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GROUP STRATEGIC REPORT, REPORT OF THE DIRECTORS AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

FOR

NORTHERN ELECTRIC PLC

CONTENTS OF THE ANNUAL REPORTS AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015

NORTHERN ELECTRIC PLC

COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2015

DIRECTORS:	G E Abel R Dixon T E Fielden J M France P J Goodman P A Jones
COMPANY SECRETARY:	J Elliott
REGISTERED OFFICE:	Lloyds Court 78 Grey Street Newcastle upon Tyne NE1 6AF
REGISTERED NUMBER:	02366942 (England and Wales)
AUDITOR:	Deloitte LLP Chartered Accountants and Statutory Auditor Newcastle upon Tyne United Kingdom

GROUP STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present the annual reports and accounts of Northern Electric plc (the "Company") and its subsidiary companies (together the "Group") for the year ended 31 December 2015, which includes the Strategic Report, the Report of the Directors and the audited financial statements for that year. Pages 2 to 21 inclusive comprise the Strategic Report and pages 22 to 31 comprise the Report of the Directors, which have been drawn up and are presented in accordance with the Companies Act 2006.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

These annual reports and accounts have been prepared for the members of the Company only. The Company, its directors, employees or agents do not accept or assume responsibility to any other person in connection with this document and any such responsibility or liability is expressly disclaimed. These annual reports and 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 Group 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 these annual reports and accounts and will not be updated during the year. Nothing in these annual reports and accounts should be construed as a profit forecast.

BUSINESS MODEL

The Company is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group") and acts as a holding company of Northern Powergrid (Northeast) Limited ("Northern Powergrid"), Integrated Utility Services Limited ("IUS") and Northern Powergrid Metering Limited ("Northern Powergrid Metering"). Northern Powergrid is a distribution network operator ("DNO"), which distributes electricity, at voltages of up to 132kV, 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. Some 14,952 GWh of electricity was distributed to those customers during the year. Northern Powergrid's distribution network includes over 41,000km of overhead and underground cables and over 27,000 substations of all types and receives electricity from generators connected directly to it and from the National Grid's transmission system. IUS provides engineering contracting services and Northern Powergrid Metering rents meters to energy suppliers.

In common with the Northern Powergrid Group, the Group 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 Group's financial resources, investing in assets and focusing on long-term opportunities, which contribute to the Group'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 Group's operations, system investment and maintenance.	Effective asset management, managing commercial risk and improving network resilience and performance.

BUSINESS MODEL - continued

Principle	Strategy	Indicator
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 Group'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 Group'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 Group 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.

REVIEW OF THE YEAR

The Group delivered a satisfactory financial performance for the year, which benefited from a further change to the rate of taxation and continued effective cost control, with revenue at £386.4 million being £23.1 million less than in 2014. The decrease in revenue was mainly due to the five-year profile of Northern Powergrid's allowed revenues inherent in the price control formula under the Distribution Price Control period to 31 March 2015 ("DPCR5") and the reduction in tariffs introduced with effect from the start of the current regulatory period, which runs from 1 April 2015 to 31 March 2023 and is known as ED1 and lower contracting volumes in IUS, partially offset by increased smart meter rental revenues.

One of the main priorities for the Group in the year was responding to Ofgem's final determination in respect of ED1, which set Northern Powergrid's income for that period. Having considered Ofgem's final determination, Northern Powergrid sought permission from the Competition and Markets Authority (the "CMA") to appeal against the licence modifications that gave effect to the ED1 price control. The appeal related to three specific areas:

(i) Ofgem's decision to demand further cost savings in relation to smart grid technology over and above the ones proposed by Northern Powergrid and captured in Ofgem's original cost benchmarking exercise;

(ii) Ofgem's assessment of the variation in wage rates across the country; and

(iii) Ofgem's projections for labour cost increases.

REVIEW OF THE YEAR - continued

On 30 March 2015, the CMA granted Northern Powergrid permission to appeal and the appeal progressed to its conclusion in accordance with the timetable required of the CMA. British Gas Trading Limited ("British Gas") was also granted permission to appeal the price control, with the same review timetable.

On 29 September 2015, the CMA published its final determination in respect of Northern Powergrid's appeal and upheld one ground of the appeal in respect of the adjustments made by Ofgem to reflect potential savings available from the introduction of smart grids and other technological innovations, because Ofgem's decision was not based on robust evidence.

The CMA's determination will increase Northern Powergrid's cost allowances over ED1 by approximately £16 million in 2012/13 prices, which affects Northern Powergrid's projected regulatory asset value at the end of ED1 as well as its allowed revenues within ED1. The CMA did not uphold Northern Powergrid's other two grounds of appeal, deciding that Ofgem's decision fell within the margin of discretion that is available to it in respect of such matters and Northern Powergrid's case fell short of demonstrating that Ofgem's decision was wrong.

British Gas appealed on six grounds. The CMA agreed with British Gas in part on one of those grounds only, resulting in an adjustment to part of the price control that adjusts the overall level of revenue a DNO can earn by providing a reward in proportion to the extent to which Ofgem agrees with the DNO's cost forecasts. The outcome of British Gas' appeal was a reduction of approximately £6 million in Northern Powergrid's allowed additional income in ED1 in 2012/13 prices. The net effect of the two appeals on Northern Powergrid's allowed revenues in ED1, excluding the uplift on Northern Powergrid's projected regulatory asset value at the end of ED1, is a reduction of approximately £2 million in 2012/13 prices.

Having delivered its largest ever capital expenditure programme of £199.6 million in 2014, Northern Powergrid continued with its policy of investing efficiently in its electricity distribution network during 2015. During the year, Northern Powergrid invested £195.8 million in its distribution network, which was marginally lower than the record spend in the year ended 31 December 2014, such that it completed all outputs committed within the DPCR5 price control period by the end of DPCR5 on 31 March 2015.

Improving customer satisfaction remained a management priority for long-term improvement and, during the year, Northern Powergrid introduced the new Customer Relationship Management ("CRM") system, which will provide quicker and more accurate information to customers and improve the effectiveness of the customer complaints process. Northern Powergrid continues to be one of the industry leaders in terms of social obligations and stakeholder engagement, and was again ranked second among the DNOs in respect of its annual stakeholder engagement submission to Ofgem.

Northern Powergrid 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, Northern Powergrid's adoption of an Operations model based on a number of locally-focussed industrial, rural and urban zones, has begun to deliver improvements in Northern Powergrid's response to unplanned power cuts following the introduction of a new guaranteed standard for the restoration of supply within 12 hours of a power cut occurring from 1 April 2015 onwards.

Environmental performance continued to be strong with incidents reportable to the Environment Agency being better than target. However, oil spills and leaks from Northern Powergrid's assets and SF_6 gas discharges from electrical plant exceeded target, which was slightly disappointing as Northern Powergrid had delivered its most successful annual environmental performance in the previous year. Given the impact on the environment of such events, Northern Powergrid remains 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 Group's safety performance continued to be strong, such that the Group made an effective contribution to the Northern Powergrid Group recording an Occupational Safety and Health Administration ("OSHA") rate of 0.26 for the year to 31 December 2015 (2014: 0.26), which equalled its best ever safety performance. The long-term trend in overall safety performance continued to compare well with that of the industry and the Group beat its internal targets in respect of restricted duty and medical treatment accidents and preventable vehicle accidents, but missed its targets in respect of lost time accidents and operational incidents.

REVIEW OF THE YEAR - continued

IUS' revenue in 2015, at £32.9 million, was 24% lower than in 2014, mainly due to lower activity levels on substation installation projects for Network Rail and the effect of the ongoing negotiations with Network Rail regarding Network Rail's liability in respect of costs incurred by IUS due to the delay and disruption caused by issues including changes to Network Rail's designs and time constraints relating to physical access to the rail network. Activity levels for Multi-utility installation projects, mainly in the North of England, were higher than 2014 due to delivery of new orders secured from clients as the new housing market improved. Work on private electrical infrastructure for clients based in the North of England also increased in comparison to 2014.

Northern Powergrid Metering's performance was encouraging, with it delivering the contracts secured with energy suppliers for the provision of smart meters in the United Kingdom and Ireland, and continuing to pursue business development opportunities with other energy suppliers in advance of the full smart meter roll-out programme.

CORE PRINCIPLES

Financial strength

During the year, the Group 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.

Northern Powergrid continued to benefit from the stability provided by the arrangements agreed in respect of DPCR5 in terms of its income until 31 March 2015. The ED1 price control, as amended following the outcomes of the appeals to the CMA, provides similar stability and has been set for eight years with provision for a mid-period review of the outputs that Northern Powergrid is required to deliver. In that respect, Northern Powergrid recognises that it needs to continue 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 year were as follows:

Revenue
The Group's revenue at £386.4 million was £23.1 million lower than the prior year mainly due to the five-year profile of allowed revenues inherent in the DPCR5 price control formula, the reduction in tariffs introduced with effect from the start of ED1 and lower contracting volumes in IUS, partially offset by increased smart meter rental revenues.

Operating profit and position at the year end
The Group's operating profit at £196.2 million was £14.5 million lower than the previous year primarily due to lower distribution revenues inherent in the DPCR5 and ED1 price control periods and increased depreciation due to the high level of capital investment over the past few years, offset by lower cost of sales due to the one-off exit charge occurring in 2014.

The consolidated statement of financial position on pages 38 and 39 shows that, as at 31 December 2015, the Group had total equity of £1,008.6 million. The directors consider the Group 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 by Northern Powergrid.

Finance costs and investments
Finance costs net of investment income at £34.6 million were broadly in line with the prior year.

Taxation
The effective tax rate in the year was 10.7%. The effective tax rate before adjusting for the impact of the changes in tax rates by the Finance Act 2015 would be 20.3%. Details of the income tax expense are provided in Note 7 to the accounts.

Results and dividends
The Group made a profit after tax for the year of £144.8 million (2014: £140.2 million). An interim dividend of £20.6 million was paid during the year (2014: £30.0 million) and the directors recommend that no final dividend be paid in respect of the year.

CORE PRINCIPLES - continued

Financial strength - continued

Share capital and debt structure
There were no changes to the Company's share capital during the year. On 2 December 2015, Northern Powergrid entered into an agreement with the European Investment Bank, which provided Northern Powergrid with a credit facility of £120 million. The financial obligations of Northern Powergrid under this agreement are guaranteed by Northern Powergrid Holdings Company and, on 16 December 2015, Northern Powergrid drew on the credit facility in its entirety at a fixed rate of 2.564% for a period of 12 years.

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

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

Movements in cash flows were as follows:

Operating activities: Cash flow from operating activities at £126.5 million was £29.0 million lower than the previous year. Lower profits as a consequence of the profile of distribution revenues were partially offset by favourable working capital movements.

Investing activities: Net cash used in investing activities at £224.4 million was £38.0 million higher than the previous year, reflecting net capital expenditure particularly the investment in smart meters.

Financing activities: The net cash from financing activities at £21.2 million represents a £10.5 million favourable variance compared to the previous year, reflecting net movements in borrowings in the year to fund business operations.

Liquidity risk
As at 31 December 2015, Northern Powergrid 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. The revolving credit facility was due to expire on 20 August 2017 but, on 30 April 2015, the facility was restated and amended and is now due to expire on 30 April 2020. Northern Powergrid expects to raise further facilities, as required, at that time.

In addition, the Group 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 Group'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.

Interest rate risk
The Group is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 December 2015, 100% of the Group's long-term borrowings were at fixed rates and the average maturity for these borrowings was 13 years.

Currency risk
No material currency risks are faced by the Group.

CORE PRINCIPLES - continued

Financial strength - continued

Pensions
The Company is the principal employer of the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "Scheme"), a defined benefit scheme. Full details of the Group's commitments to the Scheme and the associated deficit repair payments are provided in Note 24 to the accounts.

Companies in the Group also participate in the Northern Powergrid Pension Scheme, which is a defined contribution scheme.

Insurance
As part of its insurance and risk strategy, the Group has in place insurance policies, which cover risks associated with employers, third party motor and public liability. The Group carries appropriate excesses on those policies and is effectively self-insured up to the level of those excesses. 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 year, Northern Powergrid 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. Northern Powergrid remains focused on delivering a reliable and dependable supply of electricity, together with a high standard of service to its customers.

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

Customer satisfaction with Northern Powergrid's response to unplanned power cuts showed gradual improvement in 2015 and the focus remains on improving restoration times and proactively communicating more timely and accurate information to customers. Enhancements were made to the interactive voice response telephony system throughout the year to make it easier for customers to talk to a customer service advisor if they so wished. Customer satisfaction with planned power cuts also showed some encouraging improvement with Northern Powergrid improving the design of written customer communications and providing a text and email service to remind customers three days ahead of the power cut taking place.

Northern Powergrid has invested in improving 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 has been directed towards information technology with the introduction of the new CRM system to improve the self-service offering and provide quicker and more accurate information to customers with workflows automatically routed within both Northern Powergrid and its contractors. This technology will enable customers to communicate with Northern Powergrid in a range of accessible and easy ways across several channels.

Northern Powergrid has built on the industry-leading communications and engagement approaches used to support its business plan and maintains a number of engagement channels. Independently chaired expert panels continue to play a key role in challenging Northern Powergrid's plans, monitoring its performance and helping to deliver innovative initiatives and services. Guided by these panels, Northern Powergrid has been able to direct effort towards public meetings in the 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 Northern Powergrid to further develop its customer experience improvement programme.

CORE PRINCIPLES - continued

Customer service - continued

Northern Powergrid recognised that the evolving nature of the environment and the level of customer service provided in respect of new connections to the network required additional focus and, as such, initiated a review of this area of its business. Further details regarding the connections activity in the year are provided under "Connections to the network" below.

In common with other DNOs, Northern Powergrid is actively engaged in the national project, which has created a single national three-digit emergency number for power cut calls and is leading three of the four sub-groups within the 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 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 and 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.

Customer minutes lost ("CML") and customer interruptions ("CI") are the key performance indicators used by Northern Powergrid 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. Northern Powergrid's reported performance for the regulatory year to 31 March 2015 (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 Northern Powergrid'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 Northern Powergrid's CML and CI performance for that year, which is reflected in the above table.

In May 2015, Northern Powergrid put forward its stakeholder engagement submission to Ofgem in respect of its work during the Regulatory Year. This included initiatives such as expanding the role of digital solutions in providing customer services and the enhancement of Northern Powergrid's relationship with some voluntary sector organisations, with which it works closely in developing and delivering certain services. Northern Powergrid presented its submission to Ofgem's panel on 8 July 2015 and maintained its position as the second placed DNO group. A reward of £0.9 million was secured, which will be received during the regulatory year ended 31 March 2017, and Northern Powergrid intends to reinvest its reward in initiatives that will continue to build on this strong stakeholder engagement performance.

Under the Broad Measure of Customer Satisfaction, an independent market research company carried out telephone surveys with Northern Powergrid's customers to find out how satisfied they were with the services provided. During the year, surveys were carried out of a number of customers who had contacted Northern Powergrid 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. Northern Powergrid 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 7 and 8, will improve the services provided to customers and so increase the satisfaction ratings year-on-year.

CORE PRINCIPLES - continued

Customer service - continued

While recognising that its customer service performance can be improved, Northern Powergrid continued to make steady progress during the year with customer satisfaction scores generally improving, performance to reduce service failures meeting target, the connections customer service improvement plan being delivered and its social obligations and stakeholder engagement activity continuing to be among the leading in the industry.

Connections to the network

During the year, Northern Powergrid continued to deliver its action plans to improve the connections services provided to its customers, whilst also actively facilitating the development of competition from independent connections providers ("ICPs"). Northern Powergrid continued to engage regularly with its connections customers in groups and individually, holding monthly customer surgeries, twice yearly customer stakeholder events and contributing to national stakeholder forums and events.

There were three main areas of development in Northern Powergrid's connections business over the last year with the introduction of the new Competition in Connections Code of Practice, compliance with which became a licence condition with effect from the end of October 2015, introduction of the full Incentive on Connections Engagement ("ICE") regime in April 2015 and introduction of a customer service improvement programme to deliver improvements in customer satisfaction for small works customers in pursuit of Northern Powergrid's goal to be the leading provider of customer service within the electricity distribution sector.

Northern Powergrid participated with other DNOs in the development of the new Competition in Connections Code of Practice and implemented the required new processes, including the provision of dual quotations, enabling ICPs to self-determine and approve points of connection to the network, and simplifying the authorisation process for ICPs' operational staff.

The start of ED1 saw the introduction of ICE in respect of customers requiring larger connections to the network, so that the needs of those customers can be met more effectively. Under ICE, Northern Powergrid is required to submit a customer service improvement work plan for the forthcoming regulatory year at the end of April, followed by a comprehensive 'looking back and forward' report commenting on the actions delivered in the previous year and future actions proposed in the service improvement plan. Northern Powergrid proposed a comprehensive improvement plan based on direct customer feedback, worked throughout the year to deliver those actions and continued to engage actively with customers through both informal and formal stakeholder events.

Corporate responsibility

Northern Powergrid 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 Northern Powergrid's customers, their time and property, to do a really good job, to be there when needed and to care for the local environment.

Northern Powergrid maintained its key partnerships with the Environment Agency, the local authorities and the local resilience forums, via its Civil Contingency Co-ordinator, so that it can respond quickly to significant faults on, or threats to, the network. Northern Powergrid 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 and, as such, Northern Powergrid responded well to the weather-related incidents, including Storms Desmond and Eva, which impacted on its assets during the year.

Northern Powergrid utilises its 'customer ambassadors' and customer liaison officers, who are allocated to each of its 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 services register so that those customers are kept informed of the situation throughout power cuts and after the power has been restored.

Northern Powergrid continued to focus on some of its more vulnerable customers and works closely with them and the organisations that represent them to improve how it communicates and provides support. The Northern Powergrid Group's social issues expert group focussed on that area and also on how service improvements can be identified and prioritised. As a result, Northern Powergrid continued to improve the quality of the information held on the priority services register, promoted the benefits of being on that register more widely, including via a radio advertising campaign, and enhanced the support provided to priority services customers.

CORE PRINCIPLES - continued

Customer service - continued

Corporate responsibility
Northern Powergrid 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. The Northern Powergrid Group also makes donations to charities nominated by the top three teams in its "Safety Champions" initiative, which is aimed at supporting improvements in safety performance in the operational zones.

Safety remains the Group's first priority and underpins all operations. During the year, Northern Powergrid 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. Northern Powergrid'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.

During the year, Northern Powergrid introduced 'Make the Grade in Energy'. This specially designed programme is delivered in conjunction with the Ahead Partnership, a local organisation focussed on creating links between schools and business, and involves volunteers from across the Northern Powergrid Group working with schools on employability and associated skills. Northern Powergrid also embarked on a programme of support for Community Energy groups in its distribution services area, providing them with networking and educational opportunities to help them develop their activities.

Operational excellence

The Group's core service continues to be providing and maintaining an efficient distribution network that delivers electricity effectively. During the year, £195.8 million was invested in the improvement of the distribution network, a similar amount to that invested in the previous year. Northern Powergrid's continued and substantial investment in its distribution network has seen reliability increase over a sustained period and Northern Powergrid has generally outperformed the targets set by Ofgem in respect of CI and CML. Northern Powergrid'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 Northern Powergrid suggest any diminishing performance in this respect in the future.

Operational activity
Northern Powergrid 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. Northern Powergrid 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.

Northern Powergrid's Operations structure is designed to respond effectively 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 organised into operating zones around the main conurbation of Tyne & Wear, the industrialised area around the Tees and the rural areas of Northumberland, Durham and North Yorkshire, including the Dales, the Vale of York and the North Yorkshire Moors.

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

CORE PRINCIPLES - continued

Operational excellence - continued

Operational activity - continued
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, Northern Powergrid's operational structure will provide a more localised focus and, therefore, improved response times in the event of a power cut. During the year, Northern Powergrid invested in technology to support its drive to improve response times, including the automated power restoration system ("APRS") which operates within the existing network management system. In the event of a high-voltage fault, APRS analyses the information presented by intelligent assets installed on the network and, from that information, determines where the fault is located and executes switching to restore power to the 'healthy' network in a safe manner in under three minutes. APRS was operated initially in advisory mode, allowing intervention in the process to verify the outcome, and was successfully transitioned to live mode in a controlled manner, such that it is planned to enable APRS at some 306 primary substations across the Northern Powergrid Group by the end of ED1. Northern Powergrid expects, therefore, 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.

Northern Powergrid responded well to the major weather events that impacted its network during the year, the most significant being the extensive lightning and wind storm of 1 July 2015, the high winds that affected the northern Pennines and Northumberland during Storm Desmond in early December and the flooding that occurred as a result of Storm Eva on 26 and 27 December 2015, which resulted in Northern Powergrid invoking its major incident management plan on each occasion.

The high winds during Storm Desmond continued for some 39 hours damaging the overhead network and preventing working at height for that time. However, once the high winds subsided, the fault repair and supply restoration performance was effective in restoring power to the affected customers without undue further delay.

The flooding caused by Storm Eva impacted properties in North Yorkshire, with York City Centre significantly affected. However, Northern Powergrid's investment in flood defences at its Melrosegate and Foss Island substations and in high capacity pumping equipment meant that supplies to the vast majority of the approximately 66,000 premises connected to those substations were maintained throughout the storm. Following Storm Eva, Northern Powergrid instigated a programme of work to inspect flooded homes and businesses, to replace service cables and equipment, where required, and to inspect equipment located in the affected areas including substations, link boxes and feeder pillars.

Northern Powergrid's priorities during the 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 55.6 minutes (2014: 59.7 minutes), after allowing for severe weather incidents and other exemptions. During the year, Northern Powergrid completed all outputs committed within the DPCR5 price control period by the price control end date of 31 March 2015.

Northern Powergrid undertook various major projects during the year in support of those priorities and as part of the investment strategy, including:

- Completion of a major reinforcement project in the Knaresborough area culminating in the commissioning of the new Knaresborough 132kV switching station;
- Plant replacement works at North Tees (including three EHV transformers and 13 EHV circuit breakers) and replacement of primary switchgear at Catterick and 66kV circuit breakers at Fossway, Toronto and Linton to complete work at those sites;
- Continuation of reinforcement works in the Harrogate and Potterhouse areas and remediation of fault-level issues at Foss Island by replacing both transformers and reconfiguring the network in the area;
- Replacement of almost 30km of EHV underground cable, including removal of 7.5km of oil-filled cable, 6.5km of gas insulated cable and 15km of solid cable to improve performance;

CORE PRINCIPLES - continued

Operational excellence - continued

Operational activity - continued

- Refurbishment of 230 overhead line towers and replacement of over 86 EHV poles as part of circuit refurbishment works or individually, based on their condition;
- Commencement of works to replace a substantive part of the overhead tower line between Malton, Thornton Dale and Whitby with underground cables;
- 200km of high-voltage overhead line and 115km of low-voltage overhead line was rebuilt and/or refurbished;
- 16 units of high-voltage outdoor switchgear, 39 high-voltage distribution substations and 301 units of high-voltage indoor switchgear were replaced; and
- 255 new remote control points were installed and commissioned.

In order to deliver its investment strategy, Northern Powergrid 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 Group's fundamental objective that every employee and contractor should go home at the end of each shift uninjured and in good health after a productive day's work. The Group 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 Group'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 improve performance still further and, in doing so, maintain its position over the coming years. Having identified issues that may pose an increased safety risk, such as metal theft and the roll-out of smart meters, the Group 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 part of the investment decision-making and appraisal process.

Operational incident performance was disappointing with the number of switching issues experienced on the high-voltage network resulting in ten such incidents occurring in the year, eight of which were attributable to Northern Powergrid and two to IUS, against a target of six. As one of the key deliverables in the Group's safety and health improvement plan is to raise awareness and improve the concentration skills of its operational engineers and other employees, the Group increased its operational audit rate of senior authorised persons such that the operational practices of all the senior authorised persons were verified during the year. The Group also delivered operational seminars, stand down briefings, and regular safety newsflashes to staff in order to cascade information on safety trends, issues and incidents.

The Group's safety and health improvement plan targets continuous improvement and delivery of the various initiatives contained in that plan contributed to Northern Powergrid recording an OSHA rate for the year of 0.21 (2014: 0.1) and IUS an OSHA rate of zero (2014: zero).

The Group uses several key performance indicators to monitor safety performance, with the goal of achieving performance that is below the target number.

CORE PRINCIPLES - continued

Employee commitment - continued

Health and safety - continued
The main key performance indicators are as follows:

	2015		2014	
	Target	Actual	Target	Actual
Lost time accidents	1	3	1	1
Restricted duty accidents	1	0	1	0
Medical treatment accidents	2	0	2	0
Operational incidents	6	10	6	6
Preventable vehicle accidents	12	11	13	11

The number of lost time accidents experienced by the Group increased to three in the year as opposed to one experienced in 2014 and the Group did not record any medical treatment or restricted duty cases. In addition, performance in respect of preventable vehicle accidents was below the target for 2015. None of those incidents gave rise to any significant safety-related risks.

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. The Northern Powergrid Group's Director of Safety, Health and Environment also delivered updates using conference call facilities, which were available to the entire workforce, regarding performance and other safety-related issues.

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 0.35, which equated to only six recordable incidents and equalled the best ever performance recorded in 2014.

As part of the safety and health improvement plan and in order to reinforce the operational safety values, Northern Powergrid 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 Northern Powergrid Group 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 was expanded further throughout 2015 via an interactive, web-based system designed to assess skills and then provide individual training plans to improve hazard perception and reinforce specific aspects of driving-related skills. Northern Powergrid also commenced a programme to install a telematics system in all of its fleet vehicles in order to support driver and vehicle safety by encouraging responsible and safe driving styles, assist with the completion and management of vehicle safety checks, and expedite investigation of vehicle accidents and incidents.

During the year, Northern Powergrid and IUS were awarded further President's Awards by the Royal Society for the Prevention of Accidents in recognition of achievements in 2014 and for continued or improving standards of health and safety over a sustained period. Northern Powergrid'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 Northern Powergrid maintained its OHSAS 18001 accreditation.

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 2015 was 2.71% (2014: 2.32%), which was an increase on that experienced in 2014 but does not give rise to any particular cause for concern.

Management structure

Operational management of Northern Powergrid and that of its affiliate, Northern Powergrid (Yorkshire) plc, 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), customer service, business development (including new connections to the network), policy and markets (including trading and innovation), regulation, human resources, organisation development, legal and finance (including property management, stakeholder engagement and information technology). Some of those functions also provide services across the Northern Powergrid Group. IUS has its own, separate management team and Northern Powergrid Metering utilises staff employed by other companies in the Northern Powergrid Group, in respect of whom it bears the relevant costs.

Employees

The Group 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 Group 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 Group has or is working towards securing multi-year pay agreements with the various employment groups such that the relevant terms and conditions are fair and appropriate across the Group. In addition, the Northern Powergrid Group expects to recruit approximately 100 trainees a year under its workforce renewal programme during ED1 and recruited a total of 174 members of staff in 2015, of which 101 were part of the workforce renewal programme. In addition, 70 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.

As a member of the Berkshire Hathaway, Inc. group of companies, Berkshire Hathaway Energy sets high expectations for honesty and integrity in the conduct of all business activity. Consequently, the Group is committed to proper business conduct and has adopted the Berkshire Hathaway Energy code of business conduct, which details the commitment to ethics and compliance with the law, provides reporting mechanisms for known or suspected ethical or legal violations, and establishes minimum standards of behaviour expected of all employees. All employees must complete annual training on the code of business conduct. A "speaking up" policy is also 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 provides an employee assistance service to its staff via 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. Working in partnership with its occupational health provider, the Northern Powergrid Group is delivering a long-term strategic programme aimed at improving the health of its staff and, in that respect, the Northern Powergrid Group won the Chartered Institute of Personnel and Development's North of England Award for Health and Wellbeing for its commitment and delivery of an improved health and well-being programme.

Progress continued to be made during 2015 in the human resources and organisation development functions, including recruitment, employee engagement, and performance management and development in order to put in place the foundations for a more agile and responsive workforce to meet customer requirements. Throughout the year, the Group continued to set and uphold the promotion of high standards of probity among staff. In addition, the Northern Powergrid Group's organisational structure has been developed to control business units and to delegate authority and accountability, having regard to acceptable levels of risk.

As at 31 December 2015, the Group employed 1,297 staff (2014: 1,277).

CORE PRINCIPLES - continued

Environmental respect

The Group'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 Group's staff and contractors.

Northern Powergrid 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 September 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. There were no major non-conformances noted and, after a rigorous three-day surveillance audit, continued certification was recommended and subsequently confirmed.

Procedures and processes were reviewed and developed to improve the effectiveness of the environmental management system during 2015. Operational controls at depots have also significantly improved, which has supported the reduced number of minor non-conformances raised at recent surveillance visits. In the event that fluid leakages do occur, Northern Powergrid has in place an emergency incident response support contract with a specialist service provider, under which 24-hour environmental incident assistance is provided, including contamination mitigation, remediation and incident-validation reporting.

Improvements in support of the Group'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 Group also provided environmental awareness training for staff via an online system to avoid the need for travelling to central training locations. These improvements support the Group in delivering sustained environmental performance and, in 2015, only four incidents were reportable to the Environment Agency, which was significantly better than the target of 10. Oil spills and leaks from Northern Powergrid's assets exceeded the target of 13,500 litres by 4% and SF_6 gas discharges from electrical plant exceeded the target of 23 kilogrammes by 14%. During 2015, the Group recycled more of its waste than before and maintained its positive performance with regard to street works. Work continued with many of Northern Powergrid's key stakeholders, including the Environment Agency, to enhance the advanced environmental management processes already in place and, in 2016, Northern Powergrid 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. Northern Powergrid's business plan contains a commitment to reduce its business carbon footprint by 10% by the end of ED1 and performance remains on course to achieve that target.

The Group's commitment to the Environmental RESPECT policy and its improved overall performance contributes towards minimising its impact on the environment. As part of its annual environmental improvement plan, Northern Powergrid has mobilised significant programmes to replace fluid-filled cables and place overhead lines underground in National Parks and Areas of Outstanding Natural Beauty, reduce electrical losses and implement further improvements to the network that take account of protected structures, features, areas, wildlife and habitat. Bird life is being 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. During the year, Northern Powergrid also initiated a pilot project with a not-for-profit social enterprise, which rescues waste timber and then provides affordable reclaimed timber products to the local community.

CORE PRINCIPLES - continued

Environmental respect - continued

Sustainability
Northern Powergrid'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. Northern Powergrid 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, Northern Powergrid is working with customers to assist in solving issues raised by the installation of low-carbon generation and load technologies. Northern Powergrid is also actively involved in working with industry and other interested parties to develop national policies and strategies to assist the low-carbon transition.

Northern Powergrid measures and publishes details of its business carbon footprint. 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. In line with Ofgem's requirements, Northern Powergrid 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.

The number of installations by customers of low-carbon technologies such as photovoltaic solar panels and heat pumps continued to increase during the year and are reported via the regulatory reporting process. The greater range of load and generation technologies being placed on the network arising from the decarbonisation of energy means that Northern Powergrid needs to develop smart solutions that reduce the need for expensive reinforcement of the network. In that respect, the Northern Powergrid Group disseminated the learning from its Customer-Led Network Revolution project during 2015, which was aimed at understanding 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.

The Northern Powergrid Group believes that the project delivered significant learning and a comprehensive legacy, as it developed practical guidance 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 the practicalities of delivering end-solutions that are compatible with customers' needs.

Northern Powergrid'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. Northern Powergrid is investing, via its innovation strategy, in order to facilitate knowledge transfer and absorption of learning through the up-skilling of its workforce, the redefinition of its technical standards and the improvement of its processes. Consequently, Northern Powergrid continues to believe 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.

In July 2015, Northern Powergrid submitted its second Adaptation to Climate Change report to the Department for Environment, Food and Rural Affairs, which builds on the actions identified in the first report and provides details of progress made against those actions. It also brings the report up to date to reflect the Northern Powergrid Group's structure and approach to risk management as well as discussing emerging research and its influence on the Northern Powergrid Group's approach to adaptation.

Updates from the first report include detail on the approach to surface water flooding, a review of industry practice for vegetation management and research carried out by Newcastle University into the effects of wind on electricity networks. Northern Powergrid intends to continue to refine and adjust its plans and processes in the future, as more accurate climate projection data becomes available to take account of the potential impact that future climate change predictions may bring and to ensure that it continues to maintain the levels of network performance its customers deserve.

CORE PRINCIPLES - continued

Regulatory integrity

The Group 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") is the principal risk management forum in the Northern Powergrid Group, and monitors and manages performance in risk-related and compliance areas. The GRMG met on three occasions during the year in order to review the mechanisms for meeting external obligations, to strengthen the business-control-improvement environment, and to consider and advise on key strategic risks facing the Northern Powergrid Group.

As has been the case for some years, breaches by a DNO of its licence conditions and certain other statutory requirements 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, Northern Powergrid operates a regulatory compliance affirmation process, under which ownership of approximately 1,748 regulatory obligations contained within the compliance database is currently assigned to around 75 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 Northern Powergrid on the outcome of each quarter's exercise.

Under the 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. The ED1 price control became effective on 1 April 2015 and is due to end on 31 March 2023.

The final determination in respect of ED1, as amended by the CMA, sets out Northern Powergrid's allowed revenues and rules by which Ofgem expects to adjust these revenues in certain circumstances during ED1. Relative to Ofgem's original proposals, the CMA's determination resulted in Northern Powergrid's base allowed revenue decreasing by approximately 0.1% in the regulatory year ended 31 March 2017 and in all subsequent years within ED1, before the addition of inflation (as measured by the Retail Prices Index ("RPI")). Base allowed revenue in the regulatory year ended 31 March 2016 remains unchanged from Ofgem's original final determination and nominal base allowed revenues will increase in line with RPI.

The ED1 price control is the first to be set for electricity distribution in Great Britain since Ofgem completed its review of network regulation (known as the RPI-X @ 20 project). The key changes to the price control calculations, compared to those used in previous price controls are that:

- the period over which new regulatory assets are depreciated is being gradually lengthened, from 20 years to 45 years, with the change being phased over eight years;

- allowed revenues will be adjusted during the price control period, rather than at the next price control review, to partially reflect cost variances relative to cost allowances;

- the allowed cost of debt will be updated within the price control period by reference to a long-run trailing average based on external benchmarks of public debt costs;

- allowed revenues will be adjusted in relation to some new service standard incentives, principally relating to speed and service standards for new connections to the network; and

- there is scope for a mid-period review and adjustment to revenues in the latter half of the period for any changes in the outputs required of licensees for certain specified reasons.

Many other aspects of the previous price control remain in place (either in their DPCR5 or similar form), including adjustments to revenues in relation to the number and duration of service interruptions and customer service standards. In addition, network tariffs are now set further in advance than was previously the case.

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties, which could have an impact on the Group, 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, Northern Powergrid is subject to regulation by 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 does not constrain profits from year to year but sets the maximum permitted revenue for each regulatory year, taking into account base allowed revenues and movements in RPI as well as factors such as performance against certain regulatory incentives. Where Northern Powergrid recovers more, or less, than this maximum the difference is carried forward, with interest. For amounts relating to the regulatory year ended 31 March 2016, the carry forward will be into the entitlement for the regulatory year ended 31 March 2018.

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. 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 Northern Powergrid's appeal to the CMA can be found on pages 3 and 4 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 Northern Powergrid's allowed income in respect of each regulatory year. Consequently, one of the risks faced by Northern Powergrid is that its costs may increase by more than RPI. Any changes in costs incurred will have a direct impact on Northern Powergrid'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.

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. Moreover, Ofgem reviews the reasonableness of the triennial actuarial valuations of DNOs' pension schemes and calculates new deficit funding allowances, including any adjustments that may be necessary to account for differences between allowances received and payments actually made to the relevant pension scheme.

The other financial risks facing the Group are outlined on page 6 of this Strategic Report.

Operational risk
There are a number of risks to Northern Powergrid'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. Given the regular instances of metal theft experienced in previous years, Northern Powergrid maintained its programme of risk-assessed and enhanced security measures at its sites and pursued awareness raising activity at a national and local level.

Northern Powergrid 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 Northern Powergrid's distribution services area, which is expected to result in a requirement to address a proportionate number of reported defects. Northern Powergrid believes that it can effectively manage these issues through its usual risk management practices.

PRINCIPAL RISKS AND UNCERTAINTIES - continued

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

Northern Powergrid'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 Northern Powergrid's network are RWE Npower, British Gas, EDF Energy, E.ON, Scottish and Southern Energy and Scottish Power.

Northern Powergrid 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 refurbishment and information technology services. Northern Powergrid 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 divided into a number of risk sectors which, in turn, align to the Northern Powergrid Group's Core Principles, as detailed on pages 2 and 3 of this Strategic Report. A report regarding the effectiveness of each risk sector in terms of risk management, control activity, key success factors and supporting measures is presented at meetings of the GRMG. The risk environment is reviewed continually in order that new or emerging potential risks are identified.

The Northern Powergrid Group identifies and assesses risks associated with the achievement of its strategic objectives, so that any 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, disaster recovery tests of IT servers and priority processes, penetration tests against firewall systems, 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 identify lower probability, high consequence threats to business success or continuity. This approach is reinforced by that of the Berkshire Hathaway Energy group, whose activities have continued to include 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 certain senior managers are required to confirm that the system of internal control in their area of the business is operating effectively. Consequently, the directors believe that a robust system of risk assessment and management is in place.

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 risk control assessment to be undertaken by certain 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.

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Internal Control - continued

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.

The Group 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 Group 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 services 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 Group operates its electricity distribution, engineering contracting and metering businesses, 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 commitment section.

Northern Powergrid 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.

In preparing these annual reports and accounts, the directors have assessed the viability of the Group for the purposes of making the statement below and do so on an ongoing basis as part of the preparation and approval of the Group's ten-year business plan.

The directors have chosen the eight-year period from 1 April 2015 for the purposes of making this statement because it equates to the ED1 regulatory period, though longer periods may be appropriate given the 45-year life ascribed to Northern Powergrid's new assets, the enduring nature of Northern Powergrid's business and the fact that the notice period for revocation of Northern Powergrid's electricity distribution licence is 25 years. Northern Powergrid's income has been set for the ED1 regulatory period, although there is scope for a mid-period review and Ofgem may adjust revenues in the latter half of the period for any changes in the outputs required of Northern Powergrid for certain specified reasons. Consequently and given the general stability associated with the regulatory environment in which Northern Powergrid operates, the directors have been able to prepare sufficiently robust forecasts as part of the Group's annual business planning process, taking account of the principal risks and uncertainties which might have an impact on those forecasts. The Group's forecasts look forward for a 10-year period and anticipate the Group's continued stable operations beyond the ED1 price control.

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Details of the principal risks and uncertainties, which could have an impact on the Group, are provided on pages 18 and 19 of the Strategic Report and details of how those principal risks are assessed and managed are provided in the risk management section of the Strategic Report.

The directors' ongoing assessment of the principal risks and uncertainties facing the Group also includes Northern Powergrid meeting the obligations in its electricity distribution licence to provide Ofgem with annual certificates, approved by the board of Northern Powergrid, confirming that the directors have a reasonable expectation that Northern Powergrid will have sufficient financial resources, financial facilities and operational resources available to it so that Northern Powergrid is able to carry on its Distribution Business for a period of 12 months from the dates of those certificates. Assumptions taken into account when approving those certificates include (i) the potential for significant adverse financial impact from various incentive schemes that can lead to variations in Northern Powergrid's allowed income under its price control arrangements; (ii) the occurrence of catastrophic natural or other events, which could have a significant impact on the operating performance of the distribution network or involve significant expenditure; (iii) whether significant customer payment defaults may be experienced; and (iv) the continued availability to Northern Powergrid of suitably qualified and experienced staff. Given the regulatory environment in which Northern Powergrid operates, it is currently considered unlikely that there will be material variances to the assumptions used in providing those certificates during ED1.

The stable nature of the Group's business is evidenced by the fact that the commitments made by Northern Powergrid in its well-justified business plan, which was originally submitted to Ofgem as part of the ED1 price control review process, have not changed fundamentally. Consequently, assuming that the principal risks and uncertainties facing the Group continue to be managed effectively, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the ED1 period.

ON BEHALF OF THE BOARD:

P A Jones
Director

22 April 2016

NORTHERN ELECTRIC PLC (REGISTERED NUMBER: 02366942)

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present their report with the financial statements of the Company and the Group for the year ended 31 December 2015.

DIVIDENDS

During the year, an interim dividend of £20.6 million (16.17p per ordinary share) was paid (2014: £30.0 million). The directors recommend that no final dividend be paid in respect of the year.

RESEARCH AND DEVELOPMENT

The Group supports a programme of research that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. Having completed its major project under Ofgem's Low Carbon Networks Fund, known as the Customer-Led Network Revolution, Northern Powergrid issued the draft project findings to Ofgem for consideration and then disseminated those findings more widely during 2015 as part of a three-month consultation period with the other DNOs in order to explore and refine the conclusions. The Group incurred expenditure of £31.0 million over the life of the project. Of that expenditure, 90% has been funded by electricity customers in Great Britain and Ofgem agreed that £2.7 million of the additional 10% could be recovered from customers. The Group has the opportunity to apply in the future for a further discretionary award and Ofgem will consider additional rewards for those projects providing the best outcomes for customers. Further details of the Customer-Led Network Revolution project are provided in the Sustainability section on page 16 the Strategic Report. New activities initiated in 2015 included projects regarding enhanced load reduction opportunities from customer participation, the accessing of disbursed domestic demand-side response and, alongside other utilities, how to determine optimum energy system technology approaches appropriate to local socio-economic factors. Other new activities during the year included alternative technology options for overhead line support and the use of unmanned aerial vehicles for remote asset inspection and management. Work completed during the year included the development of an improved decision support tool for optimum selection amongst complex asset investment options.

During the year, the Group invested £2.1 million (2014: £5.7 million) (Note 6 to the accounts) in its research and development activities.

FUTURE DEVELOPMENTS

The financial position of the Group, as at 31 December 2015, is shown in the consolidated statement of financial position on pages 38 and 39.

There have been no significant events since the year end and the directors intend that Northern Powergrid will continue to implement its well-justified business plan that was revised as part of the ED1 price control review process and develop its business by operating with the goal of efficiently investing in the network and improving the quality of supply and service provided to customers.

IUS will continue to develop its business in a manner that concentrates on its core skills of engineering contracting by delivering a high standard of service to its existing clients and pursuing opportunities to increase its portfolio of clients across all regions of the United Kingdom in the sectors within which it operates.

Northern Powergrid Metering will continue to pursue opportunities in the market for meter asset provision as the smart meter roll-out programme develops.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2015 to the date of this report, except as noted.

G E Abel	Chairman
R Dixon	Non-executive Director
T E Fielden	Finance Director
J M France	Regulation Director
P J Goodman	Executive Vice-President and Chief Financial Officer, Berkshire Hathaway Energy
P A Jones	President and Chief Executive Officer

J A Andreasen resigned as a director on 1 July 2015.

DIRECTORS - continued

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

During the financial year and up to the date of approval of the Report of the Directors, an indemnity contained in the Company's Articles of Association was in force for the benefit of the directors of the Company, which was a qualifying indemnity provision for the purposes of the Companies Act 2006.

FINANCIAL RISK MANAGEMENT

The Group'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 year under review, the Group's policy was that no trading in financial instruments should be undertaken.

Financial derivatives
As at 31 December 2015 and during the year, it was the Group's policy not to hold any derivative financial instruments.

Further details of the financial risks facing the Group are provided in the Financial strength and Principal Risks and Uncertainties sections on pages 6 and 18 and 19 respectively of the Strategic Report.

POLITICAL DONATIONS

During the year, no contributions were made to political organisations (2014: £nil).

EMPLOYEES

Employee consultation
The Group has a constitutional framework in place for employee consultation and has agreed that framework with trade union representatives. In addition, the Northern Powergrid Group communicates directly and through the management structure with non-collectively bargained staff, who are primarily of management grade, and keeps them informed of and involved as appropriate in developments that may impact on them now or in the future.

The Group is committed to maintaining and improving effective engagement and communication with employees. Following an employee engagement survey undertaken in 2014, senior and local engagement champions were identified during the year to work collaboratively with their teams in order to deliver agreed improvement plans. This approach is augmented by routine communication channels including regular staff briefs on current issues, meetings with staff and their representatives, and increased use of the Northern Powergrid Group's intranet to improve communication and engagement with the workforce.

During the 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 on key elements of performance during the preceding week.

Disabled employees
The Group 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 Group would work to make reasonable adjustments, wherever possible.

VOTE HOLDER AND ISSUER NOTIFICATION

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

CORPORATE GOVERNANCE STATEMENT

The Company provides the following statement setting out how it 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 2014 (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, D1, D2 and E2. The directors confirm that such non-compliance was of a continuing nature throughout the 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 an independent, non-executive director 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 schedule of board meetings at which they review performance, strategy and operational and risk-related issues. 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.

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 as required to consider relevant issues and met on six occasions during the year, with the attendance of the directors being as follows:

G E Abel	Chairman	0
R Dixon	Non-Executive Director	6
T E Fielden	Finance Director	6
J M France	Regulation Director	5
P J Goodman	Executive Vice-President and Chief Financial Officer, Berkshire Hathaway Energy	0
P A Jones	President and Chief Executive Officer	5

Operational management of Northern Powergrid's business (and that of its affiliate, Northern Powergrid (Yorkshire) plc) 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.

CORPORATE GOVERNANCE STATEMENT - continued

Section A: Leadership - continued

Main Principle A1: The Role of the Board - continued

The directors have overall responsibility for the internal control environment, which, within the 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 risk control assessment to be undertaken by certain senior managers as part of its programme for compliance with the requirements of the United States Sarbanes-Oxley Act. The assessments undertaken during the year did not identify any significant weaknesses in the process but resulted in the implementation of recommended improvements. The key features of the Group's internal control system and the issues addressed by the Group during the 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 year, there were a number of committees in operation, acting under delegated terms of reference, which oversee Northern Powergrid Group and, therefore, Group policy. As part of their approved terms of reference, certain of those committees report regularly to the board on their activities.

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:

G M Earl	Director of Safety, Health and Environment
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	Business Development Director/Managing Director, IUS

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 Report of the Directors, and comprises:

G E Abel	Chairman
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
S Gormally	Accounting Assistant and Secretary to the Committee

CORPORATE GOVERNANCE STATEMENT - continued

Section A: **Leadership - continued**

Main Principle A1: **The Role of the Board - continued**

Pensions Committee

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

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

Governance and Risk Management Group

The GRMG is the principal risk management forum in the Northern Powergrid Group and monitors and manages performance in risk-related and compliance areas. 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
N Applebee	Head of Shared Services
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
T France	General Counsel
N M Gill	Operations Director
A Jones	Head of Strategic Planning and Delivery
A J Maclennan	Business Development Director/Managing Director, IUS
K Weatherburn	Director of Human Resources

The GRMG implemented a new process during Quarter 1 of 2015, which is designed to 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 risk management framework was monitored regularly during the year to ensure that all strategic risks 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") has 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.

CORPORATE GOVERNANCE STATEMENT - continued

Section A: Leadership - continued

Main Principle A1: The Role of the Board - continued

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.

Main Principle A2: Division of Responsibilities

Mr G E Abel, the Chairman of Berkshire Hathaway Energy, is also Chairman of the 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

Dr Jones chairs board meetings, is responsible for the operation and management of both the Group 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

Mr Dixon was the Company's sole independent non-executive director during the year and acts under agreed terms of reference.

Section B: Effectiveness

Main Principle B1: The composition of the board

The board comprises five executive directors and Mr Dixon, an independent non-executive director, 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 Group.

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 director commits sufficient time to preparation for and attendance at board meetings, although his 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 Group due to the robust reporting arrangements in place and have ongoing access to the Group's operations and its staff.

Main Principle B5: Information and support

Directors receive monthly reports outlining progress against the Group's goals and targets, enabling financial performance against budget and operational performance against a number of indicators to be reviewed, and also 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 director, as appropriate.

CORPORATE GOVERNANCE STATEMENT - continued

Section B: Effectiveness - continued

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 directors retire by rotation and offer themselves for re-election in accordance with the Company's articles of association.

Section C: Accountability

Main Principle C1: Financial and business reporting
The board considers that the annual reports and accounts, which include the Strategic Report and the Report of the Directors, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, position, business model and strategy.

The directors explain, at pages 2 and 3, the Core Principles behind the Group's strategy and, at page 30, their responsibility for preparing the Strategic Report, the Report of the Directors and the annual accounts, have reported, at page 30 in the Report of the Directors that the Company and the Group is a going concern and have included the Report of the Independent Auditor to the Company at page 35 of these annual reports and accounts.

Main Principle C2: Risk management and internal control
Details of the principal risks and uncertainties facing the Group and its internal control system, together with details of the issues addressed by the Group during the year, can be found at pages 18 to 20 of the Strategic Report. Also included at pages 20 and 21 of the Strategic Report is an explanation of how the prospects of the Group have been assessed, the period to which that assessment relates and the reasons as to why that period is considered to be appropriate.

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;

- 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;

- Ongoing 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 complying 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

CORPORATE GOVERNANCE STATEMENT – continued

Section C: Accountability - continued

Main Principle C2: Risk management and internal control - continued

- 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 Group to Deloitte LLP in relation to non-audit services during the year are provided in Note 6 to the accounts.

The Employee commitment section on page 14 of the Strategic Report contains details of the Group'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.

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 General Meetings

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 equity shareholders.

NORTHERN ELECTRIC PLC (REGISTERED NUMBER: 02366942)

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

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

- Properly select and apply accounting policies;

- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- Provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's and the Group's financial position and financial performance; and

- Make an assessment of the Company's and the Group's ability to continue as a going concern.

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

GOING CONCERN

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

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

- The Group's main subsidiary, Northern Powergrid, 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 Group is profitable with strong underlying cash flows; and

- The Group is financed by long-term borrowings with an average maturity of XX 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 and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual reports and accounts.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

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 is aware, there is no relevant audit information of which the Company's auditor is unaware; and

b) he has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

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

AUDITOR

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

ON BEHALF OF THE BOARD:

P A Jones
Director

22 April 2016

NORTHERN ELECTRIC PLC (REGISTERED NUMBER: 02366942)

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORTS AND ACCOUNTS

Each of the directors as at the date of the Annual Reports and Accounts, whose names and functions are set out on page 22 in the Report of the Directors confirms that, to the best of their knowledge:

a) The accounts, prepared in accordance with applicable UK law and in conformity with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and

b) The Management Report (which is comprised of the Strategic Report and the Report of the Directors) includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 22 April 2016 and signed on its behalf by:

P A Jones
Director

22 April 2016

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2015

DIRECTORS' BIOGRAPHIES

GREGORY E ABEL

Appointed in January 1997, Mr Abel, 53, is chairman, president and CEO of Berkshire Hathaway Energy, based in Des Moines, Iowa. Through its energy-related businesses, Berkshire Hathaway Energy provides electric and natural gas service to more than 11.5 million customers worldwide. These businesses are Pacific Power, Rocky Mountain Power and PacifiCorp Transmission, comprising PacifiCorp; MidAmerican Energy Company; NV Energy, Inc.; Northern Powergrid Holdings Company; BHE Pipeline Group; BHE U.S. Transmission; AltaLink, L.P.; BHE Renewables; and HomeServices of America, Inc., which is the second-largest residential real estate brokerage firm in the U.S. Mr Abel serves as chairman, CEO, and director of Berkshire Hathaway Energy and PacifiCorp; as chairman and director of NV Energy, Northern Powergrid and Northern Natural Gas, and as a director of AltaLink and HomeServices. Mr Abel serves on the board and executive committee of the Edison Electric Institute. He also serves on the Kraft Heinz Company board of directors; the AEGIS Insurance Services, Inc. board of directors; the Nuclear Electric Insurance Limited board of directors; the Kum & Go, L.C. board of directors; the American Football Coaches Foundation board of directors; the executive board of the Mid-Iowa Council Boy Scouts of America; and is a past member of the Drake University board of trustees.

RONALD DIXON

Appointed in October 1997, Mr Dixon, 78, worked for North Eastern Electricity Board and Northern Electric plc throughout his career, being appointed Secretary in 1987. He was appointed Managing Director of the Power Division in 1990, responsible for electricity supply and distribution, and Commercial Director in 1991. He retired from the board on 31 July 1997 and was re-appointed in the capacity of a non-executive director on 22 October 1997. Mr Dixon is also a non-executive director of Northern Powergrid Holdings Company, Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc.

THOMAS E FIELDEN

Appointed in October 2009, Mr Fielden, 45, joined the Northern Powergrid Group in July 2009 and became Finance Director on 12 October 2009. Mr Fielden is a chartered accountant, having started his career at Coopers & Lybrand and has held a variety of finance appointments in BT, working in BT Group and BT Global Services, before joining Great North East Railway (GNER) as Financial Controller in 2005. He became Finance Director of GNER in 2006, transferring to National Express East Coast in 2007.

JOHN M FRANCE

Appointed in January 2000, Dr France, 58, is Regulation Director for the Northern Powergrid Group. After leaving university he joined the British Gas Corporation where he held a number of posts before becoming a member of the team that handled the privatisation of British Gas in 1986. He joined Northern Electric plc as its Regulation Manager in 1989 and has been involved with all the distribution (and supply) price control reviews that have affected the Northern Powergrid Group since privatisation. He was a member of the team that negotiated the acquisition of the distribution business of Yorkshire Electricity Group plc and the sale of the Northern Electric plc supply businesses in 2001.

PATRICK J GOODMAN

Mr Goodman, 48, is executive vice president and chief financial officer of Berkshire Hathaway Energy. Mr Goodman is responsible for managing all aspects of Berkshire Hathaway Energy's financial operations. Mr Goodman serves as a director of PacifiCorp, Northern Powergrid, Kern River Gas Transmission Company and Northern Natural Gas Company. Mr Goodman supports the evaluation, negotiation and closing of Berkshire Hathaway Energy's domestic and international financings, acquisitions and project developments. Additionally, he manages all accounting, financial reporting, tax, budgeting, long-range financial planning and internal audit functions for Berkshire Hathaway Energy. Mr Goodman has been the chief financial officer since 1999 and has served in various financial positions, including chief accounting officer since joining the company in 1995. Mr Goodman has more than 20 years of experience in public accounting and management and is a certified public accountant. He received his accounting degree from the University of Nebraska at Omaha.

PHILIP A JONES

Appointed in April 2007, Dr Jones, 47, is President and Chief Executive Officer of the Northern Powergrid Group, the UK platform in the global portfolio of Berkshire Hathaway Energy. Prior to his appointment as President and Chief Executive Officer, he was Strategy and Investment Director and, as such, was responsible for technical, economic and regulatory strategy within the organisation. Dr Jones is a chartered electrical engineer and has been working in the UK power distribution sector since completing his PhD in Electronic and Electrical Engineering in 1993. He has held a range of technical and managerial roles, mostly in the engineering field. He is also actively involved in a range of other industry bodies. He has been a director of the Institute of Asset Management and of the Energy Networks Association, the trade association that represents the power transmission and distribution companies.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF NORTHERN ELECTRIC PLC

We have audited the financial statements of Northern Electric plc Group (the "Company") for the year ended 31 December 2015, which comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of Cash Flows and related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page thirty, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the circumstances of the Company and the Group and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and the Report of the Directors to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's and the Group's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with the requirements of the Companies Act 2006 and in accordance with IFRSs as adopted by the European Union; and
- in respect of the Company, have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Group Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or
- returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements of the Company or the Group are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

D. Johnson

David Johnson FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Newcastle upon Tyne, United Kingdom

Date: 26 April 2016

NORTHERN ELECTRIC PLC (REGISTERED NUMBER: 02366942)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 £'000	2014 £'000
CONTINUING OPERATIONS			
Revenue	3	386,388	409,503
Cost of sales		(42,552)	(63,424)
GROSS PROFIT		343,836	346,079
Administrative expenses		(147,675)	(135,370)
OPERATING PROFIT		196,161	210,709
Other gains		474	752
Finance costs	5	(36,198)	(34,865)
Finance income	5	1,619	1,660
PROFIT BEFORE INCOME TAX	6	162,056	178,256
Income tax	7	(17,282)	(38,015)
PROFIT FOR THE YEAR		144,774	140,241
Profit attributable to:			
Owners of the parent		144,774	140,241

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

	2015 £'000	2014 £'000
PROFIT FOR THE YEAR	**144,774**	140,241
OTHER COMPREHENSIVE INCOME		
Item that will not be reclassified to profit or loss:		
Re-measurement of net pension obligation	(400)	25,100
Income tax relating to item of other comprehensive income	(2,099)	(4,444)
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR, NET OF INCOME TAX	(2,499)	20,656
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**142,275**	160,897
Total comprehensive income attributable to:		
Owners of the parent	**142,275**	160,897

NORTHERN ELECTRIC PLC (REGISTERED NUMBER: 02366942)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2015

	Notes	2015 £'000	2014 £'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	11	**31,623**	23,821
Property, plant and equipment	12	**2,130,082**	1,946,871
Investments	13	**3,556**	3,441
Pension asset	24	**88,100**	52,900
Trade and other receivables	15	**8,769**	7,494
		2,262,130	2,034,527
CURRENT ASSETS			
Inventories	14	**13,452**	12,304
Trade and other receivables	15	**73,879**	72,029
Cash and cash equivalents	16	**8,824**	85,586
		96,155	169,919
TOTAL ASSETS		**2,358,285**	2,204,446
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	17	**72,173**	72,173
Share premium	18	**158,748**	158,748
Other reserves	18	**6,185**	6,185
Retained earnings	18	**771,463**	649,788
TOTAL EQUITY		**1,008,569**	886,894

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued
31 DECEMBER 2015

	Notes	2015 £'000	2014 £'000
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables	19	**526,800**	500,762
Borrowings	20	**587,175**	466,960
Deferred tax	23	**104,859**	107,930
Provisions	22	**1,984**	1,967
		1,220,818	1,077,619
CURRENT LIABILITIES			
Trade and other payables	19	**110,011**	146,783
Borrowings	20	**13,917**	85,204
Tax payable		**3,962**	6,314
Provisions	22	**1,008**	1,632
		128,898	239,933
TOTAL LIABILITIES		**1,349,716**	1,317,552
TOTAL EQUITY AND LIABILITIES		**2,358,285**	2,204,446

The financial statements were approved by the Board of Directors on 22 April 2016 and were signed on its behalf by:

P A Jones
Director

The notes on pages 45 to 91 form part of these financial statements

COMPANY STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2015

	Notes	2015 £'000	2014 £'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	12	1,680	1,728
Investments	13	328,070	328,070
		329,750	329,798
CURRENT ASSETS			
Trade and other receivables	15	427	308
Tax receivable		2,694	3,763
Cash and cash equivalents	16	24,322	29,806
		27,443	33,877
TOTAL ASSETS		357,193	363,675
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	17	72,173	72,173
Share premium	18	158,748	158,748
Other reserves	18	6,185	6,185
Retained earnings	18	107,480	113,523
TOTAL EQUITY		344,586	350,629
LIABILITIES			
NON-CURRENT LIABILITIES			
Borrowings	20	1,117	1,117
Deferred tax	23	4,809	5,210
Provisions	22	1,652	1,689
		7,578	8,016
CURRENT LIABILITIES			
Trade and other payables	19	2,748	2,750
Borrowings	20	2,272	2,273
Provisions	22	9	7
		5,029	5,030
TOTAL LIABILITIES		12,607	13,046
TOTAL EQUITY AND LIABILITIES		357,193	363,675

The financial statements were approved by the Board of Directors on 22 April 2016 and were signed on its behalf by:

P A Jones
Director

The notes on pages 45 to 91 form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2014	72,173	518,891	158,748	6,185	755,997
Changes in equity					
Dividends	-	(30,000)	-	-	(30,000)
Total comprehensive income	-	160,897	-	-	160,897
Balance at 31 December 2014	72,173	649,788	158,748	6,185	886,894
Changes in equity					
Dividends	-	(20,600)	-	-	(20,600)
Total comprehensive income	-	142,275	-	-	142,275
Balance at 31 December 2015	72,173	771,463	158,748	6,185	1,008,569

The notes on pages 45 to 91 form part of these financial statements

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2014	72,173	119,293	158,748	6,185	356,399
Changes in equity					
Dividends	-	(30,000)	-	-	(30,000)
Total comprehensive income	-	24,230	-	-	24,230
Balance at 31 December 2014	72,173	113,523	158,748	6,185	350,629
Changes in equity					
Dividends	-	(20,600)	-	-	(20,600)
Total comprehensive income	-	14,557	-	-	14,557
Balance at 31 December 2015	**72,173**	**107,480**	**158,748**	**6,185**	**344,586**

The notes on pages 45 to 91 form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 £'000	2014 £'000
Cash flows from operating activities			
Cash generated from operations	27	189,124	215,949
Finance costs paid		(38,809)	(38,268)
Interest received		956	1,171
Tax paid		(24,805)	(23,396)
Net cash from operating activities		126,466	155,456
Cash flows used in investing activities			
Purchase of intangible fixed assets		(10,476)	(11,070)
Purchase of tangible fixed assets		(271,339)	(216,760)
Sale of tangible fixed assets		467	752
Customer contributions		56,357	40,203
Dividends received		548	440
Net cash used in investing activities		(224,443)	(186,435)
Cash flows from financing activities			
Proceeds from external loans		50,365	38,594
(Repayment of)/proceeds from intercompany loans		(8,550)	2,074
Equity dividends paid		(20,600)	(30,000)
Net cash from financing activities		21,215	10,668
Decrease in cash and cash equivalents		(76,762)	(20,311)
Cash and cash equivalents at beginning of year		85,586	105,897
Cash and cash equivalents at end of year		8,824	85,586

The notes on pages 45 to 91 form part of these financial statements

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 £'000	2014 £'000
Cash flows from operating activities			
Cash generated from operations	27	**1,384**	1,499
Finance costs paid		**(9,028)**	(9,011)
Interest received		**195**	413
Dividends received		**21,113**	30,407
Tax received		**1,452**	3,303
Net cash from operating activities		**15,116**	26,611
Cash flows from investing activities			
Sale of tangible fixed assets		**-**	8
Net cash from investing activities		**-**	8
Cash flows from/(used in) financing activities			
Equity dividends paid		**(20,600)**	(30,000)
Net cash from/(used in) financing activities		**(20,600)**	(30,000)
Decrease in cash and cash equivalents		**(5,484)**	(3,381)
Cash and cash equivalents at beginning of year		**29,806**	33,187
Cash and cash equivalents at end of year		**24,322**	29,806

The notes on pages 45 to 91 form part of these financial statements

1. GENERAL INFORMATION

Northern Electric plc (the "Company") 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 address of the registered office is Lloyds Court, 78 Grey Street, Newcastle-upon-Tyne, NE1 6AF.

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

2. ACCOUNTING POLICIES

Accounting convention and basis of preparation
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have also been prepared in accordance with IFRS as adopted by the European Union, and with those parts of the Companies Act 2006 (the "Act") that are applicable to companies reporting under IFRS. The Company's financial statements have also been prepared in accordance with IFRS, as applied in accordance with the provisions of the Act. The directors have taken advantage of the exemption offered by Section 408 of the Act not to present a separate statement of profit or loss for the Company.

The financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions which are in the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value 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.

The principal accounting policies are set out below.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries made up to 31 December each year. Control is achieved where the Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affects its returns.

2. **ACCOUNTING POLICIES - continued**

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

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

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

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

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

Application of new and revised IFRS
In the current year, the Company has applied a number of amendments to IFRS issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2015:

- 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 application of these amendments to IAS 19 has not had an impact on the Group's financial statements.

2. **ACCOUNTING POLICIES - continued**

New and revised standards in issue but not yet effective
The Group has not applied the following new and revised IFRS that have been issued but were not yet effective for the year ended 31 December 2015:

- 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 anticipate that the application of IFRS 9 in the future is unlikely to have an impact on amounts reported in respect of the Group's financial assets and financial liabilities.

- IFRS 15 - Revenue from Contracts with Customers (1 January 2019).

  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 Group's financial statements. However it is not practicable to provide a reasonable estimate of the effect until the Group undertakes a detailed review.

- IAS 1 - Disclosure Initiative (1 January 2016).

  The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. The directors do not anticipate that the application of these changes will have a material impact on the Group's financial statements.

- 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 Group 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 Group's financial statements.

2. **ACCOUNTING POLICIES – continued**

New and revised standards in issue but not yet effective – continued

- Annual Improvements to IFRS 2010-2012 Cycle (1 July 2014) and Annual Improvements to IFRS 2011-2013 Cycle (1 July 2014) and Annual Improvements to IFRS 2012-2014 Cycle.	The Annual Improvements to IFRS 2010-2012, IFRS 2011-2013 and IFRS 2012-2014 include a number of amendments to various IFRS. The directors do not anticipate that the application of these amendments will have a significant impact on the Group's financial statements.

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

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

- Revenue recognition; and

- Discount rate used to determine the carrying amount of the Group's defined benefit obligation.

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

- Useful economic lives for property, plant and equipment;

- The split of operating and capital expenditure and the allocation of overheads to property, plant and equipment;

- Assumptions used when evaluation long-term pension plans; and

- Assumptions used when evaluating construction contracts.

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 is measured at the fair value of consideration received or receivable.

Revenue represents charges for the use of the Group's distribution network, amortisation of customer contributions, 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 Group's distribution network include estimates of the units distributed. The estimated usage is based on historic data, judgement and assumptions. Revenues are gradually adjusted to reflect actual usage in the period during which actual meter readings are obtained.

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 Group's policy is to credit the customer contribution to revenue on a straight-line basis, in line with the useful life of the distribution system assets.

Income from credit sale charges is apportioned in the statement of profit or loss over the period of the sales agreements.

2. **ACCOUNTING POLICIES - continued**

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

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

Construction contracts
Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of the costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Software development costs
Costs in respect of major developments are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful life of the software of up to 10 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Property, plant and equipment and depreciation
Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. 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.

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

Distribution system assets	45 years
Distributed generation included in distribution system assets	15 years
Information technology equipment included in distribution system assets	up to 10 years
Metering equipment	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.

2. **ACCOUNTING POLICIES - continued**

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

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

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Inventories
Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Raw materials and goods for resale are valued at purchase cost 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.

Assets held for sale comprise of vehicles which have been sold to the Group at the end of the lease agreement and are stated at the lower of the value attributed to the vehicle under the terms of the agreement or net realisable value. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal. Within the statement of profit or loss, any profits or losses arising from the sale of assets held for sale are recognised in costs of sales.

Taxation
The 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 before tax' as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

2. **ACCOUNTING POLICIES - continued**

Taxation - continued
The carrying amount of deferred tax assets is reviewed at each reporting period and reduced to the extent that that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

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

Other than the software development licenses, the Group and the Company do not carry out any other development activity that would give rise to an intangible asset.

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

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.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial assets
Financial assets, including trade and other receivables and cash and cash equivalents, are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

The effective interest method is a method of calculating the amortised cost of an instrument and of allocating income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the instrument to the net carrying amount on initial recognition.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

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.

2. ACCOUNTING POLICIES - continued

Financial assets - continued
Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be 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 affected.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group'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 uncollectible, 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.

Pensions
The Group contributes to the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "Northern Powergrid Group of the ESPS"), a defined benefit scheme. The cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Re-measurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Re-measurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying a discount rate at the beginning of the period to the net defined liability or asset. Defined benefit costs are categorised as service cost, net interest expense or income and re-measurement. The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

The Group 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 when employees have rendered service entitling them to the contributions. A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Going Concern
The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have 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 Going Concern Statement in the Report of the Directors.

3. SEGMENTAL REPORTING

The tables below represent the internal information provided to the President and Chief Executive Officer of the Northern Powergrid Group for the purposes of resource allocation and segmental performance appraisal.

The Group operates in three principal areas of activity, those of the distribution of electricity, engineering contracting and smart meter rental in the United Kingdom.

3. SEGMENTAL REPORTING – continued

Group revenue, Group profit before tax and Group net assets are analysed below:

	Distribution 2015 £m	Contracting 2015 £m	Other 2015 £m	Consolidation adjustments 2015 £m	Total 2015 £m
REVENUE					
External sales	342.2	30.9	13.3	-	386.4
Inter-segment sales	0.5	2.0	4.0	(6.5)	-
Total revenue	342.7	32.9	17.3	(6.5)	386.4
SEGMENT RESULTS					
Operating profit/(loss)	163.6	(0.5)	5.1	28.0	196.2
Other gains					0.5
Finance costs					(36.2)
Finance income					1.6
Profit before tax					162.1
OTHER INFORMATION					
Capital additions	219.7	-	52.8	(5.4)	267.1
Depreciation and amortisation	73.8	0.1	3.9	(1.8)	76.0
Amortisation of deferred revenue	(22.2)	-	-	-	(22.2)
STATEMENT OF FINANCIAL POSITION					
Segment assets	2,219.2	18.2	89.2	19.3	2,345.9
Unallocated corporate assets					12.4
Total assets					2,358.3
Segment liabilities	(643.1)	(6.8)	(15.1)	25.1	(639.9)
Unallocated corporate liabilities					(709.9)
Total liabilities					(1,349.8)
Net assets by segment	1,576.1	11.4	74.1	44.4	1,706.0
Unallocated net corporate liabilities					(697.5)
Total net assets					1,008.5

3. **SEGMENTAL REPORTING – continued**

	Distribution 2014 £m	Contracting 2014 £m	Other 2014 £m	Consolidation adjustments 2014 £m	Total 2014 £m
REVENUE					
External sales	359.0	42.6	7.9	-	409.5
Inter-segment sales	0.6	0.6	4.9	(6.1)	-
Total revenue	359.6	43.2	12.8	(6.1)	409.5
SEGMENT RESULTS					
Operating profit	171.4	-	2.1	37.2	210.7
Other gains					0.7
Finance costs					(34.9)
Finance income					1.7
Profit before tax					178.2
OTHER INFORMATION					
Capital additions	216.3	0.1	15.9	(2.2)	230.1
Depreciation and amortisation	65.6	-	0.4	(1.6)	64.4
Amortisation of deferred revenue	(19.8)	-	-	-	(19.8)
STATEMENT OF FINANCIAL POSITION					
Segment assets	2,076.0	19.7	35.9	(16.2)	2,115.4
Unallocated corporate assets					89.0
Total assets					2,204.4
Segment liabilities	(615.3)	(6.7)	(8.0)	(21.5)	(651.5)
Unallocated corporate liabilities					(666.1)
Total liabilities					(1,317.6)
Net assets/(liabilities) by segment	1,460.7	13.0	27.9	(37.7)	1,463.9
Unallocated net corporate liabilities					(577.1)
Total net assets					886.8

3. SEGMENTAL REPORTING – continued

"Other" comprises smart meter rental and business support units.

Unallocated corporate assets and liabilities include cash and cash equivalents (2015: £8.8 million. 2014: £85.6 million), borrowings (2015: £601.1 million, 2014: £552.2 million) and taxation (2015: £108.8 million, 2014: £114.2 million).

External sales to RWE Npower plc in 2015 of £86.1 million (2014: £92.9 million) are included within the Distribution segment.

Sales and purchases between the different segments are made at commercial prices.

Consolidation Adjustments include the recognition of the £88.1m retirement benefit asset (2014: £52.9 million liability).

4. EMPLOYEES AND DIRECTORS

	2015	2014
	£'000	£'000
Salaries	**61,472**	60,949
Social security costs	**6,392**	6,157
Defined benefit pension credit	**(384)**	(2,986)
Defined contribution pension costs	**1,648**	1,761
	69,128	65,881
Less charged as capital expenditure	**(41,591)**	(37,422)
	27,537	28,459

The majority of the Group's employees are members of the Northern Powergrid Group of the ESPS, details of which are given in the Employee Benefit Obligations note.

The average monthly number of employees during the year was:

	2015	2014
	No.	No.
Distribution	**1,074**	1,081
Engineering Contracting	**166**	167
Other	**41**	41
	1,281	1,289

4. EMPLOYEES AND DIRECTORS - continued

DIRECTORS' REMUNERATION

	2015	2014
	£'000	£'000
Highest Paid:		
Short-term employee benefits	266	194
Post-employment benefits	21	24
Other long-term benefits	335	303
	622	521
Total:		
Short-term employee benefits	462	396
Post-employment benefits	38	40
Other long-term benefits	523	449
	1,023	885
Directors who are a member of the defined benefit scheme	3	3
Accrued pension benefit relating to highest paid director	-	-

OTHER KEY PERSONNEL REMUNERATION

	2015	2014
	£'000	£'000
Total:		
Short-term employee benefits	423	340
Post-employment benefits	115	94
Other long-term benefits	209	229
	747	663

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 and the Group. During the year ended 31 December 2015, the senior management team was reorganised which resulted in additional senior functional managers being classified as key personnel.

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 Group.

5. NET FINANCE COSTS

	2015	2014
	£'000	£'000
Finance income:		
Interest in joint venture	628	456
Dividends received	35	33
Deposit account interest	91	250
Interest receivable on loans to Group undertakings	865	921
	1,619	1,660

5. NET FINANCE COSTS - continued

	2015 £'000	2014 £'000
Finance costs:		
Bank interest	918	911
Interest payable on other loans	22,618	22,365
Interest payable on loans from Group undertakings	6,910	6,371
Capitalised interest	(3,249)	(3,783)
Preference dividends payable	9,001	9,001
	36,198	34,865
Net finance costs	34,579	33,205

6. PROFIT BEFORE INCOME TAX

The profit before income tax is stated after charging:

	2015 £'000	2014 £'000
Depreciation - owned assets	73,419	62,435
Software development costs amortisation	2,674	2,011
Research costs	2,052	5,683
Amortisation of deferred revenue	(22,203)	(19,757)
Impairment of trade and other receivables	191	266
Profit on disposal of fixed assets	(474)	(752)

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	33	32
Fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation	140	153
Total audit fees	177	185
Other services	50	47
Total auditor's remuneration	227	232

	2015 £'000	2014 £'000
Fees payable to the Company's auditor and its associates in respect of the audit of associated pension schemes	7	6

7. INCOME TAX

Analysis of tax expense

	2015 £'000	2014 £'000
Current tax:		
Tax	29,661	35,949
Deferred tax	(12,379)	2,066
Total tax expense in consolidated statement of profit or loss	17,282	38,015

Factors affecting the tax expense
The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2015 £'000	2014 £'000
Profit on ordinary activities before income tax	162,056	178,256
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%)	32,816	38,325
Effects of:		
Dividends on non-equity preference shares	1,823	1,935
Tax effect of result of joint venture	(127)	(98)
Over provision for prior years	(3,286)	(1,707)
Changes in legislation	(13,942)	-
Group capital losses received at a discount	-	(556)
Pension contributions recognised in Other Comprehensive Income ("OCI")	801	576
Other	(803)	(460)
Tax expense	17,282	38,015

Tax expense comprises:	2015 £'000	2014 £'000
Current tax expense:		
Corporation tax charge for the year	32,947	37,656
Payment for use of group losses	-	-
Under provision for prior years	(3,286)	(1,707)
Total current tax charge	29,661	35,949
Deferred tax:		
Deferred tax expenses relating to the origination and reversal of temporary differences	1,562	2,066
Effect of changes in tax rates	(13,942)	-
Total deferred tax charge	(12,379)	2,066
Tax on profit before tax	17,282	38,015

The Finance Act 2015 included a provision that the standard rate of corporation tax in the United Kingdom was to reduce from 20% to 19% from April 2017 and to 18% from April 2020. Accordingly the rates applying when temporary differences are expected to reverse have been applied when calculating deferred tax assets and liabilities throughout the Northern Powergrid Group as at 31 December 2015. Finance Bill 2016 legislates for the rate to reduce to 17% from April 2020. As this rate change had not been substantively enacted at the balance sheet date this rate does not apply to the deferred tax position at 31 December 2015.

8. PROFIT OF PARENT COMPANY

As permitted by Section 408 of the Companies Act 2006, the statement of profit or loss of the Company is not presented as part of these financial statements. The Company's profit for the financial year was £14.6 million (2014: £24.2 million).

9. DIVIDENDS

	2015 £'000	2014 £'000
Interim dividend at 16p per share (2014: 24p)	20,600	30,000

10. OPERATING EXPENSES

Operating expenses comprise:

	2015 £'000	2014 £'000
Distribution costs	99,607	93,435
Administrative expenses	50,068	41,935
	149,675	135,370

11. INTANGIBLE ASSETS

Group

	Software development costs £'000
COST	
At 1 January 2015	55,027
Additions	10,476
At 31 December 2015	65,503
AMORTISATION	
At 1 January 2015	31,206
Amortisation for year	2,674
At 31 December 2015	33,880
NET BOOK VALUE	
At 31 December 2015	31,623

11. INTANGIBLE ASSETS - continued

Group

	Software development costs £'000
COST	
At 1 January 2014	43,957
Additions	11,070
At 31 December 2014	55,027
AMORTISATION	
At 1 January 2014	29,195
Amortisation for year	2,011
At 31 December 2014	31,206
NET BOOK VALUE	
At 31 December 2014	23,821

The Company had no intangible assets at 31 December 2015 (2014: £nil).

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Non operational land and buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Metering equipment £'000	Totals £'000
COST					
At 1 January 2015	6,534	2,686,350	60,380	80,224	2,833,488
Additions	-	195,828	7,781	53,021	256,630
Disposals	-	(9,748)	(440)	(27)	(10,215)
At 31 December 2015	6,534	2,872,430	67,721	133,218	3,079,903
DEPRECIATION					
At 1 January 2015	5,857	767,439	54,638	58,683	886,617
Charge for year	116	65,463	2,514	5,326	73,419
Eliminated on disposal	-	(9,748)	(440)	(27)	(10,215)
At 31 December 2015	5,973	823,154	56,712	63,982	949,821
NET BOOK VALUE					
At 31 December 2015	561	2,049,276	11,009	69,236	2,130,082

12. PROPERTY, PLANT AND EQUIPMENT - continued

Group

	Non operational land and buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Metering equipment £'000	Totals £'000
COST					
At 1 January 2014	6,550	2,496,307	57,382	63,936	2,624,175
Additions	-	199,561	3,113	16,407	219,081
Disposals	(16)	(9,518)	(115)	(119)	(9,768)
At 31 December 2014	6,534	2,686,350	60,380	80,224	2,833,488
DEPRECIATION					
At 1 January 2014	5,662	717,762	53,087	57,431	833,942
Charge for year	203	59,195	1,666	1,371	62,435
Eliminated on disposal	(8)	(9,518)	(115)	(119)	(9,760)
At 31 December 2014	5,857	767,439	54,638	58,683	886,617
NET BOOK VALUE					
At 31 December 2014	677	1,918,911	5,742	21,541	1,946,871

Assets in the course of construction included above:

	Distribution system £'000	**Fixtures and fittings £'000**	**Total £'000**
At 1 January 2015	**186,612**	**-**	**186,612**
Additions	**195,828**	**7,781**	**203,609**
Available for use	**(219,725)**	**(7,781)**	**(227,506)**
At 31 December 2015	**162,715**	**-**	**162,715**

The Group has entered into contractual commitments in relation to the future acquisition of property, plant and equipment of £25.5 million (2014: £31.9 million).

The net book value of the Group's non-operational land and buildings comprises:

	2015 £'000	2014 £'000
Freehold	**162**	209
Long leasehold	**306**	368
Short leasehold	**93**	100
	561	677

12. PROPERTY, PLANT AND EQUIPMENT - continued

Company

	Non operational land and buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
COST				
At 1 January 2015 and 31 December 2015	280	1,259	3,634	5,173
DEPRECIATION				
At 1 January 2015	22	-	3,423	3,445
Charge for year	7	-	41	48
At 31 December 2015	29	-	3,464	3,493
NET BOOK VALUE				
At 31 December 2015	251	1,259	170	1,680

	Non operational land and buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
COST				
At 1 January 2014	296	1,259	3,634	5,189
Disposals	(16)	-	-	(16)
At 31 December 2014	280	1,259	3,634	5,173
DEPRECIATION				
At 1 January 2014	21	-	3,380	3,401
Charge for year	9	-	43	52
Eliminated on disposal	(8)	-	-	(8)
At 31 December 2014	22	-	3,423	3,445
NET BOOK VALUE				
At 31 December 2014	258	1,259	211	1,728

13. INVESTMENTS

	Share of joint venture's net assets	Group Shares in other undertakings	Total
	£'000	£'000	£'000
At 31 December 2014	3,420	21	3,441
Movement	115	-	115
At 31 December 2015	3,535	21	3,556

	Subsidiary undertakings	Company Shares in other undertakings	Total
	£'000	£'000	£'000
At 31 December 2014	327,099	971	328,070
Movement	-	-	-
At 31 December 2015	327,099	971	328,070

Details of the investments of the Group at 31 December 2015 are listed below:

Name of company	Holding of shares	Proportion of voting rights and shares held	Nature of business
Subsidiary undertakings			
Held by Company			
CE Electric Services Limited	1 at £1	100%	Dormant
Central PowerGrid Limited	1 at £1	100%	Dormant
East PowerGrid Limited	1 at £1	100%	Dormant
Eastern PowerGrid Limited	1 at £1	100%	Dormant
Infrastructure North Limited	1 at £1	100%	Dormant
Integrated Utility Services Limited	3,103,000 at £1	100%	Engineering contracting services
IUS Limited	100 at £1	100%	Dormant
Midlands PowerGrid Limited	1 at £1	100%	Dormant
NEDL Limited	2 at £1	100%	Dormant
North East PowerGrid Limited	1 at £1	100%	Dormant
North Eastern PowerGrid Limited	1 at £1	100%	Dormant
North PowerGrid Limited	1 at £1	100%	Dormant
North West PowerGrid Limited	1 at £1	100%	Dormant
North Western PowerGrid Limited	1 at £1	100%	Dormant
Northern Electric & Gas Limited	84,785,000 at £1	100%	Non-trading company
Northern Electric Distribution Limited	1 at £1	100%	Dormant
Northern Electric Properties Limited	32,207,100 at £1	100%	Property holding & management company
Northern Electric Share Scheme Trustee Limited	2 at £1	100%	Dormant
Northern Electricity (North East) Limited	1 at £1	100%	Dormant
Northern Electricity (Yorkshire) Limited	1 at £1	100%	Dormant

13. **INVESTMENTS - continued**

Name of company	Holding of shares	Proportion of voting rights and shares held	Nature of business
Subsidiary undertakings			
Held by Company			
Northern Electricity Limited	1 at £1	100%	Dormant
Northern Electricity Networks Company (North East) Limited	1 at £1	100%	Dormant
Northern Electricity Networks Company (Yorkshire) Limited	1 at £1	100%	Dormant
Northern Electricity Networks Company Limited	1 at £1	100%	Dormant
Northern Electrics Limited	2 at £1	100%	Dormant
Northern Energy Funding Company Limited	1 at £1	100%	Dormant
Northern Metering Services Limited	100 at £1	100%	Dormant
Northern Powergrid Metering Limited	1 at £1	100%	Meter asset provider
Northern Powergrid (Northeast) Limited	200,000,100 at £1	100%	Distribution of electricity
Northern PowerGrid (North West) Limited	1 at £1	100%	Dormant
Northern Power Networks Company (North East) Limited	1 at £1	100%	Dormant
Northern Power Networks Company (Yorkshire) Limited	1 at £1	100%	Dormant
Northern Power Networks Company Limited	1 at £1	100%	Dormant
Northern Transport Finance Limited	7,000,000 at £1	100%	Car finance company
Northern Utility Services Limited	100 at £1	100%	Dormant
PowerGrid (Central) Limited	1 at £1	100%	Dormant
PowerGrid (East) Limited	1 at £1	100%	Dormant
PowerGrid (Eastern) Limited	1 at £1	100%	Dormant
PowerGrid (Midlands) Limited	1 at £1	100%	Dormant
PowerGrid (North East) Limited	1 at £1	100%	Dormant
PowerGrid (North Eastern) Limited	1 at £1	100%	Dormant
PowerGrid (North West) Limited	1 at £1	100%	Dormant
PowerGrid (North Western) Limited	1 at £1	100%	Dormant
PowerGrid (North) Limited	1 at £1	100%	Dormant
PowerGrid (Northern) Limited	1 at £1	100%	Dormant
PowerGrid (South East) Limited	1 at £1	100%	Dormant
PowerGrid (South Eastern) Limited	1 at £1	100%	Dormant
PowerGrid (South West) Limited	1 at £1	100%	Dormant
PowerGrid (South Western) Limited	1 at £1	100%	Dormant
PowerGrid (South) Limited	1 at £1	100%	Dormant
PowerGrid (Southern) Limited	1 at £1	100%	Dormant
PowerGrid (West) Limited	1 at £1	100%	Dormant
PowerGrid (Western) Limited	1 at £1	100%	Dormant
PowerGrid (Yorkshire) Limited	1 at £1	100%	Dormant
South East PowerGrid Limited	1 at £1	100%	Dormant

13. INVESTMENTS - continued

Name of company	Holding of shares	Proportion of voting rights and shares held	Nature of business
Subsidiary undertakings			
Held by Company			
South Eastern PowerGrid Limited	1 at £1	100%	Dormant
South PowerGrid Limited	1 at £1	100%	Dormant
South West PowerGrid Limited	1 at £1	100%	Dormant
South Western PowerGrid Limited	1 at £1	100%	Dormant
Southern PowerGrid Limited	1 at £1	100%	Dormant
West PowerGrid Limited	1 at £1	100%	Dormant
Western PowerGrid Limited	1 at £1	100%	Dormant
YEDL Limited	1 at £1	100%	Dormant
Yorkshire Electricity Distribution Limited	1 at £1	100%	Dormant
Yorkshire PowerGrid Limited	1 at £1	100%	Dormant
Held by the Company's subsidiaries:			
Northern Electric Finance plc	50,000 at £1	100%	Finance company
Joint Venture Entity Held by the Company:			
Vehicle Lease and Service Limited (registered office - Centre for Advanced Industry, 3rd Floor, Coble Dene, North Shields, NE29 6DE)	950,000 at £1	50%	Transport services
Held by Joint Venture Entity Held by the Company:			
VLS Limited (registered office - Centre for Advanced Industry, 3rd Floor, Coble Dene, North Shields, NE29 6DE)	50% of 1 at £1	50%	Dormant

Except where indicated, the registered office address of the above companies is Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.

Interest in Joint venture

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

	2015 £'000	2014 £'000
Long-term assets	16,849	16,753
Current assets	16,283	15,460
Long-term liabilities	(14,436)	(15,228)
Current liabilities	(11,626)	(10,145)
Net assets	7,070	6,840
Group's share of joint venture's net assets	3,535	3,420
Revenue	17,515	17,156
Profit for the year	1,256	912
Group's share of joint venture's profit for the year	628	456

14. INVENTORIES

	Group	
	2015	2014
	£'000	£'000
Stocks	**12,541**	11,592
Work-in-progress	**265**	151
Assets held for sale	**646**	561
	13,452	12,304

The Company had no inventories at 31 December 2015 (2014 - £nil).

15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2015	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000
Current:				
Distribution use of system receivables	**39,854**	45,562	-	-
Construction contract customers	**3,901**	5,218	-	-
Amounts due from customers for contract work	**11,082**	12,654	-	-
Amounts receivable in respect of finance leases	**5,342**	4,168	-	-
Amounts receivable for sale of goods and services	**9,675**	2,366	**176**	81
Prepayments and accrued income	**4,025**	2,061	**251**	227
	73,879	72,029	**427**	308
Non-current:				
Amounts receivable in respect of finance leases	**8,769**	7,494	-	-
Aggregate amounts	**82,648**	79,523	**427**	308

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 end of the reporting period. The fair valuation of the assets is based on Level 1 inputs. The maximum exposure of risk to the Group is the book value of these receivables less any provisions for impairment.

Distribution use of system receivables

The customers served by the Group's distribution network are supplied predominantly by a small number of electricity supply businesses with RWE NPower plc accounting for approximately 24% of distribution revenues in 2015 (2014: 25%). 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 £0.4 million as at 31 December 2015 (2014: £0.1 million).

15. TRADE AND OTHER RECEIVABLES - continued

Distribution use of system receivables – continued

Ofgem has indicated that, provided Northern Powergrid (Northeast) Limited 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 Group's use of system ("UoS") receivables are debtors with a carrying value of £nil, which have been placed into administration and have therefore been provided in full at the year-end (2014: £nil).

Construction contract customers

The average credit period on construction contracts is 30 days. Interest is not generally charged on construction contracts paid after the due date. The Group has provided fully for all receivables over one year for UK Contracting debts and all receivables over six months for Multi-Utility debts. Trade receivables between 30 days and these pre-determined provision dates are provided for based on estimated irrecoverable amounts, determined by reference to past default experience.

Included in the Group's construction contracts balance are debtors with a carrying amount of £2.5 million (2014: £2.8 million), which are past due at the reporting date for which the Group has provided for an irrecoverable amount of £0.2 million (2014: £0.2 million) based on experience. The Group does not hold collateral over these balances. The average age of these receivables is 55 days (2014: 55 days).

Included in the Group's construction contracts balance are debtors with a carrying amount of £nil (2014: £nil) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Amounts due from customers for contract work

Contracts in progress at the reporting date:

	2015	2014
	£'000	£'000
Contract costs incurred plus recognised profits less recognised losses to date	**60,125**	55,046
Less: progress billings	**(49,043)**	(42,392)
Amount due from customers	**11,082**	12,654

At 31 December 2015, retentions held by customers for contract work amounted to £0.4 million (2014: £0.8 million).

Advances received from customers for contract work amounted to £nil (2014: £nil).

The Company had no construction contracts at 31 December 2015 (2014: £nil).

15. TRADE AND OTHER RECEIVABLES - continued

Finance lease receivables

	Minimum lease payments		Present value	
	2015	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000
Amounts receivable under finance leases:				
Within one year	**5,508**	4,552	**5,342**	4,168
In the second to fifth years inclusive	**10,384**	8,582	**8,769**	7,494
	15,892	13,134	**14,111**	11,662
Less: unearned finance income	**(1,781)**	(1,472)	**-**	-
	14,111	11,662	**14,111**	11,662

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

The interest rate inherent in the agreements is fixed at the contract date for all of the term of the agreement. The average effective interest rate contracted is approximately 6.5% (2014: 6.5%) per annum. None of these debts are past due and there are no indicators of impairment.

Northern Powergrid Metering Limited, a wholly-owned subsidiary, enters into credit finance arrangements for smart meters with energy supply companies. All agreements are denominated in sterling. The term of the finance agreements is predominantly ten years.

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

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

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 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.

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £0.4 million (2014: £0.5 million) which are past due at the reporting date and for which the Group has provided an irrecoverable amount of £0.1 million (2014: £0.3 million) based on past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 207 days (2014: 451 days).

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £0.2 million (2014: £0.4 million). These amounts are past due at the reporting date and the Group 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 Group does not hold any collateral over these balances. The average age of these receivables is 66 days (2014: 75 days).

15. TRADE AND OTHER RECEIVABLES - continued

Ageing of past due but not impaired receivables:

	2015 £'000	2014 £'000
30-60 days	133	282
60-120 days	49	86
120-210 days	12	81
Total	194	449

Movement in the allowance for doubtful debts

	2015 £'000	2014 £'000
At 1 January	501	661
Amounts utilised/written off in the year	(292)	(426)
Amounts recognised in statement of profit or loss	191	266
At 31 December	400	501

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

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £0.1 million (2014: £0.2 million) which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

Categories of financial assets

	2015 £'000	2014 £'000
Group:		
Cash and bank balances	8,824	85,586
Loans and receivables at amortised cost	96,271	77,462
Total financial assets	87,447	163,048
Non-current assets	2,165,261	1,974,133
Inventories	13,452	12,304
Prepayments and accrued income	4,025	2,061
Pension asset	88,100	52,900
Total non-financial assets	2,270,838	2,041,938
Total assets	2,358,285	2,204,446

15. TRADE AND OTHER RECEIVABLES – continued

Categories of financial assets - continued

	2015	2014
Company:	**£'000**	£'000
Cash and bank balances	**24,322**	29,806
Loans and receivables at amortised cost	**176**	81
Total financial assets	**24,498**	29,887
Non-current assets	**329,750**	329,798
Prepayments and accrued income	**251**	227
Income tax receivables	**2,694**	3,763
Total non-financial assets	**332,695**	333,788
Total assets	**357,193**	363,675

16. CASH AND CASH EQUIVALENTS

	Group		Company	
	2015	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000
Cash and cash equivalents	**8,824**	85,586	**24,322**	29,806
	8,824	85,586	**24,322**	29,806

Cash and cash equivalents have a maturity of less than three months, are readily convertible to cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

Amounts owed by Group undertakings represent surplus cash remitted to Yorkshire Electricity Group plc ("YEG"), a fellow company in the Northern Powergrid Group, and invested to generate a market rate of return for the Group. This is repayable on demand by YEG.

17. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2015 £'000	2014 £'000
127,689,809	Ordinary share capital	56 12/13p	**72,173**	72,173

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

Details of the cumulative non-equity preference shares are contained in the borrowings note.

18. RESERVES

Group

	Retained earnings £'000	Share premium £'000	Other reserves £'000	Total £'000
At 1 January 2015	649,788	158,748	6,185	814,721
Profit for the year	144,774	-	-	144,774
Dividends	(20,600)	-	-	(20,600)
Movements on pension reserve	(2,499)	-	-	(2,499)
At 31 December 2015	771,463	158,748	6,185	936,396

	Retained earnings £'000	Share premium £'000	Other reserves £'000	Totals £'000
At 1 January 2014	518,891	158,748	6,185	683,824
Profit for the year	140,241	-	-	140,241
Dividends	(30,000)	-	-	(30,000)
Movements on pension reserve	20,656	-	-	20,656
At 31 December 2014	649,788	158,748	6,185	814,721

Company

	Retained earnings £'000	Share premium £'000	Other reserves £'000	Total £'000
At 1 January 2015	113,523	158,748	6,185	278,456
Profit for the year	14,557	-	-	14,557
Dividends	(20,600)	-	-	(20,600)
At 31 December 2015	107,480	158,748	6,185	272,413

	Retained earnings £'000	Share premium £'000	Other reserves £'000	Totals £'000
At 1 January 2014	119,293	158,748	6,185	284,226
Profit for the year	24,230	-	-	24,230
Dividends	(30,000)	-	-	(30,000)
At 31 December 2014	113,523	158,748	6,185	278,456

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Current:				
Payments on account	49,345	37,137	-	-
Trade creditors	7,817	5,542	387	427
Amounts owed to related parties	499	706	-	-
Social security and other taxes	3,171	3,835	395	688
Other creditors	9,347	8,327	1,543	980
Deferred revenue	19,790	21,770	-	-
Accrued expenses	20,042	69,466	423	655
	110,011	146,783	2,748	2,750
Non-current:				
Deferred revenue	526,800	500,762	-	-
	526,800	500,762	-	-
Aggregate amounts	636,811	647,545	2,748	2,750

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

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

Group

	Less than 3 months	3 months to 1 year	1 to 5 years	5+ years	Total
	£'000	£'000	£'000	£'000	£'000
2015:					
Non-interest bearing	**40,876**	-	-	-	**40,876**
Variable interest rate liability	**275**	-	-	-	**275**
Fixed interest rate liability	**5,031**	**25,539**	**339,016**	**607,150**	**976,736**
	46,182	**25,539**	**339,016**	**607,150**	**1,017,887**
2014:					
Non-interest bearing	87,876	-	-	-	87,876
Variable interest rate liability	72,083	-	-	-	72,083
Fixed interest rate liability	5,031	22,463	188,348	628,781	844,623
	164,990	22,463	188,348	628,781	1,004,582

19. TRADE AND OTHER PAYABLES - continued

Company

	Less than 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
2015:					
Non-interest bearing	**2,748**	**-**	**-**	**-**	**2,748**
Fixed interest rate liability	**-**	**9,000**	**36,000**	**115,532**	**160,532**
	2,748	**9,000**	**36,000**	**115,532**	**163,329**
2014:					
Non-interest bearing	2,797	-	-	-	2,797
Fixed interest rate liability	-	9,000	36,000	115,532	160,532
	2,797	9,000	36,000	115,532	163,329

Categories of financial liabilities

Group:	**2015 £'000**	2014 £'000
Loans and payables at amortised cost	**618,755**	566,739
Total financial liabilities	**618,755**	566,739
Payments received on account	**49,345**	37,137
Income tax liabilities	**108,821**	114,244
Other taxes and social security	**3,171**	3,835
Accruals	**20,042**	69,466
Deferred revenue	**546,590**	522,532
Provisions	**2,992**	3,599
Total non-financial liabilities	**730,961**	750,813
Total liabilities	**1,349,716**	1,317,552

Company:	**2015 £'000**	2014 £'000
Loans and payables at amortised cost	**5,319**	4,797
Total financial liabilities	**5,319**	4,797
Income tax liabilities	**4,809**	5,210
Other taxes and social security	**395**	688
Accruals	**423**	655
Provisions	**1,661**	1,696
Total non-financial liabilities	**7,288**	8,249
Total liabilities	**12,607**	13,046

19. TRADE AND OTHER PAYABLES - continued

Deferred Revenue

	2015	2014
	£'000	£'000
At 1 January	522,532	507,201
Additions	46,261	35,088
Amortisation	(22,203)	(19,757)
At 31 December	546,590	522,532

Deferred revenue represents contributions from customers made in advance towards distribution system assets. This income is released to the statement of profit or loss over 45 years on a straight line basis (except for distributed generation which is released over 15 years on a straight line basis), in line with the useful economic life of the distribution system assets.

The Company had no deferred revenue at 31 December 2015 (2014: £nil).

20. BORROWINGS

The directors' consideration of liquidity, interest rate and foreign currency risk is described in the Strategic Report.

Group

	Book Value		Fair Value	
	2015	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000
Loans	**497,486**	446,236	**560,985**	523,151
Cumulative preference shares	**3,368**	3,368	**163,602**	160,811
Amounts owed to Group undertakings	**100,238**	102,560	**129,156**	134,663
	601,092	552,164	**853,743**	818,625
The borrowings are repayable as follows:				
On demand or within one year	**13,917**	85,204	**13,917**	85,204
After five years	**587,175**	466,960	**839,826**	733,421
	601,092	552,164	**853,743**	818,625
Analysis of borrowings:				
Short-term loan	**53**	69,144	**53**	69,144
Inter-company short-term loan	**222**	2,544	**222**	2,544
Bond 2020 - 8.875%	**101,052**	100,923	**130,560**	135,364
Bond 2035 - 5.125%	**152,883**	152,814	**180,462**	183,922
Cumulative preference shares	**3,368**	3,368	**163,602**	160,811
European Investment Bank 2018 - 4.065%*	**41,410**	41,405	**43,632**	44,312
European Investment Bank 2019 - 4.241%*	**41,472**	41,467	**44,683**	45,342
European Investment Bank 2020 - 4.386%*	**40,488**	40,483	**44,478**	45,067
European Investment Bank 2027 - 2.564%	**120,128**	-	**117,117**	-
Yorkshire Electricity Group plc 2037 - 5.9%	**100,016**	100,016	**128,934**	132,119
	601,092	552,164	**853,743**	818,625

20. BORROWINGS - continued

Company

	£'000	£'000	£'000	£'000
The borrowings are repayable as follows:				
On demand or within one year	**2,272**	2,273	**2,273**	2,273
After five years	**1,117**	1,117	**158,560**	158,560
	3,389	3,390	**160,832**	160,833
Analysis of borrowings:				
Inter-company short-term loan	**22**	22	**22**	22
Cumulative preference shares	**3,367**	3,368	**160,810**	160,811
	3,389	3,390	**160,832**	160,833

Of the total financial liabilities, £500.9 million relates to external borrowings and preference shares whose fair value is determined with reference to quoted market prices. The directors' estimates of the fair value of internal borrowings are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments. The valuation of liabilities set out above is based on Level 1 inputs.

* The borrowings from the European Investment Bank were drawn down in twelve tranches, repayable in 2018, 2019 and 2020. The interest rates shown 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 on inter-company short-term loans is charged at a floating rate of interest of LIBOR plus 0.35%, thus exposing the Group to cash flow interest rate risk. A 1% movement in interest rates would not subject the Group to any material change in interest costs. All other loans are at fixed interest rates and expose the Group to fair value interest rate risk.

The Company had authorised 115,000,000 non-equity cumulative preference shares of 1p each as at 31 December 2015 and 2014. As at 31 December 2015 and 2014 111,662,378 were allotted, called up and fully paid.

The terms of the cumulative preference shares:

i) entitle holders, in priority to holders of all other classes of shares, to a fixed cumulative preferential dividend of 8.061p (net) per share per annum payable half-yearly in equal amounts on 31 March and 30 September;

ii) on a return of capital on a winding up, or otherwise, will carry the right to repayment of capital together with a premium of 99p per share and a sum equal to any arrears or accruals of dividend. This right is in priority to the rights of ordinary shareholders;

iii) carry the right to attend a general meeting of the Company and vote if, at the date of the notice convening the meeting, payment of the dividend to which they are entitled is six months or more in arrears, or if a resolution is to be considered at the meeting for winding-up the Company or abrogating, varying or modifying any of the special rights attaching to them; and

iv) are redeemable in the event of the revocation by the Secretary of State of the Company's Public Electricity Supply Licence at the value given in (ii) above.

20. BORROWINGS - continued

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

At 31 December 2015, the Group had available £97 million (2014: £28 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

No material market risks in relation to currency or interest rates are faced by the Group. As at 31 December 2015, 100% (2014: 100%) of the Group's long-term borrowings were at fixed rates and the average maturity for these borrowings was 13 years (2014: 14 years).

21. LEASING AGREEMENTS

Group

	Non-cancellable operating leases	
	2015	2014
	£'000	£'000
Within one year	**6,182**	5,930
Between one and five years	**18,195**	15,746
In more than five years	**8,689**	2,097
	33,066	23,773

	2015	2014
	£'000	£'000
Minimum lease payments under operating leases recognised in the year	**5,121**	5,172

Company

	2015	2014
	£'000	£'000
Within one year	**172**	172
Between one and five years	**218**	390
	390	562

22. PROVISIONS

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Other provisions	2,992	3,599	1,661	1,696
Analysed as follows:				
Current	1,008	1,632	9	7
Non-current	1,984	1,967	1,652	1,689
	2,992	3,599	1,661	1,696

	Claims	Other	Total
	£'000	£'000	£'000
At 1 January 2015	1,039	2,560	3,599
Utilised/paid in the year	(137,459)	(663)	(138,122)
Charged to statement of profit or loss	136,954	561	137,515
At 31 December 2015	534	2,458	2,992

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.

Also included in 'other' is a provision to cover the actuarial assessment of the costs of unfunded pension arrangements in respect of former employees. Further details can be found in the Employee Benefit Obligations note.

23. DEFERRED TAX

	Accelerated tax depreciation	Rollover/ holdover relief	Retirement benefit (obligations/ assets)	Other	Total
Group	£'000	£'000	£'000	£'000	£'000
At 1 January 2015	104,092	6,626	(2,516)	(272)	107,930
(Credit)/charge to the statement of profit or loss	(14,888)	(610)	2,503	616	(12,379)
Charge to other comprehensive income	-	-	9,308	-	9,308
At 31 December 2015	89,204	6,016	9,295	344	104,859

23. **DEFERRED TAX - continued**

	Accelerated tax depreciation	Rollover/ holdover relief	Retirement benefit (obligations/ assets)	Other	Total
Group	£'000	£'000	£'000	£'000	£'000
At 1 January 2014	88,312	7,491	(2,460)	(179)	93,164
Charge/(credit) to the statement of profit or loss	15,780	(865)	(12,756)	(93)	2,066
Charge to other comprehensive income	-	-	12,700	-	12,700
At 31 December 2014	104,092	6,626	(2,516)	(272)	107,930

	Accelerated tax depreciation	**Rollover/ holdover relief**	**Retirement benefit (obligations/ assets)**	**Total**
Company	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2015	**(45)**	**5,594**	**(339)**	**5,210**
Charge/(credit) to statement of profit or loss	**22**	**(465)**	**42**	**(401)**
At 31 December 2015	**(23)**	**5,129**	**(297)**	**4,809**

	Accelerated tax depreciation	Rollover/ holdover relief	Retirement benefit (obligations/ assets)	Total
	£'000	£'000	£'000	£'000
At 1 January 2014	(38)	6,520	(342)	6,140
Charge/(credit) to statement of profit or loss	(7)	(926)	3	(930)
At 31 December 2014	(45)	5,594	(339)	5,210

Other comprises provisions and employee expenses deductible for tax on a paid basis.

24. EMPLOYEE BENEFIT OBLIGATIONS

Introduction
The Company contributes to two pension schemes, which it operates 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 23 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.

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

Funding requirements
UK legislation requires that pension schemes are funded prudently (i.e. to a level in excess of the current expected cost of providing benefits). The last actuarial valuation of the DB scheme was carried out by the 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 Company 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 current funding valuation is taking place as at 31 March 2016, as part of 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 12 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 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.

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

Funding requirements - continued
The contributions payable by the Northern Powergrid Group to the DB Scheme in respect of future benefits, which are accruing, are 34.2% of pensionable pay. 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 the Company as part of the 31 March 2016 valuation. In addition, the Northern Powergrid Group pays 3.0% of pensionable pay to the DB Scheme to cover the expenses of running the DB Scheme.

The Northern Powergrid Group's total contributions to the DB Scheme for the next financial year are expected to be £39.9 million.

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.

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).

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

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 return-seeking assets (such as equities) which, although expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term.	The allocation to return-seeking assets is monitored to ensure it remains appropriate given the DB Scheme's long-term objectives. The Trustees regularly review the strategy from return-seeking assets and have diversified some return-seeking assets from equities into Reinsurance and Listed Infrastructure to reduce overall risk. To avoid concentration risk, the allocation to UK equity is restricted to 35% of the total equity allocation.
Changes in bond yields	A decrease in corporate bond yields will increase the value placed on the DBO for accounting purposes, although this will be partially offset by an increase in the value of the DB Scheme's bond holdings.	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 Company 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 assets such as swaps which perform in line with the liabilities of the DB Scheme so as to protect against inflation being higher than expected.

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).

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

Other risks - continued

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.

Reporting at 31 December 2015

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 2015. 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 DB Scheme approach retirement.

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

Main financial assumptions	**2015**	2014
	% p.a.	% p.a.
RPI Inflation	**2.90**	2.80
Rate of long-term increase in salaries	**2.90**	2.80
Pension increases	**2.80**	2.70
Discount rate for scheme liabilities	**3.70**	3.60

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

Main demographic assumptions	**2015**	2014
Life expectancy for a male currently aged 60	**27.0**	27.1
Life expectancy for a female currently aged 60	**28.7**	28.9
Life expectancy at 60 for a male currently aged 45	**28.5**	28.7
Life expectancy at 60 for a female currently aged 45	**30.4**	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.

24. **EMPLOYEE BENEFIT OBLIGATIONS - continued**

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

Asset allocation	**2015**	2014
	£m	£m
Developed market equity	**311.0**	306.2
Emerging market equity	**11.2**	12.6
Property	**146.0**	130.3
Reinsurance	**68.2**	64.5
Listed infrastructure	**90.1**	84.7
Investment grade corporate bonds	**375.5**	343.1
Other debt	**38.7**	57.4
Fixed interest gilts	**24.9**	28.5
Index-linked gilts	**453.7**	452.7
Cash	**22.0**	36.1
Total	**1,541.3**	1,516.1

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 2015, the fair value of the DB Scheme's assets, which related to self-investment, amounted to £Nil (2014: £Nil).

The amounts recognised on the statement of financial position are set out below:

Reconciliation of funded status to statement of financial position	**2015**	2014
	£m	£m
Fair value of scheme assets	**1,541.3**	1,516.1
Present value of funded defined benefit obligations	**(1,453.2)**	(1,463.2)
Asset recognised on the statement of financial position	**88.1**	52.9

When determining the adjustment in respect of the minimum funding requirement, it has been assumed that the Group would be entitled to a refund from the DB Scheme of any surplus arising in the DB Scheme in future. This reflects the provisions of the DB Scheme documentation.

The amounts recognised in comprehensive income and property, plant and equipment are set out below:

	2015	2014
	£m	£m
Operating cost		
Service costs:		
Current service cost	**15.9**	14.5
Administration expenses	**1.2**	1.5
Financing cost		
Interest on net defined benefit asset	**(2.5)**	(0.3)
Pension expense recognised in profit and loss or property, plant and equipment	**14.6**	15.7

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

	2015 £m	2014 £m
Re-measurements in OCI:		
Return on plan assets in lower/(excess) of that recognised in net interest	20.3	(149.6)
Actuarial (gains)/losses due to changes in financial assumptions	(1.9)	110.4
Actuarial gains due to changes in demographic assumptions	(12.4)	(19.2)
Actuarial (gains)/losses due to liability experience	(5.6)	33.3
Total amount recognised in OCI	0.4	(25.1)
Total amount recognised in profit and loss, property plant and equipment and OCI	15.0	(9.4)

Changes to the present value of the DBO during the year	2015 £m	2014 £m
Opening DBO	1,463.2	1,321.3
Current service cost	15.9	14.5
Interest expense on defined benefit obligation	52.0	57.3
Contributions by DB Scheme participants	1.5	1.5
Actuarial gains on DB Scheme liabilities arising from changes in demographic assumptions	(12.4)	(19.2)
Actuarial (gains)/losses on DB Scheme liabilities arising from changes in financial assumptions	(1.9)	110.4
Actuarial (gains)/losses on DB Scheme liabilities arising from experience	(5.6)	33.3
Net benefits paid out	(59.5)	(55.9)
Closing DBO	1,453.2	1,463.2

Changes in the fair value of DB Scheme assets during the year	2015 £m	2014 £m
Opening fair value of DB Scheme assets	1,516.1	1,310.7
Interest income on DB Scheme assets	54.5	57.6
Re-measurement (losses)/gains on DB Scheme assets	(20.3)	149.6
Contributions by the employer	50.2	54.1
Contributions by DB Scheme participants	1.5	1.5
Net benefits paid out	(59.5)	(55.9)
Administration costs incurred	(1.2)	(1.5)
Closing fair value of DB Scheme assets	1,541.3	1,516.1

Actual return on DB Scheme assets	2015 £m	2014 £m
Interest income on DB Scheme assets	54.5	57.6
Re-measurement (loss)/gain on DB Scheme assets	(20.3)	149.6
Actual return on DB Scheme assets	34.2	207.2

Analysis of amounts recognised in SoCI	2015 £m	2014 £m
Total re-measurement gains	0.4	25.1

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

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 Group. The sensitivity of the results to these assumptions is as follows.

	Changes in DBO	Revised DBO
	£m	£m
Current Figures	**1,453.2**	
Following a 10 bps decrease in the discount rate	**25.9**	1,479.1
Following a 10 bps increase in the discount rate	**(25.6)**	1,427.6
Following a 10 bps increase in the inflation assumption	**23.1**	1,476.3
Following a 10 bps decrease in the inflation assumption	**(21.3)**	1,431.9
Following a 1 year increase in life expectancy	**49.5**	1,502.7
Following a 1 year decrease in life expectancy	**(50.1)**	1,403.1

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.

A provision to cover the actuarial assessment of the costs of unfunded pension arrangements in respect of former employees has been made by the Group and the Company as follows:

	£m
1 January 2015	**1.7**
Utilised/paid in the year	**(0.1)**
Transferred from statement of profit or loss	**0.1**
31 December 2015	**1.7**

25. DIRECTORS' ADVANCES, CREDITS AND GUARANTEES

During the year, 2 directors (2014: 2) and 7 key personnel (2014: 5) utilised the services provided by NTFL. The amounts included in finance lease receivables owed by these directors and key personnel total £64,000 (2014: £43,000) in respect of non-current and £151,000 (2014: £80,000) in respect of current receivables.

26. RELATED PARTY DISCLOSURES

Group

Details of transactions between the Group and other related parties are disclosed below.

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

	Sales from £'000	Purchases to £'000	Amounts owed from/(to) £'000	Finance/ investment income/ (costs from/(to) £'000	Borrowing s to/(from) £'000
Related Party					
2015					
Integrated Utility Services Limited (registered in Eire)	7	(2,785)	82	-	-
Northern Powergrid Gas Limited	88	-	-	-	-
Northern Powergrid Limited	-	-	-	(6,222)	-
Northern Powergrid Insurance Services Limited	-	(356)	-	-	-
Northern Powergrid (Yorkshire) plc	25,717	(10,664)	-	-	-
Vehicle Lease and Service Limited	229	(3,718)	417	628	-
Yorkshire Electricity Group plc	-	-	-	(6,045)	(100,238)
	26,041	(17,523)	499	(11,639)	(100,238)

26. RELATED PARTY DISCLOSURES - continued

Group - continued

Related Party	Sales from £'000	Purchases to £'000	Amounts owed from/(to) £'000	Finance/ investment income/ (costs from/(to) £'000	Borrowings to/(from) £'000
2014					
Integrated Utility Services Limited (registered in Eire)	6	(2,722)	289	-	-
Northern Powergrid Gas Limited	96	-	-	-	-
Northern Powergrid Limited	-	-	-	(6,222)	-
Northern Powergrid Insurance Services Limited	-	(476)	-	-	-
Northern Powergrid (Yorkshire) plc	21,792	(9,934)	-	-	-
Vehicle Lease and Service Limited	245	(3,703)	417	456	-
Yorkshire Electricity Group plc	-	-	-	(5,450)	(102,560)
	22,139	(16,835)	706	(11,216)	(102,560)

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

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

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.

26. **RELATED PARTY DISCLOSURES – continued**

Company

Details of transactions between the Company and other related parties are disclosed below.

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

	Sales to £'000	Purchases from £'000	Amounts owed from/(to) £'000	Finance/ investment income/ (costs from/(to) £'000	Borrowings /(from) £'000
Related Party					
2015					
Integrated Utility Services Limited	60	(564)	-	-	-
Northern Powergrid Gas Limited	88	-	-	-	-
Northern Powergrid Limited	-	-	-	(6,222)	-
Northern Powergrid (Northeast) Limited	6,443	(52)	-	20,600	-
Northern Powergrid (Yorkshire) plc	3,962	-	-	-	-
Northern Transport Finance Limited	20	-	-	-	-
Vehicle Lease and Service Limited	192	-	-	513	-
Yorkshire Electricity Group plc	-	-	-	195	24,322
	10,765	(616)	-	15,086	24,322

26. RELATED PARTY DISCLOSURES – continued

Company – continued

Related Party	Sales to £'000	Purchases from £'000	Amounts owed from/(to) £'000	Finance/ investment income/ (costs from/(to) £'000	Borrowing s to/(from) £'000
2014					
Integrated Utility Services Limited	63	(520)	-	-	-
Northern Powergrid Gas Limited	96	-	-	-	-
Northern Powergrid Limited	-	-	-	(6,222)	-
Northern Powergrid (Northeast) Limited	7,300	(145)	-	30,000	-
Northern Powergrid (Yorkshire) plc	4,663	-	-	-	-
Northern Transport Finance Limited	28	-	-	-	-
Vehicle Lease and Service Limited	207	-	-	407	-
Yorkshire Electricity Group plc	-	-	-	267	29,806
	12,357	(665)	-	24,452	29,806

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

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

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.

27. RECONCILIATION OF PROFIT BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

Group

	2015	2014
	£'000	£'000
Profit before income tax	162,056	178,256
Depreciation charges	76,093	64,446
Profit on disposal of fixed assets	(474)	(752)
Amortisation of deferred revenue	(22,203)	(19,757)
Retirement benefit obligations	(38,514)	(38,400)
Decrease in provisions	(607)	(41)
Finance costs	36,198	34,865
Finance income	(1,619)	(1,660)
	210,930	216,957
Increase in inventories	(1,148)	(1,905)
Increase in trade and other receivables	(949)	(23,477)
(Decrease)/increase in trade and other payables	(19,709)	24,374
Cash generated from operations	189,124	215,949

Company

	2015	2014
	£'000	£'000
Profit before income tax	13,773	23,301
Depreciation charges	48	52
Decrease in provisions	(35)	(29)
Finance costs	9,028	9,012
Finance income	(21,308)	(30,820)
	1,506	1,516
(Increase)/decrease in trade and other receivables	(119)	30
Decrease in trade and other payables	(3)	(47)
Cash generated from operations	1,384	1,499

28. OTHER RESERVES

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

29. ULTIMATE CONTROLLING PARTY

The immediate parent undertaking of Northern Electric plc Group is Northern Powergrid Limited. The ultimate controlling party and ultimate parent undertaking of Northern Powergrid Limited 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 Electric plc Group and the group accounts of Northern Powergrid Holdings Company, the largest parent undertaking to prepare group accounts in the UK, can both be obtained from the Company Secretary, Northern Powergrid Holdings Company, Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.

NORTHERN ELECTRIC PLC (REGISTERED NUMBER: 02366942)

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Northern Electric plc will be held at Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF on 16 June 2016 at 10.00 am for the following purposes:

The following resolutions will be proposed as ordinary resolutions.

Resolution 1

To receive and consider the strategic, directors' and auditor's reports and the Group accounts for the year ended 31 December 2015.

Resolution 2

To declare that no final dividend be paid for the year ended 31 December 2015.

Resolution 3

To re-elect Mr G E Abel as a director.

Resolution 4

To re-elect Mr T E Fielden as a director.

Resolution 5

To re-elect Dr P A Jones as a director.

Resolution 6

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

By order of the board	**Registered office:**
John Elliott	**Lloyds Court, 78 Grey Street,**
Secretary	**Newcastle upon Tyne, NE1 6AF**
22 April 2016	**Registered in England No 2366942**

Note:

1. All the issued ordinary shares in the Company are held by or on behalf of Northern Powergrid Limited.

2. Holders of preference shares have the right to receive notice of, attend and speak at the Annual General Meeting but are only entitled to vote if, at the date of the notice of the meeting, payment of the dividend to which they are entitled is six months or more in arrears or if a resolution is to be considered at the meeting for the winding up of the Company or abrogating, varying or modifying any of the special rights attaching to the preference shares. As none of these circumstances apply to this Annual General Meeting, preference shareholders should note that they do not have the right to vote on any of the business to be considered.

3. Members are entitled to appoint a proxy to exercise all or any of their rights on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the shareholder. A proxy need not be a shareholder of the Company.

4. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a nominated person does not have such a right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights

5. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

6. The current price of the Company's preference shares can be obtained from the web site of the London Stock Exchange at www.londonstockexchange.com.