

**REGISTERED NUMBER: 03476201 (England and Wales)**

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

**FOR**

**NORTHERN POWERGRID HOLDINGS COMPANY**

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FOR THE YEAR ENDED 31 DECEMBER 2015**

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**NORTHERN POWERGRID HOLDINGS COMPANY**

**COMPANY INFORMATION  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**DIRECTORS:**

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D L Anderson  
R Dixon  
J M France  
P J Goodman  
P A Jones  
J N Reynolds

**COMPANY SECRETARY:**

J Elliott

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**REGISTERED NUMBER:**

03476201 (England and Wales)

**AUDITOR:**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Newcastle upon Tyne  
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**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

The directors present the annual reports and accounts of Northern Powergrid Holdings Company (the "Company") and its subsidiary companies (together the "Group") for the year ended 31 December 2015, which includes the Group Strategic Report, the Report of the Directors and the audited financial statements for that year. Pages 2 to 22 inclusive comprise the Strategic Report and pages 23 to 32 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 Company and 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 the ultimate parent undertaking for the Group in the United Kingdom and its main subsidiary companies are Northern Powergrid (Northeast) Limited ("NPg Northeast"), Northern Powergrid (Yorkshire) plc ("NPg Yorkshire"), Integrated Utility Services Limited, registered in the United Kingdom, ("IUS"), CalEnergy Resources Limited ("CE Resources"), Integrated Utility Services Limited, registered in the Republic of Ireland ("IUS Ireland") and Northern Powergrid Metering Limited ("Northern Powergrid Metering").

NPg Northeast and NPg Yorkshire (together "Northern Powergrid") are distribution network operators ("DNOs") and, during the year, distributed some 36,580 GWh of electricity to the approximately 3.9 million customers connected to their electricity distribution networks in the northeast of England, which extend from North Northumberland through Tyne and Wear, County Durham and Yorkshire to North Lincolnshire, an area covering approximately 10,000 square miles. Northern Powergrid's combined distribution networks include over 18,000 miles of overhead lines, 40,000 miles of underground cables and 725 major substations and receive electricity from generators connected directly to them and from the National Grid's transmission system and distribute that electricity at voltages of up to 132kV.

IUS and IUS Ireland provide engineering contracting services, CE Resources holds interests in hydrocarbon permits in Australia, Poland and the United Kingdom, and Northern Powergrid Metering rents meters to energy suppliers.

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.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**BUSINESS MODEL - continued**

<b>Principle</b>	<b>Strategy</b>	<b>Indicator</b>
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 networks 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 £776.3 million being £41.3 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"), 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:

- 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;
- Ofgem's assessment of the variation in wage rates across the country; and
- Ofgem's projections for labour cost increases.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**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 each of NPg Northeast's and NPg Yorkshire's cost allowances over ED1 by approximately £16 million, in 2012/2013 prices, which affects NPg Northeast's and NPg Yorkshire's projected regulatory asset values at the end of ED1 as well as their 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 NPg Northeast's allowed additional income and £8 million in NPg Yorkshire's allowed additional income in ED1 in 2012/2013 prices. The net effect of the two appeals on NPg Northeast's and NPg Yorkshire's allowed revenues in ED1, excluding the uplift on their projected regulatory asset values at the end of ED1, is a reduction of approximately £2 million for NPg Northeast and £5 million for NPg Yorkshire in 2012/2013 prices.

Having delivered its largest ever capital expenditure programme of £450.4 million in 2014, Northern Powergrid continued with its policy of investing efficiently in its electricity distribution networks during 2015. During the year, Northern Powergrid invested £476.7 million in its distribution networks, such that it exceeded its investment in the year ended 31 December 2014 and 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.

The Group's environmental performance continued to be strong with incidents reportable to the Environment Agency, oil spills and leaks from Northern Powergrid's assets and SF<sub>6</sub> gas discharges from electrical plant being better than target. However, 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, with an Occupational Safety and Health Administration ("OSHA") rate of 0.26 being recorded 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 but missed its targets in respect of lost time accidents, preventable vehicle accidents, and operational incidents.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**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 satisfactory, 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.

CE Resources continued to develop its portfolio of hydrocarbon exploration, development and producing assets in Australia, Poland and the United Kingdom. During the year, a flow test was carried out on the onshore Australian Whicher Range gas field. The results are now being evaluated and CE Resources plans to continue further evaluation work on the Whicher Range gas field in 2016 including an evaluation of options for commercialization. CE Resources also completed the Front End Engineering and Design phase for the Baltic Gas Project, which is seeking to develop two gas fields offshore to Poland. Further studies and evaluation will be undertaken prior to a possible final investment decision. The Platypus discovery, which is offshore to the United Kingdom, continued in the Concept Select phase.

**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 £776.3 million was £41.3 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 £383.8 million was £31.8 million lower than the previous year, reflecting decreased revenues and increases in some operating costs such as depreciation, salaries and professional fees. The consolidated statement of financial position on pages 37 and 38 shows that, as at 31 December 2015, the Group had total equity of £2,012.3 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 £90.5 million were £2.8 million higher than last year due to the net impact of financing requirements during the year including a bond issuance on 1 April 2015 and a new credit facility with the European Investment Bank (the "EIB") from 16 December 2015 (see page 6).

**Taxation**

The effective tax rate in the current year is 8.3%. The effective tax rate before adjusting for the impact of the changes in tax rates by the Finance Act 2015 would be 18.3%. Details of the income tax expense are provided in Note 7 to the accounts.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORE PRINCIPLES - continued**

**Financial strength - continued**

**Results and dividends**

The Group made a profit after tax for the year of £269.7 million (2014: £261.0 million). Interim dividends totalling £100 million were paid during the year (2014: £Nil) and the directors recommend that no final dividend be paid in respect of the year. Other comprehensive income for the year, net of income tax, was a loss of £5.5 million (2014: gain of £23.3 million).

**Share capital and debt structure**

There were no changes to the Company's share capital during the year.

On 1 April 2015, NPg Yorkshire issued £150 million 2.5% bonds due 2025. On 2 December 2015, NPg Northeast and NPg Yorkshire each entered into an agreement with the European Investment Bank (the "EIB"), which provided them with a credit facility of £120 million and £130 million respectively. The financial obligations of NPg Northeast and NPg Yorkshire under these agreements are guaranteed by the Company and, on 16 December 2015, NPg Northeast and NPg Yorkshire drew on the credit facilities in their entirety at a fixed rate of 2.564% for a period of 12 years.

On 1 March 2016, NPg Yorkshire entered into a Deed of Amendment and Consent which increased the facility provided by the EIB under the agreement entered into on 2 December 2015 from £130 million to £180 million. The additional committed facility of £50 million is undrawn as at the date of this Strategic Report.

**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 and the Group 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 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 £327.8 million was £3.6 million lower than the previous year. Lower profits due to the impact of the new price control period were partially offset by favourable working capital movements.

**Investing activities:** Net cash used in investing activities at £431.1 million was £20.3 million higher than the previous year, reflecting higher net capital expenditure, including the investment in smart meters.

**Financing activities:** The net cash generated from financing activities at £158.1 million represents a £80.5 million increase compared to the previous year, reflecting net movements in borrowings in the year, offset by the £100.0 million dividend payment.

**Liquidity risk**

As at 31 December 2015, Northern Powergrid had access to £150 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, companies in the Group have access to further short-term borrowing facilities provided by YEG. Northern Powergrid has an overdraft facility provided by Lloyds Bank plc totalling £42 million, 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.



**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORE PRINCIPLES - continued**

**Financial strength - continued**

**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 12 years.

**Currency risk**

No material currency risks are faced by the Group.

**Pensions**

Northern Electric plc, a company in the Group, 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 26 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 areas and continued to improve the overall performance of the distribution networks 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.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORE PRINCIPLES - continued**

**Customer service - continued**

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.

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 the 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:

	<b>NPg Northeast Actual</b>	<b>NPg Northeast Target</b>	<b>NPg Yorkshire Actual</b>	<b>NPg Yorkshire Target</b>
<b>CML:</b>	<b>56.1 (2014: 64.6)</b>	<b>70.6 (2014: 70.7)</b>	<b>50.4 (2014: 58.9)</b>	<b>76.0 (2014: 76.0)</b>
<b>CI:</b>	<b>65.3 (2014: 62.9)</b>	<b>68.1 (2014: 68.1)</b>	<b>60.9 (2014: 64.5)</b>	<b>75.3 (2014: 75.3)</b>

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.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORE PRINCIPLES - continued**

**Customer service - continued**

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. NPg Northeast and NPg Yorkshire recorded overall satisfaction scores of 81.9% and 82.6% respectively for the Regulatory Year and expect 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.

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 the 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 networks, 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.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORE PRINCIPLES - continued**

**Customer service - continued**

**Corporate responsibility - continued**

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 works 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 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.

The Group 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. Northern Powergrid 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 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 areas, 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 efficient distribution networks that deliver electricity effectively. During the year, £476.7 million was invested in the improvement of the distribution networks, an increase on the record amount of £450.4 million in the previous year. Northern Powergrid's continued and substantial investment in its distribution networks 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 networks' resilience. Northern Powergrid is committed to enhancing the reliability of the networks 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 conurbations of Tyne & Wear, West Yorkshire and South Yorkshire, the industrialised areas around the Tees and the Humber and the rural areas of Northumberland, Durham and North Yorkshire, including the Dales, the Vale of York and the North Yorkshire Moors, the Yorkshire Dales, the east coast of Yorkshire and North Lincolnshire.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORE PRINCIPLES - continued**

**Operational activity - continued**

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.

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 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 the networks 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 Calderdale, the West Yorkshire Dales and Leeds City Centre, with approximately 37,000 customers being affected by power cuts. The power to over 90% of those customers was restored within 12 hours and, although Kirkstall C grid supply point in Leeds was flooded, power was restored to the 27,000 customers affected within three hours as switching to interconnected sections of the network was achieved.

Storm Eva also impacted properties in North Yorkshire, with York City Centre significantly affected. However, NPg Northeast'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 for NPg Northeast (2014: 59.7 minutes) and some 55.5 minutes for NPg Yorkshire (2014: 60.5 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.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORE PRINCIPLES - continued**

**Operational excellence - continued**

**Operational activity - continued**

The major projects undertaken by NPg Northeast during the year in support of those targets and as part of the investment strategy included:

- 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;
- 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.

The major projects undertaken by NPg Yorkshire included:

- Completion of replacement of three EHV circuit breakers at South Kirkby, replacement of primary switchgear at Harpswell, Park Hill and Binbrook and commencement of replacement work at West End Lane;
- Continuation of reinforcement of the primary network in the Doncaster area with excavation and duct installation for the 132kV cables to connect West Melton to the new 132/33kV substation at Potteric Carr and commencement of civil works at Potteric Carr;
- Remediation of the fault-level issue at Station Road by replacing both transformers with high impedance units and commencement of work to replace the 6kV network in the King George docks area of Hull;
- Replacement of 13km of 132kV oil filled cable with 9km from Ferrybridge to Osbaldwick and 4km from Scunthorpe North to Scunthorpe South and of almost 17km of 33kV underground cable, including 1km of oil-filled cable, 10km of gas insulated cable and 5.5km of solid cable to improve performance;
- Extensive ongoing works in the Sheffield area including the replacement of 18km of oil-filled cable and 2km of gas insulated cable;
- 59 overhead line towers were refurbished and over 200 EHV poles were replaced;
- 172km of high-voltage overhead line and 61km of low-voltage overhead line were refurbished or rebuilt;
- 38 units of high-voltage outdoor switchgear, 99 high-voltage distribution substations and 280 units of high-voltage indoor switchgear were replaced; and
- 217 new remote control points were installed and commissioned.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORE PRINCIPLES - continued**

**Operational excellence - continued**

**Operational activity - continued**

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 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 networks resulting in 18 such incidents occurring in the year against a target of 12. 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, Northern Powergrid 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. Northern Powergrid 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 uses several key performance indicators to monitor safety performance, with the goal of achieving performance that is below the target number. The main key performance indicators are as follows:

	2015		2014	
	Target	Actual	Target	Actual
Lost time accidents	2	5	2	5
Restricted duty accidents	2	0	3	1
Medical treatment accidents	4	1	4	0
Operational incidents	12	18	12	13
Preventable vehicle accidents	25	26	26	27

The number of lost time accidents experienced by the Group was the same as that experienced in 2014 and, although preventable vehicle accident performance missed the target for 2015, it showed an improvement compared with 2014. None of those incidents gave rise to any significant safety-related risks.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORE PRINCIPLES - continued**

**Employee commitment - continued**

**Health and safety - continued**

In common with the Berkshire Hathaway Energy group, the 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 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 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 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, NPg Northeast, NPg Yorkshire 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.

The sickness absence rate across the Group for 2015 was 2.71% (2014: 2.32%), which was similar to that experienced in 2014 and does not give rise to any particular cause for concern.

**Management structure**

Operational management of Northern Powergrid 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 Group. IUS and CE Resources have their own, separate management teams and Northern Powergrid Metering utilises staff employed by other companies in the 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.



**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORE PRINCIPLES - continued**

**Employee commitment - continued**

**Employees - continued**

In addition, Northern Powergrid 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 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 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 Group is delivering a long-term strategic programme aimed at improving the health of its staff and, in that respect, the 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 on the key priorities 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 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 2,547 staff at various locations in the United Kingdom, the Republic of Ireland, Poland and Australia (2014: 2,509).

**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.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORE PRINCIPLES - continued**

**Environmental respect - continued**

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 nine incidents were reportable to the Environment Agency, which was significantly better than the target of 29. Oil spills and leaks from NPg Yorkshire's assets were 53% better than the target of 39,745 litres and SF<sub>6</sub> gas discharges from electrical plant were 1% better than the target of 89 kilogrammes. Oil spills and leaks from NPg Northeast's assets exceeded the target of 13,500 litres by 4% and SF<sub>6</sub> 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, and general waste collected by a waste disposal firm was used as feedstock for a multi-fuel power station in Yorkshire, which generates low-carbon heat and electricity.

**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.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORE PRINCIPLES - continued**

**Environmental respect - continued**

**Sustainability - continued**

The number of installations by customers of low-carbon technologies such as photovoltaic solar panels and heat pumps continued to increase during the 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 networks. In that respect, Northern Powergrid 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 networks.

The 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 sustainable networks, which will include enabling technology, reinforcement of the networks 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 Northern Powergrid's structure and approach to risk management as well as discussing emerging research and its influence on Northern Powergrid'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.

**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 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 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 boards of NPg Northeast and NPg Yorkshire on the outcome of each quarter's exercise.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORE PRINCIPLES - continued**

**Regulatory integrity - continued**

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 NPg Northeast's base allowed revenue decreasing by approximately 0.1% and NPg Yorkshire's base allowed revenue decreasing by approximately 0.2% 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, from which actual revenues are derived, are now set further in advance than was previously the case.

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

With effect from 1 April 2015, the more formalised arrangements for assuring the accuracy of the information returns submitted to Ofgem, that had been trialled by network operators in the latter part of DPCR5, entered into formal operation under the terms of Northern Powergrid's licences. These arrangements involve the preparation and submission to Ofgem of a risk-based data-assurance plan for the regulatory year ahead, together with a report detailing the assurance work actually carried out in the regulatory year just ended and the findings of that work.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**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 holders of an electricity distribution licence, NPg Northeast and NPg Yorkshire are subject to regulation by the Gas and Electricity Markets Authority ("GEMA"), which acts through Ofgem. Most of the revenue of the electricity distribution licence holders is controlled by the distribution price control formula set out in the electricity distribution licence. The price control formula 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 pages 6 and 7 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 networks' 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 areas, 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.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**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 networks, 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 networks 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 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 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 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 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 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 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.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**PRINCIPAL RISKS AND UNCERTAINTIES – continued**

**Internal Control - continued**

In addition, the 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 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 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 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 businesses, examples of which are described throughout this Strategic Report.

The 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 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 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 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 the licences 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 licences 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. Those forecasts look forward for a 10-year period and anticipate the Group's continued stable operations beyond the ED1 price control.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**PRINCIPAL RISKS AND UNCERTAINTIES – continued**

Details of the principal risks and uncertainties, which could have an impact on the Group, are provided on pages 19 and 20 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 meeting the obligations in Northern Powergrid's electricity distribution licences to provide Ofgem with annual certificates, approved by the boards of NPg Northeast and NPg Yorkshire, confirming that the directors have a reasonable expectation that NPg Northeast and NPg Yorkshire will have sufficient financial resources, financial facilities and operational resources available to them so that they are 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 the 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:**



J M France  
Director

22 April 2016



**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**

Interim dividends totalling £100 million were paid during the year (2014: £Nil). 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 the 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 Company 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 pages 16 and 17 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 £4.8 million (2014: £9.0 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 37 and 38.

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 will 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.

CE Resources will continue to look to build value through the management of a portfolio of hydrocarbon projects in Australia, Poland and the United Kingdom.

**DIRECTORS**

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

G E Abel	Chairman
D L Anderson	Chief Corporate Counsel, Berkshire Hathaway Energy
R Dixon	Non-executive 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 N Reynolds	Non-executive Director

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 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.

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 and as directors of associated companies, 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 Company are provided in the Financial strength and Principal Risks and Uncertainties sections on pages 6 and 7 and 19 and 20 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 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 Group's intranet to improve communication and engagement with the workforce.

During the year, the President and Chief Executive Officer of the Group continued to provide employees with updates on the Group's financial, organisational, safety and customer service performance through postings and weekly blogs on the 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.

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**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 independent, non-executive directors at board meetings of the Company and a strong internal control environment designed to meet the standards required by the United States Sarbanes-Oxley Act.

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

**Section A: Leadership**

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

The directors have agreed a quarterly schedule of board meetings at which they review performance, strategy and operational and risk-related issues. 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 Group are discussed.

The Chairman of Berkshire Hathaway Energy also receives weekly, monthly, quarterly and ad-hoc reports on the 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 Group's Finance Director and General Counsel present their respective weekly reports.

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

G E Abel	Chairman	0
D L Anderson	Chief Corporate Counsel, Berkshire Hathaway Energy	0
R Dixon	Non-Executive Director	8
J M France	Regulation Director	8
P J Goodman	Executive Vice-President and Chief Financial Officer, Berkshire Hathaway Energy	0
P A Jones	President and Chief Executive Officer	7
J N Reynolds	Non-Executive Director	6

Operational management of Northern Powergrid is delegated to a single senior management team, with specific functional responsibilities. That senior management team meets monthly with the senior management of the 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 Group are provided in the Strategic Report.

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**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 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 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 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 Group. Membership of the committee comprises:

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
G M Earl	Director of Safety, Health and Environment

The committee meets on a regular basis in order to oversee implementation of the health and safety policy, review and agree strategy for the management of health and safety issues, monitor health and safety performance across the 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

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORPORATE GOVERNANCE STATEMENT - continued**

**Section A: Leadership - continued**

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

**Pensions Committee**

The Pensions Committee oversees the 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 Regulatory Finance 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 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 Group's Audit Committee.

The GRMG comprises:

D Anderson	Head of Internal Audit
N Applebee	Head of Shared Services
J Cardwell	Head of Trading and Innovation
R Dixon	Non-Executive Director
M Drye	Director of Asset Management
G 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 Maclellan	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 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 Group's approach to emergency planning and to provide strategic leadership and guidance in respect of such matters.

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORPORATE GOVERNANCE STATEMENT - continued**

**Section A: Leadership - continued**

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

**Governance and Risk Management Group - 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 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 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 the Group and divides his time accordingly between his various commitments within the Group. Dr Jones reports directly to Mr Abel.

**Main Principle A4: Non-Executive Directors**

There are two independent non-executive directors on the board of the Company, Mr Dixon and Mr Reynolds, who act under agreed terms of reference or service, as appropriate.

**Section B: Effectiveness**

**Main Principle B1: The composition of the board**

The board comprises five executive and two non-executive directors who, collectively, bring a range of skills and experience to the board. Although the board does not include a balanced number of executive and non-executive directors, the board believes that it possesses the skills and experience necessary to provide effective leadership, stewardship and control of the 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 directors commit sufficient time to preparation for and attendance at board meetings, although their terms of reference and service 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.

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORPORATE GOVERNANCE STATEMENT - continued**

**Section B: Effectiveness – continued**

**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 directors, as appropriate.

**Main Principle B6: Evaluation**

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

**Main Principle B7: Re-election**

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

**Section C: Accountability**

**Main Principle C1: Financial and business reporting**

The board considers that the 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 31, their responsibility for preparing the Strategic Report, the Report of the Directors and the annual accounts, have reported, at pages 31 and 32 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 34 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 19 to 22 of the Strategic Report. Also included at pages 21 and 22 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;

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORPORATE GOVERNANCE STATEMENT – continued**

**Section C: Accountability - continued**

**Main Principle C2: Risk management and internal control – continued**

- 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
- 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 has established an audit committee for the 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 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 15 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 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 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.



**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CORPORATE GOVERNANCE STATEMENT – continued**

**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 shareholders.

**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 Company and the Group 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 Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the 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.

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**GOING CONCERN - continued**

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 subsidiaries, NPg Northeast and NPg Yorkshire, are stable electricity distribution businesses operating an essential public service and are 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. The Company, NPg Northeast and NPg Yorkshire hold investment grade credit ratings;
- The Group is financed by long-term borrowings with an average maturity of 12 years and has access to a £150m, five year committed revolving credit facility provided by Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc;
- On 1 April 2015, NPg Yorkshire issued £150 million 2.5% bonds due 2025, on 2 December 2015, NPg Northeast and NPg Yorkshire entered into an agreement with the EIB, which provided them with a credit facility of £120 million and £130 million respectively and, on 1 March 2016, NPg Yorkshire increased its facility from £130 million to £180 million. NPg Yorkshire has not drawn on the additional committed facility of £50 million as at the date of this statement; and
- No repayments of long-term debt are due until 2018.

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**

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

**ON BEHALF OF THE BOARD:**



J M France  
Director

22 April 2016

**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 23 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 taken as a whole, together with a description of the principal risks and uncertainties it faces.

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

A handwritten signature in black ink, appearing to read 'J M France', with a stylized flourish at the end.

J M France  
Director

22 April 2016

## REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF NORTHERN POWERGRID HOLDINGS COMPANY

We have audited the financial statements of Northern Powergrid Holdings Company (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 30. 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 31, 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 IFRS 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.

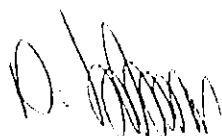
### Opinion on other matter prescribed by the Companies Act 2006

In my opinion the information given in the 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.



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

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

	Notes	2015 £'000	2014 £'000
<b>CONTINUING OPERATIONS</b>			
Revenue	3	776,315	817,644
Cost of sales		<u>(58,449)</u>	<u>(79,837)</u>
<b>GROSS PROFIT</b>		717,866	737,807
Operating expenses	10	<u>(334,073)</u>	<u>(322,213)</u>
<b>OPERATING PROFIT</b>		383,793	415,594
Other gains		738	962
Finance costs	5	<u>(91,373)</u>	<u>(88,509)</u>
Finance income	5	<u>884</u>	<u>791</u>
<b>PROFIT BEFORE INCOME TAX</b>	6	294,042	328,838
Income tax	7	<u>(24,390)</u>	<u>(67,837)</u>
<b>PROFIT FOR THE YEAR</b>		<u>269,652</u>	<u>261,001</u>
Profit attributable to:			
Owners of the parent		267,814	258,438
Non-controlling interests		<u>1,838</u>	<u>2,563</u>
		<u>269,652</u>	<u>261,001</u>

The notes on pages 44 to 91 form part of these financial statements

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

	2015 £'000	2014 £'000
<b>PROFIT FOR THE YEAR</b>	<b>269,652</b>	<b>261,001</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
<b>Item that will not be reclassified to profit or loss:</b>		
Employee benefit obligation	(400)	25,100
Income tax relating to item of other comprehensive income	<u>(2,099)</u>	<u>(4,444)</u>
	(2,499)	20,656
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange difference on translation of foreign operations	(1,938)	(845)
Sale of minority interest	-	3,535
Dividends paid to minority interest	<u>(1,057)</u>	<u>-</u>
	(2,995)	2,690
<b>OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR, NET OF INCOME TAX</b>	<b><u>(5,494)</u></b>	<b><u>23,346</u></b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b><u>264,158</u></b>	<b><u>284,347</u></b>
 Total comprehensive income attributable to:		
Owners of the parent	263,377	278,249
Non-controlling interests	<u>781</u>	<u>6,098</u>
	<b><u>264,158</u></b>	<b><u>284,347</u></b>

The notes on pages 44 to 91 form part of these financial statements

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**31 DECEMBER 2015**

	Notes	2015 £'000	2014 £'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Goodwill	11	248,843	248,843
Intangible assets	12	44,050	35,658
Property, plant and equipment	13	5,159,563	4,787,939
Investments	14	15,698	8,994
Pension asset	26	88,100	52,900
Tax receivable		1,966	-
Trade and other receivables	16	8,769	7,494
		<u>5,566,989</u>	<u>5,141,828</u>
<b>CURRENT ASSETS</b>			
Inventories	15	13,917	12,585
Trade and other receivables	16	131,508	127,917
Tax receivable		945	785
Cash and cash equivalents	17	57,895	3,193
		<u>204,265</u>	<u>144,480</u>
<b>TOTAL ASSETS</b>		<u><b>5,771,254</b></u>	<u><b>5,286,308</b></u>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Called up share capital	19	354,550	354,550
Share premium	20	(810)	(810)
Other reserves	20	(6,709)	(4,771)
Retained earnings	20	1,636,341	1,471,026
		1,983,372	1,819,995
Non-controlling interests	18	28,967	28,186
<b>TOTAL EQUITY</b>		<u><b>2,012,339</b></u>	<u><b>1,848,181</b></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued  
31 DECEMBER 2015

	Notes	2015 £'000	2014 £'000
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables	21	1,271,612	1,218,449
Borrowings	22	1,891,456	1,496,857
Deferred tax	25	254,920	271,724
Provisions	24	5,278	4,494
		<u>3,423,266</u>	<u>2,991,524</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	21	269,636	234,559
Borrowings	22	53,279	189,486
Tax payable		9,073	19,442
Provisions	24	3,661	3,116
		<u>335,649</u>	<u>446,603</u>
<b>TOTAL LIABILITIES</b>		<u>3,758,915</u>	<u>3,438,127</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>5,771,254</u>	<u>5,286,308</u>

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



J M France  
Director



**NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 03476201)**

**COMPANY STATEMENT OF FINANCIAL POSITION  
31 DECEMBER 2015**

	Notes	2015 £'000	2014 £'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Investments	15	376,289	376,289
Trade and other receivables	17	<u>264,158</u>	<u>264,158</u>
		<u>640,447</u>	<u>640,447</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	17	101	101
Cash and cash equivalents	18	<u>18,549</u>	<u>-</u>
		<u>18,650</u>	<u>101</u>
<b>TOTAL ASSETS</b>		<u><b>659,097</b></u>	<u><b>640,548</b></u>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Called up share capital	20	354,550	354,550
Retained earnings	21	<u>103,736</u>	<u>77,902</u>
<b>TOTAL EQUITY</b>		<u><b>458,286</b></u>	<u><b>432,452</b></u>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	23	<u>195,448</u>	<u>194,980</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	22	4,468	1,931
Borrowings	23	644	10,767
Tax payable		<u>251</u>	<u>418</u>
		<u>5,363</u>	<u>13,116</u>
<b>TOTAL LIABILITIES</b>		<u><b>200,811</b></u>	<u><b>208,096</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>659,097</b></u>	<u><b>640,548</b></u>

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



J M France  
Director

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

	Called up share capital £'000	Retained earnings £'000	Share premium £'000
Balance at 1 January 2014	354,550	1,191,932	(810)
Changes in equity			
Total comprehensive income	-	279,094	-
Balance at 31 December 2014	354,550	1,471,026	(810)
Changes in equity			
Dividends	-	(100,000)	-
Total comprehensive income	-	265,315	-
Balance at 31 December 2015	354,550	1,636,341	(810)

	Other reserves £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Balance at 1 January 2014	(3,926)	1,541,746	22,088	1,563,834
Changes in equity				
Total comprehensive (expense)/income	(845)	278,249	6,098	284,347
Balance at 31 December 2014	(4,771)	1,819,995	28,186	1,848,181
Changes in equity				
Dividends	-	(100,000)	(1,057)	(101,057)
Total comprehensive (expense)/income	(1,938)	263,377	1,838	265,215
Balance at 31 December 2015	(6,709)	1,983,372	28,967	2,012,339

**NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 03476201)**

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

	<b>Called up share capital £'000</b>	<b>Retained earnings £'000</b>	<b>Total equity £'000</b>
<b>Balance at 1 January 2014</b>	354,550	75,377	429,927
<b>Changes in equity</b>			
Total comprehensive income	-	2,525	2,525
<b>Balance at 31 December 2014</b>	354,550	77,902	432,452
<b>Changes in equity</b>			
Dividends	-	(100,000)	(100,000)
Total comprehensive income	-	125,834	125,834
<b>Balance at 31 December 2015</b>	354,550	103,736	458,286

The notes on pages 44 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
<b>Cash flows from operating activities</b>			
Cash generated from operations	29	479,136	481,077
Interest paid		(96,271)	(94,318)
Dividends received		76	72
Interest received		180	263
Tax paid		<u>(55,347)</u>	<u>(55,715)</u>
Net cash from operating activities		<u>327,774</u>	<u>331,379</u>
<b>Cash flows used in investing activities</b>			
Purchase of intangible fixed assets		(19,744)	(29,669)
Purchase of tangible fixed assets		(531,637)	(471,821)
Proceeds from sale of assets		723	962
Investment in associate		(6,713)	(3,428)
Dividends paid to minority interest		(1,057)	-
Proceeds from part-disposal of subsidiary		-	3,535
Dividends received from joint ventures		513	407
Receipt of customer contributions		<u>126,776</u>	<u>89,223</u>
Net cash used in investing activities		<u>(431,139)</u>	<u>(410,791)</u>
<b>Cash flows from financing activities</b>			
New loans in year		258,067	77,541
Equity dividends paid		<u>(100,000)</u>	<u>-</u>
Net cash from financing activities		<u>158,067</u>	<u>77,541</u>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>54,702</b>	<b>(1,871)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b><u>3,193</u></b>	<b><u>5,064</u></b>
<b>Cash and cash equivalents at end of year</b>		<b><u>57,895</u></b>	<b><u>3,193</u></b>

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

	Notes	2015 £'000	2014 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	29	1,790	(96)
Interest paid		(15,243)	(14,722)
Interest received		18,491	18,491
Dividends received		123,923	-
Tax paid		<u>(757)</u>	<u>(720)</u>
Net cash from operating activities		<u>128,204</u>	<u>4,393</u>
 <b>Cash flows used in financing activities</b>			
Loan repayments in year		(9,655)	(4,393)
Equity dividends paid		<u>(100,000)</u>	<u>-</u>
Net cash used in financing activities		<u>(109,655)</u>	<u>(4,393)</u>
 Increase in cash and cash equivalents		18,549	-
 Cash and cash equivalents at beginning of year		<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year		<u>18,549</u>	<u>-</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**1. GENERAL INFORMATION**

Northern Powergrid Holdings Company (the "Company") is a company incorporated in England and Wales. 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 IFRSs 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 affect its returns.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**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.

**Investments in joint operations**

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.

Exploration, development and production activities are conducted as co-licensee in joint ventures with other similar companies. The accounts reflect the relevant proportions of production, capital expenditure, operating costs and current assets and liabilities applicable to the Group's interests.

**Adoption of new or revised standards**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

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.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**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 2012-2014 IFRS 2010-2012, 2012 Cycle (1 July 2014) and Annual IFRS 2011-2013 and include a number of amendments to various Improvements to IFRS 2011-2013 Cycle 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 capital projects;
- Impairment reviews carried out to evaluate the carrying value of assets held at the end of the reporting period;
- Assumptions used when evaluating long-term pension plan assets and liabilities;
- Assumptions used when evaluating construction contracts; and
- Fair valuation measurements and valuation processes.

**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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**2. ACCOUNTING POLICIES - continued**

**Revenue – continued**

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

Revenue from the sale of gas is measured at the fair value of the consideration receivable, principally from the Group's share of production from its field interests, net of value added tax.

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, measured 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 are 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.

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**Oil and gas assets**

Exploration and appraisal costs are accounted for on the successful efforts basis. All costs relating to licence and data acquisition, geological and geophysical activity and exploration and appraisal drilling are initially capitalised as intangible oil and gas assets pending determination of the commercial potential of the relevant oil and gas properties. Exploration costs, which are not incurred under a specific licence, are written off in the year incurred. If prospects are subsequently deemed to be unsuccessful on completion of evaluation, the associated costs are charged to the statement of profit or loss in the year in which that determination is made. If the prospects are deemed to be commercially viable, such costs are transferred to tangible oil and gas assets under property, plant and equipment.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**2. ACCOUNTING POLICIES – continued**

**Oil and gas assets – continued**

Depreciation, depletion and amortisation for oil and gas properties is calculated on a unit-of-production basis, using the ratio of oil and gas production in the period to the estimated quantities of proven and probable reserves at the end of the period plus production in the period, on a field-by-field basis. Proven and probable reserve estimates are based on a number of underlying assumptions including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain. Management uses established industry techniques to generate its estimates and regularly references its estimates against those of joint venture partners or external consultants. However, the amount of reserves that will ultimately be recovered from any field cannot be known with certainty until the end of the field's life.

Where there has been a change in economic or commercial conditions that indicates a possible impairment in a field, the recoverability of the net book value relating to that field, less any provisions for decommissioning costs, is assessed by comparison with the estimated discounted future net cash flows based on management's expectations of future gas and oil prices and future costs. Any impairment identified is charged to the statement of profit or loss as additional depreciation. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the statement of profit or loss.

**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 15 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
Buildings - freehold	up to 60 years
	lower of lease period
Buildings - leasehold	or 60 years
Fixtures and equipment	up to 10 years
Non-operational assets:	
Software development costs	up to 15 years

Freehold land is not depreciated.

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 completed and ready for intended use. Depreciation on these assets, on the same basis as other assets, commences when the assets are commissioned.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**2. ACCOUNTING POLICIES - continued**

**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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

2. ACCOUNTING POLICIES - continued

**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.

The assets and liabilities of the Group's foreign operations are translated using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

**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.

Provisions for decommissioning costs are recorded at the present value of the expenditures expected to be required to settle the Group's future obligations, to the extent of any damage, which has been caused to date and taking risks and uncertainties into account in reaching the best estimate of the provision. These provisions have been created based on the Group's internal estimates and, where available, operators' estimates. Assumptions, based on the current economic environment, have been made, which management believe are a reasonable basis upon which to estimate the future liability. A decommissioning asset is also established, since the future cost of decommissioning is regarded as part of the total investment made in order to generate future economic benefits. The decommissioning asset is then depleted in line with production volumes on a site-by-site basis.

Provisions are reviewed at the end of each reporting period to reflect the current best estimate of the cost at present value. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works reflecting market conditions at that time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

It is assumed that certain abandonment costs will be allowable for Petroleum Revenue Tax ("PRT") and corporation tax purposes when incurred.

**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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

2. ACCOUNTING POLICIES - continued

**Financial assets – continued**

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

## 3. SEGMENTAL REPORTING

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

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

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

	Distribution 2015 £m	Other 2015 £m	Total 2015 £m
<b>REVENUE</b>			
External sales	735.1	41.2	776.3
Inter-segment sales	1.0	(1.0)	-
<b>Total revenue</b>	<b>736.1</b>	<b>40.2</b>	<b>776.3</b>
<b>SEGMENT RESULTS</b>			
Operating profit	374.3	9.5	383.8
Other gains			0.7
Finance costs			(91.4)
Finance income			0.9
<b>Profit before tax</b>			<b>294.0</b>
<b>OTHER INFORMATION</b>			
Capital additions	506.8	56.7	563.5
Depreciation and amortisation	163.0	19.8	182.8
Amortisation of deferred revenue	(48.2)	-	(48.2)
<b>STATEMENT OF FINANCIAL POSITION</b>			
Segment assets	5,204.5	244.4	5,448.9
Unallocated corporate assets			322.4
<b>Total assets</b>			<b>5,771.3</b>
Segment liabilities	(1,503.7)	(50.3)	(1,554.0)
Unallocated corporate liabilities			(2,206.7)
<b>Total liabilities</b>			<b>(3,760.7)</b>
<b>Net assets by segment</b>	<b>3,700.8</b>	<b>194.1</b>	<b>3,894.9</b>
Unallocated net corporate liabilities			(1,882.6)
<b>Total net assets</b>			<b>2,012.3</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

3. SEGMENTAL REPORTING - continued

	Distribution 2014 £m	Other 2014 £m	Total 2014 £m
REVENUE			
External sales	766.2	51.4	817.6
Inter-segment sales	0.6	(0.6)	-
Total revenue	<u>766.8</u>	<u>50.8</u>	<u>817.6</u>
SEGMENT RESULTS			
Operating profit	<u>403.3</u>	<u>12.3</u>	415.6
Other gains			0.9
Finance costs			(88.5)
Finance income			<u>0.8</u>
Profit before tax			<u>328.8</u>
OTHER INFORMATION			
Capital additions	472.7	34.4	507.1
Depreciation and amortisation	146.9	27.4	174.3
Amortisation of deferred revenue	<u>(44.4)</u>	<u>-</u>	<u>(44.4)</u>
STATEMENT OF FINANCIAL POSITION			
Segment assets	<u>4,870.8</u>	<u>157.8</u>	5,028.6
Unallocated corporate assets			<u>257.7</u>
Total assets			<u>5,286.3</u>
Segment liabilities	<u>(1,425.9)</u>	<u>(34.2)</u>	(1,460.1)
Unallocated corporate liabilities			<u>(1,978.0)</u>
Total liabilities			<u>(3,438.1)</u>
Net assets by segment	<u>3,444.9</u>	<u>123.6</u>	3,568.5
Unallocated net corporate liabilities			<u>(1,720.3)</u>
Total net assets			<u>1,848.2</u>

"Other" comprises engineering contracting, hydrocarbon exploration, smart Meter rental and business support units.

Sale and purchases between different segments are made at commercial prices.

Unallocated net corporate assets and liabilities include cash and cash equivalents of £57.9 million (2014: £3.2 million), borrowings of £1,944.7 million (2014: £1,686.3 million) and taxation of £261.1 million (2014: £292.6 million).

External sales to RWE Npower plc in 2015 of £199.6 million (2014: £214.1 million) are included within the Distribution segment.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

4. EMPLOYEES AND DIRECTORS

	2015	2014
	£'000	£'000
Salaries	118,705	115,283
Social security costs	12,252	11,781
Defined benefit pension costs	17,482	13,835
Defined contribution pension costs	<u>3,687</u>	<u>3,709</u>
	152,126	144,608
Less charged to property, plant and equipment	<u>(91,153)</u>	<u>(85,807)</u>
	<u>60,973</u>	<u>58,801</u>

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	2,260	2,274
Engineering Contracting	178	182
Hydrocarbon exploration and development	29	21
Other	<u>41</u>	<u>41</u>
	<u>2,508</u>	<u>2,518</u>

The Company had no employees in the years ended 31 December 2015 and 31 December 2014.

DIRECTORS' REMUNERATION

	2015	2014
	£'000	£'000
Highest Paid:		
Short-term employee benefits	526	389
Post-employment benefits	41	49
Other long-term benefits	<u>663</u>	<u>608</u>
	<u>1,231</u>	<u>1,046</u>
Total:		
Short-term employee benefits	719	586
Post-employment benefits	41	49
Other long-term benefits	<u>818</u>	<u>736</u>
	<u>1,578</u>	<u>1,371</u>
Directors who are a member of the defined benefit scheme	<u>3</u>	<u>3</u>
Accrued pension benefit relating to highest paid director	<u>-</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

4. EMPLOYEES AND DIRECTORS - continued

OTHER KEY PERSONNEL REMUNERATION

	2015	2014
	£'000	£'000
Total:		
Short-term employee benefits	1,064	911
Post-employment benefits	262	221
Other long-term benefits	<u>635</u>	<u>620</u>
	<u>1,961</u>	<u>1,752</u>

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

5. NET FINANCE COSTS

	2015	2014
	£'000	£'000
Finance income:		
Interest in joint venture	628	456
Dividends received	76	72
Deposit account interest	<u>180</u>	<u>263</u>
	<u>884</u>	<u>791</u>
	2015	2014
	£'000	£'000
Finance costs:		
Bank interest	1,927	1,945
Interest payable on other loans	92,913	90,137
Unwinding of discount on provisions	224	116
Interest in associate	105	175
Capitalised interest	(6,575)	(6,643)
Preference dividends	<u>2,779</u>	<u>2,779</u>
	<u>91,373</u>	<u>88,509</u>
Net finance costs	<u>90,489</u>	<u>87,718</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**6. PROFIT BEFORE INCOME TAX**

The profit before income tax is stated after charging/(crediting):

	2015 £'000	2014 £'000
Depreciation - owned assets	172,979	155,018
Oil & gas exploration amortisation	8,678	17,109
Software development costs amortisation	2,674	2,428
Profit on disposal of fixed assets	(738)	(962)
Research and development costs	4,779	8,952
Amortisation of deferred revenue	(48,206)	(44,369)
Impairment loss on trade and other receivables	<u>581</u>	<u>781</u>

Analysis of auditor's remuneration is as follows:

	2015 £'000	2014 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	125	120
Fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation	<u>301</u>	<u>363</u>
Total audit fees	<u>426</u>	<u>483</u>
Other services	<u>111</u>	<u>61</u>
Total auditor's remuneration	<u>537</u>	<u>544</u>
	2015 £'000	2014 £'000
Fees payable to the Company's auditor for other services pursuant to legislation	<u>6</u>	<u>6</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

## 7. INCOME TAX

## Analysis of tax expense

	2015 £'000	2014 £'000
Current tax:		
Tax	50,061	65,592
Deferred tax	(25,671)	2,245
Total tax expense in consolidated statement of profit or loss	<u>24,390</u>	<u>67,837</u>

## 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	<u>294,042</u>	<u>328,838</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.25% (2014 - 21.50%)	59,543	70,700
Effects of:		
Changes in legislation	(29,402)	-
Interest payable on non-cumulative preference shares	563	597
Tax effect of result of joint venture entities	(127)	(98)
PRT	(746)	(223)
Over provision for prior years	(5,553)	(3,477)
Deferred tax asset not recognised	1,603	-
Tax charged at different rates	(1,514)	-
Group capital losses received at a discount	-	(556)
Pension contributions recognised in Other Comprehensive Income ("OCI")	801	576
Other	<u>(778)</u>	<u>318</u>
Tax expense	<u>24,390</u>	<u>67,837</u>
	2015	2014
	£'000	£'000
Tax expense comprises:		
Current tax expense:		
Corporation tax charge for the year	58,979	69,636
PRT	(2,126)	(567)
Over provision for prior years	<u>(6,792)</u>	<u>(3,477)</u>
Total current tax charge	50,061	65,592
Deferred tax:		
Deferred tax expenses relating to the origination and reversal of temporary differences	3,731	2,245
Effect of changes in legislation	<u>(29,402)</u>	<u>-</u>
Total deferred tax charge	<u>(25,671)</u>	<u>2,245</u>
Tax on profit before tax	<u>24,390</u>	<u>67,837</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**7. INCOME TAX - continued**

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 £125.8 million (2014: £2.5 million).

**9. DIVIDENDS**

	2015 £'000	2014 £'000
Interim dividend at 28.2p	<u>100,000</u>	<u>-</u>

**10. OPERATING EXPENSES**

Operating expenses comprise:

	2015 £'000	2014 £'000
Distribution costs	237,089	221,599
Administrative expenses	<u>96,984</u>	<u>100,614</u>
	<u>334,073</u>	<u>322,213</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

11. GOODWILL

Group	£'000
<b>COST</b>	
At 1 January 2015 and 31 December 2015	<u>248,843</u>
<b>NET BOOK VALUE</b>	
At 31 December 2015	<u>248,843</u>
	£'000
<b>COST</b>	
At 1 January 2014 and 31 December 2014	<u>248,843</u>
<b>NET BOOK VALUE</b>	
At 31 December 2014	<u>248,843</u>

All of the goodwill arose on the acquisition of Yorkshire Power Group Limited prior to the adoption of IFRS by the Group. In accordance with the transitional rules on first time adoption, the allocation of goodwill to cash generating units ("CGU") has not been reassessed from that used in the previous UK GAAP accounts.

The Group's distribution activities comprise two cash generating units ("CGUs") with carrying values as follows:

	2015 £m	2014 £m
Northern Powergrid (Northeast) Limited	1,674	1,557
Northern Powergrid (Yorkshire) plc (including Goodwill)	<u>2,403</u>	<u>2,236</u>
Total Distribution	<u>4,077</u>	<u>3,793</u>

The carrying values of the CGUs comprise tangible and intangible assets with finite lives and are net of deferred revenues. In addition, the Northern Powergrid (Yorkshire) plc CGU includes goodwill of £248.8m (2014: £248.8m).

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected outcomes of future distribution price control reviews.

Management estimates discount rates using pre-tax rates that reflect the current market assessments of the time value of money and the risks specific to the CGUs. Growth rates are derived from the historic results and the forecasts in the most recent board approved budgets and ten-year plans. The use of the ten-year plan reflects the long-term nature of the assets and associated costs as well as the regulatory environment within which future revenue is determined. The rate used to discount the cash flows applicable to Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc was 5.7% (2014: 5.4%) pre-tax and ignoring the impact of price inflation. This rate represents the directors' estimate of the average rate of return for the Group, incorporating some degree of out-performance against Ofgem allowances.

The forecast of cash flows for future periods is extrapolated from the last year of the plan based on an estimated growth rate of 3.1% (real ignoring the impact of projected price inflation).

The application of these assumptions did not give rise to an impairment charge in 2015 (2014: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

## 12. INTANGIBLE ASSETS

Group	Oil & gas exploration £'000	Software development costs £'000	Totals £'000
<b>COST</b>			
At 1 January 2015	49,230	90,224	139,454
Additions	<u>9,268</u>	<u>10,476</u>	<u>19,744</u>
At 31 December 2015	<u>58,498</u>	<u>100,700</u>	<u>159,198</u>
<b>AMORTISATION</b>			
At 1 January 2015	37,393	66,403	103,796
Amortisation for year	<u>8,678</u>	<u>2,674</u>	<u>11,352</u>
At 31 December 2015	<u>46,071</u>	<u>69,077</u>	<u>115,148</u>
<b>NET BOOK VALUE</b>			
At 31 December 2015	<u>12,427</u>	<u>31,623</u>	<u>44,050</u>
	Oil & gas exploration £'000	Software development costs £'000	Totals £'000
<b>COST</b>			
At 1 January 2014	30,631	79,154	109,785
Additions	18,763	11,070	29,833
Exchange differences	<u>(164)</u>	<u>-</u>	<u>(164)</u>
At 31 December 2014	<u>49,230</u>	<u>90,224</u>	<u>139,454</u>
<b>AMORTISATION</b>			
At 1 January 2014	20,284	63,975	84,259
Amortisation for year	<u>17,109</u>	<u>2,428</u>	<u>19,537</u>
At 31 December 2014	<u>37,393</u>	<u>66,403</u>	<u>103,796</u>
<b>NET BOOK VALUE</b>			
At 31 December 2014	<u>11,837</u>	<u>23,821</u>	<u>35,658</u>

The Company had no intangible assets at 31 December 2015 or 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

13. PROPERTY, PLANT AND EQUIPMENT

Group	Non operational land & buildings £'000	Distribution system £'000	Fixtures and fittings £'000
<b>COST</b>			
At 1 January 2015	8,029	6,063,609	61,339
Additions	-	476,730	13,364
Disposals	<u>200</u>	<u>(20,422)</u>	<u>(853)</u>
At 31 December 2015	<u>8,229</u>	<u>6,519,917</u>	<u>73,850</u>
<b>DEPRECIATION</b>			
At 1 January 2015	3,722	1,336,643	53,246
Charge for year	294	157,947	4,772
Eliminated on disposal	<u>-</u>	<u>(20,342)</u>	<u>(853)</u>
At 31 December 2015	<u>4,016</u>	<u>1,474,248</u>	<u>57,165</u>
<b>NET BOOK VALUE</b>			
At 31 December 2015	<u>4,213</u>	<u>5,045,669</u>	<u>16,685</u>
	<b>Metering equipment £'000</b>	<b>Oil &amp; gas assets £'000</b>	<b>Totals £'000</b>
<b>COST</b>			
At 1 January 2015	162,114	20,831	6,315,922
Additions	54,389	-	544,483
Disposals	<u>(92)</u>	<u>-</u>	<u>(21,167)</u>
At 31 December 2015	<u>216,411</u>	<u>20,831</u>	<u>6,839,238</u>
<b>DEPRECIATION</b>			
At 1 January 2015	127,451	6,921	1,527,983
Charge for year	8,791	1,175	172,979
Eliminated on disposal	<u>(92)</u>	<u>-</u>	<u>(21,287)</u>
At 31 December 2015	<u>136,150</u>	<u>8,096</u>	<u>1,679,675</u>
<b>NET BOOK VALUE</b>			
At 31 December 2015	<u>80,261</u>	<u>12,735</u>	<u>5,159,563</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

## 13. PROPERTY, PLANT AND EQUIPMENT - continued

Group	Non operational land & buildings £'000	Distribution system £'000	Fixtures and fittings £'000
<b>COST</b>			
At 1 January 2014	8,045	5,631,146	55,314
Additions	-	450,379	6,350
Disposals	(16)	(17,916)	(325)
At 31 December 2014	<u>8,029</u>	<u>6,063,609</u>	<u>61,339</u>
<b>DEPRECIATION</b>			
At 1 January 2014	3,350	1,210,533	49,578
Charge for year	380	144,021	3,993
Eliminated on disposal	(8)	(17,911)	(325)
At 31 December 2014	<u>3,722</u>	<u>1,336,643</u>	<u>53,246</u>
<b>NET BOOK VALUE</b>			
At 31 December 2014	<u>4,307</u>	<u>4,726,966</u>	<u>8,093</u>
	Metering equipment £'000	Oil & gas assets £'000	Totals £'000
<b>COST</b>			
At 1 January 2014	143,181	19,876	5,857,562
Additions	19,138	1,435	477,302
Disposals	(205)	-	(18,462)
Exchange differences	-	(480)	(480)
At 31 December 2014	<u>162,114</u>	<u>20,831</u>	<u>6,315,922</u>
<b>DEPRECIATION</b>			
At 1 January 2014	122,973	4,980	1,391,414
Charge for year	4,683	1,941	155,018
Eliminated on disposal	(205)	-	(18,449)
At 31 December 2014	<u>127,451</u>	<u>6,921</u>	<u>1,527,983</u>
<b>NET BOOK VALUE</b>			
At 31 December 2014	<u>34,663</u>	<u>13,910</u>	<u>4,787,939</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

13. PROPERTY, PLANT AND EQUIPMENT - continued

Group

Assets in the course of construction included above:

	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
At 1 January 2015	377,831	-	377,831
Additions	476,730	13,330	490,060
Available for use	<u>(499,279)</u>	<u>(13,330)</u>	<u>(512,609)</u>
At 31 December 2015	<u>355,282</u>	<u>-</u>	<u>355,282</u>

The Group has entered into contractual commitments in relation to the future acquisition of property, plant and equipment of £58.1 million (2014: £86.1 million).

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

	2015 £'000	2014 £'000
Freehold	2,621	2,715
Long leasehold	1,270	1,270
Short leasehold	<u>322</u>	<u>322</u>
	<u>4,213</u>	<u>4,307</u>

The Company had no property, plant and equipment assets as at 31 December 2015 (2014: £nil).

14. INVESTMENTS

Group

	Share of joint venture's net assets £'000	Share of associate's net assets £'000	Shares in other undertakings £'000	Total £'000
At 1 January 2015	3,420	5,553	21	8,994
Acquisitions	-	6,713	-	6,713
Movement	<u>115</u>	<u>(124)</u>	<u>-</u>	<u>(9)</u>
At 31 December 2015	<u>3,535</u>	<u>12,142</u>	<u>21</u>	<u>15,698</u>

Company

	Shares in subsidiary undertakings £'000
At 1 January 2015	376,289
Movement	<u>-</u>
At 31 December 2015	<u>376,289</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**14. INVESTMENTS - continued**

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

<b>Name of company</b>	<b>Holding of shares</b>	<b>Proportion of voting rights and shares held</b>	<b>Nature of business</b>
<b>Subsidiary undertakings:</b>			
<b>Held by the Company</b>			
Northern Powergrid UK Holdings (private unlimited company with share capital)	354,550,312 at £1	99%	Holding company
Yorkshire Power Group Limited	23,100,001 at £1	5.25%	Holding company
<b>Held by Northern Powergrid UK Holdings and its subsidiaries:</b>			
CalEnergy Gas Limited (registered office - 3rd Floor, 55 Drury Lane, London, WC2B 5SQ)	2,682,373 at £1	100%	Hydrocarbon exploration and development
CalEnergy Gas (Holdings) Limited	36,000,000 at £1	100%	Holding company
CalEnergy Resources Limited (Preference shares)	17,897,530 at £1	100%	Holding company
CalEnergy Resources Limited (Management shares)	375,125 at 1p	100%	Holding company
CalEnergy Resources Poland Sp. z o.o. (registered office - Al. Wilanowska 206 app. 19, 02-765, Warsaw, Poland)	34,074 at 500PLN	100%	Hydrocarbon exploration and development
CalEnergy Resources (Australia) Limited (registered office - 3rd Floor, 55 Drury Lane, London, WC2B 5SQ)	1 at £1	100%	Hydrocarbon exploration and development
CE Electric Services Limited	1 at £1	100%	Dormant
CE Electric (Ireland) Limited (registered office - C11 Gateway, Rosemount Business Park, Ballycoolin, Dublin 15, Eire)	2 at 1 Euro	100%	In liquidation
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
Integrated Utility Services Limited (registered office - C11 Gateway, Rosemount Business Park, Ballycoolin, Dublin 15, Eire)	10,000 at 1.27 Euro	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
NewGen Drilling Pty Limited (registered office - Level 1, 12 St Georges Terrace, Perth, WA 6000, Australia)	25,030,490 at A\$1	80%	Hydrocarbon exploration and development

**NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 03476201)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**14. INVESTMENTS – continued**

<b>Name of company</b>	<b>Holding of shares</b>	<b>Proportion of voting rights and shares held</b>	<b>Nature of business</b>
<b>Held by Northern Powergrid UK Holdings and its subsidiaries:</b>			
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 Finance plc	50,000 at £1	100%	Finance company
Northern Electric plc (ordinary shares)	127,689,809 at 56 12/23p	100%	Holding company
Northern Electric plc (preference shares)	77,188,706 at 1p	69.1%	Holding company
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
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 Gas Limited	36,000,001 at £1	100%	Holding company
Northern Powergrid Limited	405,000,000 at £1	100%	Holding company
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 Powergrid (Yorkshire) plc	290,000,000 at £1	100%	Distribution of electricity
Northern Power Networks Company (North East) Limited	1 at £1	100%	Dormant

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**14. INVESTMENTS – continued**

<b>Name of company</b>	<b>Holding of shares</b>	<b>Proportion of voting rights and shares held</b>	<b>Nature of business</b>
<b>Held by Northern Powergrid UK Holdings and its subsidiaries:</b>			
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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

14. INVESTMENTS – continued

Name of company	Holding of shares	Proportion of voting rights and shares held	Nature of business
<b>Held by Northern Powergrid UK Holdings and its subsidiaries:</b>			
Yorkshire Cayman Holding Limited (registered office - PO Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands)	2 at \$1	100%	Dormant
Yorkshire Electricity Distribution Limited	1 at £1	100%	Dormant
Yorkshire Electricity Group plc	159,270,954 at 68 2/11p	100%	Holding company
Yorkshire Power Finance Limited (registered office - PO Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands)	2,000 at \$1	100%	Finance company
Yorkshire Power Group Limited	416,900,001 at £1	94.75%	Holding company
Yorkshire PowerGrid Limited	1 at £1	100%	Dormant
<b>Joint Venture Entity Held by Northern Powergrid UK Holdings and its subsidiaries:</b>			
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
<b>Held by Joint Venture Entity Held by Northern Powergrid UK Holdings and its subsidiaries:</b>			
VLS Limited (registered office - Centre for Advanced Industry, 3rd Floor, Coble Dene, North Shields, NE29 6DE)	50% of 1 at £1	50%	Dormant
<b>Associate Entity Held by Northern Powergrid UK Holdings and its subsidiaries:</b>			
Baltic Gas Sp. z o.o. (registered office - ul. Stary Dwór 9, 80-758 Gdańsk, Poland)	50 at PLN50	50%	General partner in Baltic Gas project
<b>Held by Associate Entity Held by Northern Powergrid UK Holdings and its subsidiaries:</b>			
Baltic Gas Sp. z o.o. i Wspólnicy Spółka Komandytowa (registered office - ul. Stary Dwór 9, 80-758 Gdańsk, Poland)	Partnership with no share capital	49%	Hydrocarbon exploration and development

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

## 14. INVESTMENTS – continued

## 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	<u>(11,626)</u>	<u>(10,145)</u>
Net assets	<u>7,070</u>	<u>6,840</u>
Group's share of joint venture's net assets	<u>3,535</u>	<u>3,420</u>
Revenue	<u>17,515</u>	<u>17,186</u>
Profit for the year	<u>1,256</u>	<u>912</u>
Group's share of joint venture's profit for the year	<u>628</u>	<u>456</u>

## 15. INVENTORIES

	Group	
	2015 £'000	2014 £'000
Stocks	12,541	11,592
Work-in-progress	730	432
Assets held for sale	<u>646</u>	<u>561</u>
	<u>13,917</u>	<u>12,585</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

## 16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Current:				
Distribution use of system receivables	90,122	90,574	-	-
Construction contracts	3,901	5,650	-	-
Amounts due from customers for contract work	11,827	13,049	-	-
Amounts receivable in respect of finance leases	5,342	4,168	-	-
Other debtors	-	13	-	-
Sales of goods and services	13,841	9,990	-	-
Prepayments and accrued income	6,475	4,473	101	101
	<u>131,508</u>	<u>127,917</u>	<u>101</u>	<u>101</u>
Non-current:				
Amounts receivable in respect of finance leases	8,769	7,494	-	-
Amounts due from group undertakings	-	-	264,158	264,158
	<u>8,769</u>	<u>7,494</u>	<u>264,158</u>	<u>264,158</u>
Aggregate amounts	<u>140,277</u>	<u>135,411</u>	<u>264,259</u>	<u>264,259</u>

The directors consider that the carrying amount of trade and other receivables approximates their fair value calculated by discounting the future cash flows at the market rate at the statement of financial position date. The valuation of assets set out above is based on Level 1 inputs. The maximum exposure to 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 networks 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 £0.8 million as at 31 December 2015 (2014: £0.3 million).

Ofgem has indicated that, provided the Group 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).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

16. TRADE AND OTHER RECEIVABLES - continued

**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 predetermined 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 past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 66 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. The average age of these receivables is 45 days (2014: 45 days).

**Amounts due from customers for contract work**

Contracts in progress at statement of financial position date:

	2015 £'000	2014 £'000
Contract costs incurred plus recognised profits less recognised losses to date	62,412	54,372
Less: progress billings	(50,585)	(41,323)
Amount due from customers	<u>11,827</u>	<u>13,049</u>

At 31 December 2015, retentions held by customers for contract work amounted to £0.4 million (2014: £0.6 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).

**Finance lease receivables**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**16. TRADE AND OTHER RECEIVABLES - continued**

Northern Transport Finance Limited ("NTFL"), a wholly owned subsidiary, enters into credit finance arrangements for motor vehicles with employees in the 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 electricity 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/disconnections and recovery of amounts for damage caused by third parties to the distribution system.

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

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £3.0 million (2014: £2.2 million) which are past due at the reporting date and for which the Group has provided an irrecoverable amount of £0.8 million (2014: £0.9 million) based on past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 252 days (2014: 353 days).

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £1.0 million (2014: £1.0 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 81 days (2014: 75 days).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

## 16. TRADE AND OTHER RECEIVABLES - continued

## Amounts receivable from sale of goods and services - continued

Ageing of past due but not impaired receivables:

	2015	2014
	£'000	£'000
30-60 days	300	558
60-120 days	131	180
120-210 days	<u>141</u>	<u>162</u>
Total	<u><u>572</u></u>	<u><u>900</u></u>

## Movement in the allowance for doubtful debts

	2015	2014
	£'000	£'000
At 1 January	1,118	900
Amounts utilised/written off in the year	(579)	(563)
Amounts recognised in income statement	<u>581</u>	<u>781</u>
At 31 December	<u><u>1,120</u></u>	<u><u>1,118</u></u>

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 £0.5 million (2014: £0.3 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	2014
	£'000	£'000
<b>Group:</b>		
Cash and bank balances	57,895	3,193
Designated as fair value through the profit and loss	15,698	8,994
Loans and receivables at amortised cost	<u>133,802</u>	<u>130,934</u>
Total financial assets	<u><u>207,395</u></u>	<u><u>143,121</u></u>
Non-current assets	5,452,456	5,072,440
Inventories	13,917	12,585
Other tax assets	2,911	785
Pension asset	88,100	52,900
Prepayments and accrued income	<u>6,475</u>	<u>4,473</u>
Total non-financial assets	<u><u>5,563,859</u></u>	<u><u>5,143,187</u></u>
Total assets	<u><u>5,771,254</u></u>	<u><u>5,286,308</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

## 16. TRADE AND OTHER RECEIVABLES – continued

## Categories of financial assets - continued

	2015	2014
Company:	£'000	£'000
Receivables	101	101
Loans and receivables at amortised cost	<u>282,707</u>	<u>264,158</u>
Total financial assets	<u>282,808</u>	<u>264,259</u>
Investments held in subsidiaries and joint ventures	<u>376,289</u>	<u>376,289</u>
Total non-financial assets	<u>376,289</u>	<u>376,289</u>
Total assets	<u>659,097</u>	<u>640,548</u>

## 17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Short-term deposits	53,828	3	-	-
Cash at bank and in hand	<u>4,067</u>	<u>3,190</u>	<u>-</u>	<u>-</u>
	<u>57,895</u>	<u>3,193</u>	<u>-</u>	<u>-</u>

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

## 18. NON-CONTROLLING INTERESTS

	2015	2014
	£'000	£'000
At 1 January	28,186	22,088
Part-disposal of NewGen Drilling Pty Limited	-	3,535
Share of profit on ordinary activities after tax	1,838	2,563
Dividend paid to minority interest	<u>(1,057)</u>	<u>-</u>
At 31 December	<u>28,967</u>	<u>28,186</u>

## 19. CALLED UP SHARE CAPITAL

	2014	2013
	No.	No.
Ordinary shares at £1 each		
Authorised	400,000,000	400,000,000
Allotted, called up and fully paid	<u>354,550,000</u>	<u>354,550,000</u>
	2014	2013
	£'000	£'000
Ordinary shares at £1 each		
Authorised	400,000	400,000
Allotted, called up and fully paid	<u>354,550</u>	<u>354,550</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

## 20. RESERVES

Group	Retained earnings £'000	Share premium £'000	Other reserves £'000	Totals £'000
At 1 January 2015	1,471,026	(810)	(4,771)	1,465,445
Profit for the year	267,814	-	-	267,814
Dividends	(100,000)	-	-	(100,000)
Movements on pension reserve	<u>(2,499)</u>	<u>-</u>	<u>(1,938)</u>	<u>(4,437)</u>
At 31 December 2015	<u>1,636,341</u>	<u>(810)</u>	<u>(6,709)</u>	<u>1,628,822</u>
	Retained earnings £'000	Share premium £'000	Other reserves £'000	Totals £'000
At 1 January 2014	1,191,932	(810)	(3,926)	1,187,196
Profit for the year	258,438	-	-	258,438
Movements on pension reserve	<u>20,656</u>	<u>-</u>	<u>(845)</u>	<u>19,811</u>
At 31 December 2014	<u>1,471,026</u>	<u>(810)</u>	<u>(4,771)</u>	<u>1,465,445</u>
Company				Retained earnings £'000
At 1 January 2015				77,902
Profit for the year				125,834
Dividends				<u>(100,000)</u>
At 31 December 2015				<u>103,736</u>
				Retained earnings £'000
At 1 January 2014				75,377
Profit for the year				<u>2,525</u>
At 31 December 2014				<u>77,902</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

## 21. TRADE AND OTHER PAYABLES

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Current:				
Payments on account	99,193	72,610	-	-
Trade creditors	15,428	15,919	-	-
Owed to group undertakings	939	1,161	-	-
Social security and other taxes	14,239	16,282	-	-
Other creditors	16,335	16,560	564	1,931
Owed to parent undertaking	4,993	-	3,904	-
Deferred revenue	47,585	47,772	-	-
Accrued expenses	70,924	64,255	-	-
	<u>269,636</u>	<u>234,559</u>	<u>4,468</u>	<u>1,931</u>
Non-current:				
Deferred revenue	<u>1,271,612</u>	<u>1,218,449</u>	-	-
	<u>1,271,612</u>	<u>1,218,449</u>	-	-
Aggregate amounts	<u>1,541,248</u>	<u>1,453,008</u>	<u>4,468</u>	<u>1,931</u>

The directors consider that the carrying amount of other financial liabilities approximates their fair value, calculated by discounting future cash flows at market rate at the statement of financial position date. The valuation 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 the non-derivative financial liabilities. The tables have been drawn up based on the discounted cash flows of financial liabilities based on the earliest possible date on which the Group or the Company can be required to pay. The tables include both interest and principal cash flows.

## Group

	Less than 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
<b>2015:</b>					
Non-interest bearing	122,429	-	-	-	122,429
Variable interest rate liability	1,832	-	-	-	1,832
Fixed interest rate liability	<u>23,531</u>	<u>74,648</u>	<u>809,450</u>	<u>1,855,467</u>	<u>2,763,096</u>
	<u>147,792</u>	<u>74,648</u>	<u>809,450</u>	<u>1,855,467</u>	<u>2,887,357</u>
<b>2014:</b>					
Non-interest bearing	114,177	-	-	-	114,177
Variable interest rate liability	141,128	-	-	-	141,128
Fixed interest rate liability	<u>23,531</u>	<u>67,565</u>	<u>442,757</u>	<u>1,960,155</u>	<u>2,494,008</u>
	<u>278,836</u>	<u>67,565</u>	<u>442,757</u>	<u>1,960,155</u>	<u>2,749,313</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

21. 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
<b>2015:</b>					
Non-interest bearing	4,468	-	-	-	4,468
Variable interest rate liability	-	-	-	-	-
Fixed interest rate liability	-	14,500	58,000	229,000	301,500
	<u>4,468</u>	<u>14,500</u>	<u>58,000</u>	<u>229,000</u>	<u>305,968</u>
<b>2014:</b>					
Non-interest bearing	1,931	-	-	-	1,931
Variable interest rate liability	10,123	-	-	-	10,123
Fixed interest rate liability	-	14,500	58,000	243,500	316,000
	<u>12,054</u>	<u>14,500</u>	<u>58,000</u>	<u>243,500</u>	<u>328,054</u>

Categories of financial liabilities

	2015 £'000	2014 £'000
<b>Group</b>		
Loans and payables at amortised cost	<u>1,982,430</u>	<u>1,719,983</u>
Total financial liabilities	<u>1,982,430</u>	<u>1,719,983</u>
Payments received on account	99,193	72,610
Income tax liabilities	263,993	291,166
Other taxes and social security	14,239	16,282
Accruals	70,924	64,255
Deferred revenue	1,319,197	1,266,221
Provisions	<u>8,939</u>	<u>7,610</u>
Total non-financial liabilities	<u>1,776,485</u>	<u>1,718,144</u>
Total liabilities	<u>3,758,915</u>	<u>3,438,127</u>
<b>Company</b>		
Loans and payables at amortised cost	<u>200,560</u>	<u>207,678</u>
Total financial liabilities	<u>200,560</u>	<u>207,678</u>
Income tax liabilities	<u>251</u>	<u>418</u>
Total non-financial liabilities	<u>251</u>	<u>418</u>
Total liabilities	<u>200,811</u>	<u>208,096</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

21. TRADE AND OTHER PAYABLES - continued

Deferred Revenue

	2015	2014
	£'000	£'000
At 1 January	1,266,221	1,230,037
Additions	101,182	80,552
Amortisation	<u>(48,206)</u>	<u>(44,369)</u>
At 31 December	<u>1,319,197</u>	<u>1,266,221</u>

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

Derivative Financial Instruments

Exposure to liquidity, credit and market price risk arises as a result of the day to day business activities of the Group and the financing of those activities. Derivative financial instruments are used to hedge exposures to fluctuations in interest rates, foreign exchange rates and commodity prices.

- a) **Funding and Liquidity Risk**  
The Group operates a prudent approach to liquidity management using a mixture of long term debt and investments together with short term debt, cash and investments to meet its liabilities when due.
- b) **Market Risk**  
Market risk is the risk of loss arising from movements in market variables such as interest rates, exchange rates and commodity prices. Risks are mitigated by utilising appropriate risk management products.
  - (i) **Interest rate risk**  
The Group's policy on interest rate risk is designed to limit the Group's exposure to floating interest rates.  
  
Consistent with this policy, at 31 December 2015 the Group had 99% (2014: 96%) of net debt at fixed rates.
  - (ii) **Foreign exchange risk**  
The Group is no longer subject to significant risk relating to foreign exchange.
  - (iii) **Commodity Price Risk**  
The Group is exposed to price risk on CE Resources' revenues.

The Company had no derivative financial instruments at 31 December 2015.

The directors believe that the risks identified above are mitigated by the high proportion of debt which is held at fixed rates and by the financial derivatives which are in place in order to hedge against movements in foreign exchange rates, interest rates and commodity prices. Therefore, any movement in these variables would not have a material effect on the results of the Group.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

22. BORROWINGS

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

Group	Book Value		Fair Value	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Loans	1,908,895	1,649,320	2,185,316	1,981,260
Cumulative preference shares	34,114	34,114	50,509	49,647
Amounts owed to group undertakings	<u>1,726</u>	<u>2,909</u>	<u>1,726</u>	<u>2,909</u>
	<u>1,944,735</u>	<u>1,686,343</u>	<u>2,237,551</u>	<u>2,033,816</u>

The borrowings are repayable as follows:

On demand or within one year	53,279	189,486	53,279	189,486
After five years	<u>1,891,456</u>	<u>1,496,857</u>	<u>2,184,272</u>	<u>1,844,330</u>
	<u>1,944,735</u>	<u>1,686,343</u>	<u>2,237,551</u>	<u>2,033,816</u>

Analysis of borrowings:

Short-term loans	106	138,219	106	138,219
Inter-company short-term loan	1,726	2,909	1,726	2,909
Bond 2020 - 8.875% (Northern Electric Finance plc)	101,052	100,923	130,560	135,364
Bond 2020 - 9.25% (Northern Powergrid (Yorkshire) plc)	231,229	234,621	269,764	280,130
Bond 2022 - 7.25% (Northern Powergrid Holdings Company)	196,092	195,624	249,380	258,062
Bond 2025 - 2.50% (Northern Powergrid (Yorkshire) plc)	150,280	-	146,585	-
Bond 2028 - 7.25% (Yorkshire Power Finance Limited)	195,699	196,074	253,895	261,187
Bond 2032 4.375% (Northern Powergrid (Yorkshire) plc)	150,409	150,295	164,512	168,704
Bond 2035 - 5.125% (Northern Electric Finance plc)	152,883	152,814	180,462	183,922
Bond 2035 - 5.125% (Northern Powergrid (Yorkshire) plc)	203,834	203,739	240,312	246,360
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 due 2022- 4.133%	153,674	153,656	172,953	174,591
European Investment Bank due 2027 - 2.564%	250,267	-	243,994	-
Cumulative preference shares	<u>34,114</u>	<u>34,114</u>	<u>50,509</u>	<u>49,647</u>
	<u>1,944,735</u>	<u>1,686,343</u>	<u>2,237,551</u>	<u>2,033,816</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

## 22. BORROWINGS - continued

Company	Book Value		Fair Value	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
The borrowings are repayable as follows:				
On demand or within one year	644	10,767	644	10,767
After five years	<u>195,448</u>	<u>194,980</u>	<u>248,736</u>	<u>257,418</u>
	<u>196,092</u>	<u>205,747</u>	<u>249,380</u>	<u>268,185</u>
Analysis of borrowings:				
2028 - 7.25%	196,092	195,624	249,380	258,062
Amounts owed to Group undertakings	-	10,123	-	10,123
	<u>196,092</u>	<u>205,747</u>	<u>249,380</u>	<u>268,185</u>

Of the total financial liabilities of £1,643.0 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%

As at 31 December 2015, 34,473,672 Northern Electric plc preference shares were held by non-Group undertakings (2014: 34,473,672).

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 Northern Electric plc 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 the winding-up of Northern Electric plc 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 Northern Electric plc's Public Electricity Supply Licence at the value given in (ii) above.

During the year ended 31 December 2001, under the terms of the Northern Electric plc's transfer scheme, as approved by the Secretary of State in accordance with the provisions of the Utilities Act 2000, the Northern Electric plc'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 £192.0 million (2014: £53.9 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

22. BORROWINGS - continued

The covenants associated with some of the Group's bonds include restrictions on the issuance of new indebtedness and the making of distributions dependent on the scale of the ratio of Senior Total Net Debt to Regulatory Asset Value ("RAV"). The definition of Senior Total Net Debt excludes any subordinated debt and any debt incurred on a non-recourse basis. In addition, it excludes any fair value and accounting adjustments.

As at 31 December 2015, the Group's Senior Total Net Debt, as defined by the covenants, totalled £1,797.6 million (2014: £1,590.4 million). Using the RAV value as at March 2015 as outlined by Ofgem in its Final Determinations for Distribution Prices published in November 2014 and up rating for the effects of movements in the value of the Retail Prices Index ("RPI") gives an approximation for the RAV value as at December 2015 of £2,889.1 million (2014: £2,753.0 million). The Senior Total Net Debt to RAV ratio for the Group is therefore estimated at 62% (2014: 58%).

All other loans provided to the Group are unsecured.

23. LEASING AGREEMENTS

Group

	Non-cancellable operating leases	
	2015	2014
	£'000	£'000
Within one year	8,772	9,055
Between one and five years	23,293	21,483
In more than five years	<u>9,234</u>	<u>2,381</u>
	<u>41,299</u>	<u>32,919</u>
	2015	2014
	£'000	£'000
Minimum lease payments under operating leases recognised in the year	<u>8,928</u>	<u>9,817</u>

24. PROVISIONS

	Group	
	2015	2014
	£'000	£'000
Other provisions	<u>8,939</u>	<u>7,610</u>
Analysed as follows:		
Current	3,661	3,116
Non-current	<u>5,278</u>	<u>4,494</u>
	<u>8,939</u>	<u>7,610</u>

	Abandonment	Claims	Onerous contracts	Other	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2015	1,812	1,882	14	3,902	7,610
Utilised/paid in the year	(19)	(1,775)	(14)	(1,396)	(3,204)
Charged to the income statement	1,931	1165	10	1,203	4,309
Unwinding of discount	<u>224</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>224</u>
At 31 December 2015	<u>3,948</u>	<u>1,272</u>	<u>10</u>	<u>3,709</u>	<u>8,939</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

24. PROVISIONS - continued

Abandonment: A provision and corresponding asset have been created for the costs of site restoration.

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

Onerous contracts: Related to former retail business property leases. Settlement is expected substantially within the next 12 months.

Other: Relates primarily to environmental liabilities, wayleave disputes, provision for future safe disposal of transformers which contain oil contaminated with Polychlorinated Biphenyls (PCBs) and holidays in suspense. Settlement is expected substantially after the next 12 months.

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 Benefits Obligation note.

At 31 December 2015, the Company had no provisions for liabilities and charges (2014: £nil).

25. DEFERRED TAX

	Accelerated tax depreciation £'000	Rollover/ holdover relief £'000	Retirement benefit (obligations) / assets £'000	Other £'000	Total £'000
Group; At 1 January 2015	271,385	13,141	(2,516)	(10,286)	271,724
(Credit)/charge to statement of profit or loss	(31,459)	(1,253)	2,503	4,538	(25,671)
Foreign exchange translation	(441)				(441)
Charge to other comprehensive income	-	-	9,308	-	9,308
At 31 December 2015	<u>239,485</u>	<u>11,888</u>	<u>9,295</u>	<u>(5,748)</u>	<u>254,920</u>

	Accelerated tax depreciation £'000	Rollover/ holdover relief £'000	Retirement benefit (obligations)/ assets £'000	Other £'000	Total £'000
Group; At 1 January 2014	253,716	14,030	(2,462)	(8,505)	256,779
(Credit)/charge to statement of profit or loss	17,669	(889)	(12,754)	(1,781)	2,245
Charge to other comprehensive income	-	-	12,700	-	12,700
At 31 December 2014	<u>271,385</u>	<u>13,141</u>	<u>(2,516)</u>	<u>(10,286)</u>	<u>271,724</u>

The other deferred tax asset primarily represents the tax benefit on interest accrued on loans from parent undertakings, fair value adjustments on borrowings acquired on the acquisition of Yorkshire Power Group Limited.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

26. 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 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-eighth 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 Principal Employer the level of contributions due to the DB Scheme.

**Funding requirements**

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

Agreement was reached during October 2014 with the Trustees to repair the funding deficit of £286.4m as at 31 March 2014 over the 11 year period to 31 March 2025, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2013 being borne out in practice. The agreement includes cash payments of £34.9m 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**26. EMPLOYEE BENEFIT OBLIGATIONS - continued**

**Funding requirements - continued**

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

The contributions payable by the Northern Powergrid Group to the DB Scheme in respect of future benefits, which are accruing, are 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 or earlier 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

26. 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 (61%) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

26. EMPLOYEE BENEFIT OBLIGATIONS - continued

**Other risks**

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

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

**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 % p.a.	2014 % 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

## 26. EMPLOYEE BENEFIT OBLIGATIONS - continued

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

Asset allocation	2015 £m	2014 £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	<u>1,541.3</u>	<u>1,516.1</u>

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

As at 31 December 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 £m	2014 £m
Fair value of scheme assets	1,541.3	1,516.1
Present value of funded defined benefit obligations	<u>(1,453.2)</u>	<u>(1,463.2)</u>
Asset recognised on the statement of financial position	<u>88.1</u>	<u>52.9</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

## 26. EMPLOYEE BENEFIT OBLIGATIONS - continued

**Re-measurements in OCI:**

Return on plan assets below/(in 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	<u>(5.6)</u>	<u>33.3</u>

Total amount recognised in OCI	<u>0.4</u>	<u>(25.1)</u>
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Total amount recognised in profit and loss, property, plant and equipment and OCI	<u>15.0</u>	<u>(9.4)</u>
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<b>Changes to the present value of the DBO during the year</b>	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
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	<u>(59.5)</u>	<u>(55.9)</u>
Closing DBO	<u>1,453.2</u>	<u>1,463.2</u>

<b>Changes in the fair value of DB Scheme assets during the year</b>	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
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	<u>(1.2)</u>	<u>(1.5)</u>
Closing fair value of DB Scheme assets	<u>1,541.3</u>	<u>1,516.1</u>

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

<b>Analysis of amounts recognised in SoCI</b>	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
Total re-measurement gains	<u>0.4</u>	<u>25.1</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

26. 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 £m	Revised DBO £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 as follows:

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

27. DIRECTORS' ADVANCES, CREDITS AND GUARANTEES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

28. RELATED PARTY DISCLOSURES

GROUP

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

Trading transactions

During the year, Group entities entered into the following transactions with related parties that are not members of the Group:

	Sales to related parties £'000	Purchases from related parties £'000	Amounts owed to related parties £'000
<b>Related Party</b>			
<b>2015:</b>			
Berkshire Hathaway Energy	-	-	4,993
Northern Powergrid Insurance Services Limited	-	1,109	-
Vehicle Lease and Service Limited	<u>307</u>	<u>7,632</u>	<u>939</u>
<b>2014</b>			
Northern Powergrid Insurance Service Limited	-	1,322	-
Vehicle Lease and Service Limited	<u>307</u>	<u>7,722</u>	<u>1,161</u>

COMPANY

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

Loans

The Company has advanced loans to other companies in the Group. The total interest included in investment income in the statement of profit or loss for the year ended 31 December 2015 was £18,491,000 (2014: £18,491,000). Included within long-term/short-term securities is £264,158,000 as at 31 December 2015 (2014: £264,158,000).

The Company has received loans from other companies in the Group. The total interest included in finance costs in the statement of profit or loss for the year ended 31 December 2015 was £275,000 (2014: £222,000). Included within borrowings is £Nil as at 31 December 2015 (2014: £14,948,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015

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

Group	2015 £'000	2014 £'000
Profit before income tax	294,042	328,838
Depreciation charges	184,331	174,347
Profit on disposal of fixed assets	(738)	(962)
Amortisation of deferred revenue	(48,206)	(44,369)
Retirement benefit obligations	(38,514)	(38,400)
Movement in provisions	1,329	(61)
Finance costs	91,373	88,509
Finance income	(884)	(791)
	<u>482,733</u>	<u>507,111</u>
Increase in inventories	(1,329)	(1,937)
Decrease/(increase) in trade and other receivables	11,084	(21,481)
Decrease in trade and other payables	<u>(13,352)</u>	<u>(2,616)</u>
Cash generated from operations	<u>479,136</u>	<u>481,077</u>
Company	2015 £'000	2014 £'000
Profit before income tax	126,424	3,216
Finance costs	15,243	15,156
Finance income	<u>(142,414)</u>	<u>(18,491)</u>
	<u>(747)</u>	<u>(119)</u>
Increase in trade and other payables	<u>2,537</u>	<u>23</u>
Cash generated from operations	<u>1,790</u>	<u>(96)</u>

30. ULTIMATE CONTROLLING PARTY

The ultimate controlling party and ultimate parent undertaking of Northern Powergrid Holdings Company is Berkshire Hathaway, Inc., a company incorporated in the United States of America.

Copies of the group accounts of Berkshire Hathaway, Inc., which include Northern Powergrid Holdings Company, can be obtained from the Company Secretary, Northern Powergrid Holdings Company, Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.