2014: £77.3 million).

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2015

	Notes	2015 £m	2014 £m
Assets			
Non-current assets			
Property, plant and equipment	11	2,028.9	1,870.7
Intangible assets	12	26.6	18.2
		<u>2,055.5</u>	<u>1,888.9</u>
Current assets			
Inventories	14	12.1	9.6
Trade and other receivables	15	58.0	49.8
		<u>70.1</u>	<u>59.4</u>
Total assets		<u>2,125.6</u>	<u>1,948.3</u>
Equity			
Called-up share capital	21	200.0	200.0
Retained earnings		556.8	461.6
Total equity		<u>756.8</u>	<u>661.6</u>
Liabilities			
Current liabilities			
Trade and other payables	16	105.8	83.9
Tax payable	16	13.5	14.1
Borrowings	17	153.0	111.7
Deferred revenue	19	21.3	19.4
Provisions	20	1.3	1.6
		<u>294.9</u>	<u>230.7</u>
Non-current liabilities			
Borrowings	17	466.8	466.7
Deferred tax	18	101.5	97.7
Deferred revenue	19	505.3	491.3
Provisions	20	0.3	0.3
		<u>1,073.9</u>	<u>1,056.0</u>
Total liabilities		<u>1,368.8</u>	<u>1,286.7</u>
Totally equity and liabilities		<u>2,125.6</u>	<u>1,948.3</u>

The financial statements were approved by the board of directors and authorised for issue on 17 July 2015 and were signed on its behalf by:



T E Fielden
Director

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2015

	Share Capital	Retained Earnings	Total Equity £m
	£m	£m	
At 1 April 2013	200.0	384.3	584.3
Total comprehensive income for the year	-	107.3	107.3
Dividends paid	-	(30.0)	(30.0)
	<hr/>	<hr/>	<hr/>
At 1 April 2014	200.0	461.6	661.6
Total comprehensive income for the year	-	125.2	125.2
Dividends paid	-	(30.0)	(30.0)
	<hr/>	<hr/>	<hr/>
At 31 March 2015	200.0	556.8	756.8

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2015

	Notes	2015 £m	2014 £m
Cash Flows from operating activities			
Cash generated from operations	22	219.1	186.3
Finance costs paid		(29.2)	(28.9)
Dividends received		-	0.1
Tax paid		(29.3)	(25.8)
Net cash from operating activities		160.6	131.7
Cash flows used in investing activities			
Purchase of property, plant and equipment		(205.6)	(202.8)
Purchase of intangible assets		(10.3)	(10.6)
Proceeds from disposals of property, plant and equipment		0.7	0.4
Receipt of customer contributions		43.3	34.4
Net cash used in investing activities		(171.9)	(178.6)
Cash flows from financing activities			
Equity dividends paid		(30.0)	(30.0)
Borrowings		31.8	41.5
Movement in loans from Group undertaking		9.5	35.4
Net cash from financing activities		11.3	46.9
Net movement in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		-	-
Cash and cash equivalents at end of year		-	-

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015

1 GENERAL INFORMATION

Northern Powergrid (Northeast) Limited is a company incorporated in England and Wales and is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group"). The company is registered in England and Wales and the address of the registered office is Lloyds Court, 78 Grey Street, Newcastle-upon-Tyne, NE1 6AF.

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

2 ACCOUNTING POLICIES

Accounting convention and basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 (the "Act") that are applicable to companies reporting under IFRS.

The accounts have been prepared under the historical cost convention. The Company has relied upon Section 400 of the Act and has presented the accounts for the Company as an individual undertaking only and not as a Group undertaking.

Going Concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further detail is contained within the Directors' Report on page 33.

Judgments in applying accounting policies and key sources of estimation uncertainty

Many of the amounts included in the financial statements involve the use of judgment and/or estimation. These judgments and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience but actual results may differ from the amounts included in the financial statements. Information about such judgments and estimates is contained in the accounting policies and/or the notes to the financial statements and the key areas are summarised below.

Areas of judgment and estimation which have the most significant effect on the amounts recognised in the financial statements are:

- The estimation of useful economic lives for property, plant and equipment;
- The split of operating and capital expenditure and the allocation of overheads to capital; and
- Impairment reviews carried out to evaluate the carrying value of assets held at the statement of financial position date.

Critical accounting policies

The critical accounting policies adopted by the directors relate to property, plant and equipment, taxation, pensions and revenue and are described below. The accounting policies have been applied consistently throughout the year and the preceding year.

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Adoption of new or revised standards

In the current year, the Company has not applied any amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 April 2014.

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective for the year ended 31 March 2015, and in some cases have not yet been endorsed by the EU:

- IFRS 9 - Financial Instruments (1 January 2018).
A revised version of IFRS 9, Financial Instruments, was issued in July 2014 mainly to include: a) impairment requirements for financial assets; and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments. The directors of the Company anticipate that the application of IFRS 9 in the future is unlikely to have an impact on amounts reported in respect of the Company's financial assets and financial liabilities.
- IFRS 15 - Revenue from Contracts with Customers (1 January 2017).
In May 2014, IFRS 15, Revenue from Contracts with Customers, was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 11 Construction Contracts, IAS 18 Revenue and the related Interpretations. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The directors anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company's financial statements. However it is not practicable to provide a reasonable estimate of the effect until the Company undertakes a detailed review.

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Adoption of new or revised standards (continued)

- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (1 January 2016). The amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation, prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for the amortisation of an intangible asset. Currently the Company uses the straight-line method for depreciation and amortisation of property, plant and equipment, and intangible assets. The directors believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors do not anticipate that the application of these amendments will have a material impact on the Company's financial statements.
- Amendments to IAS 19 - Defined Benefit Plans: Employee Contributions (1 July 2014). The amendments to IAS 19, Defined Benefit Plans: Employee Contributions, clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee. The directors do not anticipate that the application of these amendments to IAS 19 will have a significant impact on the Company's financial statements.
- Annual Improvements to IFRSs 2010-2012 Cycle (1 July 2014) and Annual Improvements to IFRSs 2011-2013 Cycle (1 July 2014). The Annual Improvements to IFRSs 2010-2012 Cycle and IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs. The directors do not anticipate that the application of these amendments will have a significant impact on the Company's financial statements.

Note: IFRS 14, Regulatory Deferral Accounts, is not applicable to the Company as the Company is not a first-time adopter of IFRSs.

The directors are not aware of any other newly issued or modified Standards and Interpretations that are not yet effective which would have a material impact on these financial statements.

Revenue

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.

Revenue represents charges for the use of the Company's distribution network, amortisation of customer contributions, rental of meters, recharge of costs incurred on behalf of related parties and the invoiced value of other goods sold and services provided, exclusive of value added tax.

Revenues from charges to end customers for the use of the Company's distribution network include estimates of the units distributed. The estimated usage is based on historic data, judgment and assumptions. Revenues are gradually adjusted to reflect actual usage in the period during which actual meter readings are obtained.

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Revenue (continued)

Any under or over-recovery of allowed distribution network revenues, as prescribed by Ofgem, is not provided for in the financial statements and will be recovered/repaid through future tariffs.

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Research costs

Expenditure on research activities is written off to the statement of profit or loss in the year in which it is incurred.

Operating profit

Operating profit is stated before investment income, finance costs, profit on sale of property, plant and equipment and income from other fixed asset investment.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or asset realised, based on tax rates and tax legislation enacted or substantively enacted at the statement of financial position date.

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost. Cost includes the purchase price of the asset and any costs, including internal employee and other costs, directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The charge for depreciation is calculated to write off assets to their residual values over their estimated useful lives using the straight-line basis:

Distribution system assets.....	45 years
Distributed generation assets included in distribution system assets.....	15 years
Metering equipment included in distribution system assets	up to 5 years
Information technology equipment included in distribution system assets.....	up to 10 years
Non-operational assets:	
Buildings – freehold.....	up to 60 years
Buildings – leasehold.....	lower of lease period or 60 years
Fixtures and equipment.....	up to 10 years
Software development costs	up to 10 years

Freehold land is not depreciated.

Assets in the course of construction are carried at cost. Depreciation on these assets, on the same basis as other assets, commences when the assets are commissioned.

The estimated useful economic lives of property, plant and equipment are based on management's judgment and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of the Company's investment in property, plant and equipment, variations between actual and estimated useful lives could impact operating results both positively and negatively, although historically few changes to estimated useful lives have been required.

The Company is required to evaluate the carrying values of property, plant and equipment for impairment whenever circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. An impairment review requires management to make judgments concerning the cash flows, growth rates and discount rates for the cash-generating units under review.

Software development costs

Costs in respect of major developments are capitalised and amortised over the expected life of the software. Capitalised software costs that are not an integral part of the related hardware are included in intangible assets on the statement of financial position and amortised on a straight line basis over the expected life of the software of up to 10 years.

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value as follows:

Raw materials and consumables are valued at purchase cost determined on an average price basis.

Work in progress is valued at the cost of direct materials and labour plus attributable overheads based on the normal level of activity less progress payments.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the statement of financial position date. Reasonable estimates involve judgments made by management after considering information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible parties and their ability to contribute and prior experience.

Where the effect is significant, provisions in respect of material future liabilities are stated at their net present value and arrived at by discounting the anticipated future costs at the market rate at the statement of financial position date.

Leases

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease rentals are charged to the statement of profit or loss in equal annual amounts over the lease term.

Trade receivables

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of profit or loss when there is objective evidence that the asset is impaired.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Borrowings

Borrowings are classified as other financial liabilities at amortised cost. They are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement for redemption and direct issue costs, are accounted for on an accruals basis in the statement of profit or loss using the effective interest rate method. They are added to the carrying amount of the instruments to the extent that they are not settled in the period in which they arise. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents (which are presented as a single class of assets on the face of the statement of financial position) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when the Company becomes a party to the contractual provisions on the instrument.

Financial assets are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of profit or loss.

Fair value measurements

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 measurement 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.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Pensions

The Company contributes to the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "Northern Powergrid Group of the ESPS"). The Northern Powergrid Group of the ESPS is a defined benefit plan that shares risk between various entities under common control. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities and accordingly the Company accounts for the Northern Powergrid Group of the ESPS as if it were a defined contribution scheme. Contributions to the Northern Powergrid Group of the ESPS are charged to the statement of profit or loss or capitalised as appropriate. The capital costs of ex-gratia and supplementary pensions are normally charged to the statement of profit or loss in the period in which they are granted. Accounting actuarial valuations are carried out at each financial year end with the last one being undertaken as at 31 December 2014. A separate valuation is not carried out at the regulatory reporting year end in accordance with the Company's distribution license.

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

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 02906593

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

3 SEGMENTAL REPORTING

IFRS 8 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 those segments and to assess their performance.

In practice, the President and Chief Executive Officer allocates resources and assesses performance based upon the aggregate results of the Company and Northern Powergrid (Yorkshire) plc, another distribution network operator in the Northern Powergrid Group, suggesting that no segmental reporting is required. However, in accordance with the Company's distribution licence, the Company must publish certain segmental information in the Regulatory Accounts, as follows:

	Distribution 2015 £m	Distributed Generation 2015 £m	Excluded Services 2015 £m	Metering 2015 £m	De Minimis 2015 £m	Total 2015 £m
STATEMENT OF PROFIT OR LOSS						
Revenue	344.4	2.5	2.2	5.1	18.6	372.8
Cost of sales	(21.9)	-	(1.3)	-	(1.0)	(24.2)
Gross profit	322.5	2.5	0.9	5.1	17.6	348.6
Distribution costs	(89.6)	(3.9)	-	(1.1)	-	(94.6)
Administration costs	(53.4)	-	(0.5)	(0.2)	(17.0)	(71.1)
Operating profit/(loss)	179.5	(1.4)	0.4	3.8	0.6	182.9
OTHER INFORMATION						
Capital tangible additions	192.0	5.5	25.2	0.6	-	223.3
Capital intangible additions	9.7	0.1	0.5	-	-	10.3
	Distribution 2014 £m	Distributed Generation 2014 £m	Excluded Services 2014 £m	Metering 2014 £m	De Minimis 2014 £m	Total 2014 £m
STATEMENT OF PROFIT OR LOSS						
Revenue	289.9	0.7	2.2	5.2	17.0	315.0
Cost of sales	(9.8)	-	(0.6)	-	(1.7)	(12.1)
Gross profit	280.1	0.7	1.6	5.2	15.3	302.9
Distribution costs	(86.1)	(3.5)	(0.2)	(3.4)	-	(93.2)
Administration costs	(53.1)	-	(0.3)	(0.1)	(14.4)	(67.9)
Operating profit/(loss)	140.9	(2.8)	1.1	1.7	0.9	141.8
OTHER INFORMATION						
Capital tangible additions	178.9	7.0	23.3	1.0	-	210.2
Capital intangible additions	9.9	0.2	0.5	-	-	10.6

Revenue is all in respect of sales to United Kingdom customers.

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

4 INVESTMENT INCOME

	2015 £m	2014 £m
Interest receivable from Group undertakings	0.1	0.1
Income from other fixed asset investment	-	0.1
	<u>0.1</u>	<u>0.2</u>

5 FINANCE COSTS

	2015 £m	2014 £m
Interest payable on loans from Group undertakings	23.3	23.4
Interest payable on other loans	<u>6.3</u>	<u>5.8</u>
Total interest expense	29.6	29.2
Amounts included in the cost of qualifying assets	<u>(3.7)</u>	<u>(3.1)</u>
Total finance costs	<u>25.9</u>	<u>26.1</u>

6 OPERATING PROFIT

	2015 £m	2014 £m
This is stated after charging/(crediting):		
Staff costs (Note 7)	45.9	44.2
Research costs	5.1	6.7
Depreciation of property, plant and equipment	65.1	61.8
Amortisation of deferred revenue	(20.1)	(18.7)
Amortisation of intangibles	1.9	1.9
Impairment loss on trade and other receivables	<u>0.1</u>	<u>-</u>
Analysis of auditor's remuneration is as follows:	2015 £000	2014 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	62	68
Other services supplied pursuant to legislation	38	39
Other assurance services	9	9
Other services	<u>12</u>	<u>130</u>

Other services supplied pursuant to legislation relate to regulatory reporting in line with Ofgem's requirements.

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

7 STAFF COSTS

	2015 £m	2014 £m
Salaries	48.9	46.7
Social security costs	4.8	4.6
Defined benefit pension costs	32.2	31.0
Defined contribution pension costs	1.3	1.0
	<u>87.2</u>	<u>83.3</u>
Less charged to property, plant and equipment	<u>(41.3)</u>	<u>(39.1)</u>
	<u>45.9</u>	<u>44.2</u>

The majority of the Company's employees are members of the Northern Powergrid Group of the ESPS, details of which are given in Note 23.

The average monthly number of employees during the year was:

	2015 No.	2014 No.
Technical	316	309
Industrial	439	449
Administration	220	190
Other	100	92
	<u>1,075</u>	<u>1,040</u>

8 DIRECTORS' & KEY PERSONNEL REMUNERATION

DIRECTORS' REMUNERATION	2015 £	2014 £
<u>Highest Paid</u>		
Short-term employee benefits	288,251	256,930
Post-employment benefits	19,879	23,379
Other long-term benefits	262,387	269,900
	<u>570,517</u>	<u>550,209</u>
<u>Total</u>		
Short-term employee benefits	654,293	581,215
Post-employment benefits	79,691	84,176
Other long-term benefits	495,363	630,065
	<u>1,229,347</u>	<u>1,295,456</u>
Directors who are members of the defined benefit scheme	<u>4</u>	<u>4</u>
Accrued pension benefit relating to highest paid director	<u>-</u>	<u>-</u>

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

8 DIRECTORS' & KEY PERSONNEL REMUNERATION (CONTINUED)

OTHER KEY PERSONNEL REMUNERATION	2015 £	2014 £
<u>Total</u>		
Short-term employee benefits	211,239	216,933
Post-employment benefits	51,337	46,118
Other long-term benefits	92,697	119,975
	<u>355,273</u>	<u>383,026</u>

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

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

9 INCOME TAX EXPENSE

	2015 £m	2014 £m
Analysis of tax expense:		
Current tax expense:		
Corporation tax charge for the year	30.5	24.7
Over provision for prior years	(1.7)	(1.2)
Total current tax charge	28.8	23.5
Deferred tax:		
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	3.8	0.2
Effect of changes in legislation	-	(14.7)
Total deferred tax charge/(credit)	3.8	(14.5)
Tax on profit before tax	<u>32.6</u>	<u>9.0</u>
The total charge can be reconciled to the accounting profit as follows:		
Profit before tax	157.8	116.3
Tax on profit before tax at standard rate of corporation tax in United Kingdom of 21% (2014: 23%)	33.1	26.7
Effect of changes in tax rate	-	(14.7)
Over provision for prior years	(0.5)	(3.0)
Tax on profit before tax	<u>32.6</u>	<u>9.0</u>

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

9 INCOME TAX EXPENSE (CONTINUED)

The Finance Act 2013 included provisions that the standard rate of corporation tax in the United Kingdom would reduce from 23% to 21% from April 2014 and to 20% from April 2015. These were substantively enacted on 2 July 2013. Accordingly, the rate of 20% has been applied when calculating deferred tax assets and liabilities.

The Summer Finance Bill 2015 includes a provision for a 1% reduction to the standard rate of corporation tax from April 2017 and a further 1% reduction from 1 April 2020 but this bill will not be substantively enacted until late 2015 and, therefore, has not impacted these financial statements.

10 DIVIDENDS

	2015 Pence per share	2014 Pence per share	2015 £m	2014 £m
Dividend paid	<u>15.0</u>	<u>15.0</u>	<u>30.0</u>	<u>30.0</u>

11 PROPERTY, PLANT AND EQUIPMENT

	Distribution system	Fixtures and Equipment	Non- Operational Land & Buildings	Total
	£m	£m	£m	£m
COST				
At 1 April 2013	2,077.9	22.1	4.2	2,104.2
Additions	207.8	2.4	-	210.2
Disposals	<u>(8.7)</u>	<u>-</u>	<u>-</u>	<u>(8.7)</u>
At 1 April 2014	2,277.0	24.5	4.2	2,305.7
Additions	217.5	5.8	-	223.3
Disposals	<u>(10.8)</u>	<u>(0.1)</u>	<u>-</u>	<u>(10.9)</u>
At 31 March 2015	<u>2,483.7</u>	<u>30.2</u>	<u>4.2</u>	<u>2,518.1</u>
ACCUMULATED DEPRECIATION				
At 1 April 2013	362.9	19.0	-	381.9
Charge for the year	59.0	1.5	1.3	61.8
Disposals	<u>(8.7)</u>	<u>-</u>	<u>-</u>	<u>(8.7)</u>
At 1 April 2014	413.2	20.5	1.3	435.0
Charge for the year	63.2	1.6	0.3	65.1
Disposals	<u>(10.8)</u>	<u>(0.1)</u>	<u>-</u>	<u>(10.9)</u>
At 31 March 2015	<u>465.6</u>	<u>22.0</u>	<u>1.6</u>	<u>489.2</u>
Net book value at 31 March 2014	<u>1,863.8</u>	<u>4.0</u>	<u>2.9</u>	<u>1,870.7</u>
Net book value at 31 March 2015	<u>2,018.1</u>	<u>8.2</u>	<u>2.6</u>	<u>2,028.9</u>

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets in the course of construction included above

	Distribution system	Fixtures and Equipment	Non- Operational Land & Buildings	Total
	£m	£m	£m	£m
At 1 April 2013	148.2	-	-	148.2
Additions	207.8	-	-	207.8
Available for use	<u>(158.9)</u>	<u>-</u>	<u>-</u>	<u>(158.9)</u>
At 1 April 2014	197.1	-	-	197.1
Additions	217.5	-	-	217.5
Available for use	<u>(240.2)</u>	<u>-</u>	<u>-</u>	<u>(240.2)</u>
At 31 March 2015	<u>174.4</u>	<u>-</u>	<u>-</u>	<u>174.4</u>

The net book value of non-operational land and buildings comprises:

	2015 £m	2014 £m
Freehold	2.0	2.2
Long-leasehold	<u>0.6</u>	<u>0.7</u>
	<u>2.6</u>	<u>2.9</u>

The Company has entered into contractual commitments in relation to the future acquisition of property, plant and equipment of £32.2m (2014: £32.5m).

NORTHERN POWERGRID (NORTHEAST) LIMITED**REGISTERED NUMBER 02906593****NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)****12 INTANGIBLE ASSETS**

	Software Development Costs £m
COST	
At 1 April 2013	28.0
Additions	10.6
	<hr/>
At 1 April 2014	38.6
Additions	10.3
	<hr/>
At 31 March 2015	48.9
	<hr/>
AMORTISATION	
At 1 April 2013	18.5
Charge for the year	1.9
	<hr/>
At 1 April 2014	20.4
Charge for the year	1.9
	<hr/>
At 31 March 2014	22.3
	<hr/>
Net book value at 31 March 2015	26.6
	<hr/>
Net book value at 31 March 2014	18.2
	<hr/>

13 INVESTMENTS

Details of the investments held by the Company as at 31 March 2015 are listed below:

Name of Company	Country of Registration	Holding of Ordinary Shares	Proportion	Nature of Business
Electralink Limited	England and Wales	619 at 10p	6.7%	Data transfer network operator
MRA Service Company Limited	England and Wales	1 at £1	1.0%	Governance of the electricity industry's Master Registration Agreement
DCUSA Limited	England and Wales	1 at £1	1.7%	Management and governance of the Distribution Connection and Use of System Agreement
Northern Electric Finance plc	England and Wales	50,000 at £1	100%	Finance company

The above investments are unlisted. The cost and net book value of the investments are Electralink Limited £62 (2014: £62), MRA Service Company Limited £1 (2014: £1), DCUSA Limited £1 (2013: £1) and Northern Electric Finance plc £50,000 (2014: £50,000).

NORTHERN POWERGRID (NORTHEAST) LIMITED**REGISTERED NUMBER 02906593****NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)****14 INVENTORIES**

	2015 £m	2014 £m
Raw materials and consumables	11.8	9.5
Work in progress	<u>0.3</u>	<u>0.1</u>
	<u>12.1</u>	<u>9.6</u>

15 TRADE AND OTHER RECEIVABLES

	2015 £m	2014 £m
Distribution use of system receivables	53.3	46.3
Amounts receivable from sale of goods and services	1.8	1.5
Prepayments and accrued income	1.2	1.2
Other receivables	<u>1.7</u>	<u>0.8</u>
	<u>58.0</u>	<u>49.8</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 statement of financial position date. The maximum exposure to risk to the Company is the book value of these receivables less any provisions for impairment. The fair valuation of assets is based on Level 1 inputs.

Distribution use of system receivables

The customers served by the Company's distribution network are supplied predominantly by a small number of electricity supply businesses with RWE NPower plc accounting for approximately 27% of distribution revenues in the regulatory year to 31 March 2015 (2014: 27%). Ofgem has determined a framework which sets credit limits for each supply business based on its credit rating or payment history and requires them to provide credit cover if their value at risk (measured as being equivalent to 45 days usage) exceeds the credit limit. Acceptable credit typically is provided in the form of a parent company guarantee, letter of credit or an escrow account. Included within other payables are customer deposits of £1.7m as at 31 March 2015 (2014: £Nil).

Ofgem has indicated that, provided the Company has implemented credit control, billing and collection processes in line with best practice guidelines and can demonstrate compliance with the guidelines or is able to satisfactorily explain departure from the guidelines, any bad debt losses arising from supplier default will be recovered through an increase in future allowed income. Losses incurred to date have not been material. Included in the Company's use of system ("UoS") receivables are debtors with a carrying value of £Nil, which have been placed into administration. Consequently, no provision was required at the regulatory year-end (2014: £Nil)

Amounts receivable from sale of goods and services

Sales of goods and services comprise all income streams which are not classified as UoS income. Examples of non-UoS income streams would be service alterations/disconnections and recovery of amounts for damage caused by third parties to the distribution system.

The average credit period on sales of goods and services is 30 days. Interest is not generally charged on the trade receivables paid after the due date. An allowance for doubtful debts is made for debts past their due date based on estimated irrecoverable amounts from the sale of goods and services, determined by reference to past default experience.

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)**15 TRADE AND OTHER RECEIVABLES (CONTINUED)****Amounts receivable from sale of goods and services (continued)**

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £0.9m (2014: £0.9m) which are past due at the reporting date and for which the Company has provided an irrecoverable amount of £0.3m (2014: £0.4m) based on past experience. The Company does not hold any collateral over these balances. The average age of these receivables is 398 days (2014: 611 days).

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £0.2m (2014: £0.2m). These amounts are past due at the reporting date and the Company has not provided for any amounts as not being recoverable because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances. The average age of these receivables is 98 days (2014: 61 days).

Ageing of past due but not impaired receivables

	2015 £m	2014 £m
30-60 days	0.1	0.2
120-210 days	0.1	-
Total	<u>0.2</u>	<u>0.2</u>

Movement in the allowance for doubtful debts

	£m	£m
At 1 April	0.4	0.4
Amounts recognised in statement of profit or loss	0.1	-
Amounts utilised/written off in the year	(0.2)	-
At 31 March	<u>0.3</u>	<u>0.4</u>

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

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £0.2m (2014: £0.3m), for companies which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)**15 TRADE AND OTHER RECEIVABLES (CONTINUED)****Categories of financial assets**

	2015 £m	2014 £m
Loans and receivables at amortised cost	56.8	48.6
Total financial assets	56.8	48.6
Non-current assets	2,055.5	1,888.9
Inventories	12.1	9.6
Prepayments and accrued income	1.2	1.2
Total non-financial assets	2,068.8	1,899.7
Total Assets	2,125.6	1,948.3

16 OTHER FINANCIAL LIABILITIES**Trade and other payables**

	2015 £m	2014 £m
Payments received on account	40.2	30.1
Trade payables	4.9	3.9
Amounts owed to Group undertakings	0.9	0.7
Other taxes and social security costs	3.4	3.2
Accruals	51.0	36.0
Other payables	5.4	10.0
	105.8	83.9

Current income tax liabilities

	2015 £m	2014 £m
Corporation tax	13.5	14.1
	13.5	14.1

The directors consider that the carrying amount of other financial liabilities approximates their fair value, calculated by discounting future cash flows at market rate at the statement of financial position date. The fair valuation of liabilities 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.

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

16 OTHER FINANCIAL LIABILITIES (CONTINUED)

The following tables detail the remaining contractual maturities for the non-derivative financial liabilities included in Notes 16 and 17. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest possible date on which the Company can be required to pay. The tables include both interest and principal cash flows.

	Less than 3 months £m	3 months To 1 year £m	1 to 5 Years £m	5+ Years £m	Total £m
2015:					
Non-interest bearing	65.6	-	-	-	65.6
Variable interest rate liability	143.1	-	-	-	143.1
Fixed interest rate liability	2.6	24.9	224.0	598.3	849.8
	<u>211.3</u>	<u>24.9</u>	<u>224.0</u>	<u>598.3</u>	<u>1,058.5</u>
2014:					
Non-interest bearing	53.9	-	-	-	53.9
Variable interest rate liability	23.5	-	-	-	23.5
Fixed interest rate liability	2.6	24.9	190.0	637.4	854.9
	<u>80.0</u>	<u>24.9</u>	<u>190.0</u>	<u>637.4</u>	<u>932.3</u>

Categories of financial liabilities

	2015 £m	2014 £m
Loans and payables at amortised cost	<u>631.0</u>	<u>593.0</u>
Total financial liabilities	<u>631.0</u>	<u>593.0</u>
Payments received on account	40.2	30.1
Income tax liabilities	115.0	111.8
Other taxes and social security	3.4	3.2
Accruals	51.0	36.0
Deferred revenue	526.6	510.7
Provisions	1.6	1.9
Total non-financial liabilities	<u>737.8</u>	<u>693.7</u>
Total liabilities	<u>1,368.8</u>	<u>1,286.7</u>

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

17 BORROWINGS

The Directors' consideration of liquidity, interest rate and foreign currency risk is described in the Strategic Report on pages 5 and 6.

	Book value		Fair value	
	2015	2014	2015	2014
	£m	£m	£m	£m
Loans	192.9	161.1	204.9	170.6
Amounts owed to Group undertakings	426.9	417.3	541.9	481.1
	619.8	578.4	746.8	651.7
The borrowings are repayable as follows:				
On demand or within one year	153.0	111.7	153.0	111.7
After one years	466.8	466.7	593.8	540.0
	619.8	578.4	746.8	651.7
Analysis of borrowings:				
Short-term loan	73.3	41.5	73.3	41.5
Inter-company short-term loan	69.8	60.3	69.8	60.3
Northern Electric Finance plc 2020 – 8.875%	104.1	104.1	138.3	136.1
Northern Electric Finance plc 2035 – 5.125%	50.2	50.1	65.0	57.8
Yorkshire Electricity Group plc 2037 – 5.9%	101.5	101.5	140.6	119.0
Northern Electric Finance plc 2037 – 5.125%	101.3	101.3	128.2	107.9
European Investment Bank 2018 – 4.065%*	40.2	40.2	43.2	42.9
European Investment Bank 2019 – 4.241%*	40.2	40.2	44.3	43.4
European Investment Bank 2020 – 4.386%*	39.2	39.2	44.1	42.8
	619.8	578.4	746.8	651.7

The fair value of the external borrowings is determined with reference to quoted market prices. The directors' estimates of the fair value of internal borrowings are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments.

* The borrowings from the European Investment Bank were drawn down in twelve tranches, repayable in 2018, 2019 and 2020. The interest rates shown above are average rates for those repayment dates. The spread of interest rates is as follows:

2018: 3.901% - 4.283%
 2019: 4.077% - 4.455%
 2020: 4.227% - 4.586%

Interest on short-term loans and inter-company short-term loans is charged at a floating rate of LIBOR plus 0.5%, 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 £1.2m per year. This is considered to be an acceptable level of risk. All other loans are at fixed interest rates and expose the Company to fair value interest rate risk.

The loans are non-secured and are denominated in sterling.

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

17 BORROWINGS (CONTINUED)

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

The Company's Senior Total Net Debt as at 31 March 2015 totalled £612.0m. Using the RAV value as at March 2015, as outlined by Ofgem in its Final Determination for Distribution Prices published in November 2014, and adjusting for the effects of movements in the value of the Retail Prices Index ("RPI") gives an approximation for the RAV value as at 31 March 2015 of £1,178.1m. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 51.9% (2014: 48.3%).

At 31 March 2015, the Company had available £20.7m (2014: £52.5m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

18 DEFERRED TAX

	Accelerated Tax Depreciation £m	Other £m	Total £m
At 1 April 2013	112.4	(0.2)	112.2
Credit to statement of profit or loss	(14.5)	-	(14.5)
At 1 April 2014	97.9	(0.2)	97.7
Charge to statement of profit or loss	3.8	-	3.8
At 31 March 2015	101.7	(0.2)	101.5

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

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

19 DEFERRED REVENUE

	2015 £m	2014 £m
At 1 April	510.7	495.3
Additions	36.0	34.1
Amortisation	(20.1)	(18.7)
At 31 March	<u>526.6</u>	<u>510.7</u>
	2015 £m	2014 £m
Included in current liabilities	21.3	19.4
Included in non-current liabilities	<u>505.3</u>	<u>491.3</u>
	<u>526.6</u>	<u>510.7</u>

Deferred revenue represents contributions from customers made in advance towards distribution system assets. This income is released to the statement of profit or loss up to 45 years on a straight line basis in line with the useful economic life of the distribution system assets.

20 PROVISIONS

	Claims £m	Other £m	Total £m
At 1 April 2013	1.1	0.8	1.9
Utilised/paid in the year	(0.5)	-	(0.5)
Charged to the statement of profit or loss	<u>0.5</u>	<u>-</u>	<u>0.5</u>
At 1 April 2014	1.1	0.8	1.9
Utilised/paid in the year	(0.7)	-	(0.7)
Charged to statement of profit or loss	<u>0.3</u>	<u>0.1</u>	<u>0.4</u>
At 31 March 2015	<u>0.7</u>	<u>0.9</u>	<u>1.6</u>
	2015 £m	2014 £m	
Included in current liabilities	1.3	1.6	
Included in non-current liabilities	<u>0.3</u>	<u>0.3</u>	
	<u>1.6</u>	<u>1.9</u>	

Claims: Provision has been made to cover costs arising from actual claims, which are not externally insured. Settlement is expected substantially within 12 months.

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

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

21 SHARE CAPITAL

	2015 No./£	2014 No./£
Ordinary shares of £1 each		
Allotted, called-up and fully paid	<u>200,000,100</u>	<u>200,000,100</u>

The Company has one class of ordinary shares which carries no right to fixed income.

22 RECONCILIATION OF PROFIT BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

	2015 £m	2014 £m
Profit before income tax	157.8	116.3
Depreciation and amortisation	67.0	63.7
Profit on disposal of fixed assets	(0.7)	(0.4)
Amortisation of deferred revenue	(20.1)	(18.7)
Decrease in provisions	(0.3)	-
Interest receivable	-	(0.1)
Finance costs	25.9	26.1
Investment income	<u>(0.1)</u>	<u>(0.1)</u>
Operating cash flows before movements in working capital	229.5	186.8
(Increase)/decrease in inventories	(2.5)	0.8
Increase in receivables	(7.4)	(1.6)
(Decrease)/increase in payables	<u>(0.5)</u>	<u>0.3</u>
Cash generated from operations	<u>219.1</u>	<u>186.3</u>

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

23 **PENSION COMMITMENTS**

Introduction

The Company contributes to two pension schemes, which are operated by Northern Electric plc on behalf of the participating companies within the Northern Powergrid Group. Those pension schemes are:

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

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

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

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

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

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

Unless otherwise stated, disclosures within this note are representative of the Northern Powergrid Group as a whole and not the Company on an individual basis as the Company accounts for the DB Scheme as if it were a defined contribution scheme.

Role of Trustees

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

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

23 PENSION COMMITMENTS (CONTINUED)

Funding requirements

UK legislation requires that pension schemes are funded prudently (i.e. to a level in excess of the current expected cost of providing benefits). The last actuarial valuation of the DB scheme was carried out by the Trustees' actuarial advisors, Aon Hewitt, as at 31 March 2013. Such valuations are required by law to take place at intervals of no more than three years. Following each valuation, the Trustees and the Northern Powergrid Group must agree the contributions required (if any) to ensure the DB Scheme is fully funded over time on the basis of suitable, prudent assumptions. Contributions agreed in this manner constitute a minimum funding requirement. The next funding valuation is due no later than 31 March 2016 at which the funding position will be reviewed.

Agreement was reached during October 2014 with the Trustees to repair the funding deficit of £286.4m as at 31 March 2013 over the 11 year period to 31 March 2025, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2013 being borne out in practice. The agreement includes cash payments of £34.9m (of which £24.1m is borne by the Company) per annum over the period to 31 March 2015, made on a monthly basis, followed by an agreed profile of payments to be made over the remaining ten years of the recovery plan, as set out below:

1 April 2015 to 31 March 2016	£28.6m p.a.
1 April 2016 to 31 March 2025	£18.4m p.a.

All contributions set out above are in 2014/15 prices and will be increased each year in line with increases in RPI over the period until they fall due.

The contributions payable by the Northern Powergrid Group to the DB Scheme in respect of future benefits, which are accruing, are 37.0% of pensionable pay (2014 44.2% for certain senior managers and 29.6% for other employees). These contributions were determined as part of the 31 March 2013 actuarial valuation and are payable in addition to the deficit repair contributions mentioned above. These rates will remain in place until such a time as a new schedule of contributions is agreed between the Trustees and Northern Electric plc as part of the 31 March 2016 or earlier valuation.

Under the rules of the DB Scheme, any future surplus in the DB Scheme may, following consultation with the Group Trustees, be allocated for the benefit of the members of the DB Scheme and/or the Principal and Participating Employers.

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

23 PENSION COMMITMENTS (CONTINUED)

Pensions' Regulation

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

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

The Pensions Regulator has various powers including the power to:

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

Profile of the DB Scheme

The Defined Benefit Obligation ("DBO") includes benefits for current employees, former employees and current pensioners. The overall duration of the DB Scheme's obligation was assessed to be about 17 years based on the results of the 31 March 2013 funding valuation. This is the weighted-average time over which benefit payments are expected to be made.

Broadly, about 40% of the liabilities are attributable to current employees (duration about 23 years), 10% to former employees (duration about 24 years) and 50% to current pensioners (duration about 12 years).

Risks associated with the DB Scheme

The DB Scheme exposes the Northern Powergrid Group to a number of risks, the most significant of which are:

Risk	Description	Mitigation
Volatile asset returns	The DBO is calculated using a discount rate set with reference to corporate bond yields. If assets underperform this discount rate, this will create an element of deficit. The DB Scheme aims to hold a significant proportion (48%) of its assets in growth assets (such as equities) which, although expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term.	The allocation to growth assets is monitored to ensure it remains appropriate given the DB Scheme's long-term objectives. The Trustees regularly review the strategy from growth seeking assets and have diversified some return-seeking assets from equities into Reinsurance and Listed Infrastructure to reduce overall risk. To avoid concentration risk, the allocation to UK equity is restricted to 35% of the total equity allocation.

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)**23 PENSION COMMITMENTS (CONTINUED)**

Risk	Description	Mitigation
Changes in bond yields	A decrease in corporate bond yields will increase the value placed on the DBO for accounting purposes, although this will be partially offset by an increase in the value of the DB Scheme's bond holdings.	The DB Scheme also holds a substantial proportion of its assets (52%) as bonds, which provide a hedge against falling bond yields (falling yields which increase the DBO will also increase the value of the bond assets). There are some differences in the credit quality of bonds held by the DB Scheme and the bonds analysed to decide the DBO discount rate, such that there remains some risk should yields on different quality bond/swap assets diverge.
Inflation risk	A significant proportion of the DBO is indexed in line with price inflation (specifically in line with RPI) and higher inflation will lead to higher liabilities.	The DB Scheme holds around 30% in UK government index-linked bonds which provide a hedge against higher than expected inflation increases of the DBO (rising inflation will increase both the DBO and the value of the index-linked bond portfolio).
Currency risk	To increase diversification, the DB Scheme invests in overseas assets. This leads to a risk that foreign currency movements negatively impact the value of assets in Sterling terms.	The DB Scheme hedges a proportion of the overseas investments currency risk for those overseas currencies that can be hedged efficiently. The DB Scheme's currency hedging ratio is currently 50% in respect of overseas developed market currencies.
Life expectancy	The majority of the DB Scheme's obligations are to provide benefits for the pensionable lifetime of the member, so increases in life expectancy will result in an increase in the liabilities.	The DB Scheme regularly reviews actual experience of its membership against the actuarial assumptions underlying the future benefit projections and carries out detailed analysis when setting an appropriate scheme specific mortality assumption.

The Northern Powergrid Group and Trustees have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes an element of asset-liability matching, which aims to reduce the volatility of the funding level of the DB Scheme by investing in certain assets, which perform in line with the liabilities of the DB Scheme.

Other risks

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

A particular legislative risk exists in relation to the equalisation of the Guaranteed Minimum Pension ("GMP"), a quasi-state benefit accrued by many UK plans over the period 1978 to 1997 as a result of a UK government programme allowing pension plans to "contract out" of the State Second Pension. The UK Government has announced its intention to ensure that these benefits, which currently pay out at different levels for men and women, are gender-equalised in accordance with sex-discrimination legislation. This would increase the DBO but it is not possible to fully quantify the impact of this change at this stage. However, it could lead to an increase in the order of 2% to the DBO for a typical scheme.

NORTHERN POWERGRID (NORTHEAST) LIMITED**REGISTERED NUMBER 02906593****NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)****23 PENSION COMMITMENTS (CONTINUED)****Reporting at 31 December 2014**

For the purposes of this disclosure, the current and future pension costs of the Northern Powergrid Group have been assessed by Aon Hewitt, a qualified independent actuary, using the assumptions set out below, which the actuary has confirmed represent a reasonable best estimate of those costs. This review has been based on the same membership and other data as at 31 March 2013. The board of Northern Powergrid Holdings Company has accepted the advice of the actuary and formally approved the use of these assumptions for the purpose of calculating the pension cost of the Northern Powergrid Group.

The results of the latest funding valuation at 31 March 2013 have been adjusted to 31 December 2014. Those adjustments take account of experience over the period since 31 March 2013, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the DBO and the related current service cost were measured using the Projected Unit Credit Method.

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

The Company's pension cost for the year ended 31 March 2015 was £33.5m (2014: £32.0m).

The principal assumptions used to calculate the liabilities under IAS 19 are set out below:

Main financial assumptions	December	December
	2014	2013
	% p.a.	% p.a.
RPI Inflation	2.80	3.15
Rate of long-term increase in salaries	2.80	3.15
Pension increases	2.70	3.05
Discount rate for scheme liabilities	3.60	4.40

The financial assumptions reflect the nature and term of the DB Scheme's liabilities.

Main demographic assumptions	December	December
	2014	2013
Life expectancy for a male currently aged 60	27.1	27.1
Life expectancy for a female currently aged 60	28.9	28.8
Life expectancy at 60 for a male currently aged 45	28.7	28.8
Life expectancy at 60 for a female currently aged 45	30.6	30.6
Proportion of pension exchanged for additional cash at retirement	10%	10%

The mortality assumptions are based on recent actual mortality experience of DB Scheme members and allow for expected future improvements in mortality rates.

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

23 PENSION COMMITMENTS (CONTINUED)

The DB Scheme's funds are invested in the following assets:

Asset allocation	December 2014 £m	December 2013 £m
Developed market equity	306.2	290.7
Emerging market equity	12.6	12.1
Property	130.3	112.2
Reinsurance	64.5	61.8
Listed infrastructure	84.7	66.8
Investment grade corporate bonds	343.1	331.2
Other debt	57.4	37.2
Fixed interest gilts	28.5	21.6
Index-linked gilts	452.7	358.7
Cash	36.0	18.4
Total	<u>1,516.1</u>	<u>1,310.7</u>

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets whereas the fair values of properties are not based on quoted prices in active markets.

As at 31 December 2014, the fair value of the DB Scheme's assets, which related to self-investment, amounted to £Nil (2013: £Nil).

Changes to the present value of the DBO during the year	December 2014 £m	December 2013 £m
Opening DBO	1,321.3	1,259.3
Current service cost	14.5	13.9
Interest expense on defined benefit obligation	57.3	54.6
Contributions by DB Scheme participants	1.5	1.6
Actuarial gains on DB Scheme liabilities arising from changes in demographic assumptions	(19.2)	(23.2)
Actuarial losses on DB Scheme liabilities arising from changes in financial assumptions	110.4	57.6
Actuarial losses on DB Scheme liabilities arising from experience	33.3	10.7
Net benefits paid out	(55.9)	(53.2)
Closing DBO	<u>1,463.2</u>	<u>1,321.3</u>

Changes in the fair value of DB Scheme assets of the Northern Powergrid Group during the year	December 2014 £m	December 2013 £m
Opening fair value of DB Scheme assets	1,310.7	1,222.8
Interest income on DB Scheme assets	57.6	53.8
Re-measurement gains on DB Scheme assets	149.6	36.4
Contributions by the employer	54.1	50.8
Contributions by DB Scheme participants	1.5	1.6
Net benefits paid out	(55.9)	(53.2)
Administration costs incurred	(1.5)	(1.5)
Closing fair value of DB Scheme assets	<u>1,516.1</u>	<u>1,310.7</u>

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

23 PENSION COMMITMENTS (CONTINUED)

Actual return on DB Scheme assets	December 2014 £m	December 2013 £m
Interest income on DB Scheme assets	57.6	53.8
Re-measurement gain on DB Scheme assets	149.6	36.4
	<hr/>	<hr/>
Actual return on DB Scheme assets	207.2	90.2

Sensitivity to key assumptions

The key assumptions used for IAS 19 are discount rate, inflation and mortality. If different assumptions were used, it could have a material effect on the results of the Northern Powergrid Group. The sensitivity of the results to these assumptions is as follows.

	Changes in DBO £'000	Revised DBO £'000
Current Figures	1,463.2	
Following a 10 bps decrease in the discount rate	26.1	1,489.3
Following a 10 bps increase in the discount rate	(25.7)	1,437.5
Following a 10 bps increase in the inflation assumption	24.3	1,487.5
Following a 10 bps decrease in the inflation assumption	(24.0)	1,439.2
Following a 1 year increase in life expectancy	48.3	1,511.5
Following a 1 year decrease in life expectancy	(48.8)	1,414.4

The sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the statement of financial position date. This is the same approach as has been adopted in previous periods.

24 OPERATING LEASE ARRANGEMENTS

	2015 £m	2014 £m
Minimum lease payments under operating leases recognised in the year	6.3	6.7

At the statement of financial position date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2015 £m	2014 £m
Within one year	4.7	4.5
In the second to fifth year inclusive	14.8	15.9
After five years	1.6	3.8
	<hr/>	<hr/>
	21.1	24.2

Leases consist of rent payable in respect of properties and vehicle leases (both primarily from related parties).

NORTHERN POWERGRID (NORTHEAST) LIMITED**REGISTERED NUMBER 02906593****NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)****25 RELATED PARTY TRANSACTIONS**

The Company has advanced loans to companies in the Northern Powergrid Group. The total interest included in investment income in the statement of profit or loss for the year ended 31 March 2015 was £0.1m (2014: £0.1m).

The Company has received loans from other companies in the Northern Powergrid Group. The total interest included in finance costs in the statement of profit or loss for the year ended 31 March 2015 was £23.3m (2014: £23.4m). Included within borrowings is £426.9m as at 31 March 2015 (2014: £417.3m).

Interest on loans to/from Northern Powergrid Group companies is charged at a commercial rate.

The Company entered into transactions, in the ordinary course of business, with affiliated companies. Transactions entered into and trading balances outstanding at the regulatory year-end were as follows:

Related Party	Sales to Related Party	Purchases from Related Party	Amounts Owed to Related Party (Note 16)
	£m	£m	£m
2015:			
Northern Powergrid Insurance Services Limited	-	0.4	-
Integrated Utility Services Limited	0.3	1.7	-
Integrated Utility Services Limited (registered in Eire)	-	1.4	0.5
Northern Electric plc	0.1	7.0	-
Northern Powergrid Metering Limited	0.1	-	-
Northern Powergrid (Yorkshire) plc	17.1	10.7	-
Vehicle Lease and Service Limited	-	3.7	0.4
2014:			
Northern Powergrid Insurance Services Limited	-	0.5	-
Integrated Utility Services Limited	0.4	1.6	-
Integrated Utility Services Limited (registered in Eire)	-	1.3	0.3
Northern Electric plc	0.1	6.6	-
Northern Powergrid (Yorkshire) plc	15.2	9.6	-
Vehicle Lease and Service Limited	-	3.6	0.4

Sales and purchases from related parties were made at commercial prices.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of amounts owed by related parties

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

26 IMMEDIATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking of Northern Powergrid (Northeast) Limited is Northern Electric plc. The ultimate controlling party and ultimate parent undertaking of Northern Electric plc is Berkshire Hathaway, Inc., a company incorporated in the United States of America.

Copies of the group accounts of Berkshire Hathaway, Inc. (the parent undertaking of the largest group preparing group accounts) which include Northern Powergrid (Northeast) Limited and the group accounts of Northern Electric plc, the smallest parent undertaking to prepare group accounts in the United Kingdom, can both be obtained from the Company Secretary, Northern Powergrid Holdings Company, Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.