

REGISTERED NUMBER: 03070482 (England and Wales)

**STRATEGIC REPORT, REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
FOR
NORTHERN ELECTRIC FINANCE PLC**

NORTHERN ELECTRIC FINANCE PLC

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NORTHERN ELECTRIC FINANCE PLC

**COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017**

DIRECTORS: P A Jones
T E Fielden
S J Lockwood
T H France

COMPANY SECRETARY: J C Riley

REGISTERED OFFICE: Lloyds Court
78 Grey Street
Newcastle upon Tyne
NE1 6AF

REGISTERED NUMBER: 03070482 (England and Wales)

AUDITOR: Deloitte LLP
Statutory Auditor
Newcastle upon Tyne
United Kingdom

NORTHERN ELECTRIC FINANCE PLC

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their strategic report for the year ended 31 December 2017.

PRINCIPAL ACTIVITY AND RESULT FOR THE YEAR

The Company is part of the Northern Powergrid Holdings Company group of companies (the "Group") and acts as a financing company. The Company's sole activity during the year was to meet its obligations to make the interest payments required by the 2020 8.875% bonds and the 2035 5.125% bonds. Those payments were made on 16 October 2017 and 4 May 2017 respectively.

The Company made a loss after tax for the year of £140,000 (2016: loss £123,000) mainly due to interest expenses exceeding interest income.

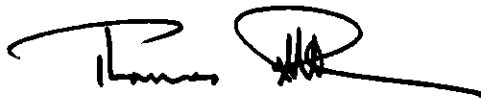
KEY PERFORMANCE INDICATORS

The directors manage the Company's operations on a group basis. The development, performance and position of Northern Powergrid Holdings Company, which include those of the Company, are discussed in the annual report and financial statements of Northern Powergrid Holdings Company.

BUSINESS REVIEW

The principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. Accordingly, the principal risks and uncertainties, which include those of this Company, are discussed in the annual report and financial statements of Northern Powergrid Holdings Company. Details of financial risks can be found on page 3 of the Report of the Directors.

ON BEHALF OF THE BOARD:



T E Fielden
Director

5 April 2018

NORTHERN ELECTRIC FINANCE PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their report together with the audited financial statements of the Company for the financial year ended 31 December 2017.

DIVIDENDS

No dividends were paid during the year (2016: £nil) and the directors recommend that no final dividend be paid in respect of the year (2016: £nil). The Company's dividend policy is that dividends will be paid only after having due regard to available distributable reserves, available liquid funds and the financial resources and facilities needed to enable the Company to carry on its business for at least the next year. In addition, the level of dividends is set to maintain sufficient equity in the Company so as not to jeopardise its investment grade issuer credit rating.

RESEARCH AND DEVELOPMENT

The Company does not undertake research and development.

FUTURE DEVELOPMENTS

The financial position of the Company, as at the year end, is shown in the Statement of Financial Position on page 13. There have been no significant events since the year end and there are no future developments planned.

DIRECTORS

The directors who held office during the year under review and to the date of signing were:

T E Fielden

P A Jones

T H France

S J Lockwood

During and as at the end of the year, none of the directors had interests 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

Liquidity risk

The principal risk facing the Company is not having sufficient liquidity to enable the Company to meet its liabilities as they fall due. In this respect, borrowing facilities are made available to the Company by other companies in the Northern Powergrid Group, if required. The Company continues to maintain its investment grade issuer credit rating.

Interest rate risk

The Company is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 December 2017, 100% of the Company's borrowings were at fixed rates and the average maturity of these borrowings was 12 years.

Trading risk

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

Credit risk

The Company and those that it provide finance to it are supported by the Northern Powergrid Group which maintains an investment grade credit rating.

Financial derivatives

As at 31 December 2017 and during the year it was the Company's policy not to hold any derivative financial instruments (2016: £nil).

NORTHERN ELECTRIC FINANCE PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017

POLITICAL DONATIONS

During the year, no contributions were made to political organisations (2016: £nil).

CORPORATE GOVERNANCE STATEMENT

The directors have elected to apply the exception set out in Section 1B.1.6R of the Disclosure and Transparency Rules ("DTR").

AUDIT COMMITTEE

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

Committee members:

R Dixon	Non-Executive Director (retired 26 October 2017)
J Reynolds	Non-Executive Director (appointed as Chairman on 26 October 2017)
T E Fielden	Finance Director

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 of the profit or loss of 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

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

NORTHERN ELECTRIC FINANCE PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017

GOING CONCERN

The Company's business activities, together with details regarding its future development, performance and position are set out in the Strategic Report and in the Report of the Directors. In addition, the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk are included in the Financial Risk Management section of the Report of the Directors and the appropriate notes to the accounts.

When considering continuing to adopt the going concern basis in preparing the annual report and accounts, the directors have taken account of a number of factors that arise due to the Company being a wholly-owned subsidiary of Northern Powergrid (Northeast) Limited, including the following:

- a) Northern Powergrid (Northeast) Limited, is a stable electricity distribution business operating an essential public service and is regulated by the Gas and Electricity Markets Authority ("GEMA"). In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance their 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;
- b) Northern Powergrid (Northeast) Limited, is profitable with strong underlying cash flows resulting in low gearing and holds investment grade credit ratings; and
- c) Northern Powergrid (Northeast) Limited, has access to considerable financial resources, in the form of short-term borrowings made available by Yorkshire Electricity Group plc, a fellow company in the Northern Powergrid Group, and an overdraft facility provided by Lloyds Bank plc which is reviewed annually. In addition, Northern Powergrid (Northeast) Limited, has committed revolving credit facilities in place from Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc until 30 April 2020.

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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

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

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

AUDITOR

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

ON BEHALF OF THE BOARD:



T E Fielden
Director

5 April 2018

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Northern Electric Finance plc (the 'company') which comprise:

- the statement of profit or loss;
- the statement of profit or loss and other comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the notes to the financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

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

Summary of audit approach

- Key audit matter The key audit matter that we identified in the current year was Management override of controls.
- Materiality The materiality that we used in the current year was £265,660 which was determined on the basis of 1.56% of interest receivable as at 31 December 2017.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF NORTHERN ELECTRIC FINANCE PLC - continued

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS - continued

Key audit matters

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

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

Management override of controls

Key audit matter description The risk of management override of controls due to fraud is a pervasive risk of material misstatement in the financial statements. It includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Company's controls.
The key area of risk for the Company included the posting of inappropriate journal entries or other adjustments.

How the scope of the audit responded to the key audit matter We identified journal entries recorded in the general ledger during the year, and other adjustments made in the preparation of financial reporting, exhibiting characteristics with an increased risk of fraud or which were unexpected based on the nature of the business. The journals were identified with the use of data analytics and were tested by obtaining supporting documentation.

We have evaluated the design and implementation of key controls around the financial reporting process.

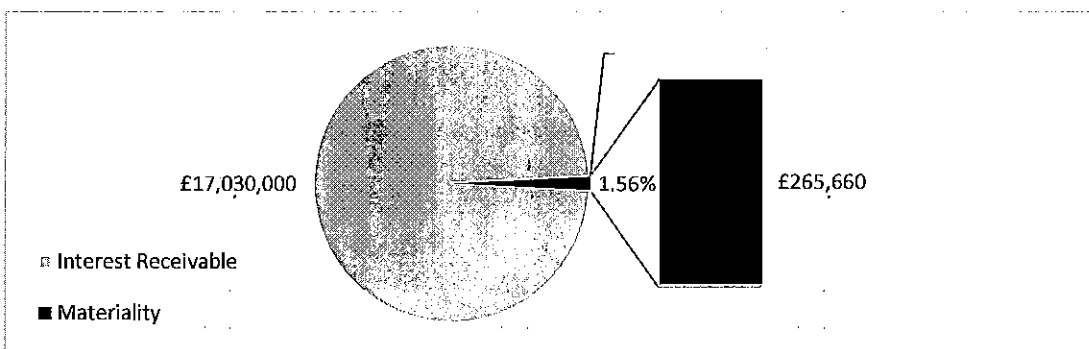
Key observations No matters were noted during the course of our testing that warranted reporting to those charged with governance.

Our application of materiality

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

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

Materiality	£265,660 (2016: £265,660)
Basis for determining materiality	1.56% of interest income as at the 31 December 2017.
Rationale for the benchmark applied	The company's primary activity is to borrow funds to lend to other group companies. Therefore the interest income balance is considered to be a key driver of company activity.



REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF NORTHERN ELECTRIC FINANCE PLC - continued

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS - continued

Our application of materiality - continued

We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £5,310 (2016: £5,310), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board of Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Northern Electric Finance PLC is a wholly owned subsidiary of Northern Powergrid Holdings Company. The primary purpose of the entity is to obtain external finance to be provided to the remainder of the group. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

The focus of our audit work is to test the borrowing and lending activities of the company and associated interest, and to consider the risk of management override and control. There have been no changes to our audit scope from the prior year.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report including the Strategic Report and Report of the Directors, other than the financial statements and our auditor's report thereon.

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

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF
NORTHERN ELECTRIC FINANCE PLC - continued**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS - continued

Use of our report

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records	Under the Companies Act 2006 we are required to report to you if, in our opinion: <ul style="list-style-type: none">- we have not received all the information and explanations we require for our audit; or- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or- the financial statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.
Directors' remuneration	Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.	We have nothing to report in respect of these matters.

Other Matters

Auditor tenure	Following the recommendation of the audit committee, we were appointed by the board of Northern Powergrid Holdings Company in 1998 to audit the financial statements for the year ending 31 December 1998 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 19 years, covering the years ending 31 December 1998 to 31 December 2017.
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Consistency of the audit report with the additional report to the Board of Directors	Our audit opinion is consistent with the additional report to the Board of Directors we are required to provide in accordance with ISAs (UK).
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David M Johnson FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Newcastle upon Tyne
United Kingdom

25 March 2018

NORTHERN ELECTRIC FINANCE PLC

**STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 £'000	2016 £'000
CONTINUING OPERATIONS			
Revenue		-	-
Administrative expenses		<u>(9)</u>	<u>(8)</u>
OPERATING LOSS		(9)	(8)
Finance costs	3	(17,195)	(17,182)
Finance income	3	<u>17,030</u>	<u>17,030</u>
LOSS BEFORE INCOME TAX	5	(174)	(160)
Income tax	6	<u>30</u>	<u>37</u>
LOSS FOR THE YEAR		<u><u>(144)</u></u>	<u><u>(123)</u></u>

The notes on pages 15 to 23 form part of these financial statements

NORTHERN ELECTRIC FINANCE PLC

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017 £'000	2016 £'000
LOSS FOR THE YEAR	(144)	(123)
OTHER COMPREHENSIVE INCOME	<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(144)</u>	<u>(123)</u>

The notes on pages 15 to 23 form part of these financial statements

NORTHERN ELECTRIC FINANCE PLC (REGISTERED NUMBER: 03070482)

**STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2017**

	Notes	2017 £'000	2016 £'000
ASSETS			
NON-CURRENT ASSETS			
Trade and other receivables	7	<u>248,100</u>	<u>248,024</u>
CURRENT ASSETS			
Trade and other receivables	7	3,419	3,419
Tax receivable		34	34
Cash and cash equivalents	8	<u>1,503</u>	<u>1,521</u>
		<u>4,956</u>	<u>4,974</u>
TOTAL ASSETS		<u>253,056</u>	<u>252,998</u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	9	50	50
Retained earnings	10	<u>(1,459)</u>	<u>(1,315)</u>
TOTAL EQUITY		<u>(1,409)</u>	<u>(1,265)</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Interest bearing loans and borrowings	11	247,600	247,372
Deferred tax	12	<u>86</u>	<u>112</u>
		<u>247,686</u>	<u>247,484</u>
CURRENT LIABILITIES			
Interest bearing loans and borrowings	11	<u>6,779</u>	<u>6,779</u>
TOTAL LIABILITIES		<u>254,465</u>	<u>254,263</u>
TOTAL EQUITY AND LIABILITIES		<u>253,056</u>	<u>252,998</u>

The financial statements were approved by the Board of Directors on 5 April 2018 and were signed on its behalf by:



T E Fielden
Director

NORTHERN ELECTRIC FINANCE PLC

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016	50	(1,192)	(1,142)
Changes in equity			
Total comprehensive loss	-	(123)	(123)
Balance at 31 December 2016	<u>50</u>	<u>(1,315)</u>	<u>(1,265)</u>
Changes in equity			
Total comprehensive loss	-	(144)	(144)
Balance at 31 December 2017	<u>50</u>	<u>(1,459)</u>	<u>(1,409)</u>

The notes on pages 15 to 23 form part of these financial statements

NORTHERN ELECTRIC FINANCE PLC

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 £'000	2016 £'000
Cash flows used in operating activities			
Cash used in operations	14	(85)	(81)
Interest paid		(16,967)	(16,968)
Interest received		17,030	17,030
Tax received		<u>4</u>	<u>4</u>
Net cash used in operating activities		<u>(18)</u>	<u>(15)</u>
Decrease in cash and cash equivalents		(18)	(15)
Cash and cash equivalents at beginning of year		<u>1,521</u>	<u>1,536</u>
Cash and cash equivalents at end of year		<u><u>1,503</u></u>	<u><u>1,521</u></u>

The notes on pages 15 to 23 form part of these financial statements

NORTHERN ELECTRIC FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

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

The nature of the Company'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 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 at the time of acquisition.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these 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 entity 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.

Critical judgements in applying accounting policies

There were no 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 financial statements.

Key sources of estimation uncertainty

There are no key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NORTHERN ELECTRIC FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES- continued

Adoption of new or revised standards

Amendments to IFRSs made by the International Accounting Standards Board ("IASB") that are effective mandatorily for an accounting period that begins on or after 1 January 2017:

- Annual Improvements to IFRSs 2014-2016 Cycle.

The Annual Improvements to IFRSs 2014-2016 Cycle include a number of amendments to various IFRSs. The application of these amendments has had no material impact on the Company's financial statements.

The Company has not applied the new and revised IFRSs that have been issued but are not yet effective for the year ending 31 December 2017, the directors of the Company do not anticipate that the application of the new and revised IFRSs will have significant impact on the Company's financial statements

Financial instruments

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

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 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 Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. 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.

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.

NORTHERN ELECTRIC FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES - continued

Financial assets

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

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

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

Cash and cash equivalents (which are presented as a single class of assets on the face of the statement of financial position) comprise loans advanced to the parent company, having a maturity of less than three months on the basis that they are readily convertible to known amounts of cash and are subject to 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 Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered 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.

Going concern

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

Capital management

The Group manages its capital centrally to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2016.

The capital structure of the Company consists of net debt (borrowings as detailed in note 11 offset by cash and cash equivalents (detailed in note 8) and equity of the Company (comprising issued capital, reserves and retained earnings as detailed in notes 9 and 10).

The Company is not subject to externally imposed capital requirements.

NORTHERN ELECTRIC FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

3. NET FINANCE COSTS

	2017 £'000	2016 £'000
Finance income:		
Interest receivable on loans to Group undertakings	<u>17,030</u>	<u>17,030</u>
Finance costs:		
Interest payable on other loans	17,181	17,167
Interest payable on loans from Group Undertakings	<u>14</u>	<u>15</u>
	<u>17,195</u>	<u>17,182</u>
Net finance costs	<u>165</u>	<u>152</u>

4. EMPLOYEES AND DIRECTORS

No directors' or key personnel remuneration was charged for the year (2016: £nil). There were no employees during the year (2016: £nil).

At 31 December 2017 no directors accrued benefits under a defined benefit scheme (2016: one).

5. LOSS BEFORE INCOME TAX

Loss before income tax is stated after charging the following items:

	2017 £'000	2016 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	<u>8</u>	<u>7</u>

6. INCOME TAX

Analysis of tax income

	2017 £'000	2016 £'000
Current tax	(4)	(5)
Deferred tax	<u>(26)</u>	<u>(32)</u>
Total tax income in statement of profit or loss	<u>(30)</u>	<u>(37)</u>

NORTHERN ELECTRIC FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

6. INCOME TAX – continued

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:

	2017 £'000	2016 £'000
Loss before income tax	<u>(174)</u>	<u>(160)</u>
Loss multiplied by the standard rate of corporation tax in the UK of 19.25% (2016 - 20.00%)	(33)	(32)
Effects of:		
Changes in legislation	-	(6)
Other	<u>3</u>	<u>1</u>
Tax income	<u>(30)</u>	<u>(37)</u>
	2017 £'000	2016 £'000
Tax expense comprises:		
Current tax expense:		
Corporation tax charge for the year	<u>(4)</u>	<u>(5)</u>
Total current tax charge	(4)	(5)
Deferred tax:		
Deferred tax expenses relating to the origination and reversal of temporary differences	(26)	(26)
Effect of changes in legislation	<u>-</u>	<u>(6)</u>
Total deferred tax charge	<u>(26)</u>	<u>(32)</u>
Tax on profit before tax	<u>(30)</u>	<u>(37)</u>

The Finance No2 Act 2015 reduced the rate of corporation tax to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020. The Finance Act 2016, which was substantively enacted on 6 September, 2016 further reduced the rate of corporation tax effective from 1 April 2020 to 17%. Accordingly deferred tax assets and liabilities have been calculated at the tax rates which will be in force when the underlying temporary differences are expected to reverse.

7. TRADE AND OTHER RECEIVABLES

	2017 £'000	2016 £'000
Current:		
Prepayments and accrued income	<u>3,419</u>	<u>3,419</u>
Non-current:		
Amounts due from group undertakings	<u>248,100</u>	<u>248,024</u>
Aggregate amounts	<u>251,519</u>	<u>251,443</u>

NORTHERN ELECTRIC FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

7. TRADE AND OTHER RECEIVABLES - continued

The fair value of the trade and other receivables as at 31 December 2017 is estimated to be £330 million (2016: £337 million), determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market transactions or dealer quotes for similar instruments.

Amounts due from group undertakings represent the value of loans made to Northern Powergrid (Northeast) Limited, the Company's immediate parent, and are at fixed rates of interest. Northern Powergrid (Northeast) Limited maintains an investment grade credit rating. Prepayments and accrued income represent the accrued interest due on these loans. The maximum exposure to risk to the Company is the book value of these loans.

8. CASH AND CASH EQUIVALENTS

	2017	2016
	£'000	£'000
Cash in hand	<u>1,503</u>	<u>1,521</u>

Cash and cash equivalents represent amounts owed by companies within the Northern Powergrid Group (see related party disclosures note), which have a maturity date of less than three months and which are subject to an insignificant risk of changes in value. The fair value of cash and cash equivalents is equal to their book value.

9. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:			2017	2016
Number:	Class:	Nominal value:	£	£
50,000	Ordinary shares	£1	<u>50,000</u>	<u>50,000</u>

10. RESERVES

	Retained earnings £'000
At 1 January 2017	(1,315)
Deficit for the year	<u>(144)</u>
At 31 December 2017	<u>(1,459)</u>
	Retained earnings £'000
At 1 January 2016	(1,192)
Deficit for the year	<u>(123)</u>
At 31 December 2016	<u>(1,315)</u>

NORTHERN ELECTRIC FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

11. BORROWINGS

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

	Book Value		Fair Value	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Loans	<u>254,379</u>	<u>254,151</u>	<u>330,029</u>	<u>337,781</u>
	<u>254,379</u>	<u>254,151</u>	<u>330,029</u>	<u>337,781</u>
The borrowings are repayable as follows:				
On demand or within one year	6,779	6,779	6,779	6,779
Between one and five years	99,496	99,343	120,942	128,427
After five years	<u>148,104</u>	<u>148,029</u>	<u>202,308</u>	<u>202,575</u>
	<u>254,379</u>	<u>254,151</u>	<u>330,029</u>	<u>337,781</u>
Analysis of borrowings:				
2020 - 8.875% bonds	101,345	101,192	122,791	130,276
2035 - 5.125% bonds	<u>153,034</u>	<u>152,959</u>	<u>207,238</u>	<u>207,505</u>
	<u>254,379</u>	<u>254,151</u>	<u>330,029</u>	<u>337,781</u>

The fair value of the external borrowings is determined with reference to quoted market prices.

The fair valuation of the borrowings is based on Level 1 inputs.

The Company's 8.875% 2020 bonds are guaranteed by Northern Powergrid (Northeast) Limited, its immediate parent company, and Northern Electric plc. The Company's 5.125% 2035 bonds are guaranteed by Northern Powergrid (Northeast) Limited and AMBAC Assurance UK Limited. Borrowings are measured at amortised cost using the effective interest method.

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

The liquidity risk, credit risk, and market risk associated with these borrowings, and the management thereof, is covered within Financial Risk Management on page 3 of these financial statements.

At 31 December 2017, the Company had no undrawn committed borrowing facilities.

NORTHERN ELECTRIC FINANCE PLC

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2017**

11. BORROWINGS

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 Company can be required to pay. The tables include both interest and principal cash flows.

	Less than 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
2017:					
Fixed interest rate liability	-	16,563	148,500	249,937	415,000
	<u>-</u>	<u>16,563</u>	<u>148,500</u>	<u>249,937</u>	<u>415,000</u>
2016:					
Fixed interest rate liability	-	16,563	157,375	257,625	431,563
	<u>-</u>	<u>16,563</u>	<u>157,375</u>	<u>257,625</u>	<u>431,563</u>

12. DEFERRED TAX

	Total £'000
At 1 January 2017	112
Credit to statement of profit or loss	<u>(26)</u>
At 31 December 2017	<u>86</u>
	Total £'000
At 1 January 2016	144
Credit to statement of profit or loss	<u>(32)</u>
At 31 December 2016	<u>112</u>

The balance represents deferred tax on unamortised loan issue costs.

NORTHERN ELECTRIC FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

13. RELATED PARTY DISCLOSURES

Transactions entered into and balances outstanding at the year end were as follows:

	Interest received from related parties £'000	Interest paid to related parties £'000	Amounts owed (to)/ from related parties £'000
Related Party			
2017:			
Northern Powergrid (Northeast) Limited	17,028	-	251,443
Yorkshire Electricity Group plc	2	14	1,503
	<u>17,030</u>	<u>14</u>	<u>252,946</u>
2016:			
Northern Powergrid (Northeast) Limited	17,027	-	251,443
Yorkshire Electricity Group plc	3	15	1,520
	<u>17,030</u>	<u>15</u>	<u>252,963</u>

14. RECONCILIATION OF LOSS BEFORE INCOME TAX TO CASH USED IN OPERATIONS

	2017 £'000	2016 £'000
Loss before income tax	(174)	(160)
Finance costs	17,195	17,182
Finance income	<u>(17,030)</u>	<u>(17,030)</u>
	(9)	(8)
Increase in trade and other receivables	<u>(76)</u>	<u>(73)</u>
Cash used in operations	<u>(85)</u>	<u>(81)</u>

15. ULTIMATE CONTROLLING PARTY

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

Copies of the group accounts of Berkshire Hathaway, Inc. (3555 Farnam Street, Omaha, Nebraska 68131) (the parent undertaking of the largest group preparing group accounts) which include the Company and the group accounts of Northern Electric plc, the smallest parent undertaking to prepare group accounts in the UK, can both be obtained from the Company Secretary, Northern Powergrid Holdings Company, Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.