Registered number: 02906593 (England and Wales)

Northern Powergrid (Northeast) Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

Northern Powergrid (Northeast) Limited

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Northern Powergrid (Northeast) Limited
Company Information

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Registered number	02906593 (England and Wales)
Auditor	Deloitte LLP Statutory auditor Newcastle upon Tyne United Kingdom

Northern Powergrid (Northeast) Limited
Strategic Report for the Year Ended 31 December 2019

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

BUSINESS MODEL

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

The principal activity of the Company is the distribution of electricity to approximately 1.6 million customers connected to its electricity distribution network (the “Network”) within its distribution services area in the northeast of England, which extends from North Northumberland, south to York and west to the Pennines. The Company's Network includes over 41,000 kilometres of overhead and underground cables and over 27,000 substations. Electricity is received from National Grid's transmission system and from generators connected directly to the Network, and then distributed at voltages of up to 132 kilovolts (“kV”).

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

STRATEGY

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

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

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

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

FINANCIAL STRENGTH

Strategic objective: Strong finances that enable improvement and growth.

KPI	2019	2018
Operating profit	£ 123.3 million	£ 123.2 million
Cash from operating activities	£ 173.7 million	£ 174.0 million
Cash used in investing activities	£ 160.1 million	£ 147.0 million
Credit Rating (Standard & Poor's)	A	A

Business Plan commitment: To build on the efficiencies achieved to date and in doing so, reduce base costs by 3.1% in 2015 to 2023 compared to the previous price control period.

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

Revenue: The Company's revenue at £347.9 million was £10.2 million higher than the prior year primarily due to higher distribution system revenues and slightly higher amortisation of deferred revenue.

Operating profit and position at the year-end: The Company's operating profit of £123.3 million was £0.1 million more than the previous year, primarily reflecting higher revenues, offset by increased depreciation and higher business rates. The statement of financial position on page 32 shows that, as at 31 December 2019 the Company had total equity of £1,081.4 million (2018: £1,029.5 million). The directors consider the Company to have a strong financial position which, when coupled with the preference of its parent company, Berkshire Hathaway Energy, for operating with lower levels of debt than equivalent companies in the sector, creates a stable base for continued strong performance during the ED1 period.

Finance costs and investments: Finance costs net of investment income at £30.5 million was £1.9 million higher than the prior year reflecting increased interest payments on intercompany loans.

Taxation: The effective tax rate in the year was 18.2%. Tax charge for the year was £17.0 million, which was lower than the prior year of £17.6 million due to a reduction in profit before tax. Details of the income tax expense are provided in Note 11 to the financial statements.

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

- Cash flow from operating activities at £173.7 million was £0.3 million lower than the previous year due to adverse working capital movements offset by higher operating profit before depreciation and amortisation and lower tax paid.

- The net cash used in investing activities at £160.1 million was £13.1 million higher than the previous year, reflecting higher purchases of plant, property and equipment offset by lower purchase of intangible assets and higher customer contributions.

- The net cash outflow from financing activities at £13.6 million was £13.4 million lower than the previous year mainly due the movement in intercompany and short term loans and inclusion of lease payments following introduction of the new lease accounting standard.

Pensions: The Company is a participating employer in the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "DB Scheme"), a defined benefit scheme. Further details of the Company's commitments to the Scheme and the associated deficit repair payments are provided in Note 25 to the financial statements. The Company also participates in the Northern Powergrid Pension Scheme, which is a defined contribution scheme.

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

CUSTOMER SERVICE

Strategic objective: Delivering exceptional customer service.

KPI	2019	2018
BMCS	90%	86.8%
BMCS Rank (out of 14)	10	11
BMCS Power Cuts	89.6%	87.7%
BMCS General Enquiries	92.3%	90.1%
BMCS Connections	89.4%	84.8%
SECV rank (out of 14) (combined with Northern Powergrid (Yorkshire) plc)	3	2

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

Performance during the year: Under the broad measure of customer satisfaction ("BMCS"), an independent market research company carried out telephone surveys with the Company's customers to find out how satisfied they were with services related to unplanned or planned power cuts, quotations and subsequent connections, and general enquiries. The Company recorded a significant improvement in overall satisfaction scores compared to the prior year (2019: 90.0% versus 2018: 86.8%) which had resulted in an overall BMCS rank of 10 out of 14 (2018: 11). This was attributed to an increase in performance across all BMCS KPIs, particularly in the area of Connections. However, as the other DNOs also demonstrated increased levels of performance, the rank achieved did not change materially.

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

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

Connections to the network

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

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

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

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

Corporate responsibility

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

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

In April 2019, the Company (together with Northern Powergrid (Yorkshire) plc) put forward its Stakeholder Engagement and Customer Vulnerability (“SECV”) submission to Ofgem in respect of work undertaken during the previous Regulatory Year. The submission provided an overview of activities and case studies in areas such as safety, environment, customer service, reliability and availability. Following the submission to Ofgem's panel, the Company achieved third place (of 6 DNO Groups) in the context of the wider gas distribution, transmission owner and DNO group, a marginal step down from second place (of six) in the prior year. In response, plans were developed to strengthen engagement in order to improve the position going forward.

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

OPERATIONAL EXCELLENCE

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

	2018/2019		2017/2018	
KPI	**Actual**	**Target**	**Actual**	**Target**
Customer minutes lost	47.6	<59.1	44.6	<61.9
Customer interruptions	54.3	<61.4	51.8	<62.1

	2019	2018
Network investment	£190.8 million	£175.0 million
High voltage restoration time	57.0 minutes	61.0 minutes

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

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

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

The Company invested £190.8 million during the year through its approved Network investment strategy (2018: £175.0 million), which has been designed to deliver improvements and increase the Network's resilience. Various major projects were undertaken to reinforce the primary Network, refurbish transformers, rebuild overhead lines, remove and replace oil-filled cables, change deteriorated poles, replace switchgear and install and commission new remote control points.

Further Network enhancements included the continued roll-out of the automatic power restoration system on the high voltage Network. This made the restoration of supply in under three minutes following an interruption available to a further 328,800 customers during 2019, taking the total to 952,200. At low voltage, in addition to the previous deployment of smart fuses to restore supplies in under three minutes to customers affected by intermittent faults, the implementation of next generation innovative low-voltage technology devices continued with the addition of low cost Network monitoring sensors. The devices enable the detection of developing faults so that they can be proactively managed whilst enabling the gathering of Network condition information.

In relation to high-voltage restoration, the Company's high-voltage restoration performance during the year averaged 57.0 minutes (2018: 61.0 minutes), after allowing for severe weather incidents and other exemptions.

EMPLOYEE COMMITMENT

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

	2019		**2018**	
KPI	**Actual**	**Target**	**Actual**	**Target**
Northern Powergrid Group occupational safety and health administration rate	0.18	0.22	0.26	0.26
Preventable vehicle accidents	18	15	14	12
Lost time accidents	3	1	1	1
Medical treatment accidents	-	1	2	1
Operational incidents	6	5	4	5
Northern Powergrid Group absence rate	3.5%		3.3%	

Health and safety

Business Plan commitment: To deliver world class safety performance and halve the accident rate during the ED1 period.

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

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

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

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

Employees

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

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

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

During the year, 92 new recruits (2018: 82) joined the Company and Northern Powergrid (Yorkshire) plc's workforce renewal programme. At 31 December 2019, the Company had 1,152 employees (2018: 1,134).

ENVIRONMENTAL RESPECT

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

	2019		2018	
KPI	**Actual**	**Target**	**Actual**	**Target**
Total oil/fluid lost (litres)	11,660	<12,255	14,179	<12,400
SF6 gas discharges (kg)	16.55	<18.00	17.95	<30.00
Environmental incidents	1	<3	5	<4
Carbon footprint (tonnes)	15,667		15,917	
KWh Energy consumed	21,315,793		22,458,844	

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

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

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

The Company's carbon footprint reporting framework is certified under the Certified Emissions Measurement and Reduction Scheme for compliance with ISO 14064-1:2006. The last full audit was undertaken in November 2019, where continued certification was confirmed. Initiatives including the introduction of electric vehicles and the implementation of telematics in all fleet vehicles led to a further improvement in reducing the Company's carbon footprint during the year to 15,667 tonnes (2018: 15,917 tonnes). This improvement (combined with Northern Powergrid (Yorkshire) plc) demonstrated a carbon footprint reduction of 40% during the first half of the ED1 period, well ahead of the original 10% commitment and in line with the 40% stretch target applied for the 2018/19 Regulatory Year.

In support of the target to further reduce oil and fluid loss, the 2019 annual environmental improvement plan included replacing fluid-filled cables and locating cable fluid leaks more quickly which resulted in a total fluid loss of 11,660 litres (2018: 14,179). The total oil and fluid loss target was missed by a small margin due to a number of leaks from underground cables. In relation to the Business Plan commitment, at 31 March 2019, the Company and its affiliate (Northern Powergrid (Yorkshire) plc) had achieved a 36% reduction in oil and fluid loss (relative to 1 April 2015). As a consequence, a stretch target of achieving a 47% reduction by the end of the ED1 period was adopted.

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

Sustainability

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

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

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

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

REGULATORY INTEGRITY

Strategic objective: Trustworthy, fair and balanced.

KPI: Completion of a quarterly regulatory compliance affirmation process.

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

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

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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

Principal Risks

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

Mitigation

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

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

Mitigation

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

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

Mitigation

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

Principal Risks (continued)

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

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

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

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

Brexit
Britain's departure from the European Union.

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

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

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

Principal risks (continued)

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

Mitigation
- Monitored by the Treasury department
- The Company is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest.
- As at 31 December 2019, 100% of the Company's long-term borrowings were at fixed rates and the average maturity for these borrowings was 15 years.
- Financial covenant monitoring is in place.

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

Mitigation
- Mix of direct labour and contracted resource is used.

Pandemic
Infection rate leads to high staff absence.

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

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

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

Internal control

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

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

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

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

To ensure that the Northern Powergrid Group maintains the highest level of ethical standards in the conduct of its business, Berkshire Hathaway Energy's Code of Conduct has been adopted, further details of which can be found on page 9. The Northern Powergrid Group has robust procedures in place to meet the requirements of the Bribery Act 2010. Every employee must undertake training in respect of the Northern Powergrid Group's anti-corruption and anti-bribery policy each year.

Viability Statement

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

Section 172(1) statement

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

(a) the likely consequences of any decision in the long term; (Page 2 and 3)
(b) the interests of the Company's employees; (Page 7-9 and 18)
(c) the need to foster the Company's business relationships with suppliers, customers and others; (Pages 17 and 18)
(d) the impact of the Company's operations on the community and the environment; (Page 4, 5, 18 and 19)
(e) the desirability of the Company maintaining a reputation for high standards of business conduct; and (Page 11 and 15)
(f) the need to act fairly as between members of the Company. The Company has one class of ordinary shares which are all held by Northern Electric plc, a company owned by the Northern Powergrid Group.

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

T E Fielden
Director

Northern Powergrid (Northeast) Limited
Directors' Report for the Year Ended 31 December 2019

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

Dividends

During the year, an interim dividend of £24.6 million was paid (2018: £23.7 million). The directors recommend that no final dividend be paid in respect of the year (2018: £nil).

The Company's dividend policy is that dividends will be paid only after having due regard to available distributable reserves, available liquid funds and the financial resources and facilities needed to enable the Company to carry on its business for at least the next year. In addition, the level of dividends is set to maintain sufficient equity in the Company so as not to jeopardise its investment grade issuer credit rating.

Directors of the Company

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

T E Fielden
T H France
N M Gill (resigned 30 April 2019)
P A Jones
A J Maclennan
A R Marshall
P C Taylor

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

During the year and up to the date of approval of the Directors Report, an indemnity contained in the Company's Articles of Association was in force for the benefit of the directors of the Company and as directors of associated companies, which was a qualifying indemnity provision for the purposes of the Companies Act 2006.

Future developments

The financial position of the Company, as at 31 December 2019, is shown in the statement of financial position on page 32. There have been no significant events since the year end. The directors intend that the Company will continue to implement its well-justified business plan during the remainder of the ED1 price control and by delivering the strategic objectives linked to the Core Principles, the Company will continue to develop its business by efficiently investing in the network and improving the quality of supply and service provided to customers. There are no plans to change the existing business model.

Research and development

The Company supports a programme of research (see page 10 for further details) that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. During the year, the Company invested £1.6 million (2018: £2.4 million) (Note 6 to the financial statements) in its research and development activities.

Financial instruments

Details of financial risks are included in the Principal Risks and Uncertainties on page 14 of the Strategic Report and Note to the financial statements on page 78.

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

Employment of disabled persons

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

Employee involvement

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

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

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

In accordance with Section 414C of the Companies Act 2006 further disclosures details concerning the Company’s relationship with employees (including the principal decisions taken during the year) and information concerning greenhouse gas emissions can be found on pages 7,8 and 9 of the Strategic Report.

Business relationships

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

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

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

Customers, whether they are domestic or commercial, are the primary stakeholder group served by the Company and therefore the services offered are all tailored to provide a benefit or enhance an experience. Further detail of the Company's relationship with customers, the support programmes provided and the decisions made during the year is discussed on pages 4 to 6.

As outlined on page 11, activity in respect of Regulatory Integrity and engagement with Ofgem was prevalent during the year and included participation in various consultations concerning the RIIO-ED2 price control review. Given the implications on the Company's long term strategy, the relationship with Ofgem, the evolving RIIO-ED2 framework and the transition to DSO were regular items on the board agenda throughout the year.

Non-financial information statement

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

• Business Model: Page 2
• Social Matters: Pages 5 and 6
• Employee: Pages 7, 8 and 9
• Environmental: Pages 9 and 10
• Respect for Human Rights: Page 15
• Anti-Corruption and Anti-Bribery Matters: Page 15

CORPORATE GOVERNANCE STATEMENT

The Company has sought to apply the UK Corporate Governance Code 2018 (the "Code") and report on the application of the Principles and supporting Provisions in so far as it considers them to be relevant to its ownership structure.

The directors confirm that the governance framework in place is appropriate to the circumstances of the Company and where possible, the spirit of the Code has been applied. The framework is agreed with the Northern Powergrid Group's shareholder, Berkshire Hathaway Energy. The Company has not complied with main Principle L or Provisions 17, 18 21, 22, 23, 26, 32, 33 and 41. In addition, Provisions 4, 9, 19, 20 and 35 are deemed not to be relevant to the Company's circumstances for the reasons explained in the pages that follow. A copy of the Code can be found at https://frc.org.uk/.

BOARD LEADERSHIP AND COMPANY PURPOSE

Strategic Ownership

The board is collectively responsible for generating value for the Northern Powergrid Group's shareholder and wider society which is achieved through the delivery of a strategy which corresponds to Berkshire Hathaway Energy's six Core Principles. As discussed on page 2 and 3 of the Strategic Report, the strategy is set out in two forms of business plan (the Business Plan and Annual Plan), both of which are approved and monitored by the board and are designed to promote the long term sustainable success of the Company whilst achieving the commitments developed to address stakeholder requirements.

For the purpose of scrutinising performance in respect of both business plans, the board review a range of financial and non-financial KPIs which correspond to the Core Principles and have been established to operate within a framework of internal controls. The deliverables set out in the business plans shape the allocation of both financial and operational resource for which the board delegates the responsibility to a single senior management team who have specific functional responsibilities in respect of operations, safety, health and environment, asset management, customer service, business development, policy and markets, regulation, human resources, organisation development, legal and finance.

Engagement and Values

The Northern Powergrid Group has an established relationship with its shareholder, reflected by the leadership structure, whereby the President and Chief Executive Officer of the Northern Powergrid Group reports directly to the President and Chief Executive Officer of Berkshire Hathaway Energy. Frequent interaction and dialogue with Berkshire Hathaway Energy (which is maintained through regular reporting and meetings with the Northern Powergrid Group's President and Chief Executive Officer and senior management team) ensures that strategic views are understood and aligned, and that appropriate values and standards are set. Demonstrated by the CLEs, required behaviour and standards include the delivery of quality and improvement (for which all employees are responsible) to developing individuals and teams, building stakeholder relationships and establishing strategic direction (predominantly responsibilities of the senior management team and the board).

As described on pages 7 to 9, employee engagement (and the investment therein) is implemented through consistent messaging which commences with the induction programme, during which colleagues are introduced to the Northern Powergrid Group, its business model, strategy and the CLEs; regular meetings with line management and communications from the President and Chief Executive Officer. A number of policies such as the Code of Conduct and Code of Practice and Business Ethics support the employee engagement programme and underpin the onward dissemination of the values and expected standards of behaviour to the wider employee population. As outlined on page 9, in the event employees have concerns regarding behaviour, ethics or compliance related matters, they are able to raise these confidentially via either internal or externally facilitated independent channels.

Composition

The board of the Company comprises four executive directors and two non-executive directors. The Company's non-executive directors and Mr Knowles (a member of the Northern Powergrid Group's audit committee) are considered to be independent. The President and Chief Executive Officer combines the executive responsibility of running the Northern Powergrid Group's business with the responsibility for the leadership of the Company's board of directors, which includes directing the Company and ensuring its effectiveness. The Northern Powergrid Group's shareholder supports the role undertaken by the President and Chief Executive Officer and, through the shareholder's regular interaction with the President and Chief Executive Officer and input into the principles governing to whom the board of the Company delegates its authority, ensures no one person has unfettered powers of decision. Chairmen and senior independent non-executive directors are not routinely appointed to the Northern Powergrid Group's boards.

Although the board does not include a balanced number of executive and non-executive directors, the board believes that the combination is appropriate and it possesses the requisite skills and experience necessary to provide effective leadership, stewardship and control of the Company. The non-executive directors of the Company constructively challenge the executive board and senior management team on the delivery of the Company's strategic objectives. In accordance with their individual areas of specialism, the non-executive directors chair a number of the Northern Powergrid Group's board sub-groups, which combined with the guidance and challenge they provide during routine board meetings, gives them additional opportunity to hold the senior management team to account.

Time Commitment and Resources

To facilitate the delivery of their duties, the directors continually update their knowledge of and familiarity with the operations of the Company and the Northern Powergrid Group. This is supported by robust reporting arrangements, access to the Northern Powergrid Group's operations and interaction with its staff. Under the direction of the President and Chief Executive Officer, information is provided to the board in a timely manner to enable directors to commit sufficient time to the preparation for and attendance at board meetings. In addition, updates and briefings are circulated during the course of the regular board meeting cycle. The directors are able to utilise the advice and services of the Company Secretary and her team. Upon request, the directors have access to independent professional advice. A register of situational conflicts is held centrally to ensure independent judgment is maintained and time commitment is not jeopardised. Conflicts of interests are declared as a matter of routine pursuant to individual director's duties.

The board meet on a quarterly basis to review business performance, strategic initiatives and operational and risk-related issues. Additional board meetings are held as required. Meetings of the board are chaired by the President and Chief Executive Officer.

Board committees and sub-groups

During the year, there were a number of committees and board sub-groups in operation, acting under delegated terms of reference which oversee the Northern Powergrid Group and report regularly on their activities. Attendance at meetings by the Company's board members and the senior management team during the year was as follows:

Name	Position	Board meeting	Audit Committee	Health and Safety Committee	Risk Advisory Board	Innovation Advisory Board
P A Jones	President and Chief Executive Officer	6/6 (Chair)		2/2 (Chair)		1/2
T E Fielden	Finance Director	6/6	1/1	2/2	4/4 (2 as Chair)	
T H France	General Counsel	6/6		2/2	2/4	
N M Gill	Operations Director (resigned 30 April 2019)	2/2		1/2	4/4	
A Maclennan	Commercial Director	5/6		1/2	1/4	1/1
A J Marshall	Independent non-executive Director	6/6		2/2	2/2 (Chair)	
P C Taylor	Independent non-executive Director	5/6				2/2 (Chair)
J C Riley	Company Secretary	6/6	1/1	2/2	2/2	2/2
J N Reynolds	Independent non-executive Director (Northern Powergrid Holdings Company)		1/1 (Chair)			
M Knowles	Independent member (Northern Powergrid Holdings Company audit committee)		1/1		2/3	
G M Earl	Director of Safety, Health and Environment			2/2	3/4	
N A Applebee	Director of People and Customer Service				4/4	
A E Bilclough	Director of Field Operations				2/4	1/2
M Drye	Director of Asset Management				4/4	2/2
P S Erwin	Policy and Markets Director				2/4	2/2
A P Jones	Director of Performance and Planning				3/4	1/2
A J Patterson	Director of Organisation Development				2/4	

Health and Safety Committee

Role: Meets bi-annually to manage the health and safety policy and performance of the Northern Powergrid Group.

Duties:

- oversee the implementation and review the effectiveness of health and safety policy;
- develop the strategy for managing health and safety issues;
- monitor health and safety performance and consider policy changes; and
- report to the board.

Audit committee
Role: Meets annually to consider the application of corporate reporting, risk management and internal control principles.
Duties:
• carry out the functions required by Disclosure and Transparency Rule 7.1.3R;
• monitor and approve the internal audit plan;
• sub-delegate activities to another person or body as seen fit. At the December 2019 meeting, duties were sub-delegated to Berkshire Hathaway Energy's audit committee; and
• report to the board.

Risk Advisory Board (RAB) (formerly the Governance and risk management group)
Role: Meets quarterly to ensure effective risk management and internal control processes are in place.
Duties:
• contribute to the setting of Group's risk tolerance and appetite;
• keep under review current business risks and the effectiveness of internal controls;
• oversee the processes for the identification of future risks; and
• report to the board, Berkshire Hathaway Energy and the Audit Committee.

Innovation Advisory Board (IAB)
Role: Meets quarterly to monitor the effectiveness of the innovation programme in achieving its objectives.
Duties:
• contribute to the development, review and approval of the Northern Powergrid Group's innovation strategy;
• keep under review the current portfolio and pipeline of new innovation projects;
• monitor the level of risk associated with the programme; and
• report to the board.

SUCCESSION AND EVALUATION

The board of the Company (or of any other Northern Powergrid Group subsidiary) does not undertake an annual evaluation of its performance, as this is continually monitored and assessed by Berkshire Hathaway Energy through the delivery of the Annual Plan.

As a matter of routine, the committees and sub-groups that have been constituted on behalf of the Northern Powergrid Group have historically been evaluated through the activity delivered in accordance with their terms of reference. However, during 2019, a broader governance review was undertaken to revisit the scope, purpose, duties and membership of each committee or sub-group so as to ensure they remained effective and had the requisite level of skill and expertise.

Consequently, a number of changes were implemented including appointing Mrs Marshall to the position of chairman of the RAB (a role previously undertaken by Mr Fielden) so as to ensure the monitoring of risk and internal control was given additional independent scrutiny. Chaired by Professor Taylor, the IAB was constituted to further embed a culture of developing and applying innovative solutions to the Network and to support the strategic challenge and transition posed by the role of DSO. It was concluded that the Treasury Committee was surplus to requirements given all existing activity was undertaken by the Northern Powergrid Group's treasury department with delegated board oversight provided by Mr Fielden. And finally, the Pensions Committee was renamed to the Pensions Advisory Group and was transitioned to a consultative group, although continued to provide periodic reports to the board.

The review undertaken reaffirmed that the relationship between the Northern Powergrid Group and its shareholder continues to negate the necessity to establish a nominations committee for the purpose of identifying board appointments and a remuneration committee to consider directors' and senior managers' remuneration. Both of these functions are undertaken by the appropriate representative of Berkshire Hathaway Energy and the President and Chief Executive Officer of the Northern Powergrid Group. All board appointments are considered with due regard to the board's overall composition including the balance of skills and experience ahead of recommendations being put to the board. Succession plans are in place for board and senior management positions and are reviewed and agreed by the President and Chief Executive Officer of Berkshire Hathaway Energy.

Diversity policy

The Northern Powergrid Group has adopted a number of policies (including the policy on diversity at work and Code of Conduct) that collectively comprise the policy on diversity. Diversity is actively supported through recruitment, educational programmes, employee opportunities and the Global Days of Service charitable support programme. All appointments (which includes board, board committee, and senior management appointments) are based on merit with due regard for diversity, including gender. Further information concerning how the Northern Powergrid group is supporting gender diversity in the energy industry can be found in the Northern Powergrid Group's gender pay gap report via the Northern Powergrid Group's corporate website.

AUDIT, RISK AND INTERNAL CONTROL

Each of the Company's directors is responsible for the management of risk and the internal control environment which is designed to address Berkshire Hathaway Energy's United States Sarbanes-Oxley Act requirement, the key features of which can be found on page 15 of the Strategic Report. As part of this responsibility, the board has established robust procedures and processes which ensure the effectiveness of both the internal and external audit functions.

The internal audit team operates in an independent and objective manner without interference from the Company. This provides the flexibility to refocus the scope of the annual internal audit plan to align with changing priorities if required. Internal audit findings including the resilience of internal controls are reported to the board on a quarterly basis in order to keep the directors sufficiently apprised of areas of risk. An external assessment of the activity of the internal audit team confirmed it operates at the highest level in accordance with the Institute of Internal Audit standards.

An appropriate relationship is maintained with the Company's external auditor to ensure independence and rigour is preserved. The Audit Partner has regular interaction with the Finance Director and routinely attends two board meetings per year to present the audit plan for the forthcoming year and subsequently disseminate the findings. Deloitte LLP staff have full access to the Company's systems and premises for the purpose of conducting their audit work in a robust and efficient manner. In addition to a series of internal checks and comprehensive reviews, the external audit process supports the verification of the integrity of the annual report and financial statements and the fair, balanced and understandable assessment of the Company's position and prospects being presented.

Further detail concerning the procedures to manage risk, oversee the internal framework, set the boards risk appetite and the Company's principal risks can be found on pages 12 to 14.

REMUNERATION

As outlined above, the board has not elected to establish a remuneration committee for the purpose of determining executive directors' and senior managers' compensation. However, this does not reflect a lack of policy or rigour given the process is instead managed by the Northern Powergrid Group's shareholder. As a consequence, remuneration is strictly aligned to both the Company's and the Northern Powergrid Group's long term strategy, the delivery of sustainable growth and Berkshire Hathaway Energy's values as defined by the Core Principles. No individual is involved in determining their own remuneration.

The Company's executive directors' and senior managers' remuneration is considered on an annual basis and is explicitly linked to the employee performance evaluation process. Each individual's effectiveness is measured against both personal and Berkshire Hathaway Energy goals with all resulting awards based on merit and linked to the delivery of stretching accountabilities.

Non-executive director remuneration is also reviewed on an annual basis and is reflective of time commitment and level of responsibility. Any increases are made in line with the wider Northern Powergrid Group's employee population and is subject to continued satisfactory performance. As the Articles of Association of the Company do not require the periodic retirement and re-election of directors, the letters of appointment in place for each of the Northern Powergrid Group's non-executive directors are reviewed regularly allowing for a mutual evaluation of the benefit of individuals remaining in post. The notice period for all board members is less than one year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern

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

The Northern Powergrid Group is financed both in its operating companies and in other entities within the Northern Powergrid Group, and companies may lend within the Northern Powergrid Group. For that reason, financial health is considered with reference to the Northern Powergrid Group.

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:

- 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.

Disclosure of information to the auditor

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

Northern Powergrid (Northeast) Limited
Directors' Report for the Year Ended 31 December 2019 (continued)

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

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

T E Fielden
Director

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.

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.

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

	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

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

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

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)

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 (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		-	-

Northern Powergrid (Northeast) Limited
Notes to the Financial Statements for the Year Ended 31 December 2019

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.