Registered number: 03070482 (England and Wales)

Northern Electric Finance plc

Annual Report and Financial Statements

for the Year Ended 31 December 2018

Northern Electric Finance plc
Contents

Northern Electric Finance plc
Company Information

Directors	T E Fielden T H France P A Jones S J Lockwood
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 2018

The directors present the annual reports and financial statements for the year ended 31 December 2018 of Northern Electric Finance plc (the "Company"), which have been drawn up and presented in accordance with the Companies Act 2006.

PRINCIPAL ACTIVITY AND RESULT FOR THE YEAR

The Company is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group") and acts as a financing company. The principal activity of the Company is 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 2018 and 4 May 2018 respectively.

The Company made a loss after tax for the year of £160,000 (2017: loss £144,000) 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 Northern Powergrid Group and are not managed separately. Accordingly, the principal risks and uncertainties, which include those of the Company, are discussed in the annual reports and financial statements of Northern Powergrid Holdings Company. Details of financial risks can be found on page 3 of the Report of the Directors.

Approved by the Board on 15 April 2019 and signed on its behalf by:

P A Jones
Director

Northern Electric Finance plc
Directors' Report for the Year Ended 31 December 2018

The directors present their report together with the auditor's report and the financial statements for the year ended 31 December 2018.

Dividends
During the year no interim dividend was paid (2017: £nil). The directors recommend that no final dividend be paid in respect of the year (2017: £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.

Directors of the Company
The directors, who held office during the year and up to the date of signing, were as follows:

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

There are no contracts in this entity which the directors held any interest during and as at the end of the year which were significant in relation to the business of the Company.

During the 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.

Future development
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. There are no plans to change the existing business model.

Research and development
The Company does not undertake research and development.

Financial Risk Management

Financial Derivatives
As at 31 December 2018 and during the year it was the Company's policy not to hold any derivative financial instruments (2017: £nil).

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 2018, 100% of the Company's borrowings were at fixed rates and the average maturity of these borrowings was 11 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 provides finance to it are supported by the Northern Powergrid Group which maintains an investment grade credit rating.

Political donations
During the year, no contributions were made to political organisations (2017: £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:

- J Reynolds - Non-executive Director - Northern Powergrid Holdings Company (Chairman)
- T E Fielden - Finance Director
- M Knowles - Independent member - Northern Powergrid Holdings Company (appointed on 17 July 2018)

STATEMENT OF DIRECTORS' RESPONSIBILITIES
The directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) 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, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Directors' responsibility statement pursuant to DTR 4
Each of the directors as at the date of the annual reports and financial statements, whose names and functions are set out on page 3 in the Report of the Directors confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with applicable UK law and in conformity with IFRS, give a true and fair view of the assets, liabilities, financial position andloss of the Company and the undertakings included in the consolidation taken as a whole; and
- 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.

Northern Electric Finance plc
Directors' Report for the Year Ended 31 December 2018 (continued)

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:

- 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;
- Northern Powergrid (Northeast) Limited, is profitable with strong underlying cash flows resulting in low gearing and holds investment grade credit ratings; and
- 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.
- A letter of support was received from Northern Powergrid Holdings Company, a member of the Northern Powergrid Group.

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:

- so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- 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.

Reappointment of 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.

Approved by the Board on 15 April 2019 and signed on its behalf by:

P A Jones
Director

Northern Electric Finance plc
Independent Auditor's Report to the Members of Northern Electric Finance plc

In our opinion the financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (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 other comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows;
- the related accounting policies; and
- the related notes 1 to 18.

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 Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed 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 valuation of borrowings and the associated interest. Following a reassessment of matters that had the most significance in our audit in the current year, we no longer consider management override of controls as a key audit matter.
- Materiality - the materiality that we used in the current year was £324k which was determined on the basis of 1.9% of interest receivable as at 31 December 2018.
- Scoping - Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
- Significant changes in our approach - There have been no significant changes to our audit scope from the prior year apart from the change in key audit matter as described above.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report where:
- the directors' use of the going concern basis of accounting in the 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.

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.

Valuation of loans and the associated interest

Key audit matter description

The company acts as a financing company within the group, therefore, the largest balances in the financial statements relate to the borrowings and the associated interest. As disclosed in note 13 to the financial statements, borrowings as at 31 December 2018 totalled £255 million and consist of the 2020 8.875% bonds and the 2035 5.125% bonds. The associated interest payable on these loans for the year ended 31 December 2018 is disclosed in note 5 to the financial statements.

The key inputs into the calculation of the value of the loan and associated interest include the amortisation of initial costs and the effective interest rate.

How the scope of the audit responded to the key audit matter

In response to this key audit matter, we have completed the following procedures:

- analysis of the original loan agreements to assess whether the value of the loan is in compliance with IFRS requirements; and
- recalculation of amortised costs and analysis of the effective interest rate, comparing it to prior year and reviewing whether the base calculation was correct.

Key observations

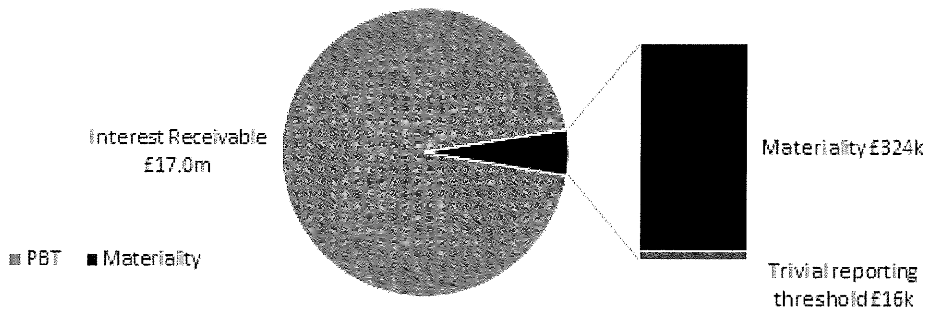
Based on the work performed, no material differences were identified. We have therefore concluded that the valuation of borrowings and associated interest are appropriate and in line with IFRS requirements.

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: £324k (2017: £266k)
- Basis for determining materiality: 1.90% (2017: 1.56%) of interest receivable during the current year.
- Rationale for the benchmark applied: the company is a wholly owned subsidiary used as a financing Company for the group. This entity, therefore, manages group financing (borrowing and lending) which are the key areas of interest for the group company. Interest receivable is the main source of income for the entity which allows the entity to pay off their liabilities. Therefore, the income stream is key to the users and to management.



We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £16k (2017: £5k), 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

Our audit was scoped by obtaining an understanding of the Company and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. There have been no material changes in the scope from prior year.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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 this regard.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities (set out on page 4), 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below. 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.

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the Board, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax and IT specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we considered management override of controls and the possibility of any significant unusual transactions or significant related party transactions not in the ordinary course of business; and
- obtaining an understanding of the legal and regulatory framework that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

Audit response to risks identified

As a result of performing the above, we did not identify any further key audit matters related to the potential risk of fraud or non-compliance with laws and regulations. Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Board and legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Opinion on other matter prescribed by the Companies Act 2006

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

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

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

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

Other matters

Following the recommendation of the Board of Directors, 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 21 years, covering the years ending 31 December 1998 to 31 December 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

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.

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

26 April 2019

Northern Electric Finance plc
Statement of Profit or Loss for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Revenue		-	-
Administrative expenses		(9)	(9)
Operating loss		(9)	(9)
Finance costs	5	(17,219)	(17,195)
Finance income	5	17,034	17,030
Loss before tax		(194)	(174)
Income tax receipt	8	34	30
Loss for the year		(160)	(144)

The notes on pages 16 to 32 form an integral part of these financial statements.

Northern Electric Finance plc
Statement of Comprehensive Income for the Year Ended 31 December 2018

	2018 £ 000	2017 £ 000
Loss for the year	(160)	(144)
Total comprehensive income for the year	(160)	(144)

The notes on pages 16 to 32 form an integral part of these financial statements.

Northern Electric Finance plc
(Registration number: 03070482)
Statement of Financial Position as at 31 December 2018

	Note	31 December 2018 £ 000	31 December 2017 £ 000
Assets			
Non-current assets			
Trade and other receivables	9	248,178	248,100
Current assets			
Trade and other receivables	9	3,419	3,419
Income tax asset		39	34
Cash and cash equivalents	10	1,476	1,503
		4,934	4,956
Total assets		253,112	253,056
Equity and liabilities			
Equity			
Share capital	11	(50)	(50)
Retained earnings		1,619	1,459
Total equity		1,569	1,409
Non-current liabilities			
Loans and borrowings	13	(247,846)	(247,600)
Deferred tax liabilities	8	(57)	(86)
		(247,903)	(247,686)
Current liabilities			
Loans and borrowings	13	(6,778)	(6,779)
Total liabilities		(254,681)	(254,465)
Total equity and liabilities		(253,112)	(253,056)

Approved by the Board of Directors on 15 April 2019 and signed on its behalf by:

P A Jones
Director

Northern Electric Finance plc
Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018	50	(1,459)	(1,409)
Loss for the year	-	(160)	(160)
Total comprehensive loss	-	(160)	(160)
At 31 December 2018	50	(1,619)	(1,569)

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017	50	(1,315)	(1,265)
Loss for the year	-	(144)	(144)
Total comprehensive loss	-	(144)	(144)
At 31 December 2017	50	(1,459)	(1,409)

Northern Electric Finance plc
Statement of Cash Flows for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Cash flows from operating activities			
Loss for the year		(160)	(144)
Adjustments to cash flows from non-cash items			
Finance income	5	(17,034)	(17,030)
Finance costs	5	17,219	17,195
Income tax expense	8	(34)	(30)
Cash generated from operations		(9)	(9)
Income taxes received	8	-	4
Net cash flow from operating activities		(9)	(5)
Cash flows from investing activities			
Interest received		16,956	16,954
Cash flows from financing activities			
Interest paid		(16,974)	(16,967)
Net decrease in cash and cash equivalents		(27)	(18)
Cash and cash equivalents at 1 January		1,503	1,521
Cash and cash equivalents at 31 December		1,476	1,503

Northern Electric Finance plc
Notes to the Financial Statements for the Year Ended 31 December 2018

1 General information

The company is a public company limited by share capital, incorporated under the Companies Act and domiciled in England and Wales.

The address of its registered office is Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.

2 Accounting policies

Statement of compliance
The company financial statements have been prepared in accordance with International Financial Reporting Standards and its interpretations adopted by the EU ("adopted IFRS's").

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation
The financial statements have been prepared in accordance with adopted IFRSs and under historical cost accounting rules. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

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

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:

- 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;
- Northern Powergrid (Northeast) Limited, is profitable with strong underlying cash flows resulting in low gearing and holds investment grade credit ratings; and
- 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.
- A letter of support was received from Northern Powergrid Holdings Company, a member of the Northern Powergrid Group.

2 Accounting policies (continued)

Changes in accounting policy

New standards, interpretations and amendments effective
The following have been applied for the first time from 1 January 2018 and have had an effect on the financial statements:

IFRS 9 - Financial Instruments
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. IFRS 9 has not had a material impact on amounts reported in respect of the Company's financial assets and financial liabilities.

IFRS 15 - Revenue from contracts with customers
Revenue from Contracts with Customers establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 supersedes 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. Apart from providing more extensive disclosures, the application of IFRS 15 has not had a significant impact on the financial position or performance of the Company.

None of the other standards, interpretations and amendments effective for the first time from 1 January 2018 have had a material effect on the financial statements.

New standards, interpretations and amendments not yet effective
The following newly issued but not yet effective standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the company financial statements in future:

IFRS 16 - Leases (1 January 2019)
IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 distinguishes between leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions between operating leases and finance leases are removed for lessee accounting, and are replaced by a model where right-of-use asset and a corresponding liability have to be recognised for all leases by lessees except for short term leases and leases of low-value assets. As of 31 December 2018, the Company has no non-cancellable operating leases.

None of the other standards, interpretations and amendments which are effective for periods beginning after 1 January 2018 and which have not been adopted early, are expected to have a material effect on the financial statements.

Finance income and costs policy
All borrowing costs are recognised in profit or loss in the period which they are incurred.

Tax
The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

2 Accounting policies (continued)

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Derecognition
An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in the profit or loss when the asset is derecognised.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade receivables
Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

Borrowings
All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Share capital
Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

2 Accounting policies (continued)

Financial instruments

Initial recognition

Financial assets and financial liabilities comprise all assets and liabilities reflected in the statement of financial position, although excluding property, plant and equipment, investment properties, intangible assets, deferred tax assets, prepayments, deferred tax liabilities and employee benefits plan.

The company recognises financial assets and financial liabilities in the statement of financial position when, and only when, the company becomes party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and financial liabilities classified as fair value through profit or loss ("FVTPL") are recognised on the trade date, i.e. the date on which the company commits to purchase or sell the financial assets or financial liabilities. All regular way purchases and sales of other financial assets and financial liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

Subsequent to initial measurement, financial assets and financial liabilities are measured at either amortised cost or fair value.

Classification and measurement

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:

Financial assets are classified into one of the following three categories:
· financial assets at amortised cost;
· financial assets at fair value through other comprehensive income (FVTOCI); or
· financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:
· financial liabilities at amortised cost; or
· financial liabilities at fair value through the profit or loss (FVTPL).

The classification and the basis for measurement are subject to the company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
· the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
· the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of the above two criteria is not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

If a financial asset meets the amortised cost criteria, the company may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

2 Accounting policies (continued)

Financial assets at fair value through other comprehensive income (FVTOCI)
A financial asset is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVPTL:
· the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
· the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investments that is not held for trading, the company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the statement of income.

Financial assets at fair value through the profit or loss (FVTPL)
Financial assets not otherwise classified above are classified and measured as FVTPL.

Financial liabilities at amortised cost
All financial liabilities, other than those classified as financial liabilities at FVTPL, are measured at amortised cost using the effective interest rate method.

Financial liabilities at fair value through the profit or loss
Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

2 Accounting policies (continued)

Derecognition

Financial assets
The company derecognises a financial asset when;
- the contractual rights to the cash flows from the financial asset expire;
- it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received is recognised as a gain or loss in the profit or loss.

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as FVTOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the company is recognised as a separate asset or liability.

The company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

When the company derecognises transferred financial assets in their entirety, but has continuing involvement in them then the entity should disclose for each type of continuing involvement at the reporting date:

(a) The carrying amount of the assets and liabilities that are recognised in the entity's statement of financial position and represent the entity's continuing involvement in the derecognised financial assets, and the line items in which those assets and liabilities are recognised.

(b) The fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised financial assets;

(c) The amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognised financial assets, and how the maximum exposure to loss is determined; and

(d) The undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee for the transferred assets.

Financial liabilities
The company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

Modification of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, the company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial asset are deemed to expire. In this case the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

2 Accounting policies (continued)

Financial liabilities
If the terms of a financial liabilities are modified, the company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual obligations from the cash flows from the original financial liabilities are deemed to expire. In this case the original financial liabilities are derecognised and new financial liabilities are recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial liabilities. In this case, the company recalculates the gross carrying amount of the financial liabilities and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

Impairment of financial assets

Measurement of Expected Credit Losses
The company recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVPTL, namely:
- Financial assets that are debt instruments
- Accounts and other receivables
- Financial guarantee contracts issued; and
- Loan commitments issued.

The company classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the company recognises an allowance based on the 12-month ECL.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the company recognises an allowance for the lifetime ECL.

Stage 3: for credit-impaired financial instruments, the company recognises the lifetime ECL.

The company measures loss allowances at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:

- debt securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- other financial instruments on which the credit risk has not increased significantly since their initial recognition.

The company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

A 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are probable within 12 months from the reporting date.

Provisions for credit-impairment are recognised in the statement of income and are reflected in accumulated provision balances against each relevant financial instruments balance.

2 Accounting policies (continued)

Evidence that the financial asset is credit-impaired include the following:
- Significant financial difficulties of the borrower or issuer;
- A breach of contract such as default or past due event;
- The restructuring of the loan or advance by the company on terms that the company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for the security because of financial difficulties; or
- There is other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the company, or economic conditions that correlate with defaults in the company.

For trade receivables, the company applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The company has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Accounting estimates and assumptions
The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of certain financial assets, liabilities, income and expenses.

The use of estimates and assumptions is principally limited to the determination of provisions for impairment, the valuation of financial instruments as explained in more detail below:

Provisions for impairment
In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Fair value of financial assets and liabilities
Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

3 Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying accounting policies
In the preparation of financial statements in conformity with IFRS the directors did not identify any critical accounting judgements or 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.

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

4 Segmental reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the President and Chief Executive Officer of the Northern Powergrid Group in order to allocate resources to these segments and to assess their performance. In practice, the President and Chief Executive Officer allocates resources and assesses performance based upon the aggregate results of the Company. Revenue, loss before tax and net assets are attributable to financing.

5 Finance income and costs

	2018 £ 000	2017 £ 000
Finance income		
Other finance income	17,034	17,030
Finance costs		
Interest on bank overdrafts and borrowings	(17,198)	(17,181)
Interest paid to group undertakings	(21)	(14)
Total finance costs	(17,219)	(17,195)
Net finance costs	(185)	(165)

6 Employees and directors

No directors' or key personnel remuneration was charged for the year (2017: £nil). There were no employees during the year (2017: £nil).

At 31 December 2018 no directors accrued benefits under a defined benefit scheme (2017: none).

7 Auditor's remuneration

	2018 £ 000	2017 £ 000
Audit of the financial statements	8	8

8 Income tax

Tax charged/(credited) in the income statement

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax	(5)	(4)
Deferred taxation		
Arising from origination and reversal of temporary differences	(32)	(29)
Effect of changes in legislation	3	3
Total deferred taxation	(29)	(26)
Tax receipt in the income statement	(34)	(30)

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2017 - lower than the standard rate of corporation tax in the UK) of 19% (2017 - 19.25%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
Loss before tax	(194)	(174)
Corporation tax at standard rate	(37)	(33)
Deferred tax expense relating to changes in tax rates or laws	3	3
Total tax credit	(34)	(30)

Finance Act No.2 2015 included provisions to reduce the corporation tax to 19% with effect from 1 April 2017 and Finance Act 2016 introduced a further reduction in the main rate of corporation tax to 17% from 1 April 2020. 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.

8 Income tax (continued)

Deferred tax

Deferred tax assets and liabilities

Deferred tax movement during the year:

	At 1 January 2018 £ 000	Recognised in income £ 000	At 31 December 2018 £ 000
Deferred tax	(86)	29	(57)

Deferred tax movement during the prior year:

	At 1 January 2017 £ 000	Recognised in income £ 000	At 31 December 2017 £ 000
Deferred tax	(112)	26	(86)

The balance represents deferred tax on unamortised loan issue cost

9 Trade and other receivables

	31 December 2018 £ 000	31 December 2017 £ 000
Current trade receivables		
Amounts due from group undertakings	3,419	3,419
	3,419	3,419
Non-current trade receivables		
Amounts due from group undertakings	248,178	248,100
	251,597	251,519

The fair value of the trade and other receivables as at 31 December 2018 is estimated to be £311 million (2017: £330 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.

10 Cash and cash equivalents

	31 December 2018 £ 000	31 December 2017 £ 000
Cash on hand	1,476	1,503

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.

11 Share capital

Authorised, allotted, called up and fully paid shares

	31 December 2018		31 December 2017	
	No.	£	No.	£
Ordinary Share Capital of £1 each	50,000	50,000	50,000	50,000

12 Reserves

	Retained earnings £ 000
At 1 January 2018	(1,459)
Loss for the year	(160)
Total comprehensive income	(160)
At 31 December 2018	(1,619)

	Retained earnings £ 000
At 1 January 2017	(1,315)
Loss for the year	(144)
Total comprehensive income	(144)
At 31 December 2017	(1,459)

13 Loans and borrowings

	31 December 2018 £ 000	31 December 2017 £ 000
Non-current loans and borrowings	247,846	247,600
Current loans and borrowings	6,778	6,779
	254,624	254,379

	Book value		Fair value	
	31 December 2018 £ 000	31 December 2017 £ 000	31 December 2018 £ 000	31 December 2017 £ 000
2020 - 8.875% bonds	101,512	101,345	114,357	122,791
2035 - 5.125% bonds	153,112	153,034	197,140	207,238
	254,624	254,379	311,497	330,029

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. At 31 December 2018, the Company had no undrawn committed borrowing facilities.

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 30 of these financial statements.

14 Reconciliation of liabilities arising from financing activities

	At 1 January 2018 £ 000	Other changes £ 000	At 31 December 2018 £ 000
Long-term borrowings	254,379	245	254,624

	At 1 January 2017 £ 000	Other changes £ 000	At 31 December 2017 £ 000
Long term borrowings	254,151	228	254,379

15 Classification of financial and non-financial assets and financial and non-financial liabilities

The classification of financial assets and liabilities by accounting categorisation as at 31 December 2018 was as follows:

	Financial assets at amortised cost £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets			
Current assets			
Trade and other receivables	3,419	-	-
Income tax asset	39	-	-
Cash and cash equivalents	1,476	-	-
	4,934	-	-
Liabilities			
Non-current liabilities			
Deferred tax liabilities	-	-	(57)
Current liabilities			
Loans and borrowings	-	(6,778)	-
Total liabilities	-	(6,778)	(57)

The classification of financial assets and liabilities by accounting categorisation as at 31 December 2017 was as follows:

	Financial assets at amortised cost £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets			
Current assets			
Trade and other receivables	3,419	-	-
Income tax asset	34	-	-
Cash and cash equivalents	1,503	-	-
	4,956	-	-
Liabilities			
Non-current liabilities			
Deferred tax liabilities	-	-	(86)
Current liabilities			
Loans and borrowings	-	(6,779)	-
Total liabilities	-	(6,779)	(86)

The fair value of assets classified as fair value through profit or loss are valued using level 3 inputs.

16 Financial risk review

This note presents information about the company's exposure to financial risks and the company's management of capital.

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 2017.

The capital structure of the Company consists of net debt (borrowings as detailed in note 13 offset by equity of the Company (comprising issued capital, reserves and retained earnings as detailed in notes 11 and 12). The Company has no externally imposed capital requirements.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk as no collateral or other credit enhancements are held.

There is no expected credit loss as the receivables are with related a related party, Northern Powergrid (Northeast) Ltd, an investment grade company within the Northern Powergrid Group.

Liquidity risk

Ultimate responsibility of liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Company's short, medium, and long-term funding and liquidity management requirements. The Company manages liquidity by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Maturity analysis for financial liabilities

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

2018	**Total outflow**	**3 months - 1 year**	**1-5 years**	**More than 5 years**
Non-derivative liabilities	**£ 000**	**£ 000**	**£ 000**	**£ 000**
Fixed interest rate liability	398,438	16,563	139,625	242,250

2017	**Total outflow**	**3 months - 1 year**	**1-5 years**	**More than 5 years**
Non-derivative liabilities	**£ 000**	**£ 000**	**£ 000**	**£ 000**
Fixed interest rate liability	415,000	16,563	148,500	249,937

16 Financial risk review (continued)

Market risk

The Company's activities do not expose it to significant financial risks of changes in foreign currency exchange rates and interest rates. Materially all income and expenses are denominated in pound sterling. All loans are at fixed interest rates and expose the Company to fair value interest rate risk.

17 Related party transactions

Summary of transactions with other related parties

Yorkshire Electricity Group provides the intercompany treasury account to the Northern Powergrid Group.

Loans to related parties

2018	Parent £ 000	Other related parties £ 000
At start of period	251,519	1,503
Repaid	-	(10)
Interest charged	17,030	4
Interest received	(16,952)	(21)
At end of period	251,597	1,476

2017	Parent £ 000	Other related parties £ 000
At start of period	251,443	1,521
Repaid	-	(6)
Interest charged	17,028	2
Interest received	(16,952)	(14)
At end of period	251,519	1,503

18 Parent and ultimate parent undertaking

The company's immediate parent is Northern Powergrid (Northeast) Ltd.

The ultimate parent and controlling party is Berkshire Hathaway, Inc. These financial statements are available upon request from 3555 Farnam Street, Omaha, Nebraska 68131.

Relationship between entity and parents

The parent of the largest group in which these financial statements are consolidated is Berkshire Hathaway, Inc, incorporated in United States.

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

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

The address of Northern Electric plc and location where the Group financial statements can be obtained is: Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.