PROSPECTUS DATED 12 JUNE 2020

NORTHERN POWERGRID (NORTHEAST) PLC

(incorporated in England with limited liability under the Companies Act 1985 with registered number 02906593)

£300,000,000

1.875 per cent Green Bonds due 2062

Issue Price: 98.793 per cent

The £300,000,000 1.875 per cent Green Bonds due 2062 (the "**Bonds**") of Northern Powergrid (Northeast) plc (the "**Issuer**") will be issued pursuant to the bond trust deed to be dated 16 June 2020 (the "**Trust Deed**") between the Issuer and HSBC Corporate Trustee Company (UK) Limited as bond trustee (the "**Trustee**", which expression includes the trustee or trustees for the time being of the Trust Deed).

The Bonds will bear interest from 16 June 2020 at the rate of 1.875 per cent per annum payable annually in arrear on 16 June in each year.

The Bonds mature on 16 June 2062. The Issuer may, at its option, redeem all or (as the case may be) some only of the Bonds at any time in accordance with Condition 7(b) (*Redemption at the option of the Issuer*) at the higher of their principal amount and an amount calculated by reference to yields on United Kingdom government stock together with accrued interest. The Issuer may also, at its option, redeem all (but not some only) of the Bonds at any time at their principal amount together with accrued interest in the event of certain tax changes as described in Condition 7(c) (*Redemption for tax reasons*). Upon the occurrence of certain events the holders of the Bonds may require the Issuer to redeem the Bonds at their principal amount together with accrued interest — see "*Terms and Conditions of the Bonds — Restructuring Event*".

An investment in the Bonds involves certain risks. For a discussion of these risks, see "*Risk Factors*".

This Prospectus has been approved by the United Kingdom Financial Conduct Authority (the "**FCA**"), as competent authority under Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer or the quality of the Bonds that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Bonds.

An application has been made to the FCA for the Bonds to be admitted to listing on the Official List of the FCA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Bonds to be admitted to trading on the London Stock Exchange's Main Market. The London Stock Exchange's Main Market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments (as amended, "**MiFID II**").

This Prospectus comprises a prospectus for the purposes of Article 6(3) of the Prospectus Regulation.

The Bonds are expected to be rated upon issue A by S&P Global Ratings Europe Limited, a division of The McGraw-Hill Companies, Inc. ("**S&P**") and A by Fitch Ratings Limited ("**Fitch**"). A rating is not a recommendation to buy, sell or hold the Bonds and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Each of S&P and Fitch is established in the European Union ("**EU**") and is registered in accordance with Regulation (EC) No. 1060/2009, as amended, of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**") and are included in the list of registered credit rating agencies published at the website of the European Securities and Markets Authority ("**ESMA**").

MiFID II professionals/ECPs-only/No PRIIPs KID: Manufacturer target market (MiFID II product governance) is eligible counterparties and professional clients only (all distribution channels). No PRIIPs key information document (KID) has been prepared as not available to retail in EEA or the United Kingdom.

The Bonds will be in bearer form and in the denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000. The Bonds will initially be represented by a temporary global bond (the "**Temporary Global Bond**"), without interest coupons, which will be deposited on or around 16 June 2020 (the "**Closing Date**") with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream**, **Luxembourg**"). The Temporary Global Bond will be exchangeable, in whole or in part, for interests in a permanent global bond (the "**Permanent Global Bond**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Bond will be exchangeable in certain limited circumstances in whole, but not in part, for Bonds in definitive form with interest coupons attached.

Joint Lead Managers

Lloyds Bank Corporate Markets | **NatWest Markets** | **Santander Corporate Investment Banking**

MIFID II product governance / Professional investors and ECPs only target market

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PRIIPs Regulation / Prohibition of sales to EEA and United Kingdom retail investors

The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom (the “**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive EU 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA or the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA or the UK may be unlawful under the PRIIPs Regulation.

The Issuer is responsible for this Prospectus and to the best of its knowledge, the information contained in this Prospectus is in accordance with the facts and the Prospectus makes no omission likely to affect its import.

No person has been authorised to give any information or to make representations, other than those contained in this Prospectus, in connection with the offering of the Bonds and, if given or made, any such information or representations must not be relied upon as having been authorised by the Issuer, the Joint Lead Managers (as defined under "*Subscription and Sale*" below) or the Trustee.

Neither the delivery of this Prospectus nor any sale made in connection herewith shall under any circumstances constitute a representation, or create any implication that there has been no change since the date hereof in the affairs of the Issuer or that information contained herein has remained accurate and complete.

This Prospectus does not constitute an offer to sell, or an invitation by or on behalf of the Issuer or the Joint Lead Managers to subscribe for or purchase, any of the Bonds. This Prospectus does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

The Joint Lead Managers and the Trustee have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability (whether arising in tort or contract or otherwise) is accepted by the Joint Lead Managers, the Trustee or any of them as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Bonds or their distribution.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Joint Lead Managers that any recipient of this Prospectus should purchase any of the Bonds. Each investor contemplating purchasing Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

The Bonds have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the "**Securities Act**"), or under any relevant securities laws of any state or other jurisdiction of the United States, and are subject to U.S. tax law requirements. The Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in accordance with applicable U.S. state securities laws. For a description of certain restrictions on the offer, sale and delivery of the Bonds and on the distribution of this Prospectus, see "*Subscription and Sale*".

The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers and sales of the Bonds and on the distribution of this Prospectus and other offering material relating to the Bonds, see "*Subscription and Sale*" below.

Each potential investor in any Bond must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Prospectus or any applicable supplement; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Bonds and the impact such investment will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds; (iv) understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant markets; and (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

All references herein to "**pounds**", "**sterling**", "**Sterling**" or "**£**" are to the currency of the United Kingdom.

In connection with the issue of the Bonds, NatWest Markets Plc (the "Stabilising Manager") (or any person acting on behalf of the Stabilising Manager) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Closing Date and 60 days after the date of allotment of the Bonds. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. In addition, factors which are material for the purpose of assessing the market risks associated with the Bonds are described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Bonds for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Words and expressions defined in "Terms and Conditions of the Bonds" below or elsewhere in this Prospectus have the same meaning in this section.

Factors that may affect the Issuer's ability to fulfil its obligations under the Bonds

Risks related to regulatory price controls

The Issuer is regulated by the Gas and Electricity Markets Authority for Great Britain (commonly referred to as "**Ofgem**") as a distribution network operator ("**DNO**"). As such, the Issuer is subject to price controls, set and enforced by Ofgem, that limit the revenue that may be recovered and retained from its electricity distribution activities. See "*Description of the Issuer – Regulatory Framework*" for more information on this. Ofgem has a duty to carry out its functions, including its price control functions, in a manner which it considers promotes value for money and protects the interests of consumers. Decisions by Ofgem in respect of permitted revenue and constraints on business developments may adversely impact the operations and financial position of the Issuer. In particular, discussions are currently taking place in respect of the next electricity distribution price control review (RIIO-ED2) and there is no guarantee that this, or future price control reviews will permit the generation of sufficient revenues to enable the Issuer to meet its financial obligations. If this were to occur, it would have a significant negative impact on the ability of the Issuer to meet its payment obligations under the Bonds.

Risks related to potential financial penalties and compensation payments

Pursuant to its regulation by Ofgem, the Issuer may be subject to financial penalties, enforcement orders, compensation payments imposed by Ofgem, or loss of incentive payments, if it fails to comply with the conditions of its distribution licence or certain statutory conditions, if it fails to achieve a satisfactory performance in relation to individual standards of performance, or if it fails to operate and/or maintain its network properly, including failing to meet its required investment programme. See "*Description of the Issuer – Regulatory Framework*" for more information on this. If Ofgem deemed a failure to be so serious that severe penalties, enforcement orders or compensation payments were imposed on the Issuer, it would have a significant negative impact on the ability of the Issuer to meet its payment obligations under the Bonds.

Risks related to potential licence modifications

Ofgem has formal powers to modify the distribution licences of DNOs, including the Issuer. The Issuer is not aware of any proposed material modifications to its distribution licence, however discussions are currently taking place in respect of RIIO-ED2 and there is no guarantee that Ofgem will not introduce a material modification to the Issuer's distribution licence under RIIO-ED2 or other measures in the future which could have a significant negative impact on the ability of the Issuer to meet its payment obligations under the Bonds.

Health and safety

Failure to comply with legislation, or a health and safety incident, could lead to prosecution by the Health and Safety Executive, which could result in the Issuer being subject to substantial financial penalties, reputational damage, disruption of operations or criminal sanctions against the Issuer, its directors and employees. The Issuer places the highest priority on health and safety, and invests in robust training and auditing of all its employees, however, failure to implement and maintain effective health and safety management and governance could result in a serious health and safety incident which would have a significant negative impact on the ability of the Issuer to meet its payment obligations under the Bonds.

Environmental laws and regulations

The Issuer's activities, including the operation of the distribution network and the distribution of electricity, are potentially dangerous. The Issuer is subject to laws and regulations relating to pollution, the protection of the environment and the use and disposal of hazardous substances and waste materials. These laws and regulations expose the Issuer to costs and liabilities relating to its operations and properties whether current, including those inherited from predecessor bodies, or formerly owned by the Issuer and sites used for the disposal of its waste.

Significant resources are committed towards ensuring compliance with these laws and regulations. Nevertheless, a major environmental impact incident could expose employees, contractors and third parties to the risk of injury, therefore exposing the Issuer to potential liability and/or loss of reputation. In addition, breaches of applicable environmental laws or regulations could expose the Issuer to penalties, claims for financial compensation and/or adverse regulatory consequences. Furthermore, there can be no assurance that costs of compliance with applicable environmental standards and regulations will not increase, and any such increased costs could adversely affect the Issuer's financial performance and its ability to pay interest and repay principal on the Bonds.

Network or IT Systems failure or interruption

The Issuer's business is heavily reliant on information technology ("**IT**") systems and the network infrastructure. The Issuer may suffer a major network failure or interruption, or may not be able to carry out critical non-network operations. Operational performance could be materially adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand, inadequate record keeping or failure of information systems and supporting technology. This could cause the Issuer to fail to meet the standards of service with which it is bound to comply, requiring the payment of specific penalties for default, or it could cause the Issuer to be in breach of a licence, approval, regulatory requirement or contractual obligation, which could result in adverse regulatory and financial consequences.

Technology and Sustainability

As the UK aims to make significant reductions in its carbon emissions, the way in which electricity is produced and used is expected to have a substantial impact on the electricity network over time. This has already been evidenced through the number 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 Issuer is taking action to develop innovative solutions that will reduce the need for traditional and potentially expensive reinforcement of the network.

Within the regulatory framework for innovation, the Issuer is running a portfolio of projects in the priority areas of smart meters, digital-enabled customer service and affordability.

The Issuer recognises that failure to invest sufficiently in technology and innovation may lead to failure to operate efficiently and may adversely affect the Issuer's financial performance and its ability to repay principal on the Bonds.

Events beyond Issuer's control

Damage to infrastructure

The Issuer may be affected by potential events that are largely outside its control such as the impact of weather, unlawful or unintentional acts of third parties or force majeure. Terrorist attacks, sabotage or other intentional acts may also damage its assets or otherwise significantly affect corporate activities.

Cybercrime is an increasing risk and the introduction of the General Data Protection Regulation (GDPR) during 2018 places additional duties on the Issuer which could lead to penalties for breaches.

Whilst the Issuer has in place measures to manage the risk that it sustains an adverse financial impact through inability to carry on its operations and has in place business continuity and IT disaster recovery plans, the risk remains that any failure or interruption could cause the Issuer to fail to meet agreed standards of service or be in breach of a licence, approval, regulatory requirement or contractual obligation and could result in adverse regulatory and financial consequences and therefore adversely affect the Issuer's ability to pay interest and repay principal on the Bonds.

Retail prices index movements and cost-base variations

The annual revenues of the Issuer are adjusted by the published Retail Prices Index ("**RPI**") in the UK. Ofgem will move away from RPI from RIIO-2 onwards to use either the Consumer Price Index ("**CPI**") or the Consumer Prices Index Including Owner Occupiers' Housing Costs ("**CPIH**"). CPI differs from RPI in that it does not measure changes in housing costs and mortgage interest repayments. CPIH is similar to CPI but includes a measure of owner-occupiers' housing costs. There is a risk that the Issuer's cost base may change at a different rate than its revenues due to changes in the RPI (or, when relevant, CPI or CPIH) affecting components of the Issuer's cost base or RAV. If that were to happen, its profitability could be reduced and, if the differential between RPI-linked (or, when relevant CPI-linked or CPIH-linked) inflation and experienced operating cost inflation was sufficiently large, it could adversely affect the Issuer's business, financial position and results of operations and therefore the Issuer's ability to pay interest and repay principal on the Bonds.

Financing

The Issuer depends on being able to access financial markets to finance the Issuer's operations and to refinance existing indebtedness as it becomes due. As evidenced during the global financial crisis, the 2016 UK referendum vote to leave the European Union and recently the Covid-19 pandemic, financial markets can be subject to periods of volatility and shortages of liquidity. The stability of the global economy and financial institutions remains uncertain and if the Issuer were unable to access the capital markets or other sources of finance at competitive rates for a prolonged period, this could adversely affect the ability of the Issuer to meet its funding requirements, which could have a significant negative impact on the ability of the Issuer to meet its payment obligations under the Bonds.

Insurance

The Issuer seeks to maintain insurance cover on all its key property and liability exposures to a level consistent with sound business practice, using appropriate insurance products and providers, including self-insurance where applicable. However, the insurance market is volatile, and it is not always possible to obtain appropriate cover at commercially acceptable premia or at all, which means that the Issuer may not always be able to obtain or renew insurance cover in respect of some risks. If one or more major incidents (such as accidents involving the Issuer's equipment) were to occur which were not covered, or not adequately covered, by insurance, this could adversely affect the Issuer's financial position and could have a significant negative impact on the ability of the Issuer to meet its payment obligations under the Bonds.

Procurement

In order to support its core business activities, it is necessary for the Issuer to purchase significant quantities of resources and enter into contracts for the supply of other products and services. Whilst the Issuer receives protection from inflation through its price controls being index-linked (currently to the RPI), it will be exposed to any changes relative to inflation, either as a result of commodity prices or issues around supply and demand for plant and equipment or with its contractors. To the extent it purchases equipment from overseas, this exposure would also extend to exchange rate fluctuations.

Although the Issuer routinely enters into long-term contracts to protect its commercial position, significant price rises and/or failure to secure key materials could have a significant adverse effect on the operations and/or financial position of the Issuer and could adversely affect its ability to pay interest and repay principal on the Bonds.

Pensions

The Issuer is a participating employer in the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "**DB Scheme**"), a defined benefit pension scheme. Further details of the DB Scheme are set out in "*Description of the Issuer*" below.

The DB Scheme is currently in deficit and the deficit as at the last approved valuation date of 31 March 2016, was £195m with the deficit recovery plan aiming to repay this deficit by 2025. The scheme is subject to triennial valuations and the most recent valuation was carried out as at 31 March 2019, the approval of which by the DB Scheme and the DB Scheme Trustees is targeted to be concluded by 30 June 2020.

The deficit can be affected by a number of factors including asset volatility, bond yields, interest rates, inflation and life expectancy of the DB Scheme members and could result in the Issuer being required to make higher ongoing contributions and/or deficit repair payments.

Under the electricity regulatory framework, the deficit repair payments relating to regulated distribution businesses and cash contributions payable in respect of new benefit accrual in defined benefit schemes, along with cash contributions payable to any defined contribution arrangements are subject to efficiency reviews and will only be funded under the price control mechanism if deemed to be efficient.

Following an efficiency review of the DB Scheme by Ofgem in 2017, it was confirmed that the DB Scheme deficit would continue to be funded through the price control mechanism. However, if Ofgem deems under future efficiency reviews that any cash contributions have not been efficiently incurred, it may restrict the amount that can be recovered from customers in the future which could adversely affect the Issuer's financial position and the Issuer's ability to pay interest and repay principal on the Bonds.

Special Administration Regime for electricity distribution network operators ("DNO")

The Energy Act 2004 provides for a special administration regime for the holders of electricity distribution licences. This regime makes provisions for energy administration orders and is designed to ensure the uninterrupted operation of electricity networks essential to secure supply of electricity in the event of actual or threatened insolvency of such a licence holder.

An application for an energy administration order can only be made by the Secretary of State, or by Ofgem with the consent of the Secretary of State. Upon application, a court can only make an energy administration order if it is satisfied that the DNO is or is likely to be unable to pay its debts or that, on a petition from the Secretary of State under the Insolvency Act 1986, it would be just and equitable (aside from the objective of energy administration) to wind up the DNO in the public interest.

The making of an application for an administration order in respect of the Issuer would give rise to a moratorium on the enforcement of debts against the Issuer.

The energy administrator may preserve the DNO as a going concern or may transfer its undertaking as a going concern to one or more other companies. The objective of an energy administrator is to ensure that a DNO's distribution network is maintained and developed efficiently and economically and this objective takes precedence over the protection of the respective interests of members and creditors of the DNO and therefore could adversely affect the interests of the holders of the Bonds.

Factors which are material for the purpose of assessing the market risks associated with the Bonds

The Bonds may not be a suitable investment for all investors seeking exposure to green assets

As described in "Use of Proceeds" below, the Issuer's intention is to apply the net proceeds of the issue of the Bonds specifically for investment in Eligible Green Projects (as defined in "Use of Proceeds" below). Prospective investors who intend to invest in the Bonds must determine for themselves the relevance of the information in this Prospectus for the purpose of determining whether an investment in the Bonds satisfies their requirements as regards investing in "green bonds", "green" or "sustainable" or similarly labelled assets (“**green assets**”). No assurance is given by the Issuer or the Joint Lead Managers that the use of proceeds of the Bonds will meet or continue to meet on an ongoing basis investor requirements or expectations regarding investment in green assets, or that any adverse environmental, social or other impacts will not occur during the implementation of any Eligible Green Projects. There is currently no clearly defined legal, regulatory or other definition of “green assets” or market consensus as to what attributes are required for a particular asset to be classified as a "green asset", nor can any assurance be given that such a clear definition or consensus will develop over time.

The Joint Lead Managers have not undertaken, and are not responsible for, any assessment of the eligibility criteria for green assets, any verification of whether the Bonds meet such eligibility criteria or the monitoring of the use of proceeds of the Bonds. The Issuer has appointed DNV GL Business Assurance Services UK Limited (“**DNV-GL**”) to issue an opinion as to the eligibility of the Green Finance Framework (as defined under “Green Finance Framework” below) in accordance with the International Capital Market Association (“**ICMA**”), Green Bond Principles 2018, Loan Markets Association (“**LMA**”) and other relevant market standards (the "**Eligibility Opinion**"). The Eligibility Opinion is only current as of the date it is released and may be updated, suspended or withdrawn by DNV-GL at any time. Material change to, or withdrawal of, the Eligibility Opinion may affect the value of the Bonds and may have consequences for investors with portfolio mandates to invest in green assets. Currently the providers of green evaluations are not subject to any specific regulatory regime or other oversight. Prospective investors must determine for themselves the relevance of the Eligibility Opinion and/or the information contained therein and/or the provider of the Eligibility Opinion for the purpose of any investment in the Bonds. The Eligibility Opinion is not a recommendation to buy, sell or hold the Bonds. The Eligibility Opinion is not incorporated in, and does not form part of, this Prospectus.

The Issuer intends to apply for the Bonds to be admitted to the Sustainable Bond Market of the London Stock Exchange (the “**SBM**”) . No representation or assurance is given or made by the Issuer or any other person that any admission to the SBM will be obtained in respect of the Bonds or, if obtained, that any such admission will be maintained during the life of the Bonds.

It would not be an Event of Default under the Bonds if the Issuer were to fail to observe the use of proceeds of the Bonds as specified in this Prospectus or the Issuer’s intentions as regards reporting. While it is the intention of the Issuer to apply the proceeds of the Bonds for Eligible Green Projects in, or substantially in, the manner described in this Prospectus, there can be no assurance that the relevant Eligible Green Projects will be capable of being implemented in such manner or in accordance with any particular timing schedule and accordingly that such proceeds will be totally or partially disbursed for such Eligible Green Projects.

Any such event or failure to apply the proceeds of the Bonds for any Eligible Green Projects as aforesaid or withdrawal or material modification of the Eligibility Opinion may have a material adverse effect on the value of the Bonds or result in adverse consequences for certain investors with portfolio mandates to invest in green assets.

Early redemption by the Issuer at its option

The Issuer may, in the limited circumstances set out in Condition 7 (*Redemption and Purchase*) of the Terms and Conditions of the Bonds (the "**Terms and Conditions**") and subject to the provisions of that Condition, including as to minimum redemption price, redeem the Bonds prior to their stated maturity date. This early redemption feature may limit the market value of the Bonds. The market value of the Bonds is unlikely to rise substantially above the price at which they can be redeemed. In addition, depending on prevailing market conditions at the time, an investor receiving the proceeds of an early redemption of the Bonds may not be able to reinvest those proceeds in a comparable security at an effective interest rate as high as that of the Bonds.

Redemption prior to maturity for tax reasons

If the Issuer were to be obliged to increase the amounts payable in respect of the Bonds due to any change in or amendment to the laws or regulations of the United Kingdom or any political sub-division thereof or of any authority therein or thereof having the power to tax or in the application or official interpretation thereof, the Issuer may redeem all outstanding Bonds in accordance with the Terms and Conditions. It may not be possible for an investor to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Bonds and this may only be possible at a significantly lower rate.

Absence of prior public markets

The Bonds constitute a new issue of securities by the Issuer. Prior to the issue, there will have been no public market for the Bonds. Although an application has been made for the Bonds to be admitted to trading on the Main Market of the London Stock Exchange, there can be no assurance that an active public market for the Bonds will develop and, if such a market were to develop, none of the Joint Lead Managers (as defined in "Subscription and Sale") and any other person is under any obligation to maintain such a market. The liquidity and the market price of the Bonds can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and other factors that generally influence the market price of securities.

Integral multiples of less than £100,000

Although the Bonds will be admitted to trading on a regulated market within the United Kingdom and will only be issued with a minimum specified denomination of £100,000 it is possible that the Bonds may be traded in the clearing systems in amounts in excess of £100,000 that are not integral multiples of £100,000. In such a case, should the Issuer be required to issue Bonds in definitive form (**"Definitive Bonds"**), holders of the Bonds who, as a result of trading such amounts, hold Bonds in the relevant clearing system in amounts that are not integral multiples of £100,000 may need to purchase or sell, on or before the date of exchange of the Permanent Global Bond for Definitive Bonds, a principal amount of Bonds such that their holding is equal to or an integral multiple of £100,000, otherwise such Bondholders may not receive all of their entitlements in Definitive Bonds.

FINANCIAL STATEMENTS

The following documents are included in this Prospectus at Appendix 1 and Appendix 2, respectively:

(a) the auditor's report and audited financial statements of the Issuer for the year ended 31 December 2018; and

(b) the auditor's report and audited financial statements of the Issuer for the year ended 31 December 2019.

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the terms and conditions of the Bonds which, subject to amendment, will be endorsed on each definitive Bond. Bonds in definitive form will only be issued in certain limited circumstances. For a summary of the provisions relating to the Bonds in global form, see "Summary of provisions relating to the Bonds in global form" below.

The £300,000,000 1.875 per cent Green Bonds due 2062 (the "**Bonds**", which expression shall, unless the context otherwise requires, include any Further Bonds (as defined in Condition 3 (*Definitions*)) of Northern Powergrid (Northeast) plc (the "**Issuer**") are constituted by and subject to a trust deed dated 16 June 2020 (as the same may be amended and/or supplemented from time to time, the "**Trust Deed**") between the Issuer and HSBC Corporate Trustee Company (UK) Limited (the "**Trustee**", which expression shall, wherever the context so admits, include its successors as trustee under the Trust Deed) as trustee for the holders of the Bonds (the "**Bondholders**"). The statements in these Terms and Conditions include summaries of and are subject to, the detailed provisions of the Trust Deed. The Issuer has entered into a paying agency agreement dated 16 June 2020 (the "**Paying Agency Agreement**") with HSBC Bank plc (the "**Principal Paying Agent**") and any paying agent appointed thereunder (each a "**Paying Agent**" and together with the Principal Paying Agent, the "**Paying Agents**") and the Trustee. Copies of the Trust Deed and the Paying Agency Agreement will be available for inspection by Bondholders and the holders of the interest coupons appertaining to the Bonds (respectively, the "**Couponholders**" and the "**Coupons**") at the specified office(s) of each of the Paying Agents. The Bondholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the provisions of the Paying Agency Agreement applicable to them.

1. Form, Denomination and Title

The Bonds are serially numbered and in bearer form in the denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000, each with Coupons attached on issue. No definitive Bonds will be issued with a denomination above £199,000. Title to the Bonds and to the Coupons will pass by delivery. Bonds of one denomination may not be exchanged for Bonds of the other denomination. The holder of any Bond or Coupon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust, or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder. No person shall have any right to enforce any term or condition of the Bonds or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

2. Status of the Bonds

The Bonds and Coupons constitute direct, unconditional and (subject to the provisions of Condition 4(a) (*Negative Pledge*)) unsecured obligations of the Issuer and rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds and the Coupons shall, subject as aforesaid and save for such obligations as may be preferred by laws that are both mandatory and of general application, at all times rank at least equally with all its present and future unsecured and unsubordinated obligations.

3. **Definitions**

"**Business Day**" means any day (other than a Saturday or Sunday) on which banks and other financial institutions are open for business in London.

"**Companies Act**" means the Companies Act 2006 as amended or re-enacted from time to time and all subordinate legislation made pursuant thereto.

"**Electricity Act**" means the Electricity Act 1989 as amended or re-enacted from time to time and all subordinate legislation made pursuant thereto.

"**Electricity Distribution Licence**" means the electricity distribution licence granted or treated as granted to the Issuer under section 6(1)(c) of the Electricity Act.

"**Energy Act**" means the Energy Act 2004 as amended or re-enacted from time to time and all subordinate legislation made pursuant thereto.

"**Energy Administrator**" means an energy administrator appointed pursuant to Part 3 of the Energy Act.

"**Event of Default**" means any of the events set out in Condition 10 (*Events of Default*).

"**Final Determination**" means the final determination document published by Ofgem for each electricity distribution price control review.

"**Fitch**" means Fitch Ratings Limited.

"**Further Bonds**" means all further bonds created and issued by the Issuer in accordance with Condition 17 (*Further Bonds*) and/or for the time being outstanding or, as the context may require, a specific proportion thereof.

"**Indebtedness For Borrowed Money**" means any indebtedness (whether being principal, premium, interest or other amounts) for (i) money borrowed, (ii) payment obligations under or in respect of any acceptance or acceptance credit, or (iii) any notes, bonds, debentures, debenture stock, loan stock or other debt securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash.

"**Investment Grade Rating**" means a credit rating assigned by a Rating Agency of BBB- (in the case of such ratings assigned by S&P and/or Fitch) or Baa3 (in the case of such ratings assigned by Moody's) or the equivalents of such ratings for the time being, or better.

"**Issue Date**" means 16 June 2020.

"**Moody's**" means Moody's Investors Service Limited.

A "**Negative Rating Event**" shall be deemed to have occurred if (i) the Issuer does not, either prior to or no later than 14 days after the date of a Negative Certification (as defined in Condition 11 (*Restructuring Event*)) in respect of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, from a Rating Agency, a rating of the Reference Rated Securities or these Bonds or any other unsecured and unsubordinated debt of the Issuer having an initial maturity of five years or more or (ii) if it does so seek and use such endeavours, it is unable, as a result of such Restructuring Event, to obtain such a rating which is an Investment Grade Rating.

"**Ofgem**" means the Gas and Electricity Markets Authority and/or the Office of Gas and Electricity Markets, including their successor office or body, as appropriate.

"**Potential Event of Default**" means an event or circumstance which would with the giving of notice and/or lapse of time and/or the issuing of a certificate become an Event of Default.

A "**Put Event**" occurs on the date of the last to occur of (i) a Restructuring Event, (ii) either a Rating Downgrade or, as the case may be, a Negative Rating Event, and (iii) the relevant Negative Certification.

"**Rating Agencies**" means S&P and Fitch, and "**Rating Agency**" means either one of them.

A "**Rating Downgrade**" shall be deemed to have occurred (i) if the then current rating assigned to any Reference Rated Securities by any Rating Agency (whether provided by a Rating Agency at the invitation of the Issuer or by its own volition) is withdrawn or reduced from an Investment Grade Rating to a non-Investment Grade Rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or, (ii) if any Rating Agency shall then have already assigned a non-Investment Grade Rating (as described above) to the Reference Rated Securities, such rating is lowered one full rating category, provided that, in the case of (i) or (ii), if during the Restructuring Period the Reference Rated Securities have at least one Investment Grade Rating then it shall be deemed that no Rating Downgrade shall have occurred.

"**Reference Gilt**" means the 4.00 per cent Treasury Stock due January 2060 or such other conventional (i.e. not index linked) UK Government Stock as the Issuer (with the advice of an independent financial institution of international repute appointed by the Issuer) may determine to be the most appropriate benchmark conventional UK Government Stock.

"**Reference Rated Securities**" means the Bonds for so long as they have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt securities of the Issuer having an initial maturity of five years or more which are rated by a Rating Agency.

"**Regulated Asset Value**" means the regulatory asset value of the Issuer as set out in the most recent Final Determination or, if any electricity distribution price control financial model has been published on Ofgem's website since the most recent Final Determination, the regulatory asset value of the Issuer as set out in such financial model, in each case, adjusted for inflation, as of the 31 March nearest to the date of determination, *provided that* if at any time Ofgem alters its methodology of determining Regulated Asset Value in a manner which results in a change in Regulated Asset Value, appropriate adjustments to this definition (and to other terms defined or described herein solely for the purposes of this definition) so as to preserve the original intent of Condition 10(c) (*Events of Default*) shall be determined by an independent accountant experienced in the regulated electricity distribution market selected by the Issuer.

"**Relevant Indebtedness**" means any indebtedness (whether being principal, premium, interest or other amounts) in the form of or represented by notes, bonds, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash, and which, with the agreement of the person issuing the same, are quoted, listed or ordinarily dealt in on any stock exchange or recognised over-the-counter or other securities market.

"**Restructuring Event**" means the occurrence of any one or more of the following events:

(i) (a) written notice being given to the Issuer of revocation of its Electricity Distribution Licence which is requisite to the conduct of the Issuer's business at the relevant time or (b) the Issuer agreeing in writing to any revocation or surrender of its Electricity Distribution Licence which is requisite to the conduct of the Issuer's business at the relevant time or (c) any legislation (whether primary or subordinate) being enacted terminating or revoking its Electricity Distribution Licence which is requisite to the conduct of the Issuer's business at the relevant time, except in any such case in circumstances where a licence or licences is or are granted to the Issuer or a Subsidiary of the Issuer 100 per cent of the ordinary share capital of which is owned directly or indirectly by the Issuer (the "**Relevant Transferee**") and *provided that* the terms of such licence or licences are substantially no less favourable than the Electricity Distribution Licence in which event all references in these Terms and Conditions to the Electricity Distribution Licence and the Issuer in its capacity as holder of the Electricity Distribution Licence shall hereafter be deemed to be references to the licence or licences on substantially no less favourable terms and the Relevant Transferee respectively; or

(ii) any modification (other than a modification which is of a formal, minor or technical nature) being made to the terms and conditions of the Electricity Distribution Licence on or after the Issue Date unless two Directors of the Issuer have certified in good faith to the Trustee (and the Trustee may rely absolutely on such certification) that the modified terms and conditions are not materially less favourable to the business of the Issuer. For the purposes of this paragraph (ii) a modification which (a) results in a licence or licences being granted to the Issuer or a Subsidiary of the Issuer 100 per cent of the ordinary share capital of which is owned directly or indirectly by the Issuer (collectively, the "**Applicable Transferees**") and *provided that* the terms of such licence or licences are substantially no less favourable than the terms of the Electricity Distribution Licence or (b) results in a licence or licences being granted to an Applicable Transferee *provided that* the terms of such licence or licences are substantially no less favourable than the terms of the Electricity Distribution Licence, shall not be deemed to be a modification within this paragraph (ii). In the event of such a modification as is referred to in (a) or (b), all references in these Terms and Conditions to the Electricity Distribution Licence and the Issuer in its capacity as holder of the Electricity Distribution Licence shall thereafter be deemed to be references to the licence or licences granted to the Applicable Transferee and to the Applicable Transferee, respectively; or

(iii) any legislation (whether primary or subordinate) is enacted which removes, qualifies or amends (other than an amendment which is of a formal, minor or technical nature) the duties of the Secretary of State (or any successor) and/or Ofgem under the Electricity Act as in force on the Issue Date, unless two Directors of the Issuer have certified in good faith to the Trustee (and the Trustee may rely absolutely on such certification) that such removal, qualification or amendment does not have a materially adverse effect on the financial condition of the Issuer.

"**Restructuring Period**" means:

(i) if at the time a Restructuring Event occurs there are Reference Rated Securities, the period of 90 days starting from and including the day on which the Restructuring Event occurs; or

(ii) if at the time a Restructuring Event occurs there are not Reference Rated Securities, the period starting from and including the day on which the Restructuring Event occurs and ending on the day 90 days following the later of (a) the date on which the Issuer shall seek to obtain a rating pursuant to the definition of Negative Rating Event prior to the expiry of the 14 days referred to in the definition of Negative Rating Event and (b) the date on which a Negative Certification shall have been given to the Issuer in respect of the Restructuring Event.

"**S&P**" means S&P Global Ratings Europe Limited, a division of The McGraw-Hill Companies, Inc.

"**Security Interest**" means a mortgage, charge, lien, pledge or other security interest.

"**Subsidiary**" means a subsidiary or subsidiary undertaking within the meaning of the Companies Act.

4. **Negative Pledge**

So long as any of the Bonds remain outstanding (as defined in the Trust Deed), the Issuer will ensure that none of its Relevant Indebtedness or the Relevant Indebtedness of any of its Subsidiaries nor any guarantee given by it or by any such Subsidiary of the Relevant Indebtedness of any other person will be secured by a Security Interest upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer or any of its Subsidiaries unless the Issuer shall, before or at the same time as the creation of the Security Interest, take any and all action necessary to ensure that:

(a) all amounts payable by the Issuer under the Bonds, the Coupons and the Trust Deed are secured to the satisfaction of the Trustee equally and rateably with the Relevant Indebtedness or guarantee of Relevant Indebtedness, as the case may be, by such Security Interest; or

(b) such other Security Interest or guarantee or other arrangement (whether or not including the giving of a Security Interest) is provided in respect of all amounts payable by the Issuer under the Bonds, the Coupons and the Trust Deed either (i) as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders, or (ii) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

5. **Interest**

The Bonds bear interest from (and including) the Issue Date at the rate of 1.875 per cent per annum payable annually in arrear on 16 June in each year (each, an "**Interest Payment Date**"). Each Bond will cease to bear interest from the due date for redemption thereof, unless upon due presentation, payment of principal or premium (if any) is improperly withheld or refused. In such event, each Bond shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder and (ii) the day falling seven days after the Trustee or the Principal Paying Agent has notified Bondholders in accordance with Condition 14 (*Notices*) of receipt of all sums then due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holder under these Terms and Conditions). In these Conditions, the period beginning on and including 16 June 2020 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**". Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period the day-count fraction used will be the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last). Interest in respect of each £1,000 in principal amount of the Bonds (the "**Calculation Amount**") for any period shall be equal to the product of 1.875 per cent, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest pence (half a pence being rounded upwards).

6. Payments

Payments of principal, premium (if any) or interest in respect of the Bonds will be made against surrender of Bonds or, in the case of payments of interest due on an Interest Payment Date, against surrender of Coupons, at the specified office of any Paying Agent by a sterling cheque drawn on, or at the option of the holder, by transfer to a sterling account maintained by the payee with a branch of a bank in the City of London, subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8 (*Taxation*)) any law implementing an intergovernmental approach thereto.

Upon the due date for redemption of any Bond, all unmatured Coupons relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Bond is presented for redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

If the due date for redemption of any Bond is not 16 June in any year, interest accrued in respect of such Bond from (and including) the last preceding 16 June will be paid only against presentation and surrender of such Bond.

If the due date for payment of any amount in respect of any Bond or Coupon is not a business day, then the holder thereof shall not be entitled to payment of the amount due until the next following business day nor to any further interest or other payment in respect of such delay. The expression "**business day**" in this Condition means a day other than a Saturday or Sunday on which banks are open for business in the place where the Bond or Coupon is presented and, in the case of payment by transfer to a sterling account as referred to above, in the City of London.

The names of the initial Principal Paying Agent and the other initial Paying Agents and their initial specified offices are set out at the end of these Terms and Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents *provided that* the Issuer will at all times maintain a principal paying agent. Notice of any such termination or appointment and of any changes in the specified offices of the Paying Agents will be given to the Bondholders in accordance with Condition 14 (*Notices*) as soon as practicable thereafter. Under no circumstances will interest be payable in the United States of America or any possession of the United States of America.

7. Redemption and Purchase

(a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, the Issuer will redeem the Bonds on 16 June 2062 (the "**Maturity Date**") at their outstanding principal amount.

(b) *Redemption at the option of the Issuer*: The Issuer may, having given not less than 30 nor more than 45 days' notice in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable), redeem the whole or part (in principal amount of £5,000,000 or integral multiples thereof) of the Bonds at any time prior to the Maturity Date at a price equal to the Redemption Price together with interest accrued up to and including the date of redemption.

In this Condition, "**Redemption Price**" means the higher of the following:

(1) par; and

(2) that price, expressed as a percentage (rounded to three decimal places, 0.0005 being rounded upwards), at which the Gross Real Redemption Yield (calculated as described below) on the Bonds, if they were to be purchased at such price on the third dealing day prior to the publication of the notice of redemption, would be equal to the Gross Real Redemption Yield on such dealing day of the Reference Gilt, on the basis of the middle market price of the Reference Gilt prevailing at 11:00 a.m. on such dealing day, as determined by NatWest Markets Plc (or such other investment bank of international repute as the Trustee may approve).

Any reference in these Terms and Conditions to principal shall be deemed to include any sum payable as the Redemption Price.

Notices of redemption will specify the date fixed for redemption, the applicable Redemption Price and, in the case of partial redemption, the aggregate principal amount of the Bonds to be redeemed, the serial numbers of the Bonds called for redemption, the serial numbers of the Bonds previously called for redemption and not presented for payment and the aggregate principal amount of the Bonds to remain outstanding after the redemption. No such notice of redemption may be given by the Issuer unless it shall have presented to the Trustee a certificate signed by two Directors of the Issuer (upon which the Trustee may rely absolutely) that it will have the funds, not subject to the interest of any other person, required to redeem the Bonds at the Redemption Price plus accrued interest on the date specified for redemption. Upon the expiry of any notice of redemption the Issuer shall be bound to redeem the Bonds called for redemption at the applicable Redemption Price. Any partial redemption of the Bonds shall be on the basis of selection by drawings (the method of such drawings to be approved by the Trustee in its absolute discretion).

"**Gross Real Redemption Yield**" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "Formulae for calculating Gilt Prices from Yields" published on 8 June 1998 with effect from 1 November 1998, page 5 and updated on 15 January 2002 and 16 March 2005 and as further updated or amended from time to time.

(c) *Redemption for tax reasons:* If, as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after 12 June 2020, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*Taxation*) (and such amendment or change has been evidenced by the delivery by the Issuer to the Trustee (who shall accept such certificate as sufficient evidence thereof) of a certificate signed by two Directors of the Issuer stating that such amendment or change has occurred (irrespective of whether such amendment or change is then effective), describing the facts leading thereto and stating that such obligation cannot be avoided by the Issuer taking reasonable measures available to it) the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable), redeem all the Bonds (other than Bonds in respect of which the Issuer shall have given a notice of redemption pursuant to Condition 7(b) (*Redemption at the option of the Issuer*) prior to any notice being given under this Condition 7(c)), but not some only, at their outstanding principal amount together with interest accrued to (but excluding) the date of redemption, *provided that* no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer would be required to pay the additional amounts were a payment in respect of the Bonds then due and *provided further that* no notice of redemption may be given by the Issuer unless two Directors of the Issuer shall have certified to the Trustee that it will have the funds, not subject to the interest of any other person, required to redeem the Bonds at their principal amounts outstanding plus accrued interest on the date specified for redemption (the Trustee being able to rely on such certificate absolutely).

(d) *Purchase:* The Issuer or any of its Subsidiaries may at any time purchase or otherwise acquire Bonds (provided that all unmatured Coupons are attached thereto or are surrendered therewith) at any price in the open market or otherwise.

(e) *Cancellation:* All Bonds which are redeemed pursuant to this Condition by the Issuer shall be cancelled (together with all relative unmatured Coupons attached thereto or surrendered therewith) and accordingly may not be reissued or resold. Bonds purchased by or on behalf of the Issuer or any of its Subsidiaries may be held or reissued or resold or surrendered for cancellation.

8. **Taxation**

(a) All payments in respect of the Bonds and Coupons by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the United Kingdom, or any political subdivision of, or authority in, or of, the United Kingdom having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:

(i) to, or to a third party on behalf of, a holder who is liable to the Taxes in respect of the Bond or Coupon by reason of such holder having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or

(ii) to, or to a third party on behalf of, a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or

(iii) presented for payment more than 30 days after the Relevant Date except to the extent that the holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days.

(b) In these Terms and Conditions, "**Relevant Date**" means the date on which the payment first becomes due, but if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to the Bondholders by the Issuer in accordance with Condition 14 (*Notices*).

(c) Any reference in these Terms and Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition 8 pursuant to the Trust Deed.

9. **Prescription**

Bonds and Coupons will become void unless presented for payment within periods of ten years and five years, respectively, from the Relevant Date for payment in respect thereof, subject to the provisions of Condition 6 (*Payments*).

10. **Events of Default**

If:

(a) default is made in the payment of any principal or premium (if any) in respect of any Bond pursuant to Condition 7 (*Redemption and Purchase*), or for a period of 14 days or more in the payment of any interest due in respect of the Bonds; or

(b) the Issuer fails to perform or observe any of its other obligations, covenants, conditions or provisions under the Bonds or the Trust Deed and (except where the Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) such failure continues for the period of 60 days (or such longer period as the Trustee may permit) following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

(c) (i) any other Indebtedness For Borrowed Money of the Issuer or any of its Subsidiaries becomes due and repayable prior to its stated maturity by reason of an event of default (however described) or (ii) any such Indebtedness For Borrowed Money is not paid when due or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of any Indebtedness For Borrowed Money of, any person or (iv) any security given by the Issuer or any of its Subsidiaries for any Indebtedness For Borrowed Money of any person or any guarantee or indemnity of Indebtedness For Borrowed Money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security save in any such case referred to in (i), (ii), (iii) or (iv) where there is a *bona fide* dispute as to whether the relevant Indebtedness For Borrowed Money or any such guarantee or indemnity as aforesaid shall be due and payable, and *provided that* the aggregate amount of the relevant Indebtedness For Borrowed Money in respect of which any one or more of the events mentioned above in this sub-paragraph (c) has or have occurred equals or exceeds 5 per cent of Regulated Asset Value and such event shall continue unremedied or unwaived for more than 14 days (or such longer grace period as may have been originally provided in the applicable instrument) and the time for payment of such amount has not been expressly extended (until such time as any payment default is remedied, cured or waived); or

(d) any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of the Issuer, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved by an Extraordinary Resolution of the Bondholders; or

(e) the Issuer or any of its Subsidiaries shall cease to carry on the whole or substantially the whole of its business, save in each case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other arrangement (i) not involving or arising out of the insolvency of the Issuer or such Subsidiary and under which all or substantially all of its assets are transferred, in the case of the Issuer, to a Subsidiary of the Issuer or, in the case of a Subsidiary, to the Issuer or another Subsidiary of the Issuer, or in either case, to a transferee which is, or immediately upon such transfer becomes a Subsidiary of the Issuer or (ii) under which all or substantially all of its assets are transferred to a third party or parties (whether a Subsidiary or Subsidiaries of the Issuer or not) for full consideration by the Issuer or any such Subsidiary on an arm's length basis or (iii) the terms of which have previously been approved by an Extraordinary Resolution of the Bondholders *provided that* if the Issuer shall cease to hold or shall transfer the Electricity Distribution Licence (other than where the Electricity Distribution Licence is revoked, terminated or surrendered in the circumstances envisaged by paragraph (i)(a), (b) or (c) of the definition of Restructuring Event in Condition 3 (*Definitions*) and such revocation, termination or surrender does not constitute a Restructuring Event pursuant to paragraph (i) of such definition) the Issuer shall be deemed to have ceased to carry on the whole or substantially the whole of its business (and neither of exceptions (i) and (ii) above shall apply) unless the transferee of the Electricity Distribution Licence is the Issuer or a Subsidiary of the Issuer, at least 51 per cent of the ordinary share capital of which is owned directly or indirectly by the Issuer (the "**NE Transferee**") and in such event all references in these Terms and Conditions to the Issuer in its capacity as holder of the Electricity Distribution Licence shall thereafter be deemed to be references to the NE Transferee; or

(f) the Issuer or any of its Subsidiaries shall suspend or shall threaten to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable, or shall admit in writing its inability, to pay its debts (within the meaning of Section 123(1) or (2) of the Insolvency Act 1986) as they fall due, or shall be adjudicated or found insolvent by a competent court or shall enter into any composition or other similar arrangement with its creditors under Part I of the Insolvency Act 1986; or

(g) a receiver, administrative receiver, Energy Administrator, administrator or other similar official shall be appointed in relation to the Issuer or any of its Subsidiaries or in relation to the whole or a substantial part of the undertaking or assets of any of them or a distress, execution or other process shall be levied or enforced upon or sued out against, or any encumbrancer shall take possession of, the whole or a substantial part of the assets of any of them and in any of the foregoing cases it or he shall not be paid out or discharged within 120 days (or such longer period as the Trustee may in its absolute discretion permit),

and, in the case of sub-paragraphs (b), (c) and (e) to (g) (inclusive) the Trustee shall have certified in writing that the relevant event is in its opinion materially prejudicial to the interests of the Bondholders, the Trustee may at its discretion (and the Trustee shall on the request in writing of the holders of at least one quarter in principal amount of the Bonds then outstanding or upon being so directed by an Extraordinary Resolution of the Bondholders), by notice in writing to the Issuer declare that the Bonds are, and they shall accordingly thereby forthwith become, immediately due and repayable at their principal amount together with accrued interest (as provided in the Trust Deed), *provided always that* the giving of any notice in relation to any Event of Default shall not operate as a waiver of any of the Trustee's rights (including the right to give a further notice) or prevent the Trustee from giving a further notice in the manner referred to above in relation to that Event of Default at any time thereafter.

So long as any of the Bonds remain outstanding the Issuer will, forthwith upon becoming aware of any Event of Default or Potential Event of Default, give notice in writing thereof to the Trustee.

For the purpose of sub-paragraph (f) above, Section 123(1)(a) of the Insolvency Act 1986 shall have effect as if for "£750" there was substituted "£250,000" or such higher figure as Ofgem may from time to time determine by notice in writing to the Issuer for the purposes of Schedule 2 (Revocation) of its Electricity Distribution Licence.

Neither the Issuer nor any Subsidiary shall be deemed to be unable to pay its debts for the purposes of sub-paragraph (f) above if any such demand as is mentioned in Section 123(1)(a) of the Insolvency Act 1986 is being contested in good faith by the Issuer or the relevant Subsidiary with recourse to all appropriate measures and procedures.

11. **Restructuring Event**

(a)

(i) If, at any time while any of the Bonds remains outstanding, a Restructuring Event occurs and during the Restructuring Period an Independent Financial Adviser (as defined below) shall have certified in writing to the Trustee that such Restructuring Event is not, in its opinion, materially prejudicial to the interests of the Bondholders, the following provisions of this Condition shall cease to have any further effect in relation to such Restructuring Event.

(ii) If, at any time while any of the Bonds remains outstanding, a Restructuring Event occurs and (subject to paragraph (a)(i) above):

(1) within the Restructuring Period, either:

(A) if at the time such Restructuring Event occurs there are Reference Rated Securities, a Rating Downgrade in respect of such Restructuring Event also occurs; or

(B) if at such time there are not Reference Rated Securities, a Negative Rating Event in respect of such Restructuring Event also occurs; and

(2) an Independent Financial Adviser shall have certified in writing to the Trustee that such Restructuring Event is, in its opinion, materially prejudicial to the interests of the Bondholders (a "**Negative Certification**"),

then, unless at any time the Issuer shall have given a notice under Condition 7(b) (*Redemption at the option of the Issuer*) or Condition 7(c) (*Redemption for tax reasons*), in each case expiring prior to the Put Date (as defined below), the holder of each Bond will, upon the giving of a Put Event Notice (as defined below), have the option (the "**Put Option**") to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) that Bond on the Put Date at its principal amount together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date.

Notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, no Bondholder shall be entitled to exercise the Put Option and to serve a Put Notice if the rating assigned to the Reference Rated Securities or these Bonds by any Rating Agency is subsequently increased to, or, as the case may be, there is assigned to the Reference Rated Securities or these Bonds by any Rating Agency an Investment Grade Rating or, in the event that the rating assigned to the Reference Rated Securities immediately prior to the occurrence of the Rating Downgrade or Negative Rating Event was not an Investment Grade Rating, if such rating is restored, in either case prior to any Negative Certification being issued.

Any certification by an Independent Financial Adviser as aforesaid as to whether or not, in its opinion, any Restructuring Event is materially prejudicial to the interest of the Bondholders shall, in the absence of manifest error, be conclusive and binding on the Trustee, the Issuer and the Bondholders. For the purposes of this Condition, an "**Independent Financial Adviser**" means a financial adviser appointed by the Issuer and approved by the Trustee or, if the Issuer shall not have appointed such an adviser within 21 days after becoming aware of the occurrence of such Restructuring Event and the Trustee is indemnified and/or prefunded and/or secured to its satisfaction against the costs of such adviser, appointed by the Trustee.

A Rating Downgrade or a Negative Rating Event or a non-Investment Grade Rating shall be deemed not to have occurred as a result of or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, declining to assign an Investment Grade Rating as provided in this Condition does not announce or publicly confirm or inform the Trustee in writing at its request that the reduction or, where applicable, declining to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.

The Trust Deed provides that the Trustee is under no obligation to ascertain whether a Restructuring Event, a Negative Rating Event, a Rating Downgrade or any event which could lead to the occurrence of or could constitute a Restructuring Event, a Negative Rating Event or a Rating Downgrade has occurred and until it shall have actual knowledge or express notice pursuant to the Trust Deed to the contrary the Trustee may assume that no Restructuring Event, Negative Rating Event, Rating Downgrade or other such event has occurred.

(b) Promptly upon the Issuer becoming aware that a Put Event (as defined in Condition 3 (*Definitions*)) has occurred, and in any event not later than 14 days after the occurrence of a Put Event, the Issuer shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and (subject to it being indemnified and/or prefunded and/or secured to its satisfaction) if so requested by the holders of at least one-quarter in principal amount of the Bonds then outstanding shall, give notice (a "**Put Event Notice**") to the Bondholders in accordance with Condition 14 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the Put Option.

(c) To exercise the Put Option, the holder of a Bond must deliver such Bond to the specified office of any Paying Agent, on a day which is a business day (as defined in Condition 6 (*Payments*)) in London and in the place of such specified office falling within the period (the "**Put Period**") of 45 days after that on which a Put Event Notice is given, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "**Put Notice**") and in which the holder may specify a bank account complying with the requirements of Condition 6 (*Payments*) to which payment is to be made under this Condition. Each Bond should be delivered together with all Coupons appertaining thereto maturing after the day (the "**Put Date**") being the fifteenth day after the date of expiry of the Put Period, failing which any such missing Coupon will become void and no payment shall be made in respect of it. The Paying Agent to which such Bond and Put Notices are delivered shall issue to the Bondholder concerned a non-transferable receipt in respect of the Bond so delivered. Payment in respect of any Bond so delivered shall be made, if the holder duly specifies a bank account in the Put Notice to which payment is to be made on the Put Date, by transfer to that bank account and, in every other case, on or after the Put Date, in each case against presentation and surrender or (as the case may be) endorsement of such receipt at any specified office of any Paying Agent, subject in any such case as provided in Condition 6 (*Payments*). A Put Notice, once given, shall be irrevocable. For the purposes of Conditions 9 (*Prescription*), 10 (*Events of Default*), 12 (*Enforcement*), 13 (*Replacement of Bonds and Coupons*) and 15 (*Meetings of Bondholders, Modification and Waiver*) receipts issued pursuant to this Condition shall be treated as if they were Bonds. The Issuer shall redeem or, at the option of the Issuer, purchase (or procure the purchase of) the relevant Bond on the applicable Put Date unless previously redeemed or purchased.

12. Enforcement

(a) *Limitation on Bondholders*: Only the Trustee may pursue the remedies available under general law or under the Trust Deed to enforce the rights of the Bondholders and Couponholders and no such holder will be entitled to proceed against the Issuer unless the Trustee, having become bound to act in accordance with the terms of the Trust Deed, fails to do so within a reasonable amount of time and such failure is continuing.

(b) *Enforcement Proceedings*: At any time after amounts in respect of principal of and interest on the Bonds shall have become due and payable but are unpaid, the Trustee may, at its discretion, and without further notice but subject as mentioned below, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed in accordance with the terms thereof.

The Trustee shall only be bound to take proceedings pursuant to this Condition 12(b) if it has been indemnified and/or prefunded and/or secured to its satisfaction by the Bondholders and if it has been so requested in writing by the holders of not less than 25 per cent of the principal amount outstanding (as defined in the Trust Deed) of the Bonds or has been so directed by an Extraordinary Resolution (as defined in the Trust Deed)).

13. Replacement of Bonds and Coupons

Should any Bond or Coupon be lost, stolen, mutilated, defaced or destroyed it may, subject to all applicable laws and stock exchange requirements, be replaced at the specified office of the Principal Paying Agent (or such other Paying Agent as may be approved by the Trustee for such purpose) upon payment by the claimant of the expenses, taxes and duties incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

14. **Notices**

All notices to Bondholders shall be valid if published in a leading English language national daily newspaper (which is expected to be the *Financial Times*) or, if this is not practicable, in a leading English language daily newspaper with a circulation in Europe. Such notices shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first such publication. If publication is not practicable, notice shall be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

15. **Meetings of Bondholders, Modification and Waiver**

(a) The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including modification by Extraordinary Resolution of these Terms and Conditions or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution shall be two or more persons holding or representing more than half in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, except that, at any meeting the business of which includes the modification of certain of these Terms and Conditions and certain of the provisions of the Trust Deed (including altering the currency of payment of the Bonds or Coupons), the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders shall be binding on all Bondholders, whether or not they are present or represented at the meeting, and on all Couponholders.

(b) The Trustee may, without the consent of the Bondholders or Couponholders, agree (i) other than in respect of Reserved Matters (as specified and defined in Schedule 5 to the Trust Deed), to any modification to these Terms and Conditions or to any of the provisions of the Trust Deed or to any waiver or authorisation of any breach or proposed breach by the Issuer of these Terms and Conditions or of any of the provisions of the Trust Deed or determine that any event, condition or act which would otherwise be an Event of Default, Potential Event of Default or Restructuring Event shall not be so treated provided that, in the opinion of the Trustee, so to do would not be materially prejudicial to the interests of the Bondholders, and provided further that the Trustee will not do so in contravention of any express direction given by any Extraordinary Resolution or a written request made pursuant to Condition 10 (*Events of Default*) but no such direction or request will affect any previous waiver, authorisation or determination, or (ii) to any modification to these Terms and Conditions or to any of the provisions of the Trust Deed which is made to correct a manifest error or which is of a formal, minor or technical nature.

(c) In connection with the exercise of its trusts, powers, authorities or discretions (including, but not limited to, any modification, waiver, authorisation or substitution) the Trustee shall have regard to the interests of Bondholders as a class and, in particular, but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Bondholders and Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders, except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking given to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

(d) Any modification to these Terms and Conditions or to any of the provisions of the Trust Deed or any waiver or authorisation of any breach or proposed breach by the Issuer of these Terms and Conditions or any of the provisions of the Trust Deed shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any modification shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*) .

16. Substitution

The Trustee may, without the consent of the Bondholders or Couponholders, agree with the Issuer to the substitution of any wholly-owned Subsidiary of the Issuer (the "**Substituted Obligor**") in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Bonds, the Coupons and the Trust Deed, subject to the Trustee being of the opinion that the interests of the Bondholders will not be materially prejudiced thereby and certain other conditions set out in the Trust Deed being complied with, including that (unless the Issuer's successor in business is the Substituted Obligor) the obligations of the Substituted Obligor under the Trust Deed, the Bonds and the Coupons are unconditionally and irrevocably guaranteed by the Issuer in form and manner satisfactory to the Trustee.

17. Further Bonds

(a) Subject as mentioned below, power will be reserved to the Issuer to create and issue Further Bonds forming (or so as to form after the first payment of interest thereon) a single series with the Bonds *provided that*:

(i) the Trustee is satisfied that the rating granted in respect of the Bonds by S&P and Fitch will not thereby be adversely affected; and

(ii) such issue shall be constituted by a deed supplemental to the Trust Deed (in such form as the Trustee may approve).

(b) The Issuer shall not be entitled to exercise the power reserved in this Condition 17 (*Further Bonds*) while any default exists in relation to any payment by the Issuer of any amounts due under the Trust Deed.

18. **Trustee**

The Trust Deed contains provisions governing the responsibility of the Trustee and providing for its indemnification and relief from responsibility in certain circumstances, (including provisions relieving it from taking proceedings against the Issuer unless indemnified and/or secured and/or prefunded to its satisfaction) and to be paid its costs and expenses in priority to the claims of the Bondholders. The Trustee may not resign its appointment unless a successor, willing to act in such capacity, has been appointed by the Issuer and the Bondholders by Extraordinary Resolution, *provided that* the Trustee shall not be prevented from resigning its appointment if, having given notice in writing to the Issuer of its intention to so resign its appointment, a successor is not appointed within the period of three months from the date of such notice.

19. **Governing Law**

The Trust Deed and the Bonds and any non-contractual obligations arising out of or in connection with the Trust Deed and the Bonds are governed by, and shall be construed in accordance with, English law.

There will appear at the foot of the Terms and Conditions endorsed on each Bond in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Prospectus.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Bonds will initially be in the form of the Temporary Global Bond which will be deposited on or around the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg. The Temporary Global Bond will be exchangeable in whole or in part for interests in the Permanent Global Bond not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Bond unless exchange for interests in the Permanent Global Bond is improperly withheld or refused. In addition, interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership. Investors will not be entitled to receive Definitive Bonds except in the limited circumstances described in the following paragraph.

The Permanent Global Bond will become exchangeable in whole, but not in part, for Definitive Bonds at the request of the bearer of the Permanent Global Bond against presentation and surrender of the Permanent Global Bond to the Principal Paying Agent if any of the following events (each, an "**Exchange Event**") occurs: (a) an Event of Default, or (b) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business, or (c) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or of any political sub-division of, or any authority in, the United Kingdom having power to tax or any change in the application or official interpretation of such laws or regulations which becomes effective on or after 12 June 2020, the Issuer or any Paying Agent is or will be required to make any withholding or deduction from any payment in respect of the Bonds which would not be required if the Bonds were in definitive form.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the Specified Office of the Principal Paying Agent within 30 days of the occurrence of the relevant Exchange Event.

Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Temporary Global Bond and the Permanent Global Bond (together, the "**Global Bonds**"). While the Bonds are represented by the Global Bonds, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Bonds by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Bonds.

Holders of beneficial interests in the Global Bonds will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

In addition, the Temporary Global Bond and the Permanent Global Bond will contain provisions which modify the Terms and Conditions as they apply to the Temporary Global Bond and the Permanent Global Bond. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Bond and the Permanent Global Bond will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Bond or (as the case may be) the Permanent Global Bond at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Bonds. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Bond or (as the case may be) the Permanent Global Bond, the Issuer shall procure that the same is noted in a schedule thereto.

Exercise of put option: In order to exercise the option contained in Condition 11 (*Restructuring Event*) the bearer of the Permanent Global Bond must, within the period specified in the Conditions for the deposit of the relevant Bond and put notice, give written notice (or electronic notice in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg) of such exercise to the Principal Paying Agent specifying the principal amount of Bonds in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 7(b) (*Redemption at the option of the Issuer*) in relation to some only of the Bonds, (a) the Permanent Global Bond may be redeemed in part in the principal amount specified by the Issuer in accordance with the Terms and Conditions and the Bonds to be redeemed will not be selected as provided in the Terms and Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and (b) the notice of redemption will not specify the serial numbers of the Bonds called for redemption or the serial numbers of the Bonds previously called for redemption and not presented for payment. The rules and procedures of Euroclear and Clearstream, Luxembourg provide that a partial redemption will be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion.

Notices: Notwithstanding Condition 14 (*Notices*), while all the Bonds are represented by the Permanent Global Bond (or by the Permanent Global Bond and/or the Temporary Global Bond) and the Permanent Global Bond is (or the Permanent Global Bond and/or the Temporary Global Bond are) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Bondholders in accordance with Condition 14 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

Quorum: So long as the outstanding Bonds are represented by the Temporary Global Bond and/or the Permanent Global Bond, a single voter appointed in relation thereto or being the holder of the Bonds represented thereby shall be deemed to be two voters for the purpose of forming a quorum.

GREEN FINANCE FRAMEWORK

The Issuer has published a green finance framework which follows, among other things, the guidelines specified in the 2018 edition of the Green Bond Principles published by the Executive Committee of the Green Bond Principles with the support of the International Capital Markets Association (ICMA) (the "**Green Finance Framework**").

The Green Finance Framework may be viewed at the specified office of the Issuer at Lloyds Court, 78 Grey Street, Newcastle-upon-Tyne NE1 6AF.

The Green Finance Framework has been published at: https://www.northernpowergrid.com/.

The Issuer has appointed DNV-GL to conduct an external review of the Green Finance Framework and provide an Eligibility Opinion, commenting on:

- the alignment of the Green Finance Framework with ICMA, LMA and other relevant market standards;
- the environmental benefits expected from the underlying project categories; and
- the alignment of the framework with the Issuer's broader sustainability strategy.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of the Eligibility Opinion and in particular with any Eligible Green Projects to fulfil any environmental, sustainability, social or other criteria. The Eligibility Opinion is not a recommendation to buy, sell or hold the Bonds. The Eligibility Opinion is not incorporated in, and does not form part of, this Prospectus.

The Eligibility Opinion has been published at: https://www.northernpowergrid.com/.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds are expected to be approximately £294,879,000.

The net proceeds from the issue of the Bonds will be used to finance and/or refinance in whole or in part eligible projects ("**Eligible Green Projects**") in the following categories, together forming the "**Eligible Green Project Portfolio**":

- Renewable Energy
- Energy Efficiency
- Pollution prevention and control
- Clean Transportation
- Environmentally sustainable management of living natural resources and land use
- Sustainable water and wastewater management
- Climate change adaptation
- Eco-efficient and/or circular economy adapted products, production technologies and processes
- Green buildings.

The Eligible Green Project Portfolio will consist of new and/or existing work programmes and projects. The net proceeds from the issuance of the Bonds will be managed according to the Issuer's internal tracking and accounting systems to ensure appropriate project tracking and to avoid double counting. Pending the full allocation of the net proceeds to the Eligible Green Project Portfolio, the Issuer may use any unallocated funds for debt repayment and/or investment in its treasury liquidity portfolio, which may include deposits, money market funds and other similar products.

The Issuer will make and keep publicly available reporting on the allocation of net proceeds to the Eligible Green Project Portfolio and wherever feasible report on the impact of the Eligible Green Project Portfolio, at least at the category level, within 12 months from the issuance of the Bonds, to be renewed annually until full allocation of the net proceeds of the Bonds to the Eligible Green Project Portfolio. The Issuer's reporting will include details of any material developments, such as modification of the Green Finance Framework or changes of allocation between categories in the Eligible Green Project Portfolio.

DESCRIPTION OF THE ISSUER

Background

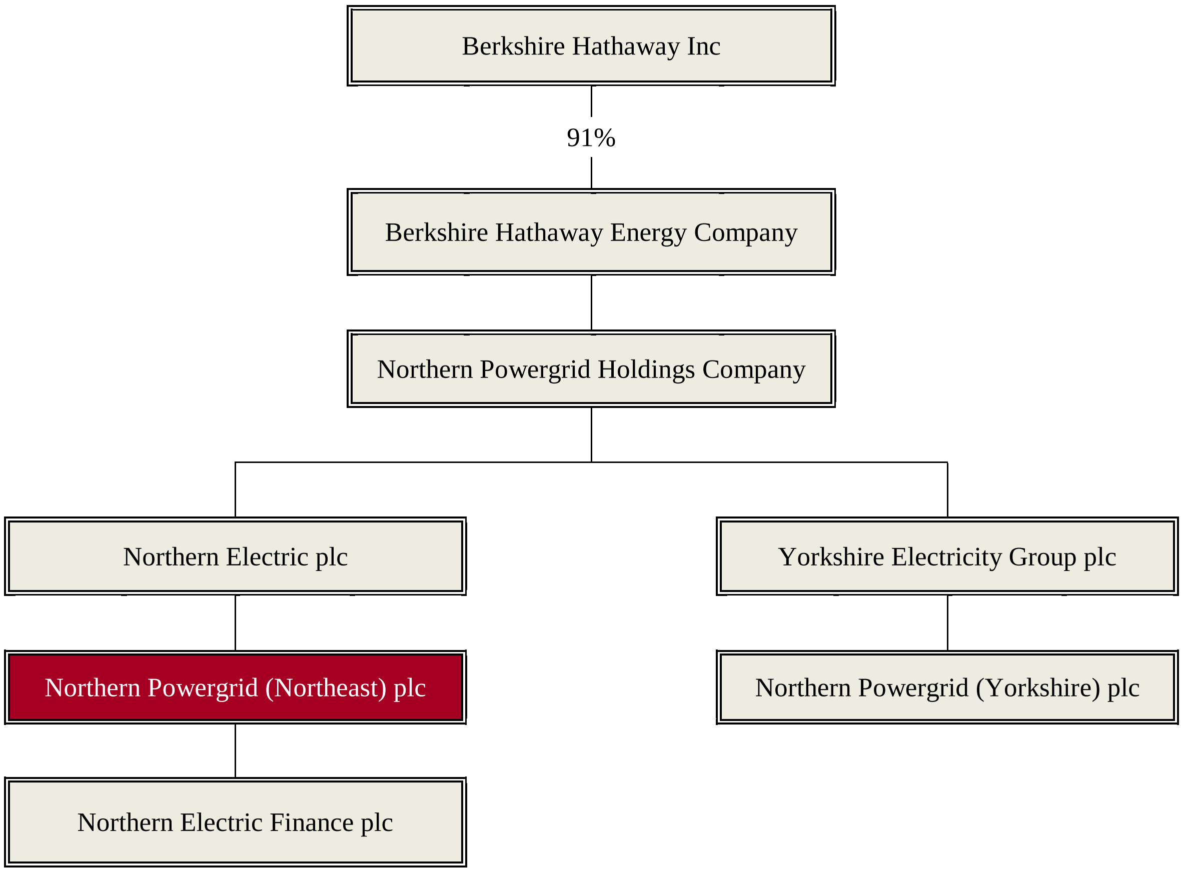
Northern Powergrid (Northeast) plc (the "**Issuer**") was incorporated on 9 March 1994 as a limited company with registered number 02906593. On 3 June 2020 the Issuer converted to a plc. The registered office of the Issuer is Lloyds Court, 78 Grey Street, Newcastle Upon Tyne, NE1 6AF and its telephone number is +44 (0) 191 223 5151. The Issuer changed its name from Northern Electric Distribution Limited to Northern Powergrid (Northeast) Limited with effect from 31 October 2011. The website of the Issuer is https://www.northernpowergrid.com/.

The Issuer is a regulated electricity distribution network operator ("**DNO**"). It is a wholly-owned subsidiary of Northern Electric plc, and an indirect wholly-owned subsidiary of Northern Powergrid Holdings Company ("**Northern Powergrid**", and, together with its subsidiaries, the "**Northern Powergrid Group**"). Northern Powergrid was formerly known as CE Electric UK Funding Company. The Issuer's ultimate parent company is Berkshire Hathaway, Inc. a company incorporated in the United States of America.

Northern Powergrid also indirectly wholly-owns the share capital of Northern Powergrid (Yorkshire) plc ("**Northern Powergrid (Yorkshire)**"), which is also a DNO. The Issuer and Northern Powergrid (Yorkshire) operate together as a single commercial entity under the brand "Northern Powergrid". As required by Ofgem (as defined below) in its regulation of DNOs, the Issuer and Northern Powergrid (Yorkshire) are separate legal entities, which are subject to financial ring-fencing and which hold separate distribution licences. The Issuer and Northern Powergrid (Yorkshire) are separately assessed by the Gas and Electricity Markets Authority (commonly referred to as "**Ofgem**") and undergo separate distribution price control review processes. On a management and commercial level, the Issuer and Northern Powergrid (Yorkshire) are operated on a combined basis through shared divisional management. The costs of shared services, employees and operations are allocated back to the Issuer and Northern Powergrid (Yorkshire) as appropriate.

The Issuer holds 100% of the issued share capital of Northern Electric Finance plc.

The table below is a summary of the organisational structure showing certain holding companies and affiliated companies of the Issuer in the Northern Powergrid regulated business. Certain intermediate holding companies and affiliates of the Issuer carrying out non-regulated activities, such as engineering contracting and gas exploration, are not included.



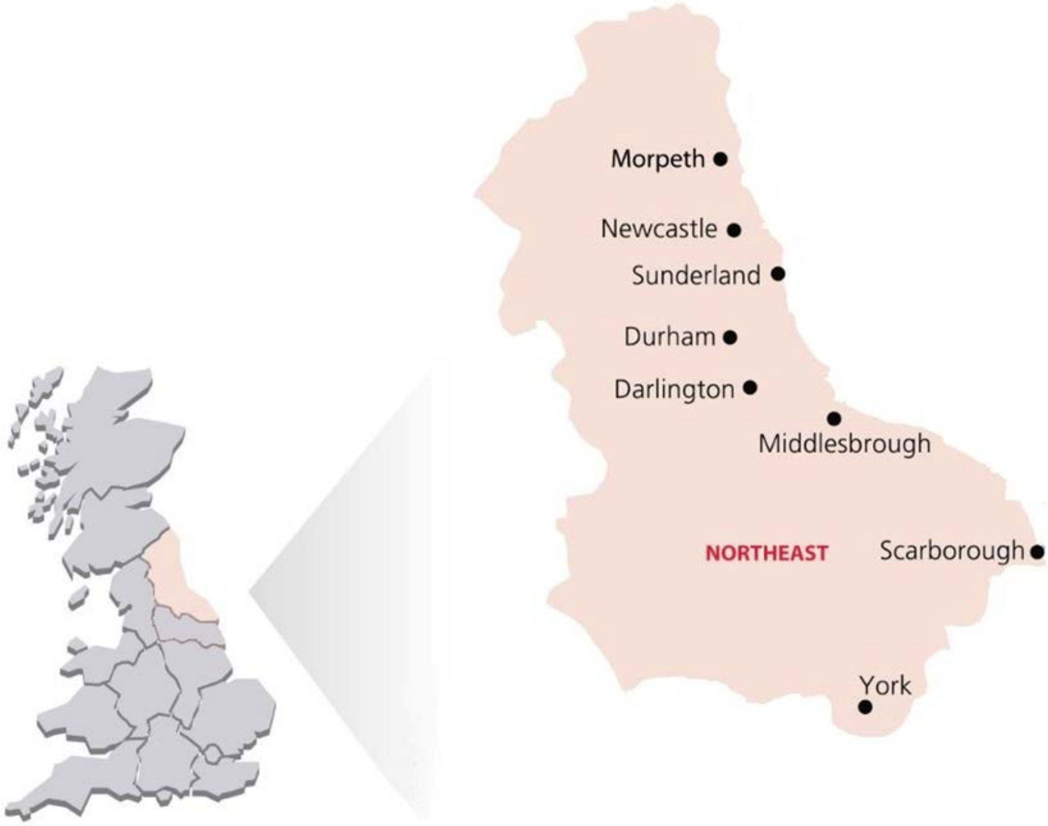
Distribution Business

The Issuer is one of the fourteen DNOs in England, Wales and Scotland. Its distribution service area is in the northeast of England which extends from North Northumberland, south to York and west to the Pennines. The electricity distribution network includes over 41,000 kilometres of overhead and underground cables and over 27,000 substations.

The principal function of the Issuer is to build, maintain and operate the electricity network through which end-users receive a supply of electricity. The Issuer receives electricity from National Grid's transmission network (which connects the larger power stations) and from smaller generators (such as windfarms) that are directly connected to the Issuer's network. This electricity is distributed by the Issuer on behalf of suppliers to approximately 1.6 million customers connected to its electricity distribution network of transformers, switchgear, overhead power lines and underground cables, at voltages of up to 132kV. Some 13,879 gigawatt-hours of electricity were distributed to those customers during the year ended 31 December 2019.

The Issuer holds an electricity distribution licence granted by the Secretary of State under the Electricity Act 1989 authorising it to distribute electricity for the purpose of supply to premises. The Issuer is regulated by Ofgem.

The Issuer Distribution Service Area Map



Regulatory Framework

Each of the fourteen licensed DNOs distributes electricity within its respective distribution service area.

The Issuer as a DNO is subject to regulation by Ofgem under the terms of the Electricity Act 1989 and its distribution licence. Ofgem has a duty to carry out its functions, including its price control functions, in a manner which it considers promotes value for money and protects the interests of consumers. In performing that duty, Ofgem must have regard to the need for efficient licence holders to be able to finance their regulated activities. In addition, DNOs have a duty to maintain an investment grade credit rating.

DNOs are subject to price controls, set and enforced by Ofgem, which limit the revenue that may be recovered and retained from their electricity distribution activities. The regulatory regime that has been applied to DNOs encourages companies to look for efficiency gains in order to improve profits.

The distribution price control formula adjusts the revenue received by DNOs to reflect a number of factors, including, but not limited to, the rate of inflation as measured by the Retail Price Index ("**RPI**") and the quality of service delivered by the DNO's distribution system. The price control formula has been, and may be, reviewed at Ofgem's discretion. The current price control has been set for a period of eight years, with provision for mid-period review (although on 30 April 2018, Ofgem published its decision that it would not trigger a mid-period review). The procedure and methodology adopted at a price control review are at the reasonable discretion of Ofgem. Ofgem's judgment of the future allowed revenue of DNOs has been based upon, among other things:

- actual operating and capital costs;
- operating and capital costs which each of the DNOs would incur if it were as efficient, in Ofgem's judgment, as the most efficient DNO;
- actual value of certain costs which are judged to be beyond the control of the DNO;
- expected taxes;
- the value ascribed by Ofgem to the capital employed in the regulated business ("**RAV**"), which takes account of network expenditure allowed by Ofgem;
- rate of return to be allowed on the RAV;
- financial ratios and licence requirements to maintain investment grade status;
- allowances in respect of the repair of the pension deficits in the defined benefit pension schemes sponsored by the DNO; and
- under / over-recoveries of revenues, relative to allowed revenues, in the previous price control period.

The price control formula determines the maximum revenue that the DNO is entitled to charge. There is a common charging regime for all the DNOs, approved by Ofgem, which reasonably recovers the allowed revenue from customers. Changes to the common methodology are governed by the Distribution Connection and Use of System Agreement ("**DCUSA**"). Parties to DCUSA and parties authorised by Ofgem can propose changes to the common methodology.

A number of incentive schemes also operate within the price control period to encourage DNOs to provide an appropriate quality of service to end users with penalty payments made by DNOs to end users where guaranteed standards of service have not been met. The aggregate of these guaranteed standards payments is uncapped, but may be excused in certain prescribed circumstances that are generally beyond the control of the DNO. The Issuer's investment programme is targeted to maintain asset condition and meet the prescribed outputs over the price control period and improve customer interruptions and customer minutes lost over the period.

Changes to the price controls can be made by Ofgem without the consent of the DNO, but this is subject to a right of appeal by the DNO to the Competition and Markets Authority ("**CMA**") on specified grounds. Certain other interested parties also have the same right.

Any application for permission to appeal must be made within 20 working days of Ofgem's decision to modify the DNO's licence conditions to implement the new price control. If the CMA grants permission to appeal, the applicable legislation requires that the CMA determine the appeal within six months or in some exceptional circumstances seven months. The Issuer and Northern Powergrid (Yorkshire) appealed Ofgem's proposals for the resetting of the formula that commenced 1 April 2015, as did one other party, and the CMA subsequently revised aspects of Ofgem's price control decision.

The current electricity distribution price control, known as RIIO-ED1 (Revenue=Incentives+Innovation+Outputs) became effective on 1 April 2015 and runs until 31 March 2023. This price control was the first to be set for electricity distribution since Ofgem completed its review of network regulation (known as the RPI-X @ 20 project). The key changes to the price control calculations, compared to those used in previous price controls, are that:

- the period over which new regulatory assets are depreciated is being gradually lengthened, from 20 years to 45 years, with the change being phased over eight years;
- some adjustments to allowed revenues will take effect during the price control period, rather than at the next price control review, including adjustments to partially reflect cost variances relative to cost allowances;
- the allowed cost of debt will be updated within the price control period by reference to a long-run trailing average based on external benchmarks of utility debt costs;
- allowed revenues will be adjusted in relation to some new service standard incentives, principally relating to new connections to the network; and
- there is scope for a mid-period review and adjustment to revenues in the latter half of the period for any changes in the outputs required of DNOs for certain specified reasons. On 30 April 2018, Ofgem published its decision that it would not trigger a mid-period review.

Ofgem published its Final Determination in November 2014 under RIIO-ED1. Under Ofgem's determination, as revised by the CMA, and excluding the effects of incentive schemes and any deferred revenues from the prior price control, the base allowed revenue of the Issuer remains constant throughout the period of the RIIO-ED1 price control before the addition of inflation. Nominal base allowed revenues will increase in line with inflation.

Ofgem published its RIIO-2 sector specific methodology decision on 24 May 2019, continuing the process of developing the next set of price control arrangements that will be implemented for electricity and gas transmission and gas distribution networks in the UK which will run from April 2021. The decision did not set out proposals for the Issuer's next price control which will run from April 2023, however, some of the proposals may be capable of application to that price control. The decision confirmed a continued intention to move to lower allowed returns. These price control reviews are now moving into their detailed implementation phase, with draft and final determinations due in the summer and autumn of 2020, respectively.

On 6 August 2019, Ofgem published its initial consultation on the next electricity distribution price control review, which is due to set charges for a period of five years from April 2023 (RIIO-ED2). This initial consultation was followed by a framework decision on 17 December 2019. The timetable for the methodology consultation is quarter two to three 2020, with a decision to be published during quarter four 2020. The initial and final determinations are planned for quarter two, and four 2022.

The Issuer has been actively involved in all these price control discussions and will be directly affected by the electricity distribution price control review.

Ofgem monitors compliance by DNOs with their licence conditions. As well as imposing price controls, licence conditions govern terms of service, financial ring-fencing and the financial strength of the DNO, the provision of information to Ofgem and the public, the maintenance of transparency and non-discrimination, and the avoidance of cross-subsidy in the provision of regulated services. Ofgem also monitors and enforces DNO compliance with certain statutory duties set out in the Electricity Act 1989, including the duty to develop and maintain an efficient, coordinated and economical system of electricity distribution.

Ofgem is able to issue enforcement orders to and/or impose financial penalties on DNOs that contravene any licence condition, any of certain statutory duties under the Electricity Act 1989 (as amended) or which are failing to achieve a satisfactory performance in relation to the individual standards of performance. Any penalty imposed must be reasonable and may not exceed 10% of the DNO's revenue.

While the distribution licence may be terminated immediately in exceptional circumstances, such as in the event of insolvency proceedings, it otherwise continues indefinitely until revoked following no less than 25 years' written notice. Ofgem has formal powers to modify each distribution licence. The Issuer may appeal against any modifications to its distribution licence on one or more specified grounds. Ofgem routinely makes minor modifications to the Issuer's distribution licence. The last material modification was made to give effect to the RIIO-ED1 price control.

RAV

The latest RAV values for the RIIO-ED1 price control review period beginning on 1 April 2015 as outlined by Ofgem in its electricity distribution price control financial model published in November 2019 are shown in the following table, all values are expressed in 2012/13 prices. The base RPI index for the 2012/13 prices is based on average RPI and is 244.675.

Annual Values as at March (£m, 2012/2013 prices)								
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Opening RAV	1,129	1,154	1,175	1,184	1,193	1,201	1,209	1,211
Net additions (after disposals)	127	124	114	115	114	105	98	96
Depreciation	(-) 102	(-) 104	(-) 105	(-) 106	(-) 106	(-) 97	(-) 96	(-) 94
Closing RAV	**1,154**	**1,175**	**1,184**	**1,193**	**1,201**	**1,209**	**1,211**	**1,213**

The above values are subject to adjustment to reflect the rate of inflation as measured by RPI.

Strategy

In common with the Northern Powergrid Group, the Issuer's long-term financial strategy is to operate the business with a simple and conservative funding structure which maintains a good investment grade credit rating.

The Issuer operates a business model and strategy based on its six core principles, which are:

Core Principle	Strategic objective	Key Performance Indicators (“KPI”)
Financial strength	Strong finances that enable improvement and growth.	- Operating profit - Maintenance of investment grade credit ratings - Cash flow
Customer service	Delivering exceptional customer service.	- Broad measure of customer satisfaction - Stakeholder Engagement rank
Operational excellence	High-quality, efficient operators running a smart reliable energy system.	- Customer Minutes Lost - Customer Interruptions - Network investment - High voltage restoration time

Employee commitment	High-performing people doing rewarding jobs in a safe and secure workplace.	- Occupational Safety and Health Administration Rate - Preventable Vehicle Accidents - Lost time accidents - Restricted duty accidents - Medical treatment accidents - Operational incidents - Absence rate
Environmental respect	Leaders in environmental respect and low carbon technologies.	- Total Oil/Fluid Lost - SF6 Gas discharges - Environmental Incidents - Carbon Footprint
Regulatory integrity	Trustworthy, fair and balanced,	- Quarterly certification

Sustainability

As the UK 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 Issuer's distribution network over time. The Issuer is actively exploring how best to contribute to the achievement of this target through decarbonisation of its own operations, including electrifying its fleet of vehicles, 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 Issuer's distribution network, it 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 Issuer has been market testing the provision of flexible solutions, whereby customers are able support the distribution network during faults by changing their energy usage or utilising their generation assets.

From an innovation perspective, the Issuer 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 distribution network. In addition, a new project is developing mobile battery technology to expedite the restoration of the electricity supply following a power cut. The Issuer is collaborating with Northern Gas Networks to explore the potential future benefits of integrating gas and electricity energy systems through the joint 'Intergral' research project. The Issuer 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.

The Issuer'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, distribution 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 capital programme in the RIIO-ED1 period remains on track.

Environmental

The Issuer operates a UK 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 Issuer's Key Performance Indicators. 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 Issuer'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 15,667 tonnes (2018: 15,917 tonnes).

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 reduction in total fluid loss to 11,660 litres (2018: 14,179).

To maintain its strict policy of environmental protection and legal compliance, the Issuer 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 distribution network. In addition to safeguarding the environment from its direct activities, the Issuer also operates a habitats programme which is aimed at protecting flora and fauna.

Customer Information

Substantially all of the end-users in the Issuer's distribution service area are connected to the Issuer's network and electricity can only be delivered to these end-users through its distribution systems, thus providing the Issuer with distribution volumes that are relatively stable from year to year. The Issuer charges fees for the use of its distribution systems to suppliers of electricity and to generators that are connected to the Issuer's network.

Suppliers purchase electricity from generators, sell the electricity to end-user customers and use the Issuer's distribution network pursuant to an industry standard DCUSA. The principal electricity suppliers that use the Issuer's network are Npower and certain of its affiliates and British Gas Trading Limited. The industry operates in accordance with 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 security deposit. Ofgem has indicated that, provided the Issuer has implemented credit control, billing and collection in line with best practice guidelines and can demonstrate compliance with the guidelines or is able to satisfactorily explain departure from the guidelines, any bad debt losses arising from supplier default will be recovered through an increase in future allowed income. Supplier failure is administered in the interests of customers by Ofgem, through the appointment of a supplier of last resort.

Variations in demand from end-users can affect the revenues that are received by the Issuer in any year, but such variations have no effect on the total revenue that the Issuer is allowed to recover in a price control period as under or over recoveries against price-controlled revenues are carried forward into prices for future years.

The Issuer's service territory features a diverse economy with no dominant sector. The mix of rural, agricultural, urban and industrial areas cover a broad customer base concentrated around the principal centres of Newcastle and Middlesbrough.

Nearly all of the revenue generated by the Issuer is from regulated activities. The table below shows that in each of 2017, 2018 and 2019, approximately 91% of the Issuer's revenue came from regulated activities for Distribution Use of System charges ("**DUoS**") offset by generation DUoS ("**GDUoS**"). Most of the Issuer's unregulated revenue was generated from trading with affiliates.

Revenue segmental analysis	**2019**	**2018**	**2017**	*Variance (%)*	
	£m	£m	£m	*2019 v 2018*	*2018 v 2017*
Regulated – DUoS	296	287	285	*3%*	*1%*
Regulated – GDUoS	(-)3	(-)3	(-)3	*0%*	*0%*
Unregulated - Other	29	29	25	*0%*	*16%*
Total reported revenue	**322**	**313**	**307**	***3%***	***2%***

Almost all of the revenues from regulated activities come from the relatively stable market sectors of residential, commercial and industrial customers. The tables below indicate that residential and commercial customers represented approximately 48% of electricity distributed and approximately 60% of revenues received in 2019.

GWh distributed segmental analysis	**2019**	**2018**	**2017**	*Variance (%)*	
	GWh	GWh	GWh	*2019 v 2018*	*2018 v 2017*
Residential	4,982	5,104	5,125	*(-)2%*	*0%*
Commercial	1,644	1,741	1,782	*(-)6%*	*(-)2%*
Industrial	7,097	7,296	7,134	*(-)3%*	*2%*
Unmetered	156	172	198	*(-)9%*	*(-)13%*
Total GWh distributed	**13,879**	**14,313**	**14,239**	*(-)3%*	*1%*

Demand for electricity is heavily influenced by underlying customer behaviour and a drive for energy efficiency reflecting higher retail energy prices, and increased local small-scale generation (e.g. photovoltaic cells). Reductions in electricity distributed generally reflect warmer temperatures and downward pressure on demand created by higher retail energy prices between the years.

The decrease in unmetered is primarily due to a combination of lower recorded council inventories and energy saving council initiatives such as active replacement of bulbs with LED equivalents.

DUoS revenue segmental analysis	**2019** £m	**2018** £m	**2017** £m	*Variance (%)* 2019 v 2018	*Variance (%)* 2018 v 2017
Residential	139	136	142	*2%*	*(-)4%*
Commercial	39	39	42	*0%*	*(-)7%*
Industrial	114	108	96	*6%*	*13%*
Unmetered	4	4	5	*0%*	*(-)20%*
Total revenue	**296**	**287**	**285**	*3%*	*1%*

The decrease in residential revenue between 2017 and 2018 is due to an increase in the connection of new customers on lower value embedded networks, offset by decreases in higher value residential units connected directly to the Issuer's network.

Despite the decrease in units across all market sectors due to customer behaviour and temperature variations, commercial and unmetered revenue remained broadly in line year on year, with residential and industrial revenue increasing. This is due to tariff increases across all market sectors, offsetting the lower usage. In addition the larger increase in industrial revenue is due to average tariffs for industrial sites being high compared to those for residential, commercial and unmetered sites.

Covid-19 Pandemic

The Issuer has developed a management plan in response to the Covid-19 pandemic which is fully operational. As a provider of a key national infrastructure, the Issuer 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 Issuer and the wider Northern Powergrid Group is run so as to ensure essential operations are maintained whilst supporting the health and well-being of staff. The Issuer’s response is aligned to UK Government advice and formulated with the oversight of the Department for Business, Energy & Industrial Strategy. Ofgem has also indicated that it will adapt its approach to enforcement of the regulatory regime and to the application of price control incentive mechanisms in view of the impact of the pandemic, as set out in its open letter published on 8 April 2020.

The Issuer’s revenue derives principally from regulated electricity distribution and neither this revenue nor the Issuer’s costs are expected to be materially affected by the current pandemic. The regulatory regime allows for the recovery of allowed costs in full over the long-term and therefore revenue shortfalls in the current year will be recovered by the Issuer in future years. In addition, the Issuer has reviewed its liquidity levels and has concluded that these remain sufficient. The Issuer has access to long-term financing from a range of sources including the sterling bond market.

Pensions

The Issuer contributes to two pension schemes, which are operated by Northern Electric plc on its behalf. The pension schemes are:

- The Northern Powergrid Group of the Electricity Supply Pension Scheme (the "**DB Scheme**"); and

- The Northern Powergrid Pension Scheme (the "**DC Scheme**").

The DC Scheme was introduced for new employees of the Northern Powergrid Group from July 1997 and is a money purchase arrangement.

The DB Scheme is a defined benefit scheme for directors and employees, which provides pension and other related benefits based on final pensionable pay. The DB Scheme was closed to staff commencing employment on or after 23 July 1997, but members who joined before this date continue to build up future pension benefits. The DB Scheme is administered by a board of trustees which is legally separate from the Issuer and the assets are held in a separate trustee-administered fund.

The last approved actuarial valuation of the DB Scheme was carried out by the DB Scheme Trustees' actuarial advisors, Aon Hewitt, as at 31 March 2016. Such valuations are required by law to take place at intervals of no more than three years. The total market value of the assets of the DB Scheme at the date of that actuarial valuation was £1,597.5m. The valuation showed that the value of the assets represented approximately 89% of the actuarial value of the accrued benefits. This represents a shortfall of assets compared to the value of accrued benefits of £194.9m. The accrued benefits include all benefits for pensioners and other members, as well as benefits based on service completed to date for active members, and allows for an estimate of future salary increases.

Agreement was reached during August 2017 with the DB Scheme Trustees to repair the total funding deficit over the period to 31 March 2025, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2016 being borne out in practice. In determining the deficit contributions, it was agreed to reflect a partial allowance of £36m of the deterioration in the funding position due to market movements since the valuation date over the period to 31 December 2016. Pension deficit funding contributions are considered in the price control settlement and allowance for pension deficit funding is included within the Issuer's allowed revenues.

The agreed schedule of contributions to recover the total deficit is as follows:

1 April 2016 to 31 March 2017	£19.0m p.a.	(of which £12.6m is borne by the Issuer)
1 April 2017 to 31 March 2025	£27.4m p.a.	(of which £17.4m is borne by the Issuer)

The contributions above that are payable from 1 April 2017 onwards are shown in 2017/18 prices and will be altered on 1 April 2018 and on each 1 April thereafter in line with changes in RPI. The most recent valuation was 31 March 2019, the approval of which by the DB Scheme and the DB Scheme Trustees is targeted to be concluded by 30 June 2020.

Under the electricity regulatory framework, the deficit repair payments relating to regulated distribution businesses are treated as pass-through for pre-2010 liabilities and for post-2010 these are treated as total employment costs which are subject to efficiency reviews.

Similarly, cash contributions payable in respect of new benefit accrual in defined benefit pension schemes along with cash contributions payable to any defined contribution arrangements will be benchmarked as part of total employment costs and will only be funded to the extent that they are deemed to be efficient.

Ofgem performs regular efficiency reviews of the DB Scheme and the deficit contributions payable to defined benefit pension schemes. If Ofgem deems that any cash contributions have not been efficiently incurred, it may restrict the amount that can be recovered from customers in the future. Following its review of the DB Scheme in 2017, Ofgem confirmed that the established deficit would continue to be funded through the price control mechanism.

The DB Scheme is a defined benefit plan that shares the 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 companies within the Northern Powergrid Group and accordingly the Issuer accounts for the DB Scheme as if it were a defined contribution scheme. The Issuer does not provide any other post-retirement benefits to members of the DB Scheme.

Directors of the Issuer

The Issuer is managed by a Board of Directors comprising the following individuals:

Name	**Position**
T.E. Fielden	Finance Director, Northern Powergrid
T.H. France	General Counsel, Northern Powergrid
P.A. Jones	President and Chief Executive Officer, Northern Powergrid
A.J. Maclennan	Commercial Director, Northern Powergrid
A.R. Marshall	Non-Executive Director
P.C. Taylor	Non-Executive Director

The business address of each of the Directors is Lloyds Court, 78 Grey Street, Newcastle Upon Tyne, NE1 6AF. No Director has any actual or potential conflict of interest between their duties to the Issuer and their private interests and/or other duties. None of the Directors performs any activities outside of the Issuer which are significant with respect to the Issuer.

TAXATION

UK Taxation

The following is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating to the taxation treatment of the Bonds as at the date of this Prospectus. This is subject to any change in law or practice that may occur after such date and which may occur without notice and in some cases retrospectively. It does not purport to be a complete analysis of all United Kingdom tax considerations relating to the Bonds and is a general guide and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. It does not necessarily apply where income is deemed for tax purposes to be the income of any other person. It relates only to the position of persons who are the absolute beneficial owners of the Bonds. Some aspects do not apply to certain classes of taxpayer (such as collective investment schemes, financial traders or dealers or persons who are connected with the Issuer). Prospective Bondholders who may be subject to tax in jurisdictions other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice. In particular, Bondholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

Payment of Interest on the Bonds

Payments of interest on the Bonds may be made without deduction of or withholding on account of United Kingdom income tax provided that the Bonds are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the "**Act**") for the purposes of section 987 of the Act or admitted to trading on a "multilateral trading facility" operated by an EEA-regulated recognised stock exchange within the meaning of section 987 of the Act. The London Stock Exchange is a recognised stock exchange. The Bonds will be treated as listed on the London Stock Exchange if they are included in the Official List of the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange. Provided, therefore, that the Bonds remain so listed, interest on the Bonds will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the Bonds may also be paid without withholding or deduction on account of United Kingdom income tax where interest on the Bonds is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Bonds is paid reasonably believes) that the beneficial owner is a company within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HM Revenue and Customs has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the Bonds on account of United Kingdom income tax at the basic rate (currently 20 per cent), subject to such relief as may be available following a direction from HM Revenue and Customs pursuant to the provisions of any applicable double taxation treaty (a "**Treaty**") or to any other exemption which may apply.

The Bonds are issued at an issue price of less than 100 per cent of their principal amount. This discount element will not generally be subject to any United Kingdom withholding tax pursuant to the provisions outlined above, but may be subject to reporting requirements outlined below.

Any premium payable on a redemption of the Bonds may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax provisions as outlined above and reporting requirements as outlined below.

Where interest has been paid under deduction of United Kingdom income tax, Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" above mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the Terms and Conditions or any related documentation

HM Revenue and Customs has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest for the benefit of an individual. Information so obtained may, in certain circumstances, be exchanged by HM Revenue and Customs with tax authorities in other countries.

The above description of the United Kingdom tax position assumes that there will be no substitution of the Issuer, pursuant to Condition 16 (*Substitution*) of the Terms and Conditions or otherwise, and does not consider the tax consequences of any such substitution.

Certain other tax considerations

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Bonds (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article (5)(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Bonds are advised to seek their own professional advice in relation to the FTT.

U.S. Foreign Account Tax Compliance Act Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as "**FATCA**", a "foreign financial institution" (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, such withholding would not apply to foreign passthru payments made prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register, and Bonds characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding, in either case unless materially modified after such date (including by reason of a substitution of the Issuer). Bondholders should consult their own tax advisors regarding how these rules may apply to their investment in the Bonds.

SUBSCRIPTION AND SALE

Banco Santander, S.A., Lloyds Bank Corporate Markets plc and NatWest Markets Plc (together the "**Joint Lead Managers**") have, in a subscription agreement dated 12 June 2020 (the "**Subscription Agreement**") and made between the Issuer and the Joint Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Bonds. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Bonds.

United States of America

The Bonds have not been and will not be registered under the Securities Act or with any securities regulatory authority or under any relevant securities laws of any state or other jurisdiction of the United States. The Bonds may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in accordance with applicable U.S. state securities laws.

Each Joint Lead Manager has agreed that it will not offer, sell or deliver the Bonds, (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Bonds and the date of issue of the Bonds (the "**Distribution Compliance Period**") within the United States or to, or for the account or benefit of, U.S persons, and, at or prior to confirmation of sale of the Bonds, it will have sent to each distributor, dealer or other person to which it sells Bonds during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering of such Bonds) may violate the requirements of the Securities Act.

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by U.S. Internal Revenue Code of 1986, as amended and regulations thereunder.

United Kingdom

Each Joint Lead Manager has represented and agreed, *inter alia*, that:

(a) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

Prohibition of Sales to EEA and United Kingdom Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the European Economic Area or the United Kingdom.

(a) For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

General

Each of the Joint Lead Managers has acknowledged that no action has been taken by the Issuer or any Joint Lead Manager which would or is intended to permit a public offer of Bonds in any country or jurisdiction where action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Bonds in any country or jurisdiction where action for that purpose is required and neither this Prospectus nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from or published in any country or jurisdiction, except under circumstances which will, to the best of its knowledge and belief, result in compliance with applicable laws and regulations.

GENERAL INFORMATION

1. The creation and issue of the Bonds has been authorised by a resolution of the Board of Directors of the Issuer dated 3 June 2020.

2. It is expected that official listing will be granted on or about 16 June 2020 subject only to the issue of the Temporary Global Bond. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules. The Issuer estimates that the total expenses related to the admission to trading of the Bonds will be approximately £5,515.

3. At the Closing Date, the yield on the Bonds will be 1.917 per cent per annum. The yield is calculated at the Closing Date on the basis of the issue price. It is not an indication of future yield.

3. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Prospectus which may have, or have had in the recent past significant effects on the Issuer's financial position or profitability.

4. There has been no material adverse change in the prospects of the Issuer since 31 December 2019. There has been no significant change in the financial performance of the Issuer since 31 December 2019 to the date of this Prospectus. There has been no significant change in the financial position of the Issuer since 31 December 2019.

5. The auditors of the Issuer are Deloitte LLP, which is registered to carry out audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales, and which have audited, without qualification, the financial statements of the Issuer for the financial years ended 31 December 2018 and 31 December 2019. The address of Deloitte LLP is One Trinity Gardens, Broad Chare, Newcastle-upon-Tyne, NE1 2HF.

6. The financial information included in this Prospectus (other than the Issuer's audited annual financial statements for the years ended 31 December 2018 and 31 December 2019 which are set out in Appendix 1 and Appendix 2 of this Prospectus, respectively) does not constitute the statutory accounts of the Issuer within the meaning of Section 435(1) and (2) of the Companies Act 2006 for any period presented. The auditors have made a report under Chapter 3 of Part 16 of the Companies Act 2006 on the statutory accounts of the Issuer for each of the years ended 31 December 2018 and 31 December 2019, which reports were unqualified and did not contain any statement as is described in Sections 498(2) or (3) of the Companies Act 2006. Statutory accounts of the Issuer have been delivered to the Registrar of Companies in England and Wales for each of the years ended 31 December 2018 and 31 December 2019.

8. Copies of the following documents may be inspected and collected during normal business hours at the offices of the Principal Paying Agent and on the website of the Issuer at https://www.northernpowergrid.com/document-library/financial/financial-information-bond-documentation:

   (a) the up-to-date Memorandum and Articles of Association of the Issuer;

   (b) the Paying Agency Agreement and the Trust Deed; and

(c) the audited financial statements of the Issuer for the years ended 31 December 2018 and 2019.

9. The Bonds and any Coupons appertaining thereto will bear a legend to the following effect:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code." The sections referred to in such legend provide that a United States person who holds a Bond or Coupon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

10. The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the Bonds is XS2188667278 and the Common Code is 218866727.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

11. Each of the Joint Lead Managers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and its affiliates in the ordinary course of business. They may have positions, deal or make markets in the Bonds, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

12. In this Prospectus, references to websites or uniform resource locators ("**URLs**") are inactive textual references. The contents of any such website or URL shall not form part of, or be deemed to be incorporated into, this Prospectus.

13. Save for the fees payable to the Joint Lead Managers, the Trustee and the Paying Agents, so far as the Issuer is aware, no person, natural or legal, involved in the issue of the Bonds has an interest that is material to the issue of the Bonds.

14. The legal entity identifier of the Issuer is 21380072EMKFDZSTLD28.

INDEX OF DEFINED TERMS

APPENDIX 1 – FINANCIAL STATEMENTS OF THE ISSUER FOR THE YEAR ENDED 31 DECEMBER 2018

(Pages 1-14 (inclusive) are deliberately omitted)

Northern Powergrid (Northeast) Limited
Independent Auditor's Report to the Members of Northern Powergrid (Northeast) Limited

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Northern Powergrid (Northeast) Limited (the 'company') which comprise:

- the statement of profit or loss;
- the statement of other comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows;
- the related accounting policies; and
- the related notes 1 to 30.

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.

Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities (set out on page 13), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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.

Opinion on other matter prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

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

26 April 2019

Northern Powergrid (Northeast) Limited
Statement of Profit or Loss for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Revenue	4	335,253	328,300
Cost of sales		(14,767)	(12,856)
Gross profit		320,486	315,444
Distribution costs		(116,627)	(107,931)
Administrative expenses		(80,660)	(73,938)
Operating profit	6	123,199	133,575
Other gains	5	466	331
Finance costs	7	(28,782)	(28,944)
Finance income	7	147	93
Profit before tax		95,030	105,055
Income tax expense	11	(17,571)	(19,469)
Profit for the year		77,459	85,586

The notes on pages 23 to 60 form an integral part of these financial statements.

Northern Powergrid (Northeast) Limited
Statement of Comprehensive Income for the Year Ended 31 December 2018

	2018 £ 000	2017 £ 000
Profit for the year	77,459	85,586
Total comprehensive income for the year	77,459	85,586

Northern Powergrid (Northeast) Limited
(Registration number: 02906593)
Statement of Financial Position as at 31 December 2018

	Note	31 December 2018 £ 000	31 December 2017 £ 000
Assets			
Non-current assets			
Property, plant and equipment	12	2,439,107	2,346,759
Intangible assets	13	50,638	47,568
Investments in subsidiaries, joint ventures and associates	14	50	50
		2,489,795	2,394,377
Current assets			
Inventories	15	12,869	13,080
Trade and other receivables	16	51,530	54,972
		64,399	68,052
Total assets		2,554,194	2,462,429
Equity and liabilities			
Equity			
Share capital	17	(200,000)	(200,000)
Retained earnings		(829,467)	(775,708)
Total equity		(1,029,467)	(975,708)
Non-current liabilities			
Loans and borrowings	19	(507,152)	(547,049)
Provisions	21	(87)	(88)
Deferred revenue	23	(597,215)	(584,348)
Deferred tax liabilities	11	(92,358)	(91,210)
		(1,196,812)	(1,222,695)
Current liabilities			
Trade and other payables	22	(84,860)	(86,285)
Loans and borrowings	19	(214,566)	(147,079)
Income tax liability		(4,833)	(7,112)
Deferred revenue	23	(22,780)	(22,450)
Provisions	21	(876)	(1,100)
		(327,915)	(264,026)
Total liabilities		(1,524,727)	(1,486,721)
Total equity and liabilities		(2,554,194)	(2,462,429)

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

P A Jones
Director

The notes on pages 23 to 60 form an integral part of these financial statements.

Northern Powergrid (Northeast) Limited
Statement of Changes in Equity for the Year Ended 31 December 2018

	Note	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018		200,000	775,708	975,708
Profit for the year		-	77,459	77,459
Total comprehensive income		-	77,459	77,459
Dividends	25	-	(23,700)	(23,700)
At 31 December 2018		200,000	829,467	1,029,467

	Note	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017		200,000	712,822	912,822
Profit for the year		-	85,586	85,586
Total comprehensive income		-	85,586	85,586
Dividends	25	-	(22,700)	(22,700)
At 31 December 2017		200,000	775,708	975,708

Northern Powergrid (Northeast) Limited
Statement of Cash Flows for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Cash flows from operating activities			
Profit for the year		77,459	85,586
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	6	88,619	82,019
Amortisation of deferred revenue		(22,355)	(21,210)
Profit on disposal of property plant and equipment	5	(466)	(331)
Finance income	7	(147)	(93)
Finance costs	7	28,782	28,944
Income tax expense	11	17,571	19,469
		189,463	194,384
Decrease/(increase) in inventories	15	211	(995)
Decrease/(increase) in trade and other receivables	16	2,564	(574)
Increase in trade and other payables	22	655	337
(Decrease)/increase in provisions	21	(225)	460
Cash generated from operations		192,668	193,612
Income taxes paid	11	(18,702)	(20,248)
Net cash flow from operating activities		173,966	173,364
Cash flows used in investing activities			
Acquisitions of property plant and equipment		(172,384)	(192,405)
Proceeds from sale of property plant and equipment		466	331
Acquisition of intangible assets	13	(10,357)	(11,417)
Receipt of customer contributions		35,143	52,352
Interest received		85	47
Dividend income	7	62	46
Net cash flows used in investing activities		(146,985)	(151,046)
Cash flows used in financing activities			
Movement in intercompany loans		24,940	31,861
Proceeds from short-term borrowing		44,000	-
Repayment of long-term external borrowings		(40,000)	-
Interest paid		(32,221)	(31,479)
Dividends paid	25	(23,700)	(22,700)
Net cash flows used in financing activities		(26,981)	(22,318)
Net movement in cash and cash equivalents		-	-
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		-	-

The notes on pages 23 to 60 form an integral part of these financial statements.

1 General information

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

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

2 Accounting policies

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

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

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

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

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 30. Further details on the Company's accounting policies in relation to investments are available on page 30.

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 Report of the Directors and the appropriate notes to the financial statements.

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 Company is a stable electricity distribution business operating an essential public service and is regulated by GEMA. In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Company is profitable with strong underlying cash flows and holds investment grade credit ratings;
- The Company is financed by long-term borrowings with an average maturity of 11 years and has access to borrowing facilities provided by Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc;
- The Northern Powergrid Group plans to issue long-term borrowings within the next 12 months and early indications from our relationship banks suggest there is an active market with appetite to invest; and
- The Company has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the company has sufficient resources to settle its liabilities as they fall due. 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.

2 Accounting policies (continued)

Changes in accounting policy

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

IFRS 9 - Financial Instruments
In the current year, the Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRSs in advance of their effective dates. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. Details of these new requirements as well as their impact on the Company's financial statements are described below.

The Company has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classifications and measurement of financial assets
The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Company has applied the requirements of IFRS 9 to instruments that have not been derecognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to instruments that have not been derecognised as at 1 January 2018 have been restated where appropriate.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, specifically:

- debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost;
- debt investments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income (FVTOCI); and
- all other debt investments and equity investments are subsequently measured at fair value through profit or loss (FVTPL).

Despite the aforegoing, the Company may make the following irrevocable election / designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies in other comprehensive income; and
- the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Company has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment. See (b) below.

2 Accounting policies (continued)

The directors of the Company reviewed and assessed the Company's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Company's financial assets as regards their classification and measurement:

- financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding; and
- financial assets that were measured at FVTPL under IAS 39 continue to be measured as such under IFRS 9.

Note (e) below tabulates the change in classification of the Company's financial assets upon application of IFRS 9. None of the reclassifications of financial assets have had any impact on the Company's financial position, profit or loss, other comprehensive income or total comprehensive income for both years.

(b) Impairment of financial assets
In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Company to recognise a loss allowance for expected credit losses on i) debt investments subsequently measured at amortised cost or at FVTOCI, ii) lease receivables, iii) contract assets and iv) loan commitments and financial guarantee contracts to which the impairment requirements of IFRS 9 apply. In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12m ECL. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

As at 1 January 2018, the directors of the Company reviewed and assessed the Company's existing financial assets, amounts due from customers and financial guarantee contracts for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised, and compared that to the credit risk as at 1 January 2018 and 1 January 2017. The result of the assessment is as follows:

- Trade and other receivables: The Company applies the simplified approach and recognises lifetime ECL for these assets.
- Cash and bank balances: All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable international banking institutions.

(c) Classification and measurement of financial liabilities
One major change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

The application of the IFRS 9 impairment requirements has not resulted in additional loss allowance to be recognised in the current year (2017: £nil).

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

2 Accounting policies (continued)

This change in accounting policy has not affected the Company.

Profit and other comprehensive income reported for 2018 and 2017 have not been affected as the Company did not have any financial liabilities designated as at FVTPL in the prior year.

(d) General hedge accounting
The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Company's risk management activities have also been introduced. The Company does not have any hedged instruments.

(e) Disclosures in relation to the initial application of IFRS 9
The below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

- Trade receivables (note 16) - basic loans and receivables where the objective of the entity's business model for realising these assets is collecting contractual cash flows are recognised at amortised cost under both IFRS 9 and as loans and receivables under IAS 39, there was no change in carrying value;
- Cash and bank balances - these were classified as financial assets at amortised cost under IFRS 9 and loans and receivables under IAS 39, there has been no change in carrying value.
- Investments in equity instruments (note 14) - Investments in equity instruments are designated as at FVTPL under IFRS 9 and IAS 39, there has been no change in carrying value.
- Intercompany treasury account - the objective of the entity's business model for realising these assets is collecting contractual cash flows, as such they are recognised at amortised cost under IFRS 9 and as loans and receivables under IAS 39, there has been no change in carrying value; and
- Trade and other payables (note 22) - were recognised as financial liabilities at amortised cost under both IFRS 9 and IAS 39, there has been no change in carrying value.
- Borrowings (note 19) - were recognised as financial liabilities at amortised cost under both IFRS 9 and IAS 39, there has been no change in carrying value.

There were no financial assets or financial liabilities which the Company had previously designated as at FVTPL under IAS 39 that were subject to reclassification, or which the Company has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Company has elected to designate as at FVTPL at the date of initial application of IFRS 9.

(f) Financial impact of initial application of IFRS 9
There has been no adjustment to financial statement line items because of the application of IFRS 9 for the current and prior years.

Amendments to IFRS 7

The consequential amendments to IFRS 7 have had no impact to the comparatives and therefore no restatement is required, they have resulted in more extensive disclosures in relation to the Company's exposure to credit risk in the financial risk review note 28.

2 Accounting policies (continued)

IFRS 15 - Revenue from contracts with customers

Revenue from Contracts with Customers establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 supersedes the current revenue recognition guidance including IAS 11 Construction Contracts, IAS 18 Revenue and the related interpretations. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied. Apart from providing more extensive disclosures, the application of IFRS 15 has not had a significant impact on the financial position or performance of the Company.

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

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

IFRS 16 - Leases (1 January 2019)

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 distinguishes between leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions between operating leases and finance leases are removed for lessee accounting, and are replaced by a model where right-of-use asset and a corresponding liability have to be recognised for all leases by lessees except for short term leases and leases of low-value assets. As of 31 December 2018, the Company has non-cancellable operating lease commitments of £24.5 million, IAS 17 does not require recognition of any right-of-use asset or liability for future payments for these leases. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Company will recognise a right-of-use asset and corresponding liability in respect of all these leases unless they qualify for low-value or short-term leases upon the application of IFRS 16.

None of the other standards, interpretations and amendments that are listed below, which are effective for periods beginning after 1 January 2019 and which have not been adopted early, are expected to have a material effect on the financial statements:

Effective for periods beginning or after 1 January 2019

- Amendments to IAS 28 - Long-term interests in associates and joint ventures;
- Amendments to IAS 19 - Plan amendment, curtailment or settlement;
- Annual improvements to IFRS 2015-2017 cycle

Effective for periods beginning 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.

2 Accounting policies (continued)

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

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.

Performance obligations
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.

2 Accounting policies (continued)

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except when 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.

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 year
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
Fixtures and fittings	up to 10 years

2 Accounting policies (continued)

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 is recognised on a straight-line basis over their estimated useful lives.

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.

Investments
Investments in securities are classified on initial recognition as available-for-sale and are carried at fair value, except where their fair value cannot be measured reliably, in which case they are carried at cost, less any impairment.

Unrealised holding gains and losses other than impairments are recognised in other comprehensive income. On maturity or disposal, net gains and losses previously deferred in accumulated other comprehensive income are recognised in income.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

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 a weighted average method.

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.

2 Accounting policies (continued)

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 Company 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

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

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 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.

2 Accounting policies (continued)

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 Northern Powergrid Group of the ESPS as if it were a defined contribution scheme.

Contributions to the Northern Powergrid Group of the ESPS 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.

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.

2 Accounting policies (continued)

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.

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

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

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

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

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

2 Accounting policies (continued)

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.

Derecognition

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

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

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

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.

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.

2 Accounting policies (continued)

Impairment of financial assets

Measurement of Expected Credit Losses
The Company recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVPTL, namely:

- Financial assets that are debt instruments
- Accounts and other receivables
- Financial guarantee contracts issued; and
- Loan commitments issued.

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

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

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

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

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

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

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

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

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

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.

2 Accounting policies (continued)

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

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

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

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 as explained in more detail below:

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

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

3 Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying accounting policies

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 amount of overheads capitalised in the year was £38.3m (2017: £40.0m)

Key sources of estimation uncertainty

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

4 Revenue

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

	2018 £ 000	2017 £ 000
Distribution use of system revenue	284,226	281,893
Amortisation of deferred revenue	22,355	21,210
Work for related parties	21,543	19,181
Other revenue	7,129	6,016
	335,253	328,300

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 (Yorkshire) plc, 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:

	2018 £ 000	2017 £ 000
Gain on disposal of property, plant and equipment	466	331

6 Operating profit

Arrived at after charging/(crediting)

	2018 £ 000	2017 £ 000
Depreciation expense	81,332	77,313
Amortisation expense	7,287	4,706
Amortisation of deferred revenue	(22,355)	(21,210)
Research and development cost	2,437	1,479
Operating lease expense - other	7,929	7,674
Loss allowance on trade and other receivables	874	361

Amortisation expense is included in adminstration costs in the statement of profit or loss on page 18.

7 Finance income and costs

	2018 £ 000	2017 £ 000
Finance income		
Interest income on financial assets measured at amortised cost	85	47
Dividend income from equity investments designated at FVTPL	62	46
Total finance income	147	93
Finance costs		
Interest on bank overdrafts and borrowings	(7,020)	(8,385)
Interest paid to group undertakings	(24,002)	(23,347)
Borrowing costs included in cost of qualifying asset	2,240	2,788
Total finance costs	(28,782)	(28,944)
Net finance costs	(28,635)	(28,851)

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 5.33% (2017: 5.26%) to expenditure on such assets.

8 Staff costs

	2018 £ 000	2017 £ 000
Salaries	51,632	49,569
Social security costs	5,744	5,521
Defined benefit pension costs	25,934	24,714
Defined contribution pension costs	2,462	1,928
	85,772	81,732
Less charged to plant, property and equipment	(40,784)	(41,372)
	44,988	40,360

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 24.

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

	2018 No.	2017 No.
Production	782	773
Administration and support	204	188
Other departments	123	111
	1,109	1,072

9 Directors and other key personnel remuneration

The directors' remuneration for the year was as follows:

	2018 £ 000	2017 £ 000
Remuneration	1,452	1,519

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

	2018 No.	2017 No.
Accruing benefits under defined benefit pension scheme	1	1
Accruing benefits under money purchase pension scheme	2	2

In respect of the highest paid director:

	2018 £ 000	2017 £ 000
Short-term employee benefits	365	368
Long-term benefits	475	435
	840	803

9 Directors and other key personnel remuneration (continued)

In respect of other key personnel:

	2018 £ 000	2017 £ 000
Short-term employee benefits	407	439
Post retirement benefits - defined benefit	31	45
Post retirement benefits - defined contribution	40	52
Long-term benefits	206	233
	684	769

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

	2018 £ 000	2017 £ 000
Audit of the financial statements	121	121
Other audit services	45	45
Total fees payable to the Company's auditor	166	166

11 Income tax

Tax charged/(credited) in the income statement

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax	17,109	18,174
UK corporation tax adjustment to prior periods	(686)	(396)
	16,423	17,778
Deferred taxation		
Arising from origination and reversal of temporary differences	783	1,587
Deferred tax adjustment to prior periods	718	332
Effect of changes in legislation	(353)	(228)
Total deferred taxation	1,148	1,691
Tax expense in the income statement	17,571	19,469

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

The differences are reconciled below:

	2018 £ 000	2017 £ 000
Profit before tax	95,030	105,055
Corporation tax at standard rate	18,056	20,223
Decrease in current tax from adjustment for prior periods	(686)	(396)
Deferred tax expense due to under provision for prior years	718	332
Effect of income and expenses not deductible in determining taxable profit	(68)	(148)
Deferred tax credit relating to lower tax rates	(176)	(358)
Decrease in deferred tax due to changes to legislation	(353)	(228)
Other	81	44
Total tax charge	17,572	19,469

Finance Act No.2 2015 included provisions to reduce the corporation tax to 19% with effect from 1 April 2017 and Finance Act 2016 introduced a further reduction in the main rate of corporation tax to 17% from 1 April 2020. Accordingly deferred tax assets and liabilities have been calculated at the tax rates which will be in force when the underlying temporary differences are expected to reverse.

11 Income tax (continued)

Deferred tax

Deferred tax assets and liabilities

Deferred tax movement during the year:

	At 1 January 2018 £ 000	Recognised in income £ 000	At 31 December 2018 £ 000
Accelerated tax depreciation	91,513	1,213	92,726
Other	(303)	(65)	(368)
Net tax liabilities	91,210	1,148	92,358

Deferred tax movement during the prior year:

	At 1 January 2017 £ 000	Recognised in income £ 000	At 31 December 2017 £ 000
Accelerated tax depreciation	89,821	1,692	91,513
Other	(302)	(1)	(303)
Net tax liabilities	89,519	1,691	91,210

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

12 Property, plant and equipment

	Land and buildings £ 000	Distribution system £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation				
At 1 January 2017	4,191	2,797,074	40,983	2,842,248
Additions	-	188,871	2,694	191,565
Disposals	-	(7,024)	(423)	(7,447)
At 31 December 2017	4,191	2,978,921	43,254	3,026,366
At 1 January 2018	4,191	2,978,921	43,254	3,026,366
Additions	-	171,921	1,759	173,680
Disposals	-	(13,590)	(390)	(13,980)
At 31 December 2018	4,191	3,137,252	44,623	3,186,066
Depreciation				
At 1 January 2017	2,163	579,199	28,379	609,741
Charge for year	252	73,141	3,920	77,313
Eliminated on disposal	-	(7,024)	(423)	(7,447)
At 31 December 2017	2,415	645,316	31,876	679,607
At 1 January 2018	2,415	645,316	31,876	679,607
Charge for the year	252	76,975	4,105	81,332
Eliminated on disposal	-	(13,590)	(390)	(13,980)
At 31 December 2018	2,667	708,701	35,591	746,959
Carrying amount				
At 31 December 2017	1,776	2,333,605	11,378	2,346,759
At 31 December 2018	1,524	2,428,551	9,032	2,439,107

Included within the net book value of land and buildings above is £1,156,000 (2017 - £1,345,000) in respect of freehold land and buildings and £368,000 (2017 - £431,000) in respect of long leasehold land and buildings.

12 Property, plant and equipment (continued)

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

	31 December 2018 £ 000	31 December 2017 £ 000
Distribution system	211,655	211,489

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

	31 December 2018 £ 000	31 December 2017 £ 000
Distribution system	20,500	19,400

13 Intangible assets

	Internally generated software development costs £ 000
Cost or valuation	
At 1 January 2017	68,667
Additions	11,417
At 31 December 2017	80,084
At 1 January 2018	80,084
Additions	10,357
At 31 December 2018	90,441
Amortisation	
At 1 January 2017	27,810
Amortisation charge	4,706
At 31 December 2017	32,516
At 1 January 2018	32,516
Amortisation charge	7,287
At 31 December 2018	39,803
Carrying amount	
At 1 January 2017	40,857
At 31 December 2017	47,568
At 31 December 2018	50,638

14 Investments

Subsidiaries	**£ 000**
Cost or valuation	
At 1 January 2017	50
At 31 December 2017	50
At 1 January 2018	50
At 31 December 2018	50
Carrying amount	
At 31 December 2018	50
At 1 January 2017	50

Details of the subsidiaries as at 31 December 2018 are as follows:

Name of subsidiary	**Principal activity**	**Registered office**	**Ownership interest and voting rights held 2018**	**2017**
Northern Electric Finance plc	Finance company	Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF England and Wales	100%	100%

Associates

Cost or valuation
Details of the associates as at 31 December 2018 are as follows:

Name of associate	**Principal activity**	**Registered office**	**Ownership interest and voting rights held 2018**	**2017**
Electralink Limited +	Data transfer network operator	Northumberland House, 303 - 306 Holborn, WC1V 7JZ England and Wales	6.7%	6.7%
MRA Service Company Limited +	Governance of the electricity industry's Master Registration Agreement	8 Fenchurch Place, London, EC3M 4AJ England and Wales	1%	1%
DCUSA Limited +	Governance of Distribution Connection and Use of System Agreement	Northumberland House, 303 - 306 High Holborn, WC1V 7JZ England and Wales	1%	1%

+ indicates accounted for using the equity method

15 Inventories

	31 December 2018 £ 000	31 December 2017 £ 000
Inventory	12,422	12,283
Work in progress	447	797
	12,869	13,080

16 Trade and other receivables

	31 December 2018 £ 000	31 December 2017 £ 000
Distribution use of system receivables	48,039	48,898
Trade receivables	3,495	4,409
Loss allowance	(1,465)	(613)
Net trade receivables	50,069	52,694
Accrued income	(22)	705
Prepayments	1,483	1,573
	51,530	54,972

The average credit period on receivables is 30 days. No interest is charged on outstanding trade 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 shows significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not distinguished between DUoS receivables, non-damages receivables, and damages receivables.

Movement in the loss allowance

	31 December 2018 £ 000	31 December 2017 £ 000
At 1 January	613	404
Amounts utilised/written off in the year	(22)	(152)
Amounts recognised in the statement of profit or loss	874	361
At 31 December	1,465	613

16 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 19% of distribution revenues in 2018 (2017: 21%) and British Gas pic accounting for approximately 12% of distribution revenues in 2018 (2017: 14%). 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.

Ofgem has indicated that, 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:

2018	Not due £ 000	Current £ 000	1-3 months £ 000	3-6 months £ 000
Total balance	26,392	21,219	34	394
Less specific provisions	-	(190)	(4)	(387)
Balance on which ECL made	26,392	21,029	30	7
Expected credit loss	-	-	-	-

2017	Not due £ 000	Current £ 000	1-3 months £ 000	3-6 months £ 000
Total balance	25,536	23,115	-	246
Less specific provisions	-	-	-	(242)
Balance on which ECL made	25,536	23,115	-	4
Expected credit loss	-	-	-	-

Other trade receivables

Sales of goods and services comprise all income streams which are not classified as UoS income. Examples of non-UoS income streams would be service alterations/disconnections, 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 tradereceivables paid after the due date.

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 UoS receivables, is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £1.2m (2017: £0.5m), 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.

16 Trade and other receivables (continued)

Non-damages

2018	Not due £ 000	Current £ 000	1-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	1,960	1,018	2,247	1,058	273
Less other balances	(1,681)	(810)	(1,991)	(1,010)	(192)
Balance on which ECL made	279	208	256	48	81
Lifetime ECL	0%	0%	0%	15%	20%
Expected credit loss	-	-	-	7	16

2017	Not due £ 000	Current £ 000	1-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	1,231	945	984	509	474
Less other balances	(1,212)	(751)	(849)	(490)	(440)
Balance on which ECL made	19	194	135	19	34
Lifetime ECL	0%	0%	0%	15%	20%
Expected credit loss	-	-	-	3	7

Damages

2018	1-6 months £ 000	6-12 months £ 000	1-2 years £ 000	2-3 years £ 000	Over 3 years £ 000
Total balance	871	788	525	186	19
Less specific provisions	-	(47)	(11)	(133)	-
Balance on which ECL made	871	741	514	53	19
Lifetime ECL	10%	10%	15%	30%	60%
Expected credit loss	87	74	77	16	11

2017	1-6 months £ 000	6-12 months £ 000	1-2 years £ 000	2-3 years £ 000	Over 3 years £ 000
Total balance	675	536	280	31	6
Less specific provisions	-	(70)	(145)	-	-
Balance on which ECL made	675	466	135	31	6
Lifetime ECL	10%	10%	15%	30%	60%
Expected credit loss	68	47	20	9	4

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

16 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 occuring on a financial instrument at the reporting date with the risk of a default occuring 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.

17 Share capital

Allotted, called up and fully paid shares

	31 December 2018 No.	31 December 2018 £	31 December 2017 No.	31 December 2017 £
Ordinary Share Capital of £1 each	200,000,100	200,000,100	200,000,100	200,000,100

18 Reserves

	Retained earnings £ 000
At 1 January 2018	775,708
Profit for the year	77,459
Total comprehensive income	77,459
Dividends	(23,700)
At 31 December 2018	829,467

18 Reserves (continued)

	Retained earnings £ 000
At 1 January 2017	712,822
Profit for the year	85,586
Total comprehensive income	85,586
Dividends	(22,700)
At 31 December 2017	775,708

19 Loans and borrowings

	31 December 2018 £ 000	31 December 2017 £ 000
Non-current loans and borrowings	507,152	547,049
Current loans and borrowings	214,566	147,079
	721,718	694,128

	Book value		Fair value	
	31 December 2018 £ 000	31 December 2017 £ 000	31 December 2018 £ 000	31 December 2017 £ 000
Short-term loan	44,008	10	44,008	10
Intercompany loan	123,838	98,898	123,838	98,898
Northern Electric Finance plc 2020 - 8.875%	101,849	101,849	114,338	122,795
Northern Electric Finance plc 2035 - 5.125%	49,865	49,789	65,757	69,123
Yorkshire Electricity Group plc 2037 - 5.9%	-	100,016	-	149,768
Northern Powergrid Holdings Company 2037 - 5.9%	100,016	-	141,879	-
Northern Electric Finance plc 2037 - 5.125%	100,014	100,014	130,759	137,864
European Investment Bank 2018 - 4.065%	-	41,429	-	41,444
European Investment Bank 2019 - 4.241%	41,493	41,491	41,506	43,015
European Investment Bank 2020 - 4.386%	40,507	40,504	41,796	43,426
European Investment Bank 2027 - 2.564%	120,128	120,128	126,761	129,281
	721,718	694,128	830,642	835,624

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

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 28.

20 Obligations under leases and hire purchase contracts

Operating leases
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 2018 £ 000	31 December 2017 £ 000
Within one year	5,381	5,048
In two to five years	17,039	15,029
In over five years	2,116	2,841
	24,536	22,918

The amount of non-cancellable operating lease payments recognised as an expense during the year was £7,929,000 (2017 - £7,674,000).

21 Other provisions

	Claims £ 000	Other provisions £ 000	Total £ 000
At 1 January 2018	763	425	1,188
Additional provisions	945	401	1,346
Provisions used	(1,209)	(362)	(1,571)
At 31 December 2018	499	464	963
Non-current liabilities	-	87	87
Current liabilities	499	377	876

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 15 years.

22 Trade and other payables

	31 December 2018 £ 000	31 December 2017 £ 000
Payments on Account	43,492	44,726
Trade payables	1,701	4,269
Accrued expenses	6,808	6,720
Capital Accruals	22,888	23,832
Amounts due to related parties	-	495
Social security and other taxes	6,850	3,836
Other payables	3,121	2,407
	84,860	86,285

The Company's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in note 28 "Financial risk review".

23 Deferred revenue

	31 December 2018 £ 000	31 December 2017 £ 000
Current	22,780	22,450
Non-current	597,215	584,348
	619,995	606,798

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.

24 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 £2.5m (2017 - £1.9m). The pension cost for 2019 is expected to be £2.8m.

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 £25.9m (2017 - £24.7m). The pension cost for 2019 is expected to be £26.9m.

Detailed information on the Northern Powergrid pension schemes is available in the Northern Powergrid Holdings Company financial statements, available from Lloyds Court, 78 Grey Street, Newcastle upon Tyne, Tyne and Wear, NE1 6AF.

25 Dividends

	31 December 2018 £ 000	31 December 2017 £ 000
Interim dividend of 11.3p (2017 - 10.9p) per ordinary share	23,700	22,700

26 Reconciliation of liabilities arising from financing activities

	At 1 January 2018 £ 000	Financing cash flows £ 000	Other changes £ 000	At 31 December 2018 £ 000
Long-term borrowings	595,220	(40,000)	(1,348)	553,872
Short-term borrowings	98,908	68,940	(2)	167,846
	694,128	28,940	(1,350)	721,718

	At 1 January 2017 £ 000	Financing cash flows £ 000	Other changes £ 000	At 31 December 2017 £ 000
Long term borrowings	595,113	-	107	595,220
Short term borrowings	67,053	31,856	(1)	98,908
	662,166	31,856	106	694,128

Other changes relate to amortisation of financing fees and discounts.

27 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 period ending 31 December 2018 was as follows:

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets				
Non-current assets				
Property, plant and equipment	-	-	-	2,439,107
Intangible assets	-	-	-	50,638
Investments in subsidiaries, joint ventures and associates	-	50	-	-
	-	50	-	2,489,745
Current assets				
Inventories	-	-	-	12,869
Trade and other receivables	50,323	-	-	1,207
	50,323	-	-	14,076
Total assets	50,323	50	-	2,503,821
Liabilities				
Non-current liabilities				
Loans and borrowings	-	-	(507,152)	-
Provisions	-	-	-	(87)
Deferred revenue	-	-	-	(597,215)
Deferred tax liabilities	-	-	-	(92,358)
	-	-	(507,152)	(689,660)
Current liabilities				
Trade and other payables	-	-	(84,860)	-
Loans and borrowings	-	-	(214,566)	-
Income tax liability	-	-	(4,833)	-
Deferred revenue	-	-	-	(22,780)
Provisions	-	-	-	(876)
	-	-	(304,259)	(23,656)
Total liabilities	-	-	(811,411)	(713,316)

27 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 period ending 31 December 2017 was as follows:

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets				
Non-current assets				
Property, plant and equipment	-	-	-	2,346,759
Intangible assets	-	-	-	47,568
Investments in subsidiaries, joint ventures and associates	-	50	-	-
	-	50	-	2,394,327
Current assets				
Inventories	-	-	-	13,080
Trade and other receivables	53,827	-	-	1,145
	53,827	-	-	14,225
Total assets	53,827	50	-	2,408,552
Liabilities				
Non-current liabilities				
Loans and borrowings	-	-	(547,049)	-
Provisions	-	-	-	(88)
Deferred revenue	-	-	-	(584,348)
Deferred tax liabilities	-	-	-	(91,210)
	-	-	(547,049)	(675,646)
Current liabilities				
Trade and other payables	-	-	(86,285)	-
Loans and borrowings	-	-	(147,079)	-
Income tax liability	-	-	(7,112)	-
Deferred revenue	-	-	-	(22,450)
Provisions	-	-	-	(1,100)
	-	-	(240,476)	(23,550)
Total liabilities	-	-	(787,525)	(699,196)

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

28 Financial risk review

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

Capital management

The Group manages its capital centrally to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2017.

The capital structure of the Company consists of net debt (borrowings as detailed in note 19 offset by equity of the Company (comprising issued capital, reserves and retained earnings as detailed in notes 17 and 18).

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 2018 totalled £715.4m. Using the RAV value as at March 2019, as outlined by Ofgem in its electricity distribution price control financial model published in November 2018, 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 2019 of £1,406.5m. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 50.9% (2017: 50.7%).

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..

2018	Notes	Gross carrying amount £ 000	Loss allowance £ 000	Net carrying amount £ 000
Trade and other receivables	16	52,995	(1,465)	51,530
Equity investments at FVTPL	14	50	-	50
2017				
Trade and other receivables	16	55,585	(613)	54,972
Equity investments at FVTPL	14	50	-	50

28 Financial risk review (continued)

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 16 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 27 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 £75 million under a five-year committed revolving credit facility provided by Lloyds Bank plc, The Royal Bank of Scotland plc and Abbey National Treasury Services plc., which expires on 30 April 2020. 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 2018, the Company had available £50.0m (2017: £94.0m) 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.

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	41,368	-	-	-	41,368
Variable interest rate liabilities	167,838	-	-	-	167,838
Fixed interest rate liabilities	43,405	25,539	216,239	567,407	852,590
Total	252,611	25,539	216,239	567,407	1,061,796

2017 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	41,559	-	-	-	41,559
Variable interest rate liabilities	98,857	-	-	-	98,857
Fixed interest rate liabilities	45,031	25,539	299,810	595,096	965,476
Total	185,447	25,539	299,810	595,096	1,105,892

28 Financial risk review (continued)

Market risk

The Company's activities do not expose it to significant financial risks of changes in foreign currency exchange rates and interest rates. Materially all income and expenses are denominated in pound sterling. Short-term loans and inter-company short term loans is charged at a floating rate of LIBOR plus 0.35%, 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 costs of £1.3m 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.

29 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 (Yorkshire) plc 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;
- Northern Electric Finance Limited that provides loan financing;
- Northern Powergrid Holdings Company that provides loan financing; and
- Yorkshire Electricity Group plc that operates the group intercompany treasury account.

Income and receivables from related parties

2018	Parent £ 000	Joint ventures £ 000	Other related parties £ 000
Sale of goods	15	16	23,257

2017	Parent £ 000	Joint ventures £ 000	Other related parties £ 000
Sale of goods	25	23	20,705

Expenditure with and payables to related parties

2018	Parent £ 000	Joint ventures £ 000	Other related parties £ 000
Purchase of goods	2,476	4,998	14,872

2017	Parent £ 000	Joint ventures £ 000	Other related parties £ 000
Purchase of goods	3,565	3,372	16,235
Amounts payable to related party	-	495	-

29 Related party transactions (continued)

Loans from related parties

2018	**Subsidiary £ 000**	**Other related parties £ 000**
At start of period	251,650	198,914
Advanced	-	24,930
Interest charged	17,030	6,972
Interest paid	(16,952)	(6,972)
At end of period	251,728	223,844

2017	**Subsidiary £ 000**	**Other related parties £ 000**
At start of period	251,574	167,053
Advanced	-	31,861
Interest charged	17,028	6,319
Interest paid	(16,952)	(6,319)
At end of period	251,650	198,914

Details of loans from related parties
Loans from related parties are details in the loans and borrowings note 19 on page 51.

30 Parent and ultimate parent undertaking

The Company's immediate parent is Northern Electric plc.

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

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

The address of Northern Electric plc is:
Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.

APPENDIX 2 – FINANCIAL STATEMENTS OF THE ISSUER FOR THE YEAR ENDED 31 DECEMBER 2019

(Pages 1-27 (inclusive) are deliberately omitted)

Northern Powergrid (Northeast) Limited
Independent Auditor's Report to the Members of Northern Powergrid (Northeast) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- 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 of Northern Powergrid (Northeast) Limited (the 'company') 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 31.

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.

Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the 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.

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinion on other matter prescribed by the Companies Act 2006

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

- the information given in the strategic report and 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 our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors Report.

Northern Powergrid (Northeast) Limited
Independent Auditor's Report to the Members of Northern Powergrid (Northeast) Limited (continued)

Matters on which we are required to report by exception

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

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

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

14 May 2020

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

	Note	2019 £ 000	Restated (Note 3) 2018 £ 000
Revenue	3, 4	347,861	337,698
Cost of sales		(15,425)	(14,767)
Gross profit		332,436	322,931
Distribution costs	3	(124,572)	(119,072)
Administrative expenses		(84,540)	(80,660)
Operating profit	6	123,324	123,199
Other gains	5	708	466
Finance costs	7	(30,629)	(28,782)
Finance income	7	171	147
Profit before tax		93,574	95,030
Income tax expense	11	(17,040)	(17,571)
Profit for the year		76,534	77,459

The above results were derived from continuing operations.

Northern Powergrid (Northeast) Limited
(Registered number: 02906593)
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	2,578,029	2,469,494	2,374,754
Right of use assets	13	11,916	-	-
Intangible assets	3, 14	52,289	52,605	51,322
Investments in subsidiaries, joint ventures and associates	15	50	50	50
		2,642,284	2,522,149	2,426,126
Current assets				
Inventories	16	19,661	12,869	13,080
Trade and other receivables	17	51,628	51,530	54,972
		71,289	64,399	68,052
Total assets		2,713,573	2,586,548	2,494,178
Equity and liabilities				
Equity				
Share capital	18	(200,000)	(200,000)	(200,000)
Retained earnings	19	(881,401)	(829,467)	(775,708)
Total equity		(1,081,401)	(1,029,467)	(975,708)
Non-current liabilities				
Long-term lease liabilities		(7,738)	-	-
Loans and borrowings	20	(515,670)	(507,152)	(547,049)
Provisions	22	(55)	(87)	(88)
Deferred revenue	3, 24	(637,700)	(627,051)	(613,652)
Deferred tax liabilities	11	(91,208)	(92,358)	(91,210)
		(1,252,371)	(1,226,648)	(1,251,999)
Current liabilities				
Current portion of long-term lease liabilities		(4,354)	-	-
Trade and other payables	23	(88,421)	(84,860)	(86,285)
Loans and borrowings	20	(253,780)	(214,566)	(147,079)
Income tax liability		(6,180)	(4,833)	(7,112)
Deferred revenue	3, 24	(26,280)	(25,298)	(24,895)
Provisions	22	(786)	(876)	(1,100)
		(379,801)	(330,433)	(266,471)
Total liabilities		(1,632,172)	(1,557,081)	(1,518,470)

The notes on pages 37 to 83 form an integral part of these financial statements.

Northern Powergrid (Northeast) Limited
(Registered number: 02906593)
Statement of Financial Position as at 31 December 2019 (continued)

	Note	31 December 2019 £ 000	Restated (Note 3) 31 December 2018 £ 000	Restated (Note 3) 31 December 2017 £ 000
Total equity and liabilities		(2,713,573)	(2,586,548)	(2,494,178)

Approved by the Board of Directors on 14 May 2020 and signed on its behalf by:

T E Fielden
Director

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

	Note	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018		200,000	775,708	975,708
Profit for the year		-	77,459	77,459
Total comprehensive income	19	-	77,459	77,459
Dividends	26	-	(23,700)	(23,700)
At 31 December 2018		200,000	829,467	1,029,467

	Note	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2019		200,000	829,467	1,029,467
Profit for the year		-	76,534	76,534
Total comprehensive income	19	-	76,534	76,534
Dividends	26	-	(24,600)	(24,600)
At 31 December 2019		200,000	881,401	1,081,401

The notes on pages 37 to 83 form an integral part of these financial statements.

Northern Powergrid (Northeast) Limited
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		76,534	77,459
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	3, 6	95,066	91,064
Depreciation on right of use assets	6	4,326	-
Amortisation of deferred revenue	3, 4	(25,731)	(24,800)
Profit on disposal of property plant and equipment	5	(708)	(466)
Finance income	7	(171)	(147)
Finance costs	7	30,629	28,782
Income tax expense	11	17,040	17,571
		196,985	189,463
(Increase)/decrease in inventories	16	(6,792)	211
Decrease in trade and other receivables	17	41	2,564
Increase in trade and other payables	23	449	655
Decrease in provisions	22	(122)	(225)
Cash generated from operations		190,561	192,668
Income taxes paid		(16,843)	(18,702)
Net cash flow from operating activities		173,718	173,966
Cash flows used in investing activities			
Acquisitions of property plant and equipment		(190,957)	(172,384)
Proceeds from sale of property plant and equipment		708	466
Acquisition of intangible assets		(8,963)	(10,357)
Receipt of customer contributions		38,915	35,143
Interest received		109	85
Dividend income	7	62	62
Net cash flows used in investing activities		(160,126)	(146,985)

Northern Powergrid (Northeast) Limited
Statement of Cash Flows for the Year Ended 31 December 2019 (continued)

	Note	2019 £ 000	Restated (Note 3) 2018 £ 000
Cash flows used in financing activities			
Movement in intercompany loans		130,262	24,940
(Repayment)/proceeds from short-term borrowing		(43,716)	44,000
Repayment of long-term external borrowings		(40,000)	(40,000)
Interest expense on leases		(443)	-
Interest paid		(30,948)	(32,221)
Payments to finance lease creditors		(4,147)	-
Dividends paid	26	(24,600)	(23,700)
Net cash flows used in financing activities		(13,592)	(26,981)
Net movement in cash and cash equivalents		-	-
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		-	-

1 General information

The Company is a private company limited by share capital, 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 in accordance with adopted IFRSs and under historical cost convention as modified by financial instruments recognised 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.

The Company is exempt from preparing group financial statements under the term of section 400 of the Companies Act 2006, 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 31. Further details on the Company's accounting policies in relation to investments are available on page 44.

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 Report of the Directors 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.

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

2 Accounting policies (continued)

- The Northern Powergrid Group's main subsidiaries, the Company and NPg Yorkshire, 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 NPg Yorkshire 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 £97 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 NPG Yorkshire's licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the 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. In addition, a letter of support was received from Northern Powergrid Holdings Company. 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 Northern Powergrid 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 £40.5 million (2018: £38.3 million), this was a decrease from 53.2% to 51.7%.

2 Accounting policies (continued)

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.

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
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 is 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.

2 Accounting policies (continued)

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), interest (presented in financial activities) and capitalised interest (presented in investing 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, 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;

-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.

	As originally reported 31 December 2018 £ 000
Operating lease commitments at 31 December 2018	24,536
Operating lease commitments discounted at the incremental borrowing rate	15,431
Recognition exemption for short-term leases	(3,357)
Lease liabilities recognised at 1 January 2019	12,074

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%.

2 Accounting policies (continued)

Right-of-use assets are depreciated over the shorter of the lease contract or the useful life of the asset. For details on the depreciation charge and carrying value by class of asset please refer to Note 13. For details on interest expense on lease liabilities, please refer to Note 7. For details regarding total lease cash outflow, please see the Statement of Cash Flows.

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.

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

2 Accounting policies (continued)

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.

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, fittings and equipment	up to 10 years

2 Accounting policies (continued)

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 assets 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.

Investments
Investments in securities are classified on initial recognition as available-for-sale and are carried at fair value, except where their fair value cannot be measured reliably, in which case they are carried at cost, less any impairment.

Unrealised holding gains and losses other than impairments are recognised in other comprehensive income. On maturity or disposal, net gains and losses previously deferred in accumulated other comprehensive income are recognised in income.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

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.

2 Accounting policies (continued)

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

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:-

2 Accounting policies (continued)

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.

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.

2 Accounting policies (continued)

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.

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 Loss
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.

2 Accounting policies (continued)

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.

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.

2 Accounting policies (continued)

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 expected credit loss (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 adjustments

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:

	2018 £ 000	2017 £ 000
Revenue	2,445	1,839
Distribution costs	(2,445)	(1,839)
Profit for the year	-	-

Statement of Financial Position:

	2018 £ 000	2017 £ 000
Property, plant and equipment	30,387	27,995
Intangible assets	1,967	3,754
Deferred revenue non-current	(29,836)	(29,304)
Deferred revenue current	(2,518)	(2,445)
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	292,587	284,226
Amortisation of deferred revenue	25,731	24,800
Work for related parties	24,592	23,257
Other revenue	4,951	5,415
	347,861	337,698

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 (Yorkshire) plc, 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	708	466

6 Operating profit

Arrived at after charging/(crediting)

	2019 £ 000	Restated (Note 3) 2018 £ 000
Depreciation expense	85,787	81,990
Depreciation on right of use asset	4,326	-
Amortisation expense	9,279	9,074
Amortisation of deferred revenue	(25,731)	(24,800)
Research and development cost	1,572	2,437
Operating lease expense - other	-	7,929
Loss allowance on trade and other receivables	701	874

Amortisation expense is included in administration costs in the statement of profit or loss on page 31.

7 Finance income and costs

	2019 £ 000	2018 £ 000
Finance income		
Interest income on financial assets measured at amortised cost	109	85
Dividend income from equity investments designated at FVTPL	62	62
Total finance income	171	147
Finance costs		
Interest on bank overdrafts and borrowings	(5,520)	(7,020)
Interest paid to group undertakings	(26,526)	(24,002)
Interest expense on leases	(443)	-
Borrowing costs included in cost of qualifying asset	1,860	2,240
Total finance costs	(30,629)	(28,782)
Net finance costs	(30,458)	(28,635)

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 5.06% (2018: 5.33%) to expenditure on such assets.

8 Staff costs

	2019 £ 000	2018 £ 000
Salaries	53,466	51,632
Social security costs	5,905	5,744
Defined benefit pension costs	25,779	25,934
Defined contribution pension costs	3,047	2,462
	88,197	85,772
Less charged to plant, property and equipment	(39,872)	(40,784)
	48,325	44,988

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 25.

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

	2019 No.	2018 No.
Technical	352	343
Industrial	447	439
Administration	204	204
Other departments	126	123
	1,129	1,109

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	1
Accruing benefits under money purchase pension scheme	4	4

9 Directors and other key personnel remuneration (continued)

In respect of the highest paid director:

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

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
Total fees payable to the Company's auditor	170	166

10 Auditor's remuneration (continued)

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	18,070	17,109
UK corporation tax adjustment to prior periods	120	(686)
	18,190	16,423
Deferred taxation		
Arising from origination and reversal of temporary differences	(538)	783
Deferred tax adjustment to prior periods	(635)	718
Effect of changes in legislation	23	(353)
Total deferred taxation	(1,150)	1,148
Tax expense in the income statement	17,040	17,571

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	93,574	95,030
Corporation tax at standard rate	17,779	18,056
Increase/(decrease) in current tax from adjustment for prior periods	120	(686)
Deferred tax expense due to (over)/under provision for prior years	(635)	718
Effect of income and expenses not deductible in determining taxable profit	(243)	(68)
Deferred tax charge/(credit) relating to lower tax rates	138	(176)
Increase/(decrease) in deferred tax due to changes to legislation	23	(353)
Other	(142)	80
Total tax charge	17,040	17,571

11 Income tax (continued)

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 an increase of £10.6 million 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

Deferred tax

Deferred tax movement during the year:

	At 1 January 2019 £ 000	Recognised in income £ 000	At 31 December 2019 £ 000
Accelerated tax depreciation	92,727	(844)	91,883
Other	(369)	(306)	(675)
Net tax liabilities	92,358	(1,150)	91,208

Deferred tax movement during the prior year:

	At 1 January 2018 £ 000	Recognised in income £ 000	At 31 December 2018 £ 000
Accelerated tax depreciation	91,513	1,213	92,726
Other	(303)	(65)	(368)
Net tax liabilities	91,210	1,148	92,358

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	4,191	2,978,921	43,254	3,026,366
Prior period adjustment	-	21,791	-	21,791
At 1 January 2018 (restated)	4,191	3,000,712	43,254	3,048,157
Additions (restated)	-	174,971	1,759	176,730
Disposals	-	(13,590)	(390)	(13,980)
As at 31 December 2018 (restated)	4,191	3,162,093	44,623	3,210,907
At 1 January 2019	4,191	3,162,093	44,623	3,210,907
Additions	-	190,823	3,499	194,322
Disposals	-	(12,556)	(78)	(12,634)
At 31 December 2019	4,191	3,340,360	48,044	3,392,595
Depreciation				
At 1 January 2018	2,415	645,316	31,876	679,607
Prior year adjustment	-	(6,204)	-	(6,204)
At 1 January 2018 (restated)	2,415	639,112	31,876	673,403
Charge for year (restated)	252	77,633	4,105	81,990
Eliminated on disposal	-	(13,590)	(390)	(13,980)
As at 31 December 2018 (restated)	2,667	703,155	35,591	741,413
At 1 January 2019	2,667	703,155	35,591	741,413
Charge for the year	252	81,433	4,102	85,787
Eliminated on disposal	-	(12,556)	(78)	(12,634)
At 31 December 2019	2,919	772,032	39,615	814,566
Carrying amount				
At 31 December 2018 (restated)	1,524	2,458,938	9,032	2,469,494
At 31 December 2019	1,272	2,568,328	8,429	2,578,029

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	205,711	211,655

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

	31 December 2019 £ 000	31 December 2018 £ 000
Distribution system	31,200	20,500

13 Right of use assets

	Fleet £ 000	Property £ 000	Land £ 000	Total £ 000
Cost or valuation				
Additions	8,373	1,468	6,401	16,242
At 31 December 2019	8,373	1,468	6,401	16,242
Depreciation				
Charge for the year	1,691	286	2,349	4,326
At 31 December 2019	1,691	286	2,349	4,326
Carrying amount				
At 31 December 2019	6,682	1,182	4,052	11,916

14 Intangible assets- (Restated- Note 3)

	Internally generated software development costs £ 000
Cost or valuation	
At 1 January 2018	80,084
Prior year adjustment	12,462
At 1 January 2018 (restated)	92,546
Additions	10,357
At 31 December 2018 (restated)	102,903
At 1 January 2019	102,903
Additions	8,963
At 31 December 2019	111,866
Amortisation	
At 1 January 2018	32,516
Prior year adjustment	8,708
At 1 January 2018 (restated)	41,224
Amortisation charge (restated)	9,074
At 31 December 2018 (restated)	50,298
At 1 January 2019	50,298
Amortisation charge	9,279
At 31 December 2019	59,577
Carrying amount	
At 1 January 2018 (restated)	51,322
At 31 December 2018 (restated)	52,605
At 31 December 2019	52,289

15 Investments

Subsidiaries	**£ 000**
Cost or valuation	
At 1 January 2018	50
At 31 December 2018	50
At 1 January 2019	50
At 31 December 2019	50
Carrying amount	
At 31 December 2019	50
At 1 January 2019	50

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

Name of subsidiary	**Principal activity**	**Registered office**	**Ownership interest and voting rights held 2019**	**2018**
Northern Electric Finance plc	Finance company	Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF, England and Wales	100%	100%

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	6.2%	6.2%
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
Inventory	19,445	12,422
Work in progress	216	447
	19,661	12,869

17 Trade and other receivables

	31 December 2019 £ 000	31 December 2018 £ 000
Distribution use of system receivables	48,319	48,039
Trade receivables	3,471	3,495
Loss allowance	(2,129)	(1,465)
Net trade receivables	49,661	50,069
Accrued income	29	(22)
Prepayments	1,938	1,483
	51,628	51,530

The average credit period on receivables is 30 days. Interest is charged on overdue distribution 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. The loss allowance has not been split out into detailed analysis.

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

The Company 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 shows significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is distinguished between Distribution Use of System ("DUoS") receivables, non-damages receivables, and damages receivables.

17 Trade and other receivables (continued)

Movement in the loss allowance

	31 December 2019 £ 000	31 December 2018 £ 000
At 1 January	1,465	613
Amounts utilised/written off in the year	(37)	(22)
Amounts recognised in the statement of profit or loss	701	874
At 31 December	2,129	1,465

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.

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £1.9 million (2018: £1.2 million), which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

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 plc accounting for approximately 12% of distribution revenues in 2019 (2018: 12%). 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	27,283	19,896	79	1,061
Less specific provisions	-	(68)	(76)	(1,057)
Balance on which ECL made	27,283	19,828	3	4
Expected credit loss	-	-	-	-

2018	Not due £ 000	Current £ 000	1-3 months £ 000	3-6 months £ 000
Total balance	26,392	21,219	34	394
Less specific provisions	-	(190)	(4)	(387)
Balance on which ECL made	26,392	21,029	30	7
Expected credit loss	-	-	-	-

17 Trade and other receivables (continued)

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.

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	248	96	270	103	117
Less specific provisions	-	-	-	-	-
Balance on which ECL made	248	96	270	103	117
Lifetime ECL	0%	0%	0%	15%	20%
Expected credit loss	-	-	-	15	23

2018	Not due £ 000	Current £ 000	1-6 months £ 000	6-12 months £ 000	Over 1 year £ 000
Total balance	279	208	256	48	81
Less specific provisions	-	-	-	-	-
Balance on which ECL made	279	208	256	48	81
Lifetime ECL	0%	0%	0%	15%	20%
Expected credit loss	-	-	-	7	16

Damages

2019	1-6 months £ 000	6-12 months £ 000	1-2 years £ 000	2-3 years £ 000	Over 3 years £ 000
Total balance	797	547	483	358	192
Less specific provisions	(39)	(66)	(33)	(324)	(133)
Balance on which ECL made	758	481	450	34	59
Lifetime ECL	10%	10%	15%	30%	60%
Expected credit loss	76	48	68	10	35

2018	1-6 months £ 000	6-12 months £ 000	1-2 years £ 000	2-3 years £ 000	Over 3 years £ 000
Total balance	871	788	525	186	19
Less specific provisions	-	(47)	(11)	(133)	-
Balance on which ECL made	871	741	514	53	19
Lifetime ECL	10%	10%	15%	30%	60%
Expected credit loss	87	74	77	16	11

17 Trade and other receivables (continued)

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

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 Share capital

Allotted, called up and fully paid shares

	31 December 2019		31 December 2018	
	No.	**£**	**No.**	**£**
Ordinary Share Capital of £1 each	200,000,100	200,000,100	200,000,100	200,000,100

19 Reserves

	Retained earnings £ 000
At 1 January 2019	829,467
Profit for the year	76,534
Total comprehensive income	76,534
Dividends	(24,600)
At 31 December 2019	881,401

	Retained earnings £ 000
At 1 January 2018	775,708
Profit for the year	77,459
Total comprehensive income	77,459
Dividends	(23,700)
At 31 December 2018	829,467

20 Loans and borrowings

	31 December 2019 £ 000	31 December 2018 £ 000
Non-current loans and borrowings	515,670	507,152
Current loans and borrowings	253,780	214,566
	769,450	721,718

	Book value		Fair value	
	31 December 2019 £ 000	31 December 2018 £ 000	31 December 2019 £ 000	31 December 2018 £ 000
Short-term loan	291	44,008	291	44,008
Intercompany loan- Yorkshire Electricity Group plc	106,723	123,838	106,723	123,838
Northern Electric Finance plc 2020 - 8.875%	101,849	101,849	101,849	114,338
Northern Electric Finance plc 2035 - 5.125%	49,946	49,865	71,230	65,757
Northern Powergrid Holdings Company 2037 - 5.9%	100,016	100,016	155,207	141,879
Northern Electric Finance plc 2037 - 5.125%	100,014	100,014	143,753	130,759
Northern Electric Finance plc 2049- 2.8%	149,965	-	165,091	-
European Investment Bank 2019 - 4.241%	-	41,493	-	41,506
European Investment Bank 2020 - 4.386%	40,518	40,507	40,520	41,796
European Investment Bank 2027 - 2.564%	120,128	120,128	128,780	126,761
	769,450	721,718	913,444	830,642

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 29.

21 Obligations under leases and hire purchase contracts

Lease commitments

Operating lease commitments relate to fleet vehicles from Vehicle Lease and Service Ltd, a joint venture, with terms of up to 7 years and operational and non-operational land and buildings with terms of up to 50 years.

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

	31 December 2019 £ 000	31 December 2018 £ 000
Within one year	4,692	5,381
In two to five years	7,993	17,039
In over five years	161	2,116
	12,846	24,536

22 Other provisions

	Claims £ 000	Other provisions £ 000	Total £ 000
At 1 January 2019	499	464	963
Additional provisions	862	438	1,300
Provisions used	(954)	(468)	(1,422)
At 31 December 2019	407	434	841
Non-current liabilities	-	55	55
Current liabilities	407	379	786

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.

23 Trade and other payables

	31 December 2019 £ 000	31 December 2018 £ 000
Payments on Account	45,323	43,492
Trade payables	2,126	1,701
Accrued expenses	8,291	6,808
Property, plant & equipment accruals	24,396	22,888
Social security and other taxes	4,651	6,850
Other payables	3,634	3,121
	88,421	84,860

The Company's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in Note 29.

24 Deferred revenue

	31 December 2019 £ 000	Restated (Note 3) 31 December 2018 £ 000
Current	26,280	25,298
Non-current	637,700	627,051
	663,980	652,349

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.

25 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 £3.1 million (2018: £2.5 million). The pension cost for 2020 is expected to be £3.2 million.

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 £25.8 million (2018: 25.9 million). The pension cost for 2020 is expected to be £25.7 million.

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 Company.

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

26 Dividends

	31 December 2019 £ 000	31 December 2018 £ 000
Interim dividend of 12.3p (2018 - 11.9p) per ordinary share	24,600	23,700

27 Reconciliation of liabilities arising from financing activities

Net debt reconciliation

	At 1 January 2019 £ 000	Cash flows £ 000	New finance leases £ 000	Other changes £ 000	At 31 December 2019 £ 000
Borrowings	(721,718)	(46,545)	-	(1,187)	(769,450)
Lease liabilities	-	-	(12,092)	-	(12,092)
	(721,718)	(46,545)	(12,092)	(1,187)	(781,542)

	At 1 January 2018 £ 000	Cash flows £ 000	Other changes £ 000	At 31 December 2018 £ 000
Borrowings	(694,128)	(28,940)	1,350	(721,718)

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

28 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 assets & liabilities at FVTPL £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets				
Non-current assets				
Property, plant and equipment	-	-	-	2,578,029
Right of use assets	11,916	-	-	-
Intangible assets	-	-	-	52,289
Investments in subsidiaries, joint ventures and associates	-	50	-	-
	11,916	50	-	2,630,318
Current assets				
Inventories	-	-	-	19,661
Trade and other receivables	50,052	-	-	1,576
	50,052	-	-	21,237
Total assets	61,968	50	-	2,651,555
Liabilities				
Non-current liabilities				
Long term lease liabilities	-	-	(7,738)	-
Loans and borrowings	-	-	(515,670)	-
Provisions	-	-	(55)	-
Deferred revenue	-	-	(637,700)	-
Deferred tax liabilities	-	-	(91,208)	-
	-	-	(1,252,371)	-

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

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTPL £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Current liabilities				
Current portion of long term lease liabilities	-	-	(4,354)	-
Trade and other payables	-	-	(88,421)	-
Loans and borrowings	-	-	(253,780)	-
Income tax liability	-	-	(6,180)	-
Deferred revenue	-	-	(26,280)	-
Provisions	-	-	(786)	-
	-	-	(379,801)	-
Total liabilities	-	-	(1,632,172)	-

28 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	Financial assets & liabilities at FVTPL £ 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	-	-	-	2,469,494
Intangible assets	-	-	-	52,605
Investments in subsidiaries, joint ventures and associates	-	50	-	-
	-	50	-	2,522,099
Current assets				
Inventories	-	-	-	12,869
Trade and other receivables	50,323	-	-	1,207
	50,323	-	-	14,076
Total assets	50,323	50	-	2,536,175
Liabilities				
Non-current liabilities				
Loans and borrowings	-	-	(507,152)	-
Provisions	-	-	(87)	-
Deferred revenue	-	-	(627,051)	-
Deferred tax liabilities	-	-	(92,358)	-
	-	-	(1,226,648)	-
Current liabilities				
Trade and other payables	-	-	(84,860)	-
Loans and borrowings	-	-	(214,566)	-
Income tax liability	-	-	(4,833)	-
Deferred revenue	-	-	(25,298)	-
Provisions	-	-	(876)	-
	-	-	(330,433)	-
Total liabilities	-	-	(1,557,081)	-

29 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 Northern Powergrid Group manages its capital centrally to ensure that entities in the Northern Powergrid 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 Northern Powergrid Group's overall strategy remains unchanged from 2018.

The capital structure of the Company consists of net debt (borrowings as detailed in Note 20) offset by equity of the Company (comprising issued capital, reserves and retained earnings as detailed in Notes 18 and 19).

The Company has no 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 £764.2 million. 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 £1,451.7 million. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 52.6% (2018: 50.9%).

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.

2019	Notes	Gross carrying amount £ 000	Loss allowance £ 000	Net carrying amount £ 000
Trade and other receivables	17	53,757	(2,129)	51,628
Equity investments at FVTPL	15	50	-	50

29 Financial risk review (continued)

2018

Trade and other receivables	17	52,995	(1,465)	51,530
Equity investments at FVTPL	15	50	-	50

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 28 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 £75.0 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 £19.0 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 £94.0 million (2018: £50.0 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

29 Financial risk review (continued)

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	43,098	-	-	-	43,098
Variable interest rate liabilities	107,007	-	-	-	107,007
Fixed interest rate liabilities	40,709	129,739	92,332	796,868	1,059,648
Total	190,814	129,739	92,332	796,868	1,209,753

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	41,368	-	-	-	41,368
Variable interest rate liabilities	167,838	-	-	-	167,838
Fixed interest rate liabilities	43,405	25,539	216,239	567,407	852,590
Total	252,611	25,539	216,239	567,407	1,061,796

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 costs of £1.2 million 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.

30 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 (Yorkshire) plc 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;
- Northern Electric Finance plc that provides loan financing;
- Northern Powergrid Holdings Company that provides loan financing; and
- Yorkshire Electricity Group plc that operates the Northern Powergrid Group intercompany treasury account.

Transactions with related parties

2019	Sales to £ 000	Purchases from £ 000
Northern Powergrid (Yorkshire) plc	22,746	10,700
Northern Powergrid Metering Limited	41	-
Integrated Utility Services (Eire)	-	1,491
Integrated Utility Services Limited	313	4,375
Northern Electric plc	-	4,929
Vehicle Lease and Service Limited	18	4,868
	23,118	26,363

2018	Sales to £ 000	Purchases from £ 000
Northern Powergrid (Yorkshire) plc	21,528	11,470
Northern Powergrid Metering Limited	63	-
Integrated Utility Services (Eire)	-	1,369
Integrated Utility Services Limited	296	3,393
Northern Electric plc	15	4,919
Vehicle Lease and Service Limited	16	4,998
	21,918	26,149

30 Related party transactions (continued)

Loans from related parties

2019	Subsidiary £ 000	Other related parties £ 000
At start of period	251,728	223,844
Advanced	147,411	-
Repaid	-	(17,121)
Interest charged	19,623	6,903
Interest paid	(16,988)	(6,903)
At end of period	401,774	206,723

2018	Subsidiary £ 000	Other related parties £ 000
At start of period	251,650	198,914
Advanced	-	24,930
Interest charged	17,030	6,972
Interest paid	(16,952)	(6,972)
At end of period	251,728	223,844

Details of loans from related parties
Loans from related parties are disclosed in more detail in the loans and borrowings Note 20.

31 Parent and ultimate parent undertaking

The Company's immediate parent is Northern Electric plc.

The ultimate parent is Berkshire Hathaway, Inc. These financial statements are available upon request from its registered office 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 Electric plc, incorporated in United Kingdom.

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

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