Registered number: 04112320 (England and Wales)

Northern Powergrid (Yorkshire) plc

Annual Report and Financial Statements

for the Year Ended 31 December 2019

Northern Powergrid (Yorkshire) plc
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Northern Powergrid (Yorkshire) plc
Company Information

Directors	T E Fielden T H France P A Jones A J Maclennan A R Marshall P C Taylor
Company Secretary	J C Riley
Registered office	Lloyds Court 78 Grey Street Newcastle upon Tyne NE1 6AF
Registered number	04112320 (England and Wales)
Auditor	Deloitte LLP Statutory auditor Newcastle upon Tyne United Kingdom

The directors present the annual reports and financial statements for the year ended 31 December 2019 of Northern Powergrid (Yorkshire) plc (the "Company"), which have been drawn up and presented in accordance with the Companies Act 2006.

BUSINESS MODEL

The Company is as an authorised distributor under the Electricity Act 1989 and holds an electricity distribution licence granted by the Secretary of State. As a distribution network operator ("DNO"), the Company is regulated by the Office of Gas and Electricity Markets ("Ofgem"), which in turn, is governed by the Gas and Electricity Markets Authority ("GEMA"). Ofgem require the DNOs to operate within a regulatory framework known as a price control, the purpose of which is to protect the interests of end consumers by setting an upper limit on the amount the DNOs can charge for the use of their networks. The completion of the 2018/19 Regulatory Year (31 March 2019) represented the mid-point of the current RIIO-ED1 price control which became effective on 1 April 2015 and is due to end on 31 March 2023 (the "ED1 period").

The principal activity of the Company is the distribution of electricity to approximately 2.3 million customers connected to its electricity distribution network throughout the areas of West Yorkshire, East Yorkshire, almost all of South Yorkshire, together with parts of North Yorkshire, Derbyshire, Nottinghamshire, Lincolnshire and Lancashire. The Company's distribution network includes over 54,000 kilometres of overhead and underground cables and over 35,000 substations. Electricity is received from National Grid's transmission system and from generators connected directly to the network, and then distributed at voltages of up to 132 kilovolts ("kV").

The majority of revenue generated by the Company is controlled by a distribution price control formula which is set out in the electricity distribution licence. The price control formula does not directly constrain profits from year to year, but is a control on revenue that operates independently of a significant portion of the Company's costs. Allowed revenue is recovered from electricity suppliers via the application of Distribution use of System charges. These charges account for approximately 15% of the electricity end user's overall electricity bill. The Company's opening base allowed revenue (excluding the effects of incentive schemes and any deferred revenues from the prior price control) has been set to remain constant for each Regulatory Year from 1 April 2016 through to 31 March 2023. Nominal opening base allowed revenues will increase in line with inflation (as measured by the United Kingdom's Retail Prices Index "RPI").

STRATEGY

In common with Northern Powergrid Holdings Company and its subsidiaries (the "Northern Powergrid Group"), the Company operates a strategy based on six core principles (the "Core Principles") which comprise Financial Strength, Customer Service, Operational Excellence, Employee Commitment, Environmental Respect and Regulatory Integrity. The Core Principles (which are applied by the Northern Powergrid Group's parent company, Berkshire Hathaway Energy Company ("Berkshire Hathaway Energy")), set out the basis on which the Company generates shareholder value over the longer-term and defines the standards by which the Northern Powergrid Group holds itself accountable. Each Core Principle is defined by a strategic objective which is intrinsically linked to the commitments made in the Company's 2015 to 2023 regulatory well-justified business plan ("Business Plan").

Submitted to Ofgem in March 2014, the Business Plan described the long term strategy and commitments that the Company would achieve during the ED1 Period in order to deliver sustainable growth with regard to those with whom the Company interacted and served. Developed after a period of consultation with stakeholders, the Business Plan focused on a number of priorities (described throughout the Strategic Report) including minimising costs, improving flood defences, enhancing customer service, prioritising employee safety, supporting vulnerable customers, protecting the environment and transitioning to low carbon technologies.

The delivery of the Business Plan is supported by an annual business plan (the "Annual Plan") which is submitted to the Northern Powergrid Group's shareholder each year and is designed to phase progress towards the achievement of each commitment over the duration of the ED1 period. The phasing ensures that the deliverables in both plans can be measured effectively by using a mix of financial and non-financial Key Performance Indicators ("KPI").

The Strategic Report focuses on each Core Principle and the performance of each KPI throughout the year in order to provide a summary of the success in achieving each strategic objective, progress made against certain Business Plan commitments and performance in relation to the Annual Plan.

FINANCIAL STRENGTH

Strategic objective: Strong finances that enable improvement and growth.

KPI	2019	2018
Operating profit	£ 194.1 million	£ 188.5 million
Cash from operating activities	£ 247.5 million	£ 246.0 million
Cash used in investing activities	£ 212.6 million	£ 180.5 million
Credit Rating (Standard & Poor's)	A	A

Strategic focus: To provide the financial resources to support long-term corporate stability.

Performance during the year: The Company continued to maintain good control in respect of both its capital and operating costs by effectively managing the financial risks that could have had an adverse impact on its business. At half way through the ED1 Period, the Company had implemented efficiencies equivalent to a 3% reduction in base costs relative to the prior regulatory period.

Revenue: The Company's revenue at £438.5 million was £9.9 million higher than the prior year primarily due to higher distribution system revenues and higher amortisation.

Operating profit and position at the year-end: The Company's operating profit of £194.1 million was £5.6 million more than the previous year, primarily reflecting higher revenues, offset by higher depreciation and business rates. The statement of financial position on page 29 shows that, as at 31 December 2019 the Company had total equity of £1,489.8 million (2018: £1,405.1 million). The directors consider the Company to have a strong financial position which, when coupled with the preference of its parent Company, Berkshire Hathaway Energy, for operating with lower levels of debt than equivalent companies in the sector, creates a stable base for continued strong performance during the ED1 period.

Finance costs and investments: Finance costs net of investment income at £49.8 million was £0.9 million higher than prior year mainly reflecting increased borrowings.

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

- Cash flow from operating activities at £247.5 million was £1.5 million higher than the previous year due to higher operating profit before depreciation and amortisation, lower tax paid and adverse working capital movements.
- The net cash used in investing activities at £212.6 million was £32.1 million higher than the previous year, reflecting higher purchases of plant, property and equipment.
- The net cash inflow from financing activities at (£193.3 million) was £260.0 million lower than the £66.7 million outflow in the previous year mainly due to the issue of a £300 million bond.

Pensions: The Company is a participating employer in the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "DB Scheme"), a defined benefit scheme. Further details of the Company's commitments to the Scheme and the associated deficit repair payments are provided in Note 26 to the financial statements. The Company also participates in the Northern Powergrid Pension Scheme, which is a defined contribution scheme.

Insurance: As part of its insurance and risk strategy, the Northern Powergrid Group has in place insurance policies, which cover risks associated with employees, third party motor and public liability. The Northern Powergrid Group carries appropriate excesses on those policies and is effectively self-insured up to the level of those excesses.

CUSTOMER SERVICE

Strategic objective: Delivering exceptional customer service.

KPI	2019	2018
BMCS	87.7%	85.8%
BMCS Rank (out of 14)	13	13
BMCS Power Cuts	88.9%	87.1%
BMCS General Enquiries	87.6%	88.4%
BMCS Connections	87.1%	84.1%
SECV rank (out of 14) (combined with Northern Powergrid (Northeast) Limited)	3	2

Business plan commitments: To provide a reliable, better communicated and faster customer service offering through a range of channels to suit stakeholder needs.

Performance during the year: Under the broad measure of customer satisfaction ("BMCS"), an independent market research company carried out telephone surveys with the Company's customers to find out how satisfied they were with services related to unplanned or planned power cuts, quotations and subsequent connections, and general enquiries. The Company recorded an improvement in overall satisfaction scores compared to the prior year (2019: 87.7% versus 2018: 85.8%) which had resulted in an overall BMCS rank of 13 out of 14 (2018: 13). The BMCS rank was maintained year-on-year as whilst the Company had shown improvement, the other DNOs had also demonstrated increased levels of performance.

To further enhance the service provided to customers, a number of initiatives from the Company's customer service improvement plan were implemented during the year. This included the continued development of the customer relationship management ("CRM") system, the introduction of quote-on-site technology for connections small works and the rollout of a 'Customer First' training programme.

Activity scheduled to take place during 2020 is to focus on technology enablement including extending the CRM system to the areas of planned Power Cuts and General Enquiries, investing in a new contact centre telephony platform and upgrading the Northern Powergrid Group's external website. The programme of work will be supported by the appointment of regional Customer Service Managers and extending the Customer First training to include all employees and contractors.

Connections to the network

Business Plan commitment: To further implement customer service improvements in support of the commitment to reduce routine, small works end-to-end connections lead times by 30% during the ED1 period, actively facilitate the development of competition from independent connections providers ("ICPs") and deliver the major works service improvement plan as part of the Ofgem Incentive on Connections Engagement ("ICE").

Performance during the year: Reducing end-to-end connections lead times continued to pose a challenge and, as such, work to improve the level of customer service within the small works connections business (measured by the BMCS connections KPI) continued. In support of this, the process whereby one individual assumes responsibility throughout each connections process from creating a quotation on site (using the quote-on-site technology) to the final delivery of the connection itself was further embedded. By continuing to introduce further enhancements, the Company remains confident that the 30% reduction in end-to-end lead times (currently at 26.7%) remains achievable by the end of the ED1 period.

The Company continued to comply with the processes introduced by Standard Licence Condition 52 and the Competition in Connections Code of Practice. This included the provision of dual quotations, enabling ICPs to self-determine points of connection to the existing network and self-approve designs, and by facilitating the self-connection of new assets to the Company's low and high voltage networks by suitably accredited ICP operatives as a contestable activity.

In relation to the Company's ICE commitments for the 2018/19 regulatory period, the 22 actions included in the service improvement plan were successfully delivered.

Corporate responsibility

Business Plan commitment: To build effective relationships with stakeholders whilst maximising the value of contact with customers, especially those who are vulnerable and hard to reach.

Performance during the year: The Company continued to work closely with key partners such as local authorities, local enterprise partnerships, Members of Parliament and local resilience forums, particularly during periods of severe weather and when providing support to vulnerable customers. Collaboration with stakeholders regionally and in the wider energy industry included dissemination of the Company's plans concerning the development of electric vehicles infrastructure, the transition to Distribution System Operator ("DSO") and delivery of the annual Stakeholder Summit which was designed to update senior stakeholders from government, the private sector and customer groups on the Company's progress in delivering the Business Plan, specifically on the areas of sustainability and decarbonisation. In addition, a series of roundtable stakeholder discussions were held, the outputs of which will inform the annual strategic planning process and support emerging thinking for future business plans.

In April 2019, the Company (together with Northern Powergrid (Northeast) Limited) put forward its Stakeholder Engagement and Customer Vulnerability ("SECV") submission to Ofgem in respect of work undertaken during the previous Regulatory Year. The submission provided an overview of activities and case studies in areas such as safety, environment, customer service, reliability and availability. Following the submission to Ofgem's panel, the Company achieved third place (of 14) in the context of the wider gas distribution, transmission owner and DNO group, a marginal step down from second place (of six DNO groups) in the prior year. In response, plans were developed to strengthen engagement in order to improve the position going forward.

Throughout the year, a number of tailored education and safety programmes were delivered. Now in its second year, the Community Partnering Fund (in collaboration with Northern Gas Networks) worked with a number of charity and community groups to support hard to reach stakeholders including traveller communities, refugees, individuals with learning difficulties and the elderly. The projects undertaken provided advice on topics such as energy saving, fuel poverty, educational and career opportunities in science, technology, engineering and mathematics subjects and the availability of priority services. In addition, the Energy Heroes initiative (used in conjunction with the capital investment scheme) resulted in interaction with 30 primary schools for the purpose of promoting energy efficiency.

OPERATIONAL EXCELLENCE

Strategic objective: High-quality, efficient operators running a smart reliable energy system.

	2018/2019		2017/2018	
KPI	**Actual**	**Target**	**Actual**	**Target**
Customer minutes lost	38.8	<57.9	36.4	<60.2
Customer interruptions	49.3	<65.2	48.1	<66.4
	2019		**2018**	
Network investment	£251.4 million		£212.9 million	
High voltage restoration time	53.2 minutes		49.9 minutes	

Business Plan commitment: To enhance the reliability of the network in support of the commitment to achieve 8% fewer unplanned power cuts and reduce the average length of unplanned power cuts by 20% during the ED1 period.

Performance during the year: Customer minutes lost ("CML") and customer interruptions ("CI") are the KPIs set by Ofgem and used by the Company to measure the quality of supply and system performance. Both CML and CI are measured on a regulatory year. CML measures the average number of supply minutes lost for every connected customer due to both planned and unplanned power cuts that last for three minutes or longer. CI measures the average number of supply interruptions per every 100 connected customers due to planned and unplanned power cuts that last for three minutes or longer. Performance during the year was better than Ofgem's target for both CML and CI.

In respect of the Business Plan commitments, the Company together with its affiliate (Northern Powergrid (Northeast) Limited) had achieved 25% fewer unplanned power cuts and a reduction of the average length of unplanned power cuts by 33% (relative to performance in April 2015). Given the original targets had been exceeded by a considerable margin and in order to pursue continued improvement, the commitments for unplanned power cuts were extended from 8% to 30% for the number incurred and 20% to 40% for the average duration.

The Company invested £251.4 million during the year through its approved Network investment strategy (2018: £212.9 million), which has been designed to deliver improvements and increase the Network's resilience. Various major projects were undertaken to reinforce the primary Network, refurbish transformers, rebuild overhead lines, remove and replace oil-filled cables, change deteriorated poles, replace switchgear and install and commission new remote control points.

Further Network enhancements included the continued roll-out of the automatic power restoration system on the high voltage Network. This made the restoration of supply in under three minutes following an interruption available to a further 75,500 customers during 2019, taking the total to 575,800. At low voltage, in addition to the previous deployment of smart fuses to restore supplies in under three minutes to customers affected by intermittent faults, the implementation of next generation innovative low-voltage technology devices continued with the addition of low cost Network monitoring sensors. The devices enable the detection of developing faults so that they can be proactively managed whilst enabling the gathering of Network condition information.

In relation to high-voltage restoration, the Company's high-voltage restoration performance during the year averaged 53.2 minutes (2018: 54.0 minutes), after allowing for severe weather incidents and other exemptions.

EMPLOYEE COMMITMENT

Strategic objective: High-performing people doing rewarding jobs in a safe and secure workplace.

	2019		**2018**	
KPI	**Actual**	**Target**	**Actual**	**Target**
Northern Powergrid Group occupational safety and health administration rate	0.18	0.26	0.26	0.26
Preventable vehicle accidents	15	12	13	9
Lost time accidents	-	1	2	2
Restricted duty accidents	-	-	-	1
Medical treatment accidents	1	1	1	1
Operational incidents	7	5	4	5
Northern Powergrid Group absence rate	3.5%		3.3%	

Health and safety

Performance during the year: In common with the Berkshire Hathaway Energy group, the Northern Powergrid Group measures its safety performance in terms of the Occupational Safety and Health Administration ("OSHA") rate, which is a measure used in the United States ("US") to capture safety incidents down to minor levels of medical treatment. The Northern Powergrid Group exceeded its target by achieving an OSHA rate of 0.18 (2018: 0.26), which equated to four recordable incidents against the goal of five or fewer. In relation to Company performance, due to a number of relatively minor incidents (for which corrective action has been initiated), the Preventable Vehicle Accidents and Operational Incidents targets were both missed. In respect of the Business Plan commitment, at 31 March 2019, being half way through the ED1 Period, the accident rate had been reduced by 28%, which was marginally ahead of the target to achieve a 50% reduction by 31 March 2023.

Improving safety performance remains a priority and the way in which this is achieved is set out in the Company's safety and health improvement plan ("SHIP"). The SHIP (which is approved by the Health and Safety Committee) focuses on leadership engagement, supervisory oversight, and workplace risk management. These three areas are supported by driver training, operational safety seminars, stand-down briefings and regular safety reports and newsflashes. One example of a newly developed operational safety seminar held during the year had focused on corporate memory whereby recently qualified engineers were educated on significant historical safety events that had affected the Northern Powergrid Group and other DNOs in order to share best practice and lessons learnt.

The health and wellbeing of staff also forms an integral part of the SHIP. Existing support available to employees includes an independent employee assistance service, which is a confidential, self-referral counselling and information service to assist with personal or work-related problems and access to services including counselling and physiotherapy referrals. Supplementary activity undertaken during the year included a forum held for the Northern Powergrid Group's population of mental health first aiders in order to develop skills and knowledge, and to enhance the approach to protecting and promoting the mental health and wellbeing of employees.

The Company's OHSAS 18001 health and safety management systems successfully transitioned to the new ISO 45001 accreditation scheme to retain external verification of the adequacy of Northern Powergrid Safety Management System.

Employees

Business Plan commitment: To emphasise the importance of leadership and high standards of performance by engaging, collaborating and working with employees and their trade union representatives.

Performance during the year: Following the externally facilitated employee survey conducted in 2018 to benchmark the level of employee engagement against top performing organisations, the Company continued to progress actions to improve communication and to enhance the quality and quantity of time spent discussing personal objectives and development. During 2019, the Northern Powergrid Group invested in various training programmes to enhance the employee experience. This included the introduction of an induction programme, the creation of management training modules on core leadership expectations (CLEs), the establishment of a formal leadership programme aimed at developing emerging talent and a range of Berkshire Hathaway Energy designed leadership modules which were rolled out to people managers.

The Company has adopted the Berkshire Hathaway Energy code of business conduct ("Code of Conduct"), which details the commitment to ethics and compliance with the law, provides reporting mechanisms for known or suspected ethical or legal violations, and establishes minimum standards of behaviour expected of all employees. In support of this, a "speaking up" process is in place enabling all employees to raise concerns of unethical acts, malpractice or impropriety (including bribery or corruption), and an anonymous help line operated by an independent Company is also available.

During the year, 92 new recruits (2018: 82) joined the Company and Northern Powergrid (Northeast) Limited’s workforce renewal programme. At 31 December 2019, the Company had 1,125 employees (2018: 1,148).

ENVIRONMENTAL RESPECT

Strategic objective: Leaders in environmental respect and low carbon technologies.

	2019		2018	
KPI	**Actual**	**Target**	**Actual**	**Target**
Total oil/fluid lost (litres)	18,478	<18,045	20,988	<18,500
SF6 gas discharges (kg)	48.95	<42.00	41.78	<70.00
Environmental incidents	6	<5	8	<5
	2019		**2018**	
Carbon footprint (tonnes)	19,453		19,794	
KWh Energy Consumed	26,274,840		28,518,131	

Note: KWh energy consumed relates to depot energy and fleet fuel usage.

Business Plan commitment: Deliver Environmental “RESPECT” (Responsibility, Efficiency, Stewardship, Performance, Evaluation, Communication and Training) and in doing so reduce oil and fluid loss by 15% and our business carbon footprint by 10% during the ED1 period.

Performance during the year: The Company operates a United Kingdom Accreditation Service scheme for environmental management and is certified to the environmental management systems standard ISO 14001:2015. The ISO 14001 standard is designed to enhance environmental performance, fulfil compliance obligations and achieve environmental objectives, all of which contribute to the achievement of the Company’s KPIs. A full recertification assessment was carried out in March 2017 and surveillance audits are carried out twice per year, the last one being conducted in October 2019. Continued certification was confirmed following each audit.

The Company’s carbon footprint reporting framework is certified under the Certified Emissions Measurement and Reduction Scheme for compliance with ISO 14064-1:2006. The last full audit was undertaken in November 2019, where continued certification was confirmed. Initiatives including the introduction of electric vehicles and the implementation of telematics in all fleet vehicles led to a further improvement in reducing the Company’s carbon footprint during the year to 19,453 tonnes (2018: 19,794 tonnes). This improvement (combined with Northern Powergrid (Northeast) Limited) demonstrated a carbon footprint reduction of 40% during the first half of the ED1 period, well ahead of the original 10% commitment and in line with the 40% stretch target applied for the 2018/19 Regulatory Year.

In support of the target to further reduce oil and fluid loss, the 2019 annual environmental improvement plan included replacing fluid-filled cables and locating cable fluid leaks more quickly which resulted in a total fluid loss of 18,478 litres (2018: 20,988). The total oil and fluid loss target was missed by a small margin due to a number of leaks from underground cables. This combined with SF6 gas discharges resulted in a number of incidents being reported to the Environment Agency which contributed to the Company narrowly missing the Environment Incident target. In relation to the Business Plan commitment, at 31 March 2019, the Company and its affiliate (Northern Powergrid (Northeast) Limited) had achieved a 36% reduction in oil and fluid loss (relative to 1 April 2015). As a consequence, a stretch target of achieving a 47% reduction by the end of the ED1 period was adopted.

To maintain its strict policy of environmental protection and legal compliance, the Company continues to assess environmental risks and mitigate threats through programmes of work such as fluid-filled cable replacement, undergrounding overhead lines in areas of outstanding natural beauty, installing flood defences, implementing secondary containment in high risk substations and removing equipment containing polychlorinated biphenyl from the network. Whilst prevention is paramount, in the event the Company's activity does result in a leak or spill, the services of an appointed 24-hour a day environmental response consultancy is used to minimise the effects of any incident. In addition to safeguarding the environment from its direct activity, the Company also operates a habitats programme which is aimed at protecting flora and fauna.

Sustainability

Strategic focus: To help facilitate the United Kingdom's transition to a low-carbon economy in the Company's capacity as a major participant in the United Kingdom energy industry and in terms of its own carbon footprint.

Performance during the year: As the country takes action to make significant reductions in its carbon emissions following the establishment of a net zero carbon emissions target by 2050, the way in which electricity is produced and used is expected to have a substantial impact on the Network over time. The Company is actively exploring how best to contribute to the achievement of this target through decarbonisation of its own operations, including electrifying the fleet, as well as enabling the uptake of low-carbon technology installations such as photovoltaic solar panels, electric vehicles and heat pumps. The volume and total capacity of decentralised energy generation has also been growing steadily and, given the greater range of load and generation technologies now connected to the Network, the Company is taking action to develop innovative solutions that will reduce the need for traditional and potentially expensive reinforcement of the Network. In the past year the Company has been market testing the provision of flexible solutions, whereby customers are able support the Network during faults by changing their energy usage or utilising their generation assets.

From an innovation perspective, the Company is running a portfolio of projects in the priority areas of smart meters, digital-enabled customer service and affordability. A partnership with Nissan is facilitating new electric vehicle projects for the trialling of 'vehicle to grid' technology to enable car users to supply power to support the Network. In addition, a new project is developing mobile battery technology to expedite the restoration of the electricity supply following a power cut. Collaboration with Northern Gas Networks at the Integrel demonstrator site continues to assess the potential future benefits of integrating both gas and electricity energy systems. The Company is also scoping the role of DSO through a project that explores the value of the transition for customers and to understand the business changes that are required to realise those benefits. In October 2019, the Company published its latest thinking in the DSO v1.1 Development plan.

The Company's climate change adaptation strategy recognises the impact that climate change is anticipated to have on the business, the risks this poses and the proposed actions to mitigate these risks including vegetation management, Network specifications for changing temperatures and improved weather prediction. The installation of flood defences is one such key activity that is already underway and the delivery of the committed programme in the ED1 period remains on track.

REGULATORY INTEGRITY

Strategic objective: Trustworthy, fair and balanced.

KPI: Completion of a quarterly regulatory compliance affirmation process.

Business Plan commitment: To manage the Company's business to the highest behavioural standards and adhere to a policy of strict compliance with all relevant standards, legislation and regulatory conditions.

Performance during the year: In order to assure compliance with licence and other regulatory obligations, the Company operates a regulatory compliance affirmation process, under which ownership of approximately 2,000 regulatory obligations are assigned to around 80 responsible managers. Those responsible managers are required to review compliance with the relevant obligations on a quarterly basis and report on any identified non-compliances or perceived risks which are then addressed by members of the senior management team. To minimise the risk of the Company breaching its licence conditions and other statutory requirements (which could lead to financial penalties), the board review the outcomes of each exercise. Each quarterly regulatory compliance affirmation process was completed satisfactorily during the year.

The Company submitted its annual Data Assurance Report to Ofgem in February 2019, which included risk assessments of the regulatory returns to be submitted in the Regulatory Year ahead (April 2019 - March 2020), together with a report detailing the assurance work actually carried out in the Regulatory Year just ended (April 2018 - March 2019), and the findings of that work.

In December 2019, GEMA published (in May 2019) a decision to apply the same broad methodology that it had developed for electricity transmission and gas distribution. During the year, the level of activity within the regulatory environment intensified as a result of GEMA initiating (in August 2019) the RIIO-ED2 price control review and therefore the process to determine the charges that DNOs are able to levy over the next price control period (1 April 2023 to 31 March 2028).

In support of the preparation for the RIIO-ED2 price control the Company took part in a number of consultations concerning the framework methodology and established a Customer Engagement Group for the purpose of providing challenge to the Company and to ensure that customers' interests are adequately reflected in the RIIO-ED2 business plan.

PRINCIPAL RISKS AND UNCERTAINTIES

The Northern Powergrid Group operates a structured and disciplined approach to the management of risk as part of its overall risk management policy and in support of its financial reporting practices. A robust system is in place to facilitate the identification of new opportunities and risks, including those associated with the achievement of the Northern Powergrid Group's strategic objectives and Core Principles. Once identified, key risks and their respective controls and mitigation plans are continually assessed and formally reviewed by the Risk Advisory Board ("RAB") in order that they are managed to an acceptable level in accordance with the Northern Powergrid Group's risk appetite. The RAB reports its findings to the board on a regular basis to ensure the directors are sufficiently appraised of the risk exposure associated with the pursuit of the Company's long-term strategy.

Supported by the internal audit function, the risk management programme includes regular reviews of the crisis management, disaster recovery and major incident plans. To determine the level of disaster preparedness and responsiveness against threats to business continuity, risk management plans and processes are periodically tested. This self-evaluation approach is reinforced by that of the Berkshire Hathaway Energy group, which benchmarks risk management activities across its business units and shares significant lessons learned.

Principal Risks

Cyber and Information Security
Unauthorised access or compromise of the Information Technology or Operational Technology networks, resulting in loss of network control and availability. Unauthorised access or loss of large volumes of data or sensitive data.

Mitigation
- Robust cyber security risk mitigation programme is in place.
- Accreditation under the ISO 27001 Information Security (process security) standard for certain discrete business areas.
- Compliance with the Centre for Internet Security Critical Security Controls.
- Monitored by the Information Security Executive Committee and the board.

Regulatory and policy positioning
Decisions taken resulting in negative impacts to our business model.

Mitigation
- Northern Powergrid's policy position supporting the expanded role of DSO is being set out.
- Innovation projects in place to develop and demonstrate future technologies and commercial practices.
- The Company engages in a robust regulatory and stakeholder engagement programme.
- The Company is actively involved in consultations on the RIIO-2 price controls.

Network resilience
Loss of the operational network due to significant weather events, targeted physical attack or catastrophic asset failure resulting in sustained or widespread loss of essential supply.

Mitigation
- Major incident and crisis management policies, plans and governance arrangements are in place.
- An industry mutual aid agreement exists.
- Network investment ensures grid resilience.
- Grid resilience programme and audits.

Principal Risks (continued)

Safety
Fatality or serious harm caused to an employee or a third party.

Mitigation
- Overseen by the Health and Safety Committee.
- Clear policies and procedures exist that comply with legislation to ensure the safety of the employees and customers.
- Health and safety training is provided to employees on a continuous basis.
- Audit programme and inspection regimes are in place.
- ISO18001 safety management system in place.

Environment
Failure to prevent network assets from having a significant negative impact on the environment.

Mitigation
- Incident response process and robust policies and procedures in place.
- Programme to reduce fluid loss and the Company's business carbon footprint.
- Investment in technology to minimise environmental incidents and 'self-heal' the network.
- Asset inspection programme.
- ISO14001 environmental management system in place.

Resource availability
Access to and availability of skilled resource resulting in an inability to deliver work programmes during the ED1 period.

Mitigation
- Mix of direct labour and contracted resource is used.
- Workforce renewal programmes in place to recruit and retain employees.
- Ongoing training and development builds internal capability.
- Employee engagement and health and well-being initiatives are in place.

Efficiency and output performance
Failure to maintain cost and output performance competiveness in the industry.

Mitigation
- Robust business planning process.
- Financial controls in place including detailed review of actuals against budget, competitive tendering process, and capital expenditure approvals process.
- Monthly executive business performance review.
- Comprehensive "Efficient Output Delivery" programme.

Principal Risks (continued)

Financial risks
The exposure to interest rate, tax, liquidity and treasury risks.

Mitigation
- Monitored by the Treasury department.
- 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 2019, 100% of the Company's long-term borrowings were at fixed rates and the average maturity for these borrowings was 15 years.
- Financial covenant monitoring is in place.

Brexit
Britain's departure from the European Union

Mitigation
- Brexit is not considered to be a principal risk to the Company.

Pandemic
Infection rate leads to high staff absence.

Mitigation
- Pandemic mitigation plan in place.
- Geographical distribution of facilities and staff.
- Briefings and advice provided.

At the time of writing this report, the Company’s response to the coronavirus pandemic is fully operational. As a provider of a key national infrastructure, the Northern Powergrid Group has robust policies and processes in place to minimise the effect of disruptions to service and has considerable experience of invoking its major incident procedures. The pandemic management plan has been developed to provide a dynamic approach to the way in which the Company is run so as to ensure essential operations are maintained to normal standards whilst supporting the health and well-being of staff. Staff absence has not risen above normal levels. The Company response is aligned to UK Government advice and formulated with the oversight of the Department for Business, Energy & Industrial Strategy.

The Company's revenue derives principally from regulated electricity distribution and this is not expected to be materiality affected by the current pandemic. The regulatory regime allows for the recovery of allowed costs in full over the long term. In addition, the Company has reviewed its liquidity levels and has concluded that these remain sufficient. The Company has access to long-term financing from a range of sources, principally the sterling bond market, which has offered funding at rates commensurate with the Companies' strong credit ratings. The Company continues to monitor cash flows and liquidity.

Internal control
A rigorous internal control environment exists within the Company to support the financial reporting process, the key features of which include regular reporting, a series of operational and financial policies, investigations undertaken by internal audit and a stringent process for ensuring the implementation of internal audit recommendations. In addition, the Company utilises comprehensive business planning procedures, regularly reviews KPIs to assess progress towards its goals, and has a strong internal audit function to provide independent scrutiny. Financial controls include a centralised treasury operations and established procedures for the planning, approving and monitoring of major capital expenditure. The RAB monitors the effectiveness of internal controls and reports on its findings to the board and Berkshire Hathaway Energy.

Controls which are applicable to financial decisions are governed via a schedule of delegations of authority which are approved by the board (and applies to the Northern Powergrid Group) for the purpose of enabling the senior management team to make decisions up to certain financial limits, above which point the decision making reverts to the directors. These limits reflect the board's level of risk appetite and are reviewed on an annual basis.

In accordance with Berkshire Hathaway Energy's requirements to comply with the US Sarbanes-Oxley Act, the Company undertakes a quarterly risk control assessment confirming that the effectiveness of the system of internal controls have been reviewed during the year. A self-certification process is in place, in support of this review, whereby certain senior managers are required to confirm that the system of internal control in their area of the business is operating effectively. Consequently, the directors believe that a robust system of risk assessment and management is in place.

The Northern Powergrid Group does not have a specific human rights policy. However, in accordance with the Core Principles, it remains fully committed to operating ethically and responsibly and with fairness and integrity. This is implemented through the policies and procedures it has in place which are applicable to all stakeholder groups and encompasses employees' health, safety and welfare, dealings with customers (particularly those who are vulnerable), the impact of the Northern Powergrid Group on the environment and the contribution to sustainability.

To ensure that the Northern Powergrid Group maintains the highest level of ethical standards in the conduct of its business, Berkshire Hathaway Energy's Code of Conduct has been adopted, further details of which can be found on page 7. The Northern Powergrid Group has robust procedures in place to meet the requirements of the Bribery Act 2010. Every employee must undertake training in respect of the Northern Powergrid Group's anti-corruption and anti-bribery policy each year.

Viability Statement

The directors have chosen an eight-year period from 1 April 2015 for the purposes of making this statement as it equates to the ED1 period for which the Company's income has been set. Various factors were contemplated when making an assessment of the Company's prospects including the general stability associated with the regulatory environment, the principal risks and uncertainties facing the Company, the Company's business model and strategy, the effect of the coronavirus pandemic upon the Company, the forecasts developed as part of the Annual Plan and the commitments made in the Business Plan. Based on the results of their review, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the ED1 Period.

Section 172(1) statement

The information pursuant to Section 414CZA of the Companies Act 2006 has been reported throughout the Strategic Report, Principal Risks and Uncertainties, Directors Report and Corporate Governance Statement. Consequently, the detail which describes how the directors have had regard to the matters set out in Section 172(1) (a) to (f) when performing their duty under Section 172 can be found on the pages referenced below:

(a) the likely consequences of any decision in the long term; (Page 2)
(b) the interests of the Company's employees; (Pages 6 and 7)
(c) the need to foster the Company's business relationships with suppliers, customers and others; (Pages 4, 5 and 15)
(d) the impact of the Company's operations on the community and the environment; (Pages 4, 5 and 8)
(e) the desirability of the Company maintaining a reputation for high standards of business conduct; and (Page 9)
(f) the need to act fairly as between members of the Company. The Company has one class of ordinary shares which are all held by Yorkshire Electricity Group plc, a company owned by the Northern Powergrid Group.

Approved by the Board on 22 May 2020 and signed on its behalf by:

T E Fielden
Director

The directors present their report together with the auditor's report and the financial statements for the year ended 31 December 2019.

Dividends
During the year, an interim dividend of £32.5 million was paid (2018: £31.2 million). The directors recommend that no final dividend be paid in respect of the year (2018: £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
N M Gill (resigned 30 April 2019)
P A Jones
A J Maclennan
A R Marshall
P C Taylor

During the year, none of the directors had an interest in any contract which was material to the business of the Company.

During the year and up to the date of approval of the Directors Report, 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 developments
The financial position of the Company, as at 31 December 2019, is shown in the statement of financial position on page 29. There have been no significant events since the year end. The directors intend that the Company will continue to implement its well-justified business plan during the remainder of the ED1 price control and by delivering the strategic objectives linked to the Core Principles, the Company will continue to develop its business by efficiently investing in the network and improving the quality of supply and service provided to customers. There are no plans to change the existing business model.

Research and development
The Company supports a programme of research that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. During the year, the Company invested £2.5 million (2018: £3.0 million) (Note 7 to the financial statements) in its research and development activities.

Financial instruments
Details of financial risks are included in the Principal Risks and Uncertainties on page 12 of the Strategic Report and Note 30 to the financial statements on page 68.

As at 31 December 2019 and during the Year it was the Company's policy not to hold any derivative financial instruments.

Employment of disabled persons

The Company's policy is to provide all protected groups, including disabled people, with equality at work in respect of employment, training, career development and promotion, having regard to their aptitudes and abilities. Should any member of staff become disabled during their employment, the Company will make reasonable adjustments, wherever possible.

Engagement with employees

A constitutional framework agreed with trade union representatives exists in respect of employee consultation. The board and senior management team keep employees and trade union representatives informed of and involved as appropriate in developments that may impact them now or in the future. This approach has been chosen as the most effective way of interacting with employees due to the combination of collectively bargained and personal contract holders and is managed by the Director of People and Customer Service.

Employee engagement continues to show improvement with local action plans augmented by routine communication channels including regular staff briefings, meetings with staff and their representatives, and utilising the Northern Powergrid Group's intranet.

During the year, the President and Chief Executive Officer of the Northern Powergrid Group continued to provide employees with updates on the Northern Powergrid Group's financial, organisational, safety and customer service performance through regular electronic briefings. In addition, the executive directors routinely engaged with employees during operational site visits, by alternating their work location between regional offices, at employee events and conferences and meeting new starters through the induction programme.

In accordance with Section 414C of the Companies Act 2006 further disclosures details concerning the Company's relationship with employees (including the principal decisions taken during the year) and information concerning greenhouse gas emissions can be found on pages 6, 7 and 8 of the Strategic Report.

Business relationships

As referenced throughout the Strategic Report, the Company's business model is to provide and maintain a reliable, safe and cost effective Network. To achieve this objective, the Company delivers its service to fulfil the needs of the stakeholders with whom it interacts, a concept which underpinned the formulation of the Business Plan. Consequently, fostering business relationships is a prerequisite of the activity performed by the Company in the pursuit of its goals.

The Company's policy in respect of engaging with stakeholders is governed by the Core Principles and the Code of Conduct. The Core Principle of 'Regulatory Integrity' defines the Northern Powergrid Group's commitment to comply with all laws wherever it does business and the expectation that all employees (including directors) manage their activities in a manner that is compliant with all standards, regulations and corporate policies. In addition, the Code of Conduct requires adherence to the highest level of ethical conduct and fair dealings with all customers, suppliers and competitors.

Relations with suppliers is managed using a supplier registration system which supports a robust and transparent procurement process and ensures strict compliance with the prevention of slavery and human trafficking. As a consequence, the system allows the Company to make informed decisions which align with its values when awarding contracts. When considering suppliers, the board advocates prompt payment practices which are reviewed regularly by the internal audit function and the implementation of procedures to reduce the risk of modern slavery in supply chains - as set out in the Company's annual Modern Slavery Act statement.

Customers, whether they are domestic or commercial, are the primary stakeholder group served by the Company and therefore the services offered are all tailored to provide a benefit or enhance an experience. Further detail of the Company's relationship with customers, the support programmes provided and the decisions made during the year is discussed on pages 4 and 5.

As outlined on page 9, activity in respect of Regulatory Integrity and engagement with Ofgem was prevalent during the year and included participation in various consultations concerning the RIIO-ED2 price control review. Given the implications on the Company's long term strategy, the relationship with Ofgem, the evolving RIIO-ED2 framework and the transition to DSO were regular items on the board agenda throughout the year.

Non-financial information statement
The non-financial reporting information pursuant to Section 414CB of the Companies Act 2006 has been reported throughout the Strategic Report and Principal Risks and Uncertainties. Detail in respect of the relevant policies, risks and associated mitigations and non-financial KPIs can be found on the pages referenced below:

• Business Model: Page 2
• Social Matters: Pages 4 and 5
• Employee: Pages 6 and 7
• Environmental: Pages 7 and 8
• Respect for Human Rights: Page 13
• Anti-Corruption and Anti-Bribery Matters: Page 13

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:

• T E Fielden - Finance Director
• M Knowles - Independent member
• J Reynolds - Non-executive Director (Chairman)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible 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, International Accounting Standard 1 requires that directors:

- 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 entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company 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 the corporate and financial information included on the Company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

The Northern Powergrid Group is financed both in its operating companies and in other entities within the Northern Powergrid Group, and companies may lend within the Northern Powergrid Group. For that reason, financial health is considered with reference to the Northern Powergrid Group. Those entities with net current liabilities position obtaining a letter of support from Northern Powergrid Holdings Company.

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

- The Northern Powergrid Group's main subsidiaries, the Company and Northern Powergrid (Northeast) Limited, are stable electricity distribution businesses operating an essential public service and are 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 the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Northern Powergrid Group is profitable with strong underlying cash flows. Northern Powergrid Holdings Company, a company in the Northern Powergrid Group, the Company and Northern Powergrid (Northeast) Limited hold investment grade credit ratings;
- The Northern Powergrid Group is financed by long-term borrowings with an average maturity of 12 years and has access to short-term committed borrowing facilities of £192 million provided by Lloyds Bank plc, National Westminster Bank plc and Santander UK plc;
- The Northern Powergrid Group plans to issue long-term borrowings within the next 12 months and benefits from strong investment-grade credit ratings which allow access to a range of financing options. Recent successful bond issues by the Northern Powergrid Group and by other issuers in the weeks immediately prior to the date of these accounts suggest that the Northern Powergrid Group's bonds remain attractive to investors;
- The Northern Powergrid Group has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Northern Powergrid Group has sufficient resources to settle its liabilities as they fall due for at least the 12 months from the date of these accounts. The directors have had discussions with the bank who have indicated that they would continue to provide the short-term facilities to the Northern Powergrid Group for the foreseeable future on acceptable terms; and
- Consideration was also given to the obligations contained in the Company's and Northern Powergrid (Northeast) Limited licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Northern Powergrid Group will have sufficient financial and operational resources available for the continuation of business for a period of at least 12 months. The board determined any material variations to the assumptions used when providing those certificates were unlikely within the eight-year period or beyond.

Consequently, after making enquiries, including detailed considerations of the impact of the coronavirus pandemic, 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 financial statements.

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 15 in the Directors Report confirms that, to the best of their knowledge:

• the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
• the strategic report 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 that they face; and
• the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Disclosure of information to the auditor

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

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 22 May 2020 and signed on its behalf by:

T E Fielden
Director

Northern Powergrid (Yorkshire) plc

Independent Auditor's Report to the Members of Northern Powergrid (Yorkshire) plc

1. Opinion

In our opinion the financial statements of Northern Powergrid (Yorkshire) plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of profit or loss;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related Notes 1 to 32.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

2. 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. The non-audit services provided to the company for the year are disclosed in Note 10 to the financial statements. 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.

3. Summary of our audit approach

Key audit matters
The key audit matters that we identified in the current year was:

- Accounting for capital spend - overhead model; and
- Going concern assessment and related disclosures.

Within this report, key audit matters are identified as follows;
(Newly identified)
(Increased level of risk)
(Similar level of risk)
(Reduced level of risk)

Materiality
The materiality that we used in the current year was £7.3m which was determined on the basis of profit before tax.

Scoping
Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Significant changes in our approach
Given the rapid spread of Coronavirus ('Covid-19') after the balance sheet date, and the ongoing uncertainty surrounding its impact, there is an inherent increase in the level of management judgement that has been applied in identifying risks and implications for the Company and determining the appropriateness of the related financial statement disclosures, particularly those relating to going concern. As a result of the increased level of audit effort in this area, we considered this to be a key audit matter.

4. 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.

5. 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.

5.1. Accounting for capital spend- overhead model (similar level of risk)

Key audit matter description
Total additions to property, plant and equipment in the year in Northern Powergrid (Yorkshire) Plc were £258m (2018: £214m) with the majority of the additions to the company's electricity distribution system, as disclosed in Note 12 to the financial statements. These additions include capitalised overheads. A portion of overheads are capitalised to the extent that they are considered to relate to capital additions that have taken place during the year.
The calculation of capitalised overheads remains an area at risk of potential bias due to the level of subjectivity in the percentage of overheads capitalised, which also creates a potential fraud risk. In particular, the key risk is that management's judgement in the percentage amounts capitalised are not reflective of the capital spend, as disclosed in Note 2, including the note relating to critical judgements in applying accounting policies.

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

• We have obtained an understanding of relevant controls surrounding accounting for capital spend;

• We have analysed the capital spend and the overhead allocation percentages in the year and compared these to prior year to identify any unusual fluctuations. We have also analysed current policies in place and assessed their suitability in line with IAS 16, along with reviewing the approach management takes towards assessing capitalised overheads and any changed introduced in the current year;

• We have obtained relevant industry benchmarks for the proportions for capitalisation, using these benchmarks to challenge management as to the appropriateness of their judgements;

• We have performed testing of the total overheads including within the allocation model which are subsequently capitalised based on management's assessment of percentage allocation.

Key observations

No material differences were identified based upon the procedures above. We have therefore concluded that management's overhead capitalisation judgement is reasonable, with policies applied being appropriate and consistent with prior year and IFRS requirements.

5.2. Impact of Covid-19 (newly identified)

Since the balance sheet date, there has been the emergence of a global pandemic of a new strain of Coronavirus. The virus, and responses taken by organisations and governments to manage its spread in markets to which the company and group are exposed have led to increased volatility and economic disruption. The matter is a non-adjusting event since it is indicative of conditions that arose after the reporting period.

Management have ensured that the measurement of assets and liabilities reflects only the conditions that existed at the reporting date. Subsequent to the year end, management have performed procedures to assess the financial and operational impacts of Covid-19, including:

(i) An assessment of operational resilience of the Northern Powergrid Group, challenging internal control and governance, critical business functions ensuring ongoing electricity supply throughout the crisis is maintained;
(ii) Considerations of group solvency, and liquidity projections, including an assessment of the effects on short term and long term cash flow.

In order to fully assess the above, management have made a number of judgements and considered a range of factors. Management have also ran an extensive series of sensitivity analyses, taking into account a number of outcomes and the potential responses to these. Management have placed particular focus on the solvency and liquidity, as these are relevant to assessing the covenants in the group's financing arrangements.

From the considerations undertaken, management believes that the company and the wider Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group") continue to be a going concern due to having robust plans in place to manage liquidity in the short and longer term as well as the stable solvency position of the Northern Powergrid Group. Additionally, the company and group have well-rehearsed business continuity plans which management believe will ensure that the delivery of all business services will continue throughout the crisis.

Management have made disclosures throughout the annual report and financial statements to reflect the results of their assessment, in line with applicable accounting standards, the company law and corporate governance code provisions. Due to the inherent management judgement in the financial statement disclosures, particularly those relating to going concern, and the increased level of audit effort, we considered these to be a key audit matter. Refer to management's disclosure on page 12 of the Strategic report.

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

We have evaluated management's approach to assessing the impact of Covid-19 on the company, challenging the financial statement disclosures through the performance of the following:

• Assessed management's projected cash flows, which include the impact of Covid-19, and have performed sensitivity analysis;
• Challenged management's estimations and judgements used in the forecasting of future cash flows used in the assessment of the group's and company's liquidity;
• Assessed and challenged where new finance is required as part of projected cash flows the impact of not obtaining such finance on the assessment of the group's and company's liquidity;
• Obtained an understanding of relevant controls implemented when forecasting cash flows;
• Assessed the operational impact of Covid-19 on the group and have analysed management's assessment of the ability of the group, and therefore the company, to continue as a going concern;
• Reviewed management's business continuity plans and subsequent changes to those plans as a consequence of a prolonged impact for the Covid-19 pandemic;
• Considered whether plans are in place to ensure the company's continued supply of electricity to customers throughout the impact of the pandemic, including any emergency repair works required;
• Reviewed the most recent Board minutes and regulatory correspondence to identify items of interest;
• Evaluated management's assessment of the impact of the significant business developments that occurred after the year end, including the spread of Covid-19 and the resulting actions taken by the UK Government;
• Challenged management's assessment of the impact of recent events on the carrying value of the company's assets and liabilities; and
• Assessed the disclosure made by management in the financial statements.

Key observations

Based on the procedures performed, we concluded the disclosures related to the potential impact of Covid-19 and going concern are appropriate

6. Our application of materiality

6.1. 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

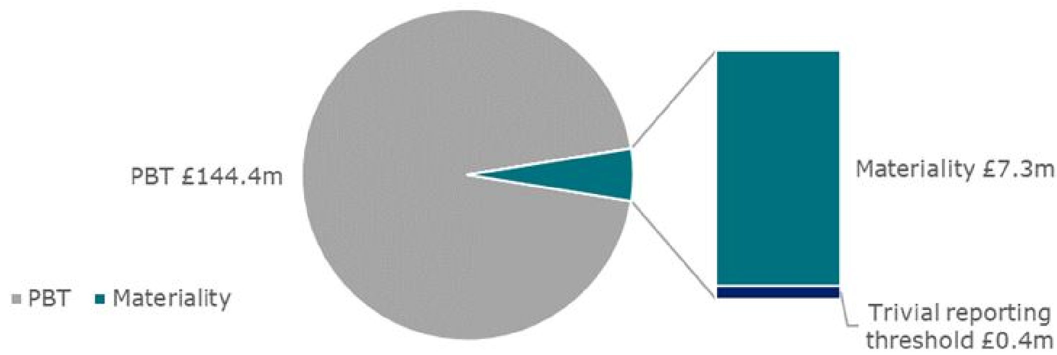
£7.3m (2018:£7.2m)

Basis for determining materiality

5% (2018: 5%) of pre-tax profit earned during the current year.

Rationale for the benchmark applied

As a trading entity, profit is a key driver of the value of the company.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the company's control environment and that we consider it appropriate to rely on controls over revenue and IT business processes. We also considered the level of adjusted and unadjusted misstatements in previous audit engagements.

6.3. Error reporting threshold

We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £0.4m (2018: £0.4m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

The Company operates as a regulated distribution network operator (DNO) in the areas of West Yorkshire, East Yorkshire, and part of South Yorkshire, North Yorkshire, Derbyshire, Nottinghamshire, Lincolnshire and Lancashire in the UK. Our audit was scoped by obtaining an understanding of the Company and its environment, as well as assessing the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatements. Following this assessment and our calculation of materiality, we applied professional judgement to determine the extent of testing required over each balance in the Financial Statements. Audit work to respond to the risks of material misstatements was performed directly by the audit engagement team. There have been no material changes in scope from prior year.

7.2. Our consideration of the control environment

We utilised our IT specialists to assess key controls over the Company's IT systems and we relied on controls over the revenue business cycle. We have considered the control implications of the prior year adjustment outlined within note 4, and discussed these with management.

8. 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 respect of these matters.

9. Responsibilities of directors

As explained more fully in the directors’ responsibilities statement, 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.

10. Auditors 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 and non-compliance with laws and regulations are set out below.

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

11. 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.

11.1. 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, we considered the following:

• the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
• results of our enquiries of management and the Board about their own identification and assessment of the risks of irregularities;
• any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
o identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
o detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
o the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
• the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, valuations, pensions and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: accounting for capital spend-overhead model, given that this involves key and complex judgement by management. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.
In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's operating licence regulated by the Gas and Electricity Markets Authority (GEMA).

11.2. Audit response to risks identified

As a result of performing the above, we identified Accounting for capital spend - overhead model as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

• reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
• 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 Ofgem; 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.

12. 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.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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.

13.2 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 this matter.

14. Other matters

14.1. Auditor tenure

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 22 years, covering the years ending 31 December 1998 to 31 December 2019.

14.2. 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).

15. 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

22 May 2020

Northern Powergrid (Yorkshire) plc
Statement of Profit or Loss for the Year Ended 31 December 2019

	Note	2019 £ 000	Restated (Note 3) 2018 £ 000
Revenue	3, 4	438,497	428,563
Cost of sales		(19,689)	(18,540)
Gross profit		418,808	410,023
Distribution costs	3	(156,221)	(153,168)
Administrative expenses		(68,456)	(68,301)
Operating profit	6	194,131	188,554
Other gains	5	17	62
Finance costs	7	(51,424)	(50,034)
Finance income	7	1,628	1,230
Profit before tax		144,352	139,812
Income tax expense	11	(27,154)	(26,189)
Profit for the year		117,198	113,623

The above results were derived from continuing operations.

Northern Powergrid (Yorkshire) plc
(Registration number: 04112320)
Statement of Financial Position as at 31 December 2019

	Note	31 December 2019 £ 000	Restated (Note 3) 31 December 2018 £ 000	Restated (Note 3) 31 December 2017 £ 000
Assets				
Non-current assets				
Property, plant and equipment	3, 12	3,443,858	3,299,775	3,192,501
Right of use assets	13	7,109	-	-
Intangible assets	3, 14	140	202	600
		3,451,107	3,299,977	3,193,101
Current assets				
Inventories	16	493	943	776
Trade and other receivables	17	69,546	67,974	72,864
Cash and cash equivalents	18	413,738	185,516	186,727
		483,777	254,433	260,367
Total assets		3,934,884	3,554,410	3,453,468
Equity and liabilities				
Equity				
Share capital	19	(290,000)	(290,000)	(290,000)
Retained earnings	20	(1,199,825)	(1,115,127)	(1,032,704)
Total equity		(1,489,825)	(1,405,127)	(1,322,704)
Non-current liabilities				
Long-term lease liabilities		(5,298)	-	-
Loans and borrowings	21	(1,118,381)	(1,024,109)	(1,023,449)
Provisions	23	(555)	(675)	(1,129)
Deferred revenue	3, 25	(821,087)	(809,651)	(800,630)
Deferred tax liabilities	11	(125,537)	(127,174)	(127,963)
		(2,070,858)	(1,961,609)	(1,953,171)
Current liabilities				
Current portion of long-term lease liabilities		(1,905)	-	-
Trade and other payables	24	(84,870)	(90,121)	(96,252)
Loans and borrowings	21	(234,881)	(48,339)	(33,346)
Income tax liability		(19,338)	(17,120)	(17,285)
Deferred revenue	3, 25	(32,034)	(31,085)	(29,835)
Provisions	23	(1,173)	(1,009)	(875)
		(374,201)	(187,674)	(177,593)
Total liabilities		(2,445,059)	(2,149,283)	(2,130,764)
Total equity and liabilities		(3,934,884)	(3,554,410)	(3,453,468)

The notes on pages 33 to 72 form an integral part of these financial statements.

Statement of Financial Position as at 31 December 2019 (continued)

Approved by the Board of Directors on 22 May 2020 and signed on its behalf by:

T E Fielden
Director

Northern Powergrid (Yorkshire) plc
Statement of Changes in Equity for the Year Ended 31 December 2019

	Note	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2019		290,000	1,115,127	1,405,127
Profit for the year		-	117,198	117,198
Total comprehensive income		-	117,198	117,198
Dividends	27	-	(32,500)	(32,500)
At 31 December 2019		290,000	1,199,825	1,489,825

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018	290,000	1,032,704	1,322,704
Profit for the year	-	113,623	113,623
Total comprehensive income	-	113,623	113,623
Dividends (Note 27)	-	(31,200)	(31,200)
At 31 December 2018	290,000	1,115,127	1,405,127

Northern Powergrid (Yorkshire) plc
Statement of Cash Flows for the Year Ended 31 December 2019

	Note	2019 £ 000	Restated (Note 3) 2018 £ 000
Cash flows from operating activities			
Profit for the year		117,198	113,623
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	3, 6	110,648	108,457
Depreciation on right of use assets	6	1,846	-
Amortisation of deferred revenue	3, 6	(31,373)	(30,138)
Profit on disposal of property plant and equipment	5	(17)	(62)
Finance income	7	(1,628)	(1,230)
Finance costs	7	51,424	50,034
Income tax expense	11	27,154	26,189
		275,252	266,873
Decrease/(increase) in inventories	16	450	(167)
(Increase)/decrease in trade and other receivables	17	(1,340)	4,616
(Decrease)/increase in trade and other payables	24	(357)	2,141
Increase/(decrease) in provisions	23	44	(320)
Cash generated from operations		274,049	273,143
Income taxes paid		(26,574)	(27,143)
Net cash flow from operating activities		247,475	246,000
Cash flows used in investing activities			
Acquisitions of property plant and equipment		(249,916)	(217,867)
Proceeds from sale of property plant and equipment	5	17	62
Acquisition of intangible assets	14	(21)	(23)
Receipt of customer contributions		35,703	36,051
Interest received	7	1,556	1,158
Dividend income	7	72	72
Net cash flows used in investing activities		(212,589)	(180,547)
Cash flows used in financing activities			
(Repayment)/proceeds from short-term borrowing		(15,000)	15,000
Interest expense on leases	7	(232)	-
Interest paid	7	(50,745)	(50,464)
Proceeds from bank borrowing draw downs		293,565	-
Payments to finance lease creditors		(1,752)	-
Dividends paid	27	(32,500)	(31,200)
Net cash flows used in financing activities		193,336	(66,664)
Net movement in cash and cash equivalents		228,222	(1,211)
Cash and cash equivalents at 1 January	18	185,516	186,727
Cash and cash equivalents at 31 December	18	413,738	185,516

The notes on pages 33 to 72 form an integral part of these financial statements.

1 General information

The Company is a public Company, incorporated under the Companies Act 2006, England and Wales and registered in England.

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 under the historical cost convention as modified by financial instruments at fair value.

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 under the terms of section 400 of the companies act 2006.

The Company is exempt from preparing group financial statements as it is a wholly owned subsidiary of a parent undertaking preparing group financial statements. Further details of the registered address and parent company are available in Note 32.

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

The Northern Powergrid Group is financed both in its operating companies and in other entities within the Northern Powergrid Group, and companies may lend within the Northern Powergrid Group. For that reason, financial health is considered with reference to the Northern Powergrid Group. Those entities with net current liabilities position obtaining a letter of support from Northern Powergrid Holdings Company.

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

- The Northern Powergrid Group's main subsidiaries, the Company and Northern Powergrid (Northeast) Limited, are stable electricity distribution businesses operating an essential public service and are 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 the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Northern Powergrid Group is profitable with strong underlying cash flows. Northern Powergrid Holdings Company, a company in the Northern Powergrid Group, the Company and Northern Powergrid (Northeast) Limited hold investment grade credit ratings;

2 Accounting policies (continued)

- The Northern Powergrid Group is financed by long-term borrowings with an average maturity of 12 years and has access to short-term committed borrowing facilities of £192 million provided by Lloyds Bank plc, National Westminster Bank plc and Santander UK plc;
- The Northern Powergrid Group plans to issue long-term borrowings within the next 12 months and benefits from strong investment-grade credit ratings which allow access to a range of financing options. Recent successful bond issues by the Northern Powergrid Group and by other issuers in the weeks immediately prior to the date of these accounts suggest that the Northern Powergrid Group's bonds remain attractive to investors;
- The Northern Powergrid Group has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Northern Powergrid Group has sufficient resources to settle its liabilities as they fall due for at least the 12 months from the date of these accounts. The directors have had discussions with the bank who have indicated that they would continue to provide the short-term facilities to the Northern Powergrid Group for the foreseeable future on acceptable terms; and
- Consideration was also given to the obligations contained in the Company's and Northern Powergrid (Northeast) Limited licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Northern Powergrid Group will have sufficient financial and operational resources available for the continuation of business for a period of at least 12 months. The board determined any material variations to the assumptions used when providing those certificates were unlikely within the eight-year period or beyond.

Consequently, after making enquiries, including detailed considerations of the impact of the coronavirus pandemic, 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 financial statements.

Critical judgements in applying accounting policies

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

Split of operating and capital expenditure and the allocation of overheads to property, plant and equipment

The allocation of overheads to property, plant and equipment which results in higher capital expenditure and a reduction in operating costs. Costs are capitalised where it is probable that future economic benefits associated with the asset will flow to the enterprise; and the cost of the item can be reliably measured.

The allocation of overheads to capital is derived from a detailed analysis of the costs and their relevant cost drivers, which is reviewed on an annual basis. There has been no change in the methodology since the prior year.
The amounts of overheads capitalised in the year was £49.5 million (2018: £47.9 million). This was an increase from 69.4% to 70.6%.

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.

Changes in accounting policy

New standards, interpretations and amendments effective

The following have been applied for the first time from 1 January 2019 and have had an effect on the financial statements:

Changes resulting from adoption of IFRS 16

IFRS 16 Leases became mandatorily effective on 1 January 2019. The company has applied this for the first time in this accounting period which resulted in changes to the accounting policies.

2 Accounting policies (continued)

The Company has applied IFRS 16 using the cumulative catch-up approach which:

a. Requires the Company to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening balance of retained earnings at the date of initial application; and

b. Does not permit restatement of comparatives, which continue to be presented under IAS17 and IFRS4.

The date of initial application of IFRS16 is 1 January 2019. 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. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The Company has taken a practical expedient to not reassess whether a contract is/or contains lease.

Measurement and Recognition

Applying IFRS 16, for all leases (except as noted below), the Company recognises right-of-use assets which include buildings and fleet vehicles.The Company has no lease incentives. The right-of-use assets are initially measured at the amount of lease liability plus any initial direct costs incurred by the lessee. Subsequently, the assets are measured under fair value method. The corresponding lease liability is initially measured at present value of all lease payments over lease term and can be restated if the terms or other criteria of contract change.

Applying IFRS16 the Company:

a. Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit and loss;
b. Separates the total amount of cash paid into a principal portion (presented with financial activities), and interest (presented in financial activities) in the consolidated statement of cash flows.

The Company has taken practical expedients as per below:

-For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes personal computers, small items of office furniture and telephones), the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within ‘other expenses’ in profit or loss; and

-Applies single discount rate to a portfolio of leases;

-Uses hindsight to determine the lease term when contract contains options to extend or terminate the lease;
Excludes indirect cost from the measurement of the right-of-use assets at the date of initial application;

-Adjusts right of use asset by provision for onerous leases as an alternative to performing an impairment review;

-The weighted average lessee’s incremental borrowing rate applied to determine the present value of the lease liabilities on 1 January 2019 was 3.48%.

The Company recognised lease liabilities in relation to leases that were classified as ‘operating leases' under the principles of IAS 17 - Leases. On transition, an additional £Nil (2018 - £Nil) of right-to-use assets and £Nil (2018 - £Nil) of lease liabilities were recognised with the difference allocated to retained earnings.

2 Accounting policies (continued)

	As originally reported 31 December 2018 £ 000
Operating lease commitments at 31 December 2018	11,094
Operating lease commitments discounted at the incremental borrowing rate	8,989
Recognition exemption for short-term leases	(3,057)
Lease liabilities recognised at 1 January 2019	5,932

These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average rate applied was 3.48%.

Right-of-use assets are depreciated over the shorter of the useful life of the asset and the lease term. For information regarding depreciation charge per class of asset and carrying value, please refer to Note Right of use assets. For cash flows relating to leases please refer to the statement of cash flows on page 28.

Other amendments
The consequential amendments to IAS 28, IAS 19, IFRS 9 and IFRIC 23 have had no material effect on the financial statements including the comparatives and therefore no restatement is required.

None of the other standards, interpretations and amendments effective for the first time from 1 January 2019 have had a material effect on the financial statements. None of the amendments effective for periods beginning on or after 1 January 2020, as listed below, are expected to have a material impact on the financial statements.

Effective for periods beginning on or after 1 January 2020
• Amendments to IFRS 3- Definition of a business;
• Amendments to IAS 1 and IAS 8- Definition of material; and
• Amendments to References to the Conceptual Framework in IFRS Standards;
• Amendments to IFRS 9 Financial instruments- Hedging

Revenue recognition

Recognition
The company earns revenue from the provision of services relating to Revenue from a contract to provide services is recognised by the following means:
- Distribution use of system income is recognised on a per GWh basis;
- Customer contributions for connections are amortised over the life of the corresponding asset;
- Meter asset provision are recognised over time;
- Intercompany recharges for services provided are based on costs incurred; and
- Other revenue includes assessment and design fees and disconnections from the network, these are recognised by reference to the proportion of total costs of providing the service.

This revenue is recognised in the accounting period when the services are rendered at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to customers.

The principles in IFRS are applied to revenue recognition criteria using the following 5 step model:

1. Identify the contracts with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

2 Accounting policies (continued)

Fee arrangements
Below are details of fee arrangements and how these are measured and recognised, for revenue from the provision of services:

- For regulated fees the revenue for the service is recognised on the basis of agreed charging methodologies on a per GWh basis.
- For fixed fee for connection the revenue is recognised over the life of the corresponding asset.
- For fixed fee arrangements from services revenue is recognised based on the stage of completion and performance obligations met for actual services provided as a proportion of the total fixed fee agreed in the contract.
- For fee for service (time) revenue is recognised by time performed on the contract to the year end date using contractual rates specified in the contract.

The main performance obligations in contracts consist of the provision of a distribution network to electricity suppliers. For these contracts, through the distribution and connection use of system agreement (DCUSA) the delivery of performance obligations are measured at the balance sheet date by the number of GWh distributed by the system.

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

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other 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.

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.

2 Accounting policies (continued)

Property, plant and equipment
Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

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

Depreciation
Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives. Depreciation is recognised on a straight line basis as follows:

Asset class	***Depreciation rate***
Distribution system assets	45 years
Distribution generation assets	15 years
Metering equipment included in distribution system assets	up to 5 years
Information technology equipment included in distribution system assets	up to 10 years
Buildings - freehold	up to 60 years
Buildings - leasehold	lower of lease period or 60 years
Furniture, Fixtures and fittings	up to 10 years

Intangible assets
An internally generated intangible asset arising from development is recognised if the conditions set out in IAS 38 relating to the recognition of intangible assets are met. The amount initially recognised for internally-generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	***Amortisation method and rate***
Software development costs	up to 10 years

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.

2 Accounting policies (continued)

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.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the average cost method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

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.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Northern Powergrid Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Leases
For lessees, all leases will be recorded on the balance sheet as liabilities, at the present value of the future lease payments, along with an asset reflecting the right to use the asset over the lease term. Short term leases (a lease that, at the commencement date has a lease term of 12 months or less) and low value leases will be excluded.

2 Accounting policies (continued)

Impairment of non-financial assets
At the balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Northern Powergrid Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Where the recoverable amount is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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.

Dividends
Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Defined benefit pension obligation
The Company contributes to the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "DB Scheme"), a defined benefit scheme that shares risk between various entities under common control. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities and accordingly the Company financial statements account for the DB Scheme as if it were a defined contribution scheme.

Contributions to the DB Scheme are charged to the statement of profit or loss. The capital costs of ex-gratia and supplementary pensions are normally charged to the statement of profit or loss in the period in which they are granted.

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

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 FVTPL:
· 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;

(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 FVTPL, 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 2019 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.

Definition of default
The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are not recoverable:

- when there is a breach of financial covenants by the debtor; and
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full.

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 and 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 Prior period adjustment

Adopted assets and intangible assets

The Financial Statements have been restated to incorporate the impact of under reporting of the value of distributions network assets adopted from other parties and the reclassification of IT software assets from property, plant and machinery to intangible assets.

Distribution network assets are on occasions constructed by other parties who then transfer them to the group. At the date of transfer the value of property, plant and equipment is increased with an equal increase in the value of deferred revenue. The assets are depreciated in line with the depreciation policy for those assets with a similar amortisation of the deferred revenue. It was discovered during the year that not all adopted assets had been captured in the Financial Statements. A new process has been introduced during 2020.

In previous years certain operational IT software assets had been included in property plant and equipment rather than intangible assets.

These had no impact on prior years' profits or net assets, however impacts the constituent parts of the previously reported figures in the Income Statement and Statement of Financial Position. The impact on the Income Statement and the Statement of Financial Position is shown below:

Statement of Profit or Loss:

	2019 £ 000	2018 £ 000
Revenue	1,894	1,787
Distribution costs	(1,894)	(1,787)
Profit for the year	-	-

Statement of Financial Position:

	2018 £ 000	2017 £ 000
Property, plant and equipment	21,695	21,885
Intangibles	186	600
Deferred revenue non-current	(19,973)	(20,591)
Deferred revenue current	(1,908)	(1,894)
Total equity and liabilities	-	-

4 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2019 £ 000	Restated (Note 3) 2018 £ 000
Distribution use of system revenue	384,114	376,885
Amortisation of deferred revenue	31,373	30,138
Work for related parties	11,323	12,124
Other revenue	11,687	9,416
	438,497	428,563

Segmental analysis

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 and Northern Powergrid (Northeast) Limited, another distribution network operator in the Northern Powergrid Group, suggesting that no segmental reporting is required.

Revenue, profit before tax and net assets are attributable to electricity distribution. Revenue is all in respect of sales to United Kingdom customers.

5 Other gains and losses

The analysis of the Company's other gains and losses for the year is as follows:

	2019 £ 000	2018 £ 000
Gain on disposal of property, plant and equipment	17	62

6 Operating profit

Arrived at after charging/(crediting)

	2019 £ 000	Restated (Note 3) 2018 £ 000
Depreciation expense	110,565	108,036
Depreciation on right-of-use asset	1,846	-
Amortisation expense	83	421
Amortisation of deferred revenue	(31,373)	(30,138)
Research and development cost	2,500	2,954
Operating lease expense - other	-	4,898
Loss allowance on trade and other receivables	(283)	1,207

Amortisation expense is included in administration costs in the statement of profit or loss on page 28.

7 Finance income and costs

	2019 £ 000	2018 £ 000
Finance income		
Interest income on financial assets measured at amortised cost	6	3
Dividend income from equity investments designated at FVTPL	72	72
Other finance income	1,550	1,155
Total finance income	1,628	1,230
Finance costs		
Interest on bank overdrafts and borrowings	(52,907)	(51,268)
Borrowing costs included in cost of qualifying asset	1,715	1,234
Interest expense on leases	(232)	-
Total finance costs	(51,424)	(50,034)
Net finance costs	(49,796)	(48,804)

Borrowing costs included in the costs of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.87% (2018: 4.79%) to expenditure on such assets.

8 Staff costs

	2019 £ 000	2018 £ 000
Salaries	57,590	57,384
Social security costs	6,579	6,551
Defined benefit pension costs	15,477	16,450
Defined contribution pension costs	3,688	3,188
	83,334	83,573
Less charged to plant, property and equipment	(48,085)	(47,846)
	35,249	35,727

A large proportion of the Company's employees are members of the DB Scheme, most of the remaining employees are members of the Northern Powergrid Pension Scheme, details of both are given in the employee benefits note 26.

The monthly average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2019 No.	2018 No.
Technical	385	387
Industrial	537	561
Administration and support	84	92
Other departments	113	114
	1,119	1,154

9 Directors and other key personnel remuneration

The directors' remuneration for the year was as follows:

	2019 £ 000	2018 £ 000
Remuneration	1,222	1,452

During the year the number of directors who were receiving retirement benefits was as follows:

	2019 No.	2018 No.
Accruing benefits under defined benefit pension scheme	-	1
Accruing benefits under money purchase pension scheme	4	4

In respect of the highest paid director:

	2019 £ 000	2018 £ 000
Short-term employee benefits	373	365
Long-term benefits	425	475
	798	840

9 Directors and other key personnel remuneration (continued)

In respect of other key personnel:

	2019 £ 000	2018 £ 000
Short-term employee benefits	439	407
Post retirement benefits - defined benefit	29	31
Post retirement benefits - defined contribution	44	40
Long-term benefits	213	206
	725	684

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

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

Long-term benefits relate to deferred bonus plan vested over the period of the plan.

10 Auditor's remuneration

	2019 £ 000	2018 £ 000
Audit of the financial statements	124	121
Other audit services	46	45
Non-audit services	32	31
Total fees payable to the Company's auditor	202	197

Other includes audit related regulatory reporting.

11 Income tax

Tax charged/(credited) in the income statement

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax	28,436	26,908
UK corporation tax adjustment to prior periods	356	70
	28,792	26,978
Deferred taxation		
Arising from origination and reversal of temporary differences	(867)	(264)
Deferred tax adjustment to prior periods	(489)	(328)
Effect of changes in legislation	(282)	(197)
Total deferred taxation	(1,638)	(789)
Tax expense in the income statement	27,154	26,189

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2018 - lower than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	2019 £ 000	2018 £ 000
Profit before tax	144,352	139,812
Corporation tax at standard rate	27,427	26,564
Increase in current tax from adjustment for prior periods	356	70
Deferred tax expense due to over provision for prior years	(489)	(328)
Effect of income and expenses not deductible in determining taxable profit	(35)	54
Deferred tax credit relating to lower tax rates	160	72
Decrease in deferred tax due to changes to legislation	(282)	(197)
Other	17	(46)
Total tax charge	27,154	26,189

Finance Bill 2016 included provisions to reduce the main rate of corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the cut in the rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%. As this has not been enacted by the balance sheet date, balances as at 31 December 2019 continue to be measured at 17%, the amended tax rate would cause a £14.8 million increase in the deferred tax liability.

There is no uncertainty over the acceptable income tax treatment. Should any uncertainties arise the company will apply adopted amendments to IFRIC 23

11 Income tax (continued)

Deferred tax

Deferred tax assets and liabilities

Deferred tax movement during the year:

	At 1 January 2019 £ 000	Recognised in income £ 000	At 31 December 2019 £ 000
Accelerated tax depreciation	127,473	(1,406)	126,067
Other	(299)	(231)	(530)
Net tax liabilities	127,174	(1,637)	125,537

Deferred tax movement during the prior year:

	At 1 January 2018 £ 000	Recognised in income £ 000	At 31 December 2018 £ 000
Accelerated tax depreciation	128,177	(705)	127,472
Other	(214)	(84)	(298)
Net tax liabilities	127,963	(789)	127,174

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

12 Property, plant and equipment- (Restated- Note 3)

	Land and buildings £ 000	Distribution system £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation				
At 1 January 2018	4,505	4,086,849	37,220	4,128,574
Prior period adjustment	-	20,621	-	20,621
At 1 January 2018 (restated)	4,505	4,107,470	37,220	4,149,195
Additions (restated)	-	212,940	2,370	215,310
Disposals	-	(13,330)	(230)	(13,560)
As at 31 December 2018 (restated)	4,505	4,307,080	39,360	4,350,945
At 1 January 2019	4,505	4,307,080	39,360	4,350,945
Additions	-	251,354	3,294	254,648
Disposals	-	(14,909)	(67)	(14,976)
At 31 December 2019	4,505	4,543,525	42,587	4,590,617
Depreciation				
At 1 January 2018	2,593	928,370	26,995	957,958
Prior year adjustment	-	(1,264)	-	(1,264)
At 1 January 2018 (restated)	2,593	927,106	26,995	956,694
Charge for year (restated)	177	104,216	3,643	108,036
Eliminated on disposal	-	(13,330)	(230)	(13,560)
As at 31 December 2018 (restated)	2,770	1,017,992	30,408	1,051,170
At 1 January 2019	2,770	1,017,992	30,408	1,051,170
Charge for the year	178	106,656	3,731	110,565
Eliminated on disposal	-	(14,909)	(67)	(14,976)
At 31 December 2019	2,948	1,109,739	34,072	1,146,759
Carrying amount				
At 31 December 2018 (restated)	1,735	3,289,088	8,952	3,299,775
At 31 December 2019	1,557	3,433,786	8,515	3,443,858

12 Property, plant and equipment- (Restated- Note 3) (continued)

Expenditure recognised in the carrying amount of property, plant and equipment in the course of construction:

	31 December 2019 £ 000	31 December 2018 £ 000
Distribution system	191,350	163,969

Contractual commitments for the acquisition of property, plant and equipment:

	31 December 2019 £ 000	31 December 2018 £ 000
Distribution system	49,600	32,500

13 Right of use assets

	Property £ 000	Fleet £ 000	Total £ 000
Cost or valuation			
Opening balance upon adoption of new standard	474	5,438	5,912
Additions	-	3,043	3,043
At 31 December 2019	474	8,481	8,955
Depreciation			
Charge for the year	132	1,714	1,846
At 31 December 2019	132	1,714	1,846
Carrying amount			
At 31 December 2019	342	6,767	7,109

14 Intangible assets (Restated- Note 3)

	Internally generated software development costs £ 000
Cost or valuation	
At 1 January 2018	29,497
Prior period adjustment	5,359
At 1 January 2018 (restated)	34,856
Additions	23
At 31 December 2018 (restated)	34,879
At 1 January 2019	34,879
Additions	21
At 31 December 2019	34,900
Amortisation	
At 1 January 2018	29,497
Prior period adjustment	4,759
At 1 January 2018 (restated)	34,256
Amortisation charge (restated)	421
At 31 December 2018 (restated)	34,677
At 1 January 2019	34,677
Amortisation charge	83
At 31 December 2019	34,760
Carrying amount	
At 1 January 2018 (restated)	600
At 31 December 2018 (restated)	202
At 31 December 2019	140

15 Investments

Associates

Details of the associates as at 31 December 2019 are as follows:

Name of associate	Principal activity	Registered office	Ownership interest and voting rights held 2019	2018
Electralink Limited +	Data transfer network operator	Northumberland House, 303-306 Holborn, WC1V 7JZ, England and Wales	7.2%	7.2%
MRA Service Company Limited +	Governance of the electricity industry's Master Registration Agreement	8 Fenchurch Place, London, EC3M 4AJ, England and Wales	0.39%	0.39%
DCUSA Limited +	Governance of Distribution Connection and Use of System Agreement	Northumberland House, 303-306 Holborn, WC1V 7JZ, England and Wales	1.69%	1.69%

+ indicates accounted for using the equity method

16 Inventories

	31 December 2019 £ 000	31 December 2018 £ 000
Work in progress	493	943

17 Trade and other receivables

	31 December 2019 £ 000	31 December 2018 £ 000
Distribution use of system receivables	62,310	59,546
Trade receivables	4,590	5,862
Loss allowance	(1,979)	(2,315)
Net trade receivables	64,921	63,093
Accrued income	392	248
Prepayments	4,233	4,633
	69,546	67,974

The average credit period on receivables is 30 days. Interest is charged on overdue distributions use of system receivables.

The Company always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

As the Company's historical credit loss experience does show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is distinguished between DUoS receivables, non-damages receivables, and damages receivables.

Movement in the loss allowance

	31 December 2019 £ 000	31 December 2018 £ 000
At 1 January	2,315	1,177
Amounts utilised/written off in the year	(53)	(69)
Amounts recognised in the statement of profit or loss	(283)	1,207
At 31 December	1,979	2,315

The loss allowance is made on amount due net of VAT which would be recoverable from Her Majesty's Revenue and Customs when the debt is written off.

17 Trade and other receivables (continued)

Distribution use of system receivables

The customers served by the Company's distribution network are supplied predominantly by a small number of electricity supply businesses with RWE NPower plc accounting for approximately 17% of distribution revenues in 2019 (2018: 19%) and British Gas pic accounting for approximately 12% of distribution revenues in 2019 (2018: 13%). Ofgem has determined a framework which sets credit limits for each supply business based on its credit rating or payment history and requires them to provide credit cover if their value at risk (measured as being equivalent to 45 days usage) exceeds the credit limit. Acceptable credit typically is provided in the form of a parent company guarantee, letter of credit or an escrow account.

Provided the Company has implemented credit control, billing and collection processes in line with best practice guidelines and can demonstrate compliance with the guidelines or is able to satisfactorily explain departure from the guidelines, any losses arising from supplier default will be recovered through an increase in future allowed income. Losses incurred to date have not been material therefore no ECL has been made on DUoS balances.

The following table details the age of DUoS receivables:

2019	Not due £ 000	Current £ 000	1-3 months £ 000	3-6 months £ 000
Total balance	35,509	24,449	81	2,271
Less specific provisions	-	(70)	(69)	(1,219)
Balance on which ECL made	35,509	24,379	12	1,052
Expected credit loss	-	-	-	-

2018	Not due £ 000	Current £ 000	1-3 months £ 000	3-6 months £ 000
Total balance	34,823	24,179	19	473
Less specific provisions	-	(277)	(14)	(468)
Balance on which ECL made	34,823	23,902	5	5
Expected credit loss	-	-	-	-

Other trade receivables

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

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £1.6m (2018: £1.2m), which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

17 Trade and other receivables (continued)

Non-damages

2019	**Not due £ 000**	**Current £ 000**	**1-6 months £ 000**	**6-12 months £ 000**	**Over 1 year £ 000**
Total balance	102	217	392	190	397
Less specific provisions	-	-	-	-	-
Balance on which ECL made	102	217	392	190	397
Lifetime ECL	0%	0%	0%	15%	20%
Expected credit loss	-	-	-	29	79

2018	**Not due £ 000**	**Current £ 000**	**1-6 months £ 000**	**6-12 months £ 000**	**Over 1 year £ 000**
Total balance	389	227	396	86	365
Less specific provisions	-	-	-	-	-
Balance on which ECL made	389	227	396	86	365
Lifetime ECL	0%	0%	0%	15%	20%
Expected credit loss	-	-	-	13	73

Damages

2019	**1-6 months £ 000**	**6-12 months £ 000**	**1-2 years £ 000**	**2-3 years £ 000**	**Over 3 years £ 000**
Total balance	830	529	790	96	90
Less specific provisions	(913)	(458)	(813)	(78)	(144)
Balance on which ECL made	(83)	71	(23)	18	(54)
Lifetime ECL	10%	10%	15%	30%	60%
Expected credit loss	(8)	7	(3)	5	(32)

2018	**1-6 months £ 000**	**6-12 months £ 000**	**1-2 years £ 000**	**2-3 years £ 000**	**Over 3 years £ 000**
Total balance	1,189	1,038	936	504	37
Less specific provisions	-	(122)	(162)	(424)	-
Balance on which ECL made	1,189	916	774	80	37
Lifetime ECL	10%	10%	15%	30%	60%
Expected credit loss	119	92	116	24	22

There has been no significant change in the gross amounts of trade receivables that has affected the estimation of loss allowance.

17 Trade and other receivables (continued)

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on a financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment the Company considers historical experience as well as forward-looking information that is available without undue cost or effort. Forward-looking information includes the future prospects of the industries in which the Company's debtors operate obtained from economic expert reports, financial analysts, government bodies, relevant think-tanks and other similar organisations. In particular the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Sales of goods and services comprise all income streams which are not classified as DUoS income. Examples of non-DUoS income streams would be service alterations/disconnections, assessment and design fees, and recovery of amounts for damage caused by third parties to the distribution system. The average credit period on sales of goods and services is 30 days. Interest is not generally charged on the trade receivables paid after the due date.

18 Cash and cash equivalents

	31 December 2019 £ 000	31 December 2018 £ 000
Cash at bank	63	-
Other cash and cash equivalents	413,675	185,516
	413,738	185,516

19 Share capital

Authorised, allotted, called up and fully paid shares

	31 December 2019 No.	31 December 2019 £	31 December 2018 No.	31 December 2018 £
Ordinary Share Capital of £1 each	290,000,000	290,000,000	290,000,000	290,000,000

20 Reserves

	Retained earnings £ 000
At 1 January 2019	1,115,127
Profit for the year	117,198
Total comprehensive income	117,198
Dividends	(32,500)
At 31 December 2019	1,199,825

	Retained earnings £ 000
At 1 January 2018	1,032,704
Profit for the year	113,623
Total comprehensive income	113,623
Dividends	(31,200)
At 31 December 2018	1,115,127

21 Loans and borrowings

	31 December 2019 £ 000	31 December 2018 £ 000
Non-current loans and borrowings	1,118,381	1,024,109
Current loans and borrowings	234,881	48,339
	1,353,262	1,072,448

	Book value		Fair value	
	31 December 2019 £ 000	31 December 2018 £ 000	31 December 2019 £ 000	31 December 2018 £ 000
Short-term loan	6	15,011	6	15,011
2020- 9.25% bonds	217,671	217,523	217,671	233,150
2035- 5.125% bonds	204,249	204,140	284,817	262,853
2032- 4.375% bonds	150,919	150,783	191,422	179,120
2022- European Investment Bank 4.133%	153,746	153,728	164,505	168,187
2025- 2.5% bonds	151,304	151,038	159,997	155,236
2027- European Investment Bank 2.564%	130,139	130,139	139,512	137,324
2025- European Investment Bank 2.073%	50,086	50,086	51,690	49,616
2059- 2.25% bonds	295,142	-	295,919	-
	1,353,262	1,072,448	1,505,539	1,200,497

21 Loans and borrowings (continued)

The fair value of liabilities set out above is based on Level 1 inputs.

Short term loan is made up of accrued fees on the Revolving Credit Facility.

The fair value of the bonds is determined with reference to quoted market prices. The directors estimates of the fair value of bank loans and internal borrowings are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments. The fair value of short-term borrowings is equal to their book value. All loans are non-secured and are denominated in sterling.

The company's exposure to market and liquidity risk; including maturity analysis, in respect of loans and borrowings is disclosed in financial risk review Note 30.

22 Obligations under leases and hire purchase contracts

Lease commitments

Leases primarily relate to the hire of fleet vehicles and the rental of operational land. The vehicle leases have terms between 2 and 7 years. The Company does not have the option to purchase the vehicles at the end of the lease term.

The operational land lease are between 10 and 999 years, but in the majority are between 20 and 60 years. As the leases are regarded as a business tenancy, the Company has the option to renew the lease under the 1954 Landlord and Tenant Act unless a landlord is to redevelop or has grounds to recover land as prescribed under the Act, and may acquire the freehold at any time by agreement. The Company also has the ability to compulsory purchase the freehold.

The total future value of minimum lease payments is as follows:

	31 December 2019 £ 000	31 December 2018 £ 000
Within one year	2,118	3,057
In two to five years	5,303	7,337
In over five years	319	700
	7,740	11,094

23 Other provisions

	Claims £ 000	Other provisions £ 000	Total £ 000
At 1 January 2019	516	1,168	1,684
Additional provisions	1,555	525	2,080
Provisions used	(1,296)	(740)	(2,036)
At 31 December 2019	775	953	1,728
Non-current liabilities	-	555	555
Current liabilities	775	398	1,173

23 Other provisions (continued)

Claims: Provision has been made to cover costs arising from utility damages, public liability, and motoring third party claims, which are not externally insured. Settlement is expected substantially within 12 months.

Other: Primarily consists of a provision for future safe disposal of transformers which contain oil contaminated with Polychlorinated Biphenyls (PCBs) and for an amount to cover claims made under Section 74 of the New Road and Street Works Act 1991. Costs are expected to be incurred over the next 5 years.

24 Trade and other payables

	31 December 2019 £ 000	31 December 2018 £ 000
Payments on Account	39,733	47,517
Trade payables	838	1,200
Accrued expenses	6,946	5,416
Capital Accruals	25,765	22,748
Social security and other taxes	7,906	9,698
Other payables	3,682	3,542
	84,870	90,121

.The Company's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in the financial risk review Note 30.

25 Deferred revenue

	31 December 2019 £ 000	Restated (Note 3) 31 December 2018 £ 000
Current	32,034	31,085
Non-current	821,087	809,651
	853,121	840,736

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

26 Pension and other schemes

Defined contribution pension scheme
The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £3.7m (2018: £3.2m). The pension cost for 2020 is expected to be £3.9m.

Defined benefit pension scheme
The Company operates a defined benefit pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £15.5m (2018: £16.4m). The pension cost for 2020 is expected to be £15.3m.

During the year ended 31 December 2019, the Company participated in a scheme which is part of the Northern Powergrid Group of the Electricity Supply Pension scheme (the "DB Scheme"). The defined benefit sections of the scheme are contracted out of the State Second pension Scheme and provide benefits based on a member's final permissible salary. The assets of the defined benefit sections are held in a separate trustee-administered fund. Contributions to these sections are assessed in accordance with the advice of an independent qualified actuary. The defined benefit sections of the scheme have been closed to new entrants from 1997. The scheme is a plan for related companies within the Group where risks are shared. The overall costs of the scheme have been recognised in the Northern Powergrid Holdings Group financial statements according to IAS 19 (revised). Each of the participating companies accounts on the basis of contributions paid by that company. The Group accounts for the difference between the aggregate IAS 19 (revised) cost of the scheme and the aggregate contributions paid. The scheme is governed by a Trustee Company in accordance with a Trust Deed and Rules. It is also subject to regulation from the Pensions Regulator and relevant UK legislation. This regulatory framework requires the Trustees of the scheme and the Group to agree upon the assumptions underlying the funding target, and the necessary contributions as part of each triennial valuation. The last actuarial valuation of the scheme had an effective date of March 2016 and the next had an effective date of March 2019. The investment strategy of the scheme, which aims to meet liabilities as they fall due, is to invest plan assets in a mix of equities, other return seeking assets and liability driven investments to maximise the return on plan assets and minimise risks associated with lower than expected returns on plan assets. Trustees are required to regularly review investment strategy. As it is not possible to identify the Company's share of the net assets and liabilities of the scheme on a consistent and reasonable basis due to the high volume of members/pensioners and the historic interaction between Group companies, and there is no contractual agreement or stated policy for charging to individual Group entities, the assets and liabilities are fully accounted for within the financial statements of Northern Powergrid Holdings Limited.

Further details of the Group defined benefit scheme are disclosed in the consolidated financial statements of the Northern Powergrid Holdings Company financial statements.

27 Dividends

	31 December 2019 £ 000	31 December 2018 £ 000
Interim dividend of 11.2p (2018 - 10.8p) per ordinary share	32,500	31,200

28 Reconciliation of liabilities arising from financing activities

Net debt reconciliation

	At 1 January 2019 £ 000	Financing cash flows £ 000	Non-cash changes New finance leases £ 000	Other changes £ 000	At 31 December 2019 £ 000
Cash and cash equivalents	185,516	228,222	-	-	413,738
Borrowings	(1,072,448)	(278,565)	-	(2,249)	(1,353,262)
Lease liabilities	-	-	(7,203)	-	(7,203)
	(886,932)	(50,343)	(7,203)	(2,249)	(946,727)

	At 1 January 2018 £ 000	Financing cash flows £ 000	Other changes £ 000	At 31 December 2018 £ 000
Cash and cash equivalents	186,727	(1,211)	-	185,516
Borrowings	(1,056,795)	(15,000)	(653)	(1,072,448)
	(870,068)	(16,211)	(653)	(886,932)

Other changes relate to accrued interest, amortisation of financing fees and discounts.

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

The classification of financial assets and financial liabilities by accounting categorisation for the year ended 31 December 2019 was as follows:

	Financial assets at amortised cost £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets			
Non-current assets			
Property, plant and equipment	-	-	3,443,858
Right of use assets	7,109	-	-
Intangible assets	-	-	140
	7,109	-	3,443,998
Current assets			
Inventories	-	-	493
Trade and other receivables	65,552	-	3,994
Cash and cash equivalents	413,738	-	-
	479,290	-	4,487
Total assets	486,399	-	3,448,485
Liabilities			
Non-current liabilities			
Long term lease liabilities	-	(5,298)	-
Loans and borrowings	-	(1,118,381)	-
Provisions	-	(555)	-
Deferred revenue	-	(821,087)	-
Deferred tax liabilities	-	-	(125,537)
	-	(1,945,321)	(125,537)
Current liabilities			
Current portion of long term lease liabilities	-	(1,905)	-
Trade and other payables	-	(84,869)	-
Loans and borrowings	-	(234,881)	-
Income tax liability	-	(19,338)	-
Deferred revenue	-	(32,034)	-
Provisions	-	(1,173)	-
	-	(374,200)	-
Total liabilities	-	(2,319,521)	(125,537)

29 Classification of financial and non-financial assets and financial and non-financial liabilities (continued)

The classification of financial assets and financial liabilities by accounting categorisation for the year ended 31 December 2018 was as follows:

	Financial assets at amortised cost £ 000	Restated (Note 3) Financial liabilities at amortised cost £ 000	Restated (Note 3) Non-financial assets & liabilities £ 000
Assets			
Non-current assets			
Property, plant and equipment	-	-	3,299,775
Intangible assets	-	-	202
	-	-	3,299,977
Current assets			
Inventories	-	-	943
Trade and other receivables	63,493	-	4,481
Cash and cash equivalents	185,516	-	-
	249,009	-	5,424
Total assets	249,009	-	3,305,401
Liabilities			
Non-current liabilities			
Loans and borrowings	-	(1,024,109)	-
Provisions	-	(675)	-
Deferred revenue	-	(809,651)	-
Deferred tax liabilities	-	-	(127,174)
	-	(1,834,435)	(127,174)
Current liabilities			
Trade and other payables	-	(90,121)	-
Loans and borrowings	-	(48,339)	-
Income tax liability	-	(17,120)	-
Deferred revenue	-	(31,085)	-
Provisions	-	(1,009)	-
	-	(187,674)	-
Total liabilities	-	(2,022,109)	(127,174)

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

30 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 2018.

The capital structure of the Company consists of net debt (borrowings as detailed in Note 21) offset by equity of the Company (comprising issued capital, reserves and retained earnings as detailed in Notes 19 and 20).

The Company is not subject to any externally imposed capital requirements.

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

The Company's Senior Total Net Debt as at 31 December 2019 totalled £917.3m. Using the RAV value as at March 2020, as outlined by Ofgem in its electricity distribution price control financial model published in November 2019, and adjusting for the effects of movements in the value of the Retail Price Index gives an approximation for the RAV value as at 31 March 2020 of £1,922.0m. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 47.7% (2018:46.4%).

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.

The Company's income is primarily generated from use of system revenue from electricity suppliers; suppliers are credit checked by independent ratings agencies. Impaired income from DUoS will be recovered in future periods through system charges and is therefore of no material risk to the Company.

30 Financial risk review (continued)

2019	Notes	Gross carrying amount £ 000	Loss allowance £ 000	Net carrying amount £ 000
Trade and other receivables	17	71,525	(1,979)	69,546
Equity investments at FVTPL	15	-	-	-
2018				
Trade and other receivables	17	70,289	(2,315)	67,974
Equity investments at FVTPL	15	-	-	-

For trade receivables the Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Note 17 includes further details on the loss allowance for these assets.

The carrying amount of the Company's financial assets at FVTPL as disclosed in Note 29 best represents their respective maximum exposure to credit risk. The Company holds no collateral over any of these balances.

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.

The Company has access to a £75 million revolving credit facility provided by Lloyds Bank plc, National Westminster Bank plc, and Santander UK plc. This facility was amended and restated in October 2019 for a period of three years, with two 1 year extension options. In addition, the Company has access to further short-term borrowing facilities provided by YEG and to a £19 million overdraft facility provided by Lloyds Bank plc, which is reviewed annually, these borrowings are repayable on demand.

At 31 December 2019, the Company had available £94.0m (2018: £79.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Maturity analysis for financial liabilities

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

2019 Non-derivative liabilities	Less than 3 month £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
Non-interest bearing	45,137	-	-	-	45,137
Variable interest rate liabilities	-	-	-	-	-
Fixed interest rate liabilities	218,500	37,923	290,210	1,396,286	1,942,919
Total	263,637	37,923	290,210	1,396,286	1,988,056

30 Financial risk review (continued)

2018 Non-derivative liabilities	Less than 3 month £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000	Total £ 000
Non-interest bearing	42,604	-	-	-	42,604
Variable interest rate liabilities	15,000	-	-	-	15,000
Fixed interest rate liabilities	18,500	31,173	487,951	884,968	1,422,592
Total	76,104	31,173	487,951	884,968	1,480,196

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. Short-term loans and inter-company short term loans is charged at a floating rate of LIBOR plus 0.20%, thus exposing the Company to cash flow interest rate risk. A 1% movement in interest rates would subject the Company to an approximate change in interest of £0.1m per year. This is considered to be an acceptable level of risk. All other loans are at fixed interest rates and expose the Company to fair value interest rate risk.

31 Related party transactions

Summary of transactions with joint ventures

Vehicle Lease and Service Limited is a joint venture of Northern Electric plc and provides vehicle fleet and servicing for the Northern Powergrid Group. Income constitutes recharges for use of management personnel and purchases are lease and servicing payments for fleet vehicles.

Summary of transactions with other related parties

Other subsidiaries of the Northern Powergrid Group. Included within these amounts are:
- Integrated Utility Services and Integrated Utility Services (Eire) that provide engineering contracting resource;
- Northern Powergrid (Northeast) Ltd that provides and receives mutual support through use of staff and resources which are then recharged;
- Northern Powergrid Metering that is recharged for the use of staff;
- Yorkshire Electricity Group plc that operates the group intercompany treasury account.

Transactions with related parties

2019	Sales to £ 000	Purchases from £ 000	Amounts owed (to)/from £ 000
Northern Powergrid (Northeast) Limited	10,700	22,746	-
Northern Powergrid Metering Limited	522	-	-
Integrated Utility Services (Eire)	-	373	(3)
Integrated Utility Services Limited	101	3,151	-
Northern Electric plc	-	2,471	-
Vehicle Lease and Service Limited	63	4,868	-
	11,386	33,609	(3)

31 Related party transactions (continued)

2018	Sales to £ 000	Purchases from £ 000	Amounts owed (to)/from £ 000
Northern Powergrid (Northeast) Limited	11,470	21,528	-
Northern Powergrid Metering Limited	547	1	-
Integrated Utility Services (Eire)	-	342	(261)
Integrated Utility Services Limited	111	2,132	-
Northern Electric plc	2	2,500	-
Vehicle Lease and Service Limited	26	4,704	-
	12,156	31,207	(261)

Loans to related parties

2019	Parent £ 000
At start of period	185,527
Advanced	326,625
Repaid	(98,477)
Interest charged	1,550
Interest received	(1,550)
At end of period	413,675

2018	Parent £ 000
At start of period	186,727
Repaid	(1,200)
Interest charged	1,155
Interest received	(1,155)
At end of period	185,527

Details of loans from related parties

Loans from related parties are details in the loans and borrowings Note 21 on page 61.

32 Parent and ultimate parent undertaking

The Company's immediate parent is Yorkshire Electricity Group.

The ultimate parent 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 and the ultimate controlling party is Berkshire Hathaway, Inc, incorporated in United States.

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

Relationship between entity and parents

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

The registered address of Northern Powergrid Holdings Company is:
Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.