

**GROUP STRATEGIC REPORT, REPORT OF THE DIRECTORS AND  
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**  
**FOR**  
**NORTHERN ELECTRIC PLC**

**CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

	<b>Page</b>
<b>Company Information</b>	1
<b>Group Strategic Report</b>	2
<b>Report of the Directors</b>	21
<b>Responsibility Statement of the Directors</b>	31
<b>Report of the Independent Auditor</b>	34
<b>Consolidated Statement of Profit or Loss</b>	35
<b>Consolidated Statement of Profit or Loss and Other Comprehensive Income</b>	36
<b>Consolidated Statement of Financial Position</b>	37
<b>Company Statement of Financial Position</b>	39
<b>Consolidated Statement of Changes in Equity</b>	40
<b>Company Statement of Changes in Equity</b>	41
<b>Consolidated Statement of Cash Flows</b>	42
<b>Company Statement of Cash Flows</b>	43
<b>Notes to the Consolidated Financial Statements</b>	44
<b>Notice of Annual General Meeting</b>	89

**NORTHERN ELECTRIC PLC**

**COMPANY INFORMATION  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**DIRECTORS:**

G E Abel  
J A Andreasen  
R Dixon  
T E Fielden  
J M France  
P J Goodman  
P A Jones

**SECRETARY:**

J Elliott

**REGISTERED OFFICE:**

Lloyds Court  
78 Grey Street  
Newcastle upon Tyne  
NE1 6AF

**REGISTERED NUMBER:**

02366942 (England and Wales)

**AUDITOR:**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Newcastle upon Tyne

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

The directors present the annual reports and accounts of Northern Electric plc (the "Company") and its subsidiary companies (together the "Group") for the year ended 31 December 2014, which includes the Strategic Report, the Report of the Directors and the audited financial statements for that year. Pages 2 to 20 inclusive of this annual report comprise the Strategic Report and pages 21 to 30 comprise the Report of the Directors, which have been drawn up and presented in accordance with the Companies Act 2006.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This annual report has been prepared for the members of the Company only. The Company, its directors, employees or agents do not accept or assume responsibility to any other person in connection with this document and any such responsibility or liability is expressly disclaimed. This annual report contains certain forward-looking statements, which can be identified by the fact that they do not relate only to historical or current facts. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, business prospects, the availability of financing to the Group and anticipated cost savings are forward-looking statements.

By their nature, these statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements reflect the knowledge and information available at the date of preparation of this annual report and will not be updated during the year. Nothing in this annual report should be construed as a profit forecast.

**BUSINESS MODEL**

The Company is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group") and acts as a holding company of Northern Powergrid (Northeast) Limited ("Northern Powergrid"), Integrated Utility Services Limited ("IUS") and Northern Powergrid Metering Limited. Northern Powergrid is a distribution network operator ("DNO"), which distributes electricity to approximately 1.6 million customers connected to its electricity distribution network at voltages of up to 132kV, IUS provides engineering contracting services and Northern Powergrid Metering Limited rents meters to energy suppliers.

In common with the Northern Powergrid Group, the Group operates a business model and strategy based on its six core principles (the "Core Principles"), which are:

Principle	Strategy	Indicator
Financial strength	Effective stewardship of the Group's financial resources, investing in assets and focusing on long-term opportunities, which contribute to the Group's future strength.	Profitability, cash flow and maintenance of investment grade credit ratings.
Customer service	Delivering reliability, dependability, fair prices and exceptional service.	Improving network resilience and performance, measured by: customer minutes lost, customer interruptions and customer satisfaction.
Operational excellence	Setting high standards for the Group's operations, system investment and maintenance.	Effective asset management, managing commercial risk and improving network resilience and performance.
Employee commitment	Equipping employees with the resources and support they need to operate successfully and in a safe and rewarding work environment.	Leading safety performance, engaging employees and effective leadership.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**BUSINESS MODEL - continued**

Environmental respect	Using natural resources wisely and protecting the environment, where it is impacted by the Group's operations.	Reducing environmental impact and promoting and pursuing long-term sustainability.
Regulatory integrity	Adhering to a policy of strict compliance with applicable laws, regulations, standards and policies.	Strong internal controls, regulatory engagement and industry influence.

**STRATEGIC OBJECTIVES**

The Group's strategic objectives are based on the Core Principles, remain consistent and are to build a business, which:

- continues to generate value over the long-term;
- invests in and manages its electricity distribution network in an efficient and effective manner;
- provides its customers with an excellent standard of service;
- engages with its employees so that they feel rewarded and recognised as part of a team that sets and achieves increasingly high standards of performance; and
- is viewed as being a leader in shaping the future direction of the electricity distribution sector in the United Kingdom.

As part of its strategy the Group continues to be committed to putting safety first, respecting its customers, their time and property, doing a quality job, responding effectively to major incidents on the network in times of severe weather and caring for its local environment.

**REVIEW OF THE YEAR**

The Group delivered a satisfactory financial performance for the year, which benefited from a further change to the rate of taxation and continued effective cost control, with revenue at £409.5 million being £58.6 million more than in 2013. Although units distributed by Northern Powergrid were 1.9% lower than 2013, the increase in revenue was mainly due to the five-year profile of allowed revenues inherent in the price control formula under the Distribution Price Control period to 31 March 2015 ("DPCR5"). In addition, 2013 included the voluntary rebate made to the electricity suppliers by Northern Powergrid in relation to domestic customers following a request by the Department of Energy and Climate Change.

One of the main priorities for Northern Powergrid in 2014 was the preparation of its response to Ofgem's decision that its well-justified business plan was not to proceed on the "fast track" as part of the process for setting its income for the next regulatory period, which runs from 1 April 2015 to 31 March 2023 and is known as ED1. Northern Powergrid revisited its plan and provided Ofgem with further justification of the associated costs on 17 March 2014. Ofgem published its final determination in November 2014, which sets out allowed revenues and rules by which Ofgem expects to adjust Northern Powergrid's revenues in certain circumstances during ED1. Under Ofgem's proposals, excluding the effects of incentive schemes and any deferred revenues from DPCR5, Northern Powergrid's base allowed revenue will decrease by approximately 18% in the regulatory year to 31 March 2016 before the addition of inflation, as measured by the Retail Prices Index ("RPI"), in order to derive the final price change.

On 2 March 2015 Northern Powergrid sought permission from the Competition and Markets Authority (the "CMA") to appeal against the licence modifications that give effect to the ED1 price control. The appeal relates to three specific areas:

- (i) Ofgem's decision to demand further cost savings in relation to smart grid technology over and above the ones captured by its original benchmarking exercise;
- (ii) Ofgem's assessment of the variation in wage rates across the country; and
- (iii) Ofgem's projections for labour cost increases.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**REVIEW OF THE YEAR - continued**

On 30 March 2015 the CMA granted Northern Powergrid permission to appeal such that the appeal is expected to conclude in the fourth quarter of 2015 in accordance with the timetable required of the CMA. British Gas Trading Limited was also granted permission to appeal the price control, with the same review timetable. The outcome of these appeals may increase or reduce the revenue available to Northern Powergrid, if the CMA amends the price control determination.

Having again delivered its largest ever capital expenditure programme of £200.0 million in 2013, Northern Powergrid continued with its policy of investing efficiently in its electricity distribution network during 2014. During the year, Northern Powergrid invested £199.6 million in its distribution network, a similar amount to 2013, and substantially completed the outputs committed within the DPCR5 price control period so allowing final completion of all outputs by the end of DPCR5 on 31 March 2015.

Northern Powergrid lags its industry peers in customer satisfaction and so has made this area a management priority for long-term improvement. During the year its customer satisfaction scores showed steady improvement, its performance to reduce service failures met target and its connections lead times shortened. It continues to be an industry leader in terms of social obligations and stakeholder engagement. As delivery of the capital expenditure programme, the provision of excellent customer service and ensuring a reliable electricity supply were some of the most significant outputs Northern Powergrid was required to deliver during DPCR5, Northern Powergrid's overall performance in that respect led to a successful conclusion to DPCR5.

Northern Powergrid introduced a number of initiatives during the year that are designed to improve its services to customers including providing more information on the web site such as self-service quotations for customers seeking low voltage connections and a quick calculator to give site-specific guidance on the potential price of a new connection. Northern Powergrid also introduced new, higher specification customer support vehicles, engaged more effectively with its stakeholders and promoted the benefits of being on the priority service register.

Northern Powergrid again beat Ofgem's targets for the quality of the electricity supply provided to its customers and continued to focus on reducing the average times taken to restore supplies following a power cut. In that respect, Northern Powergrid changed its Field Operations model to one based on a larger number of more locally-focussed zones in preparation for the introduction of a new guaranteed standard for the restoration of supply within 12 hours of a power cut occurring from 1 April 2015.

Environmental performance continued to be strong with Northern Powergrid delivering its most successful year. Incidents reportable to the Environment Agency, oil spills and leaks from Northern Powergrid's assets and SF<sub>6</sub> gas discharges from electrical plant were all better than target. Given the impact on the environment of such events, Northern Powergrid is committed to reducing losses from fluid-filled cables and, during ED1, plans to replace a significant number of those assets on a phased and prioritised basis and to increase the use of perfluorocarbon tracers to improve the efficiency of oil leak identification.

The Group's safety performance continued to be strong, with Northern Powergrid recording an Occupational Safety and Health Administration ("OSHA") rate of 0.1 (2013: 0.3) and IUS recording an OSHA rate of zero (2013: 0.5), such that the Group made an effective contribution to the Northern Powergrid Group delivering its best ever safety performance and the long-term trend in the Group's overall safety performance continued to compare well with that of the industry. The Group either met or beat all of its main internal targets in respect of lost time, restricted duty and medical treatment accidents, operational incidents and preventable vehicle accidents.

In 2014 IUS was successful in increasing its revenue by £8.8m (26%) over the previous year due mainly to higher activity levels on substation installation projects for Network Rail, increased activity levels for the installation of Multi Utility projects due to an improvement in the new housing market and the successful completion of work on a major power supply upgrade project for the Ministry of Defence.

Northern Powergrid Metering Limited commenced trading during the year and delivered a satisfactory performance securing contracts with energy suppliers for the provision of smart meters in the United Kingdom and Ireland and pursued business development opportunities with other energy suppliers in advance of the full smart meter roll-out programme.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORE PRINCIPLES**

**Financial strength**

During the year, the Group continued to maintain good control in respect of both its capital and operating costs by effectively managing the various financial risks that could have had an adverse impact on its business.

Northern Powergrid benefited from the stability provided by the arrangements agreed in respect of DPCR5 in terms of its income until 31 March 2015 and, notwithstanding Northern Powergrid's appeal to the CMA, the ED1 price control has been set for eight years with provision for a mid-period review of the outputs that Northern Powergrid is required to deliver. In that respect, Northern Powergrid recognises that it needs to show that it is delivering reliable services at a fair price to its customers, while operating in an efficient and effective manner.

Key aspects of financial performance for the year were as follows:

**Revenue**

The Group's revenue at £409.5 million was £58.6 million higher than the prior year mainly due to the five-year profile of allowed revenues inherent in the DPCR5 price control formula and additional contracting volumes. In addition, 2013 included the voluntary rebate made to the electricity suppliers.

**Operating profit and position at the year end**

The Group's operating profit at £210.7 million was £29.9 million higher than the previous year, reflecting increased revenues partly offset by a higher level of exit charges included in costs of sales, additional contracting volumes and increases in some operating costs such as salaries and maintenance. The consolidated statement of financial position on pages 37 and 38 shows that, as at 31 December 2014, the Group had total equity of £886.9 million. The directors consider the Group to have a strong statement of financial position which, when coupled with the preference of its parent company, Berkshire Hathaway Energy 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 into ED1 by Northern Powergrid.

**Finance costs and investments**

Finance costs net of investment income at £33.2 million were broadly in line with the prior year.

**Taxation**

The effective tax rate in the current year is 21.3%. Details are provided in Note 7 to the accounts.

**Results and dividends**

The Group made a profit after tax for the year of £140.2 million (2013: £132.4 million). An interim dividend of £30.0 million was paid during the year (2013: £30.0 million) and the directors recommend that no final dividend be paid in respect of the year.

**Share capital and debt structure**

There were no changes to the Company's share capital or debt structure during the year.

**Dividend policy**

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.

**Cash flow**

The Group 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 Group.

Movements in cash flows were as follows:

Operating activities: Cash flow from operating activities at £155.5 million was £24.6 million higher than the previous year. Higher profits were offset by adverse working capital movements.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORE PRINCIPLES - continued**

**Financial strength - continued**

**Cash flow - continued**

Investing activities: Net cash used in investing activities at £186.4 million was £11.9 million higher than the previous year, reflecting net capital expenditure.

Financing activities: The net cash from financing activities at £10.7 million represents a £11.2 million favourable variance compared to the previous year, reflecting net movements in borrowings in the year.

**Liquidity risk**

Northern Powergrid has access to £75 million under a five year committed revolving credit facility provided by Lloyds Bank plc, The Royal Bank of Scotland plc and Abbey National Treasury Services plc, which expires on 20 August 2017. Northern Powergrid expects to raise further facilities, as required, at that time.

In addition, the Group has access to further short-term borrowing facilities provided by YEG and to a £19 million overdraft facility provided by Lloyds Bank plc, which is reviewed annually.

The directors do not consider there to be any doubt over the Group's ability to raise appropriate levels of finance in the future, given its investment grade issuer credit rating and the fundamental financial strength and nature of its business.

**Interest rate risk**

The Group 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 2014, 100% of the Group's long-term borrowings were at fixed rates and the average maturity for these borrowings was 14 years.

**Currency risk**

No material currency risks are faced by the Group.

**Pensions**

The Company is the principal employer of the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "Scheme"), a defined benefit scheme. Full details of the Company's commitments to the Scheme and the associated deficit repair payments are provided in Note 24 to the accounts.

Companies in the Group also participate 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 a range of insurance policies, including policies which cover risks associated with damage to property, employer's and third party motor liability 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. Consequently, the risk management and health and safety programmes in place are viewed as extremely important elements of the business, given the contribution they make to the elimination or reduction of exposure to such risks.

**Customer service**

During the year, Northern Powergrid distributed electricity to customers in its distribution services area and continued to improve the overall performance of the distribution network through an investment strategy targeted at delivering improvements in an efficient and cost-effective manner. Northern Powergrid remains focused on delivering a reliable and dependable supply of electricity and a high standard of service to its customers.

Customer service improvements are a priority for Northern Powergrid, which is consistently ranked in the lower half of Ofgem's customer service league tables. Northern Powergrid has a long-term goal to improve this ranking and has a programme of actions in place to support this improvement.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORE PRINCIPLES - continued**

**Customer service - continued**

Investment is being channelled to improve the reliability of under-performing parts of the distribution network by continuing to identify "hot spots" of particularly poor network performance and taking specific action to address the issues in those areas. In the customer service support areas, further investment is being directed toward information technology to improve contact with customers, provide quicker and more accurate information to customers and allow customers to communicate with Northern Powergrid in a range of accessible and easy ways.

Northern Powergrid has built on the industry-leading communications and engagement approaches used to support its regulatory business plan and maintains a number of engagement channels. Three independently chaired expert panels continue to play a key role in challenging Northern Powergrid's plans, monitoring its performance and helping to deliver innovative initiatives and services. Guided by these panels, Northern Powergrid has been able to direct effort towards public meetings in the new operating zones, community energy workshops aimed at enhancing the take-up of low-carbon technologies and wider collaborations such as with other utilities via Infrastructure North. The feedback received as part of the stakeholder engagement process helped Northern Powergrid further to develop its customer service improvement programme.

The evolving requirements to demonstrate a transparent and market-reflective service in new connections mean that further developments are planned in this area of Northern Powergrid's business, including using the web site to provide more information such as self-service quotation facilities for customers seeking low voltage connections. The regulatory arrangements that apply to the connections activity are described in more detail under "Connections to the network" below.

In common with other DNOs, Northern Powergrid is participating in the national project looking at creating a single national three-digit enquiry number for power cut calls and is leading several sub-groups within this project.

The performance of the DNOs against guaranteed standards, which are set for activities such as restoring supplies after power cuts, provides a measure of the level of customer service. Performance against these measures forms part of Northern Powergrid's regular reporting to Ofgem.

Ofgem's incentive scheme for quality of service, by which the DNOs are provided with financial incentives, is based upon targets set by Ofgem with regard to each DNO's performance in terms of the number of power cuts, the duration of those power cuts and customer satisfaction.

Customer minutes lost ("CML") and customer interruptions ("CI") are the key performance indicators used by Northern Powergrid to measure the quality of supply and system performance. 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 for every 100 connected customers due to planned and unplanned power cuts that last for three minutes or longer.

In respect of these key customer service performance indicators, the goal is to achieve performance that is below Ofgem's target number in respect of CML and CI. Northern Powergrid's reported performance for the regulatory year to 31 March 2014 (the "Regulatory Year") was as follows:

	Year to 31 March 2014		Year to 31 March 2013	
	Actual	Target	Actual	Target
CML:	64.7	70.7	70.2	70.9
CI:	63.2	68.1	65.0	68.2

Performance in the Regulatory Year was better than Ofgem's target for both CML and CI, showed improvement in both categories in comparison with the previous regulatory year and contributed to Northern Powergrid's efforts to improve its customer service performance.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORE PRINCIPLES - continued**

**Customer service - continued**

The Regulatory Year was the fourth year in which the Ofgem discretionary reward for stakeholder engagement had been in operation and the second year that a financial incentive had been available. In May 2014, Northern Powergrid put forward a submission to Ofgem in respect of its stakeholder engagement during the Regulatory Year, which included initiatives with increased focus on Northern Powergrid's social obligations, such as its partnership with the Trussell Trust food banks, and improved on-line services for its customers.

Northern Powergrid presented its submission to Ofgem's panel on 9 July 2014 and improved its position from the previous year, being ranked as the second placed DNO group and securing a reward of £0.9 million for the Northern Powergrid Group, which will be received during the regulatory year ended 31 March 2016. Northern Powergrid intends to reinvest its reward in its key initiatives and to continue to build on this strong stakeholder engagement performance.

Under the Broad Measure of Customer Satisfaction, an independent market research company, Accent, carries out telephone surveys with Northern Powergrid's customers to find out how satisfied they are with the services provided. During the Regulatory Year, Accent surveyed a number of customers who had contacted Northern Powergrid regarding an unplanned or a planned power cut, had requested a price quotation and a subsequent connection or had a general enquiry where a service had been provided or a job completed. Northern Powergrid recorded an overall satisfaction score of 81.8% for the Regulatory Year and expects that its customer service improvement plan, including the range of initiatives noted on page 7, will improve the services provided to customers and so increase the satisfaction rating year-on-year.

While recognising that its customer service performance can be improved, Northern Powergrid made steady progress during the year with its customer satisfaction scores continuing to improve, its performance to reduce service failures meeting target, its connections lead times steadily shortening and it continuing to be an industry leader in terms of social obligations and stakeholder engagement.

**Connections to the network**

During 2014, Northern Powergrid continued to improve the connections services provided to its customers, while also actively facilitating the development of competition from independent connections providers ("ICPs"), so providing increased choice to customers in the region. Northern Powergrid continued to engage regularly with its connections customers in groups and individually, holding monthly customer surgeries, twice yearly customer events and contributing to national stakeholder forums and events.

An online application process allows customers to apply for certain types of new connection quickly, easily and conveniently and work continued on developing an online self-quotation service for high volume connections customers which, when launched, will deliver a significant reduction in the overall time to serve those customers. Other enhancements to Northern Powergrid's online connections services included:

- Simplifying the solar panel installation form;
- Improving the accessibility of information and designing new reports for connections customers;
- Providing the ability to upload site plans and other attachments to online connections applications; and
- Upgrading the online shrouding service so allowing customers to see all their jobs in one place.

As part of the DPCR5 final proposals, Ofgem put in place a competition test to encourage all of the DNOs to make it easier for ICPs to provide competing offers to customers and, in line with Ofgem's deadline for submission, Northern Powergrid put forward a case to Ofgem, in the form of the requisite Competition Notices, to prove that competition exists in eight market segments. This was in addition to the high voltage segment, in respect of which Northern Powergrid passed Ofgem's test in October 2012. Having considered and consulted on Northern Powergrid's Competition Notices, Ofgem announced, on 17 April 2014, that it had not accepted any of the alternative market segments proposed by Northern Powergrid and, therefore, was not allowing an unregulated margin to be charged in any of those segments because it did not have sufficient evidence that customers' interests would be protected if that price regulation were removed.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORE PRINCIPLES - continued**

**Customer service - continued**

**Connections to the network - continued**

ED1 will see the introduction of an incentive in respect of customers requiring large connections to the network, which is known as the Incentive on Connections Engagement ("ICE"), so that the needs of those customers can be met more effectively. Under ICE, Northern Powergrid will be required to submit two documents to Ofgem. One document will be submitted at the start of each regulatory year and will set out Northern Powergrid's commitments to improve its large connections services. The second document will be submitted shortly after the end of that regulatory year and will report on how Northern Powergrid performed in respect of those commitments.

Ofgem has been trialling ICE in relation to distributed generation ("DG") customers only and, in June 2014, Northern Powergrid submitted its report to Ofgem regarding its performance in respect of DG customers during the Regulatory Year, which outlined how Northern Powergrid had engaged with those customers and provided a number of examples of how Northern Powergrid had acted on the feedback from that engagement. Those examples included creating a 'Simplifying Distributed Generation' guide to better inform DG customers about how DG is connected to the network and giving guide prices for different options, making the legal and wayleave processes more efficient, extending the quotation validity period from 60 to 90 days and providing a decision-support tool on the web site that allows DG customers to narrow the application choices based upon questions about their projects.

Northern Powergrid provided its submission looking forward for the regulatory year ended 31 March 2015 in April 2014, which included details of the DG service improvement plan. That plan was finalised following significant consultation with stakeholders and seeks to deliver an efficient and effective connections service for DG customers. The plan includes measures for making the application process easier and quicker, ensuring accurate information is readily available, exploiting developments in technology and continuing to invest in communication events and channels.

In that respect, Northern Powergrid continues to seek feedback from its customers on a regular basis in order to assist with developing further improvements to its services. The services provided in future will be tailored to the requirements of customers in the different market segments so that Northern Powergrid provides a faster and more flexible service.

**Corporate responsibility**

Northern Powergrid values its relationship with its customers and other stakeholders and recognises the importance of maintaining a secure and safe power supply for its customers and their local communities. That commitment is underpinned by five customer promises, which are to put safety first, to respect Northern Powergrid's customers, their time and property, to do a really good job, to be there when needed and to care for the local environment.

Northern Powergrid maintained its key partnerships with the Environment Agency, the local authorities and the local resilience forums, via a Civil Contingency Co-ordinator, so that it can respond quickly to significant faults on or threats to the network. In addition, Northern Powergrid has well-established emergency procedures that are triggered in times of weather-related incidents or long-duration power cuts when people are without power for some time. Northern Powergrid responded well to the weather-related incidents, which impacted on its assets during the year. However, effective investment in the network and the relatively benign weather experienced in 2014 meant that Northern Powergrid only invoked its major incident management plan on one occasion in order to deal with high winds that affected the region in February.

As well as redeploying staff from planned works to help restore power as quickly as possible when major incidents occur, Northern Powergrid has a number of customer service vehicles, which are dispatched to the areas affected. Those vehicles are able to support the distribution of hot drinks and microwave meals and generally assist with the welfare of customers in order to alleviate the impact of the incident. Northern Powergrid also utilises its 'customer ambassadors' and customer liaison officers, who are allocated to each of the new operating zones, to address customers' concerns and resolve their complaints and worked with the British Red Cross in order to pay particular attention to the welfare of customers on the priority service register so that those customers are kept informed of the situation throughout the event and after the power has been restored.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORE PRINCIPLES - continued**

**Customer service - continued**

**Corporate responsibility - continued**

Northern Powergrid engaged with some of its more vulnerable customers, the people that represent them and other experts to better understand and inform how it can support those customers. That engagement included telephone interviews with a thousand customers on the priority service register, regular interaction with Northern Powergrid's social issues group and focus groups with experts facilitated by voluntary sector organisations. As a result, Northern Powergrid continued to improve the quality of the information held on the priority service register, promoted the benefits of being on that register more widely, including via a radio advertising campaign, and entered into an agreement with the umbrella organisations for the voluntary, community and charity sector in the region to tell their members about the priority service register and the wider support available for vulnerable customers.

The Group has in place a small donation programme, which is focused on its key priorities of support for youth, education and the environment and from which grants were made during the year to organisations such as charitable trusts and community groups.

Safety remains the Group's first priority and underpins every aspect of its operations. During the year, Northern Powergrid continued to participate, alongside other key organisations, in 'Crucial Crew', which is a schools-based safety initiative that teaches children to recognise and avoid situations that put them in danger, such as climbing electricity pylons and fishing near power lines. Northern Powergrid's school safety programme included Crucial Crew events, school visits, participation in safety days and the "prison me - no way" campaign and is delivered by two dedicated safety presenters who promote the safety messages through an interactive presentation. The programme is also supported through an interactive website and mobile phone game.

**Operational excellence**

The Group's core service continues to be providing and maintaining an efficient distribution network that delivers electricity effectively. During the year, £199.6 million was invested in the improvement of the distribution network, a similar amount to the record of £200.0 million in the previous year. Northern Powergrid's continued and substantial investment in its distribution network saw reliability increase throughout DPCR5. During that period, an electricity supply was available to Northern Powergrid's customers for approximately 99.98% of the time and Northern Powergrid has generally outperformed the targets set by Ofgem in respect of CI and CML. Northern Powergrid's inspection and maintenance regimes have ensured that the underlying health of the network assets has been sustained and none of the leading indicators used by Northern Powergrid suggest any diminishing performance in this respect in the future.

**Operational activity**

Northern Powergrid continued to implement its approved network investment strategy, which is designed to deliver improvements in an efficient and cost-effective manner in order to improve the network's resilience. Northern Powergrid is committed to enhancing the reliability of the network such that fewer power cuts affect customers and, when power cuts do happen, they are shorter in duration.

Northern Powergrid changed its Field Operations structure during 2014 in order to tailor its services and response to the needs of customers and local communities by delivering improved performance standards in the restoration of power following power cuts and in new connection activities for small works. That structure is now organised into new operating zones around the main conurbation of Tyne & Wear, the industrialised area around the Tees and the rural areas of Northumberland, Durham, and North Yorkshire, including the Dales, the Vale of York and the North Yorkshire Moors.

The zonal structure is supported by several areas within Field Operations which remain functional, which are Network Operations, which provides the day-to-day and real time management of the network, Programme Delivery, which is responsible for the inspection, maintenance and replacement of operational assets and includes larger customer-driven connection and diversion activities, and Operational Services, which includes supply chain management and support services.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORE PRINCIPLES - continued**

**Operational excellence - continued**

**Operational activity - continued**

As a new guaranteed standard for the restoration of supply within 12 hours of a power cut occurring came into effect from 1 April 2015, Northern Powergrid's new operational structure will provide a more localised focus and, therefore, improved response times in the event of a power cut. Northern Powergrid has also invested in technology to support its drive to improve response times and introduced the automated power restoration system ("APRS") into its existing network management system so that, in the event of a high voltage fault, APRS will analyse the information presented by intelligent assets installed on the network and, from that information, determine where the fault is located and execute switching to restore power to the 'healthy' network. Northern Powergrid expects that APRS will significantly improve the service to customers due to the speed with which it can understand the information presented and then complete the switching required to restore power. The system aims to isolate the fault and restore power to the remainder of the network in a safe manner in under three minutes. Where permanent repairs are necessary to restore the remaining customers on the faulted and isolated part of the network, if Northern Powergrid fails to meet the 12 hour standard, it will make an automatic payment to those customers whenever it is aware of such a failure, rather than customers having to make a claim.

Northern Powergrid's priorities during the year included delivering a significant level of capital expenditure on the network as in the previous year, a further reduction in the average level of fault repair work in progress, a robust approach to the control of operations on the low voltage network and continued focus on the restoration times associated with both high and low voltage power cuts, with Northern Powergrid's high voltage restoration performance averaging some 59.7 minutes (2013: 64.0 minutes), after allowing for severe weather incidents and other exemptions. During the year, Northern Powergrid substantially completed the outputs committed within the DPCR5 price control period, allowing final completion of all outputs in advance of the price control end date of 31 March 2015.

The major projects undertaken during the year in support of those targets and as part of Northern Powergrid's investment strategy included:

- Replacement of 66kV circuit breakers at Coalburns, Fossway, Toronto and North Tees;
- Replacement of primary switchgear at Northallerton and Spencerbeck and primary system transformers at Harraton, Barrack Road, Maddison Street and Bowesfield;
- Completion of extensive refurbishment works at Tynemouth Central;
- Reinforcement of the primary network in Sunderland was substantially completed with the installation of a new 66/11kV substation which will enable completion of the conversion of the distribution network from 20kV to 11kV during 2015;
- Reinforcement in the Knaresborough area to connect to the previously constructed Knaresborough 132kV substation;
- Installation of a 33kV cable interconnection in Harrogate and of a new 132/66kV transformer and 66kV switchgear at Potterhouse;
- 44 km of primary system underground cable was replaced, including removal of 26 km of oil-filled cable and 18 km of gas insulated cable;
- In excess of 250 overhead line towers and over 100 extra-high voltage wood pole structures were replaced either as part of a circuit rebuild or individually based on condition;
- 181km of high voltage overhead line and 105km of low voltage overhead line was rebuilt and/or refurbished;
- 28 units of high voltage outdoor switchgear, 17 high voltage distribution substations and 169 units of high voltage indoor switchgear were replaced; and
- 421 additional remote control points were added to the distribution network.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORE PRINCIPLES - continued**

**Operational excellence - continued**

**Operational activity - continued**

In order to deliver its investment strategy, Northern Powergrid used a mix of its own staff and contractors to undertake its activities, including affiliated companies in the Northern Powergrid Group.

**Employee commitment**

**Health and safety**

The focus on health and safety continued to be of paramount importance for the directors, as it is for all employees. There is a continuous drive for improvement in safety performance through the setting of challenging goals and the pursuit of a comprehensive safety and health improvement plan, which reflects the Group's fundamental objective that none of its staff should go home injured and all employees should commit to behaving safely all of the time. The Group makes no compromise in respect of its health and safety obligations and centres its safety plans and systems on the principles found in companies with world class safety performance.

The Group's safety record over a number of years suggests that it is one of the safest in the electricity distribution and engineering contracting sectors and it will strive to maintain that position over the coming years. Having identified issues that may pose an increased safety risk such as metal theft and the impending roll-out of smart meters, the Group is implementing various measures through its safety and health improvement plan that will build incrementally on the existing strong safety record and ensure that safety considerations are always a part of the investment decision-making and appraisal process.

One of the key deliverables in the Northern Powergrid Group's safety and health improvement plan has been to raise awareness and improve the concentration skills of the operational engineers and other employees via face-to-face and online training courses, which contributed to delivery of the Northern Powergrid Group's best ever operational incident performance with the number switching issues being experienced on the high voltage network reducing to 13 in the year for the Northern Powergrid Group, five of which occurred in Northern Powergrid's distribution services area and one in IUS. As part of the safety and health improvement plan, the Northern Powergrid Group also delivered operational seminars and stand down briefings and issued regular safety newsflashes to staff in order to cascade information on safety trends, issues and incidents. The Group's safety and health improvement plan targets continuous improvement and delivery of the various initiatives contained in that plan contributed to Northern Powergrid recording an OSHA rate for the year of 0.1 (2013: 0.3) and IUS an OSHA rate of zero (2013: 0.5).

The Group uses several key performance indicators to monitor safety performance, with the goal of achieving performance that is below the target number. The main key performance indicators are as follows:

	2014		2013	
	Target	Actual	Target	Actual
Lost time accidents	1	1	1	3
Restricted duty accidents	1	0	1	0
Medical treatment accidents	2	0	2	0
Operational incidents	6	6	4	9
Preventable vehicle accidents	13	11	13	13

The number of lost time accidents experienced by the Group reduced to one in the year as opposed to three experienced in 2013 and the Group did not record any medical treatment or restricted duty cases. In addition, performance in respect of preventable vehicle accidents was two accidents below the target for 2014 and showed an improvement compared with 2013. None of those incidents gave rise to any significant safety-related risks.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORE PRINCIPLES - continued**

**Employee commitment - continued**

**Health and safety - continued**

In common with the Berkshire Hathaway Energy group, the Northern Powergrid Group measures its safety performance in terms of the OSHA rate, which is a measure used in the United States to capture safety incidents down to minor levels of medical treatment, such as a stitch or the use of prescription pain killers. As part of its plan to reduce the OSHA rate across the group, Berkshire Hathaway Energy issues daily e-mail updates in respect of performance against its overall OSHA rate and preventable vehicle accident targets, which include information on incidents that have occurred.

Delivery of the various initiatives in the safety and health improvement plan also contributed to the Northern Powergrid Group achieving an OSHA rate of 0.26 against a target of 0.4, which equated to only six recordable incidents and represented the best ever performance.

As part of the safety and health improvement plan and in order to reinforce the operational safety values, the Northern Powergrid Group continued to implement its cross-business operational assurance audit programme and its senior management field engagement programme in order to improve two-way communication on safety and other key business issues. The Northern Powergrid Group continued to implement a robust road risk management plan, which involved electronic driving licence checking, delivering road risk awareness workshops to new employees and using risk reduction tools such as online driver assessment and training followed by an on-road refresher training session if required. The driver training programme provides practical driving training to a targeted population of drivers and is the primary route to improving driver skills in the longer term. Recognising that driving is one of most hazardous activities undertaken on a daily basis, the programme will be expanded further in 2015 via an interactive, web-based system designed to assess skills and provide targeted training based on the assessment.

During the year, Northern Powergrid and IUS were awarded President's Awards from the Royal Society for the Prevention of Accidents for achieving 13 and 11 consecutive Gold Awards respectively in recognition of achievements in 2013 and for continued or improving standards of health and safety over a sustained period. Northern Powergrid's health and safety management systems were subject to the regular bi-annual external surveillances and, on conclusion of those assessments, the auditor recommended that Northern Powergrid maintained its OHSAS 18001 accreditation.

The sickness absence rate across the Northern Powergrid Group for 2014 was 2.32% (2013: 2.22%), which was similar to that experienced in 2013 and does not give rise to any particular cause for concern.

**Management structure**

Operational management of the Northern Powergrid's business and that of its affiliate, Northern Powergrid (Yorkshire) plc, is undertaken by a single senior management team, with specific functional responsibilities. Those functional responsibilities are in respect of field operations, health, safety and environment, asset management (including procurement), commercial (including customer service, new connections to the network and stakeholder engagement), regulation and strategy, human resources, organisation development, legal and finance (including property management and information technology). Certain of those functions also provide services across the Northern Powergrid Group. IUS has its own, separate management team and Northern Powergrid Metering Limited utilises staff employed by other companies in the Northern Powergrid Group, in respect of whom it bears the relevant costs.

**Employees**

The Group continued to apply appropriate control to its headcount policy and to place significant emphasis on the importance and application of high standards of management and performance in support of the Core Principles. The Group ensures that a level of consistency is adopted in so doing and, in respect of employee relations, continued to build constructive and partnered relationships with the trades unions. In that respect, the Group has or is working towards securing long-term pay agreements with the various employment groups such that the relevant terms and conditions are fair and appropriate across the Northern Powergrid Group.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORE PRINCIPLES - continued**

**Employee commitment - continued**

**Employees - continued**

Given the demographics of Northern Powergrid's workforce, the level of investment being made in the distribution network and following on from the principle introduced in DPCR5 to fund plans for workforce renewal in order to encourage investment in a sustainable workforce, the Northern Powergrid Group has made a commitment to recruit an average of 100 trainees a year under its workforce renewal programme over the next eight years. The Northern Powergrid Group recruited a total of 126 members of staff in 2014 and 60 trainees who were recruited under the workforce renewal programme in previous years graduated from their training programmes and commenced work as part of the Northern Powergrid Group's operations.

The Group is committed to proper business conduct and, in common with Berkshire Hathaway Energy, has adopted a code of business ethics that emphasises the requirement for all staff to manage their activities to achieve the highest level of ethical conduct. A "speaking up" policy is in place so that members of staff are able to raise any instances of unethical acts, malpractice or impropriety. An additional process is also available to all staff via an international, anonymous help line operated by an independent company.

In order to support the welfare of its employees, the Northern Powergrid Group launched an employee assistance programme in September 2014, which is provided by an independent company that supports over 350 organisations in the UK. The programme is a confidential, self-referral counselling and information service to assist with personal or work-related problems that may be affecting health, wellbeing or performance and is available 24 hours a day, 365 days a year. The services available include health, wellbeing and family-care information, financial information and debt counselling and legal guidance.

Human resource policies focus on skills, motivation and excellence and the promotion of high standards of probity among staff. In addition, the appropriate organisational structure has been developed to control business units and to delegate authority and accountability, having regard to acceptable levels of risk.

The Group employed 1,277 staff at the end of December 2014 (2013: 1,303).

**Environmental respect**

The Group's approach to environmental compliance is governed by its environmental policy and the policy of Environmental RESPECT (Responsibility, Efficiency, Stewardship, Performance, Evaluation, Communication and Training) implemented by Berkshire Hathaway Energy. These policies and their subordinate operational control procedures and systems address compliance with legal and other key environmental requirements, pollution prevention and continual improvement and also promote environmental awareness and best practice amongst the Group's staff and contractors.

The Group has operated a United Kingdom Accreditation Service scheme for environmental management since the late 1990s, certified to the environmental management systems standard ISO 14001: 2004. It is subject to regular six-monthly assessment visits and a three-yearly certificate renewal assessment by an accredited external certification body in order to retain that status.

The most recent visit was a surveillance assessment carried out by Lloyd's Register Quality Assurance in September 2014. The assessment closed out all existing minor non-conformances highlighted at the previous full recertification audit so leaving a balance of zero minor non-conformances to be addressed. The report also noted that significant improvements had been made to the environmental management system over the past three years.

Procedures and processes have been reviewed and developed to improve the effectiveness of the aspects register, legal register and internal audits. Operational controls at depots were also seen to have significantly improved over the past three years which supported the reduced number of minor non-conformances raised at surveillance visits. There were no major non-conformances noted and continued certification was recommended and subsequently confirmed.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORE PRINCIPLES - continued**

**Environmental respect - continued**

Improvements in support of the Group's environmental policy objectives continued to focus on replacing selected fluid-filled cable sections with non-fluid polymeric equivalents, replacing oil-filled circuit breakers with vacuum and sulphur hexafluoride gas filled units at outdoor substations to reduce the potential for oil leakage and using gas tracer technology to locate cable fluid leaks quicker, where it was practicable to do so. The Group also provided environmental awareness training for all new personnel and contractors and periodic refresher training for all staff via an online system to avoid the need for travelling to central training locations.

These improvements supported Northern Powergrid in delivering its most successful year in terms of environmental performance. Only two incidents were reportable to the Environment Agency, which was significantly ahead of the target of 10, oil spills and leaks from Northern Powergrid's assets were 1% better than the target of 14,000 litres and SF<sub>6</sub> gas discharges from electrical plant were 41% better than the target of 26 kilograms. In addition, Northern Powergrid recycled more of its waste than before and maintained its positive performance with regard to street works. Work continued with many of Northern Powergrid's key stakeholders, including the Environment Agency, to enhance the advanced environmental management processes already in place and, in 2015, Northern Powergrid plans to maintain this progress so that the impact on the environment in which it works is reduced and the most effective ways of doing so are utilised.

The Group's commitment to the Environmental RESPECT policy and its improved overall performance shows that it is committed to keeping its impact on the environment to a minimum. Northern Powergrid benefitted from the process of preparing its well-justified business plan, which involved engaging directly with the Environment Agency in respect of a number of issues and will continue with that engagement in order to maintain strong and open relationships with its various environmental stakeholders, particularly in respect of the network's visual impact.

Northern Powergrid plans to mobilise significant programmes during ED1 to replace fluid-filled cables and place overhead lines underground in national parks, reduce electrical losses and implement further improvements to the network that take account of protected structures, features, areas, wildlife and habitat. Bird life will be protected by placing bird-diverters on power lines where they are in proximity to nature reserves, wetlands, flight paths or in locations where rare species of bird are known to live or breed and also in response to information obtained from incident trends.

**Sustainability**

The Group's activities have an important part to play in the United Kingdom's transition to a low carbon economy, both in its capacity as a major participant in the United Kingdom energy industry and in terms of its own carbon footprint. As the country takes action to make significant reductions in its carbon emissions, the way electricity is produced and used is expected to have a significant impact on the electricity network over time. Northern Powergrid is taking actions to develop innovative solutions so that its network will be ready to handle the energy flows its customers need when required. In addition, Northern Powergrid is working with customers to assist in solving issues raised by the installation of low-carbon generation and technologies. Northern Powergrid is also actively involved in working with the industry and other interested parties to develop national policies and strategies to assist the low-carbon transition.

The Northern Powergrid Group measures and publishes details of its business carbon footprint. Over the first four years of DPCR5, the Northern Powergrid Group reported a 16% reduction in its business carbon footprint (which includes work undertaken on the Northern Powergrid Group's behalf by its contractors but excludes electrical losses) and it has set a target to reduce its carbon footprint by a further 10% by the end of ED1. As at the date of these accounts, the business carbon footprint for the year ended 31 December 2014 is being calculated and verified. In line with Ofgem's requirements, Northern Powergrid has contributed to the sustainability agenda through public reporting on its carbon footprint and its reporting framework is certified under CEMARS (the Certified Emissions Measurement and Reduction Scheme) for compliance with ISO 14064.

The number of installations by customers of low-carbon technologies such as photovoltaic solar panels and heat pumps continued to increase during the year. The greater range of load and generation technologies being placed on the network arising from the decarbonisation of energy means that Northern Powergrid needs to develop smart solutions that avoid the need for expensive reinforcement of the network. In that respect, the Northern Powergrid Group's Customer-Led Network Revolution project, which reached the formal project completion milestone on 31 December 2014, aimed to learn how novel network technology and changes in customers' energy usage habits may lead to the speedier and lower cost connection of low-carbon technologies to the network.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORE PRINCIPLES - continued**

**Environmental respect - continued**

**Sustainability - continued**

Approximately 11,000 residential and 2,000 industrial and commercial and distributed generation customers participated in the trials conducted by the project with residential participants including customers with smart meters on time of use tariffs, heat pumps, solar photovoltaic panels and electric vehicles. Some 17MW of industrial and commercial scale demand side response was implemented and a wealth of customer insight and analysis was gained in internationally ground-breaking research into customers' energy practices.

The project trialled an active network management system, which is one of the most sophisticated wide area control schemes in operation in Europe, a range of novel network technologies were installed and commissioned and approximately 200 trials of electrical energy storage, voltage control and real-time thermal rating were undertaken. Advanced modelling techniques were created that predicted and validated the physical trials and facilitated the learning for its application across Great Britain.

Consequently, the Northern Powergrid Group believes that the project has delivered significant learning and a comprehensive legacy. It developed practical guidance including the prototype Network Planning and Design Decision Support tool, as well as policy recommendations and equipment specifications, made recommendations to update the United Kingdom electricity industry's technical network planning standards and delivered insight into potential future commercial arrangements and learning on the practicalities of delivering end solutions that are compatible with customers' needs.

Northern Powergrid's plans for ED1 include further development of the learning delivered by the project to support the evolution of a sustainable network, which will include enabling technology, reinforcement of the network to alleviate the constraints associated with low carbon technologies and supporting the roll-out of smart meters. Northern Powergrid believes that its plans will not only create some immediate benefits for customers during ED1 but also pave the way for much greater benefits after 2023.

**Regulatory integrity**

The Group manages its business to the highest behavioural standards and adheres to a policy of strict compliance with all relevant standards, legislation and regulatory conditions. The Governance and Risk Management Group ("GRMG") monitored and managed performance in risk-related and compliance areas and met on three occasions during the year.

As has been the case for some years, breaches by a DNO of its licence conditions could lead to financial penalties, which Ofgem has stated "will have a proportionate impact on shareholder returns". In order to assure compliance with licence and other regulatory obligations, Northern Powergrid operates a regulatory compliance affirmation process, under which ownership of approximately 1,720 regulatory obligations contained within the compliance database is currently assigned to around 65 responsible managers. Those responsible managers are required, on a quarterly basis, to review compliance with the relevant obligations that have been assigned to them for certification and report on any identified non-compliances or perceived risks to the compliance process, which are then addressed. The Regulation Manager reports to the board of directors of Northern Powergrid on the outcome of each quarter's exercise.

A revenue-related issue arose during 2010 in that the adjustment of settlements data by certain suppliers had the effect of distorting the apparent performance of Northern Powergrid under the losses incentive scheme. Northern Powergrid engaged with Ofgem and other industry participants between 2010 and 2014 in order to resolve the complex issues surrounding the losses incentive arrangements for both the current and previous price control periods.

Ofgem removed the DPCR5 losses incentive and, on 21 March 2014, published its decision on the restatement of the 2009/2010 data and closing out the Distribution Price Control Review 4 ("DPCR4") losses incentive, together with details of the final sums to be returned by Northern Powergrid during ED1. One party to the arrangements subsequently requested leave to appeal Ofgem's decision but was not granted permission to do so, effectively bringing the overall process to a conclusion. In accordance with International Financial Reporting Standards, the Group has not included any recognition of the close out of DPCR4 losses incentive in these Accounts.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORE PRINCIPLES - continued**

**Regulatory integrity - continued**

Under the new RIIO (revenue = incentives + innovation + outputs) model for regulation, price controls are set for eight years (rather than five as has previously been the case), with provision for a mid-period review of the outputs that network companies are required to deliver. Ofgem triggered the ED1 review process in the first quarter of 2012 and published its final determination in November 2014.

The final determination sets out allowed revenues and rules, by which Ofgem expects to adjust these revenues in certain circumstances during ED1. Under Ofgem's proposals, excluding the effects of incentive schemes and any deferred revenues from DPCR5, Northern Powergrid's base allowed revenue will decrease by approximately 18% in the regulatory year to 31 March 2016 before the addition of inflation, as measured by RPI, in order to derive the final price change. In the following regulatory year, Northern Powergrid's base revenues will decrease by a further 1% before the addition of inflation. In subsequent regulatory years the base allowed revenues will increase approximately in line with inflation.

Under the new price control, Ofgem also intends to:

- derive and update the allowed cost of debt by reference to a long-run trailing average based on external benchmarks of utility debt costs;
- lengthen the period over which new regulatory assets are depreciated, from the current 20 years to 45 years, with the change being phased over eight years;
- adjust revenues during ED1, rather than at the next price control review, to partially reflect cost variances relative to cost allowances;
- adjust revenues in relation to some new service standard incentives, principally relating to the speed of and service standards for new connections to the network; and
- undertake a mid-period review and adjust revenues in the latter half of ED1 for any changes in the outputs required of licensees for certain specified reasons.

Many other aspects of the current price control remain in place (either in their current or a similar form), including adjustments to revenues in relation to the number and duration of service interruptions and customer service standards.

In addition, network tariffs, from which actual revenues are derived depending on the volumes of electricity distributed by Northern Powergrid, will be set further in advance than is currently the case.

Changes have also been made to the legislation that prescribes the standards of service to be provided by the DNOs in specified circumstances and payments to be made to end-customers for failure to meet those standards. The most significant of these changes reduced from 18 to 12 hours the time that is allowed for restoration of supplies following an unplanned power cut in normal weather conditions.

During the year, Northern Powergrid continued its voluntary involvement with the other DNOs in developing and trialling more formalised arrangements for assuring the accuracy of the information returns submitted to Ofgem. This exercise has involved the development of risk-assessment matrices and the preparation and submission to Ofgem of a risk-based data-assurance plan, followed by the submission of a report detailing the assurance work actually carried out and the findings of that work. The DNOs have been joined in the trial by transmission and gas distribution licensees and the new regime will continue to be developed in the light of experience gained. The finalised arrangements were incorporated into the licences of all the network operators in April 2015.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**PRINCIPAL RISKS AND UNCERTAINTIES**

There are a number of potential risks and uncertainties, which could have an impact on the Group, its financial position and its operations and may cause actual results to vary materially from those expected or historically experienced. The principal risks are outlined as follows:

**Financial risk**

As a holder of an electricity distribution licence, Northern Powergrid is subject to regulation by the Gas and Electricity Markets Authority ("GEMA"), which acts through Ofgem. Most of the revenue of the electricity distribution licence holders is controlled by the distribution price control formula set out in the electricity distribution licence. The price control formula under DPCR5 did not constrain profits from year to year but set the maximum permitted revenue for each regulatory year and was a control on revenue that operated independently of most of the electricity distribution licence holder's costs. In ED1 the price control formula will be adjusted in light of the costs incurred in respect of every regulatory year. Where Northern Powergrid recovers more, or less, than this maximum the difference is carried forward, with interest. For amounts relating to the Regulatory Year, the carry forward was into the entitlement for the regulatory year ended 31 March 2015. For amounts relating to the regulatory year ended 31 March 2015, the carry forward will be into the entitlement for the regulatory year ended 31 March 2017, with the exception of certain pre-specified amounts relating to the rebate made to energy suppliers in 2013 which will be carried forward into the regulatory year ended 31 March 2016.

Prior to and including DPCR5, it has been the practice of Ofgem to review and reset the formula at five-year intervals, although the formula has been, and may be, reviewed at other times at the discretion of Ofgem. The price control for ED1 has been set for the eight year period commencing on 1 April 2015 and it is Ofgem's intention to use eight year price control periods in the future. A resetting of the formula is now made by GEMA without the consent of the electricity distribution licence holder but a licensee can appeal to the CMA against a decision by GEMA to proceed with such a modification. Certain other interested parties have the same right. The five-year DPCR5 price control period became effective on 1 April 2010 and set Northern Powergrid's revenues through to 31 March 2015.

During the term of the price control, the rate of inflation as measured by RPI is taken into account in setting Northern Powergrid's allowed income in respect of each regulatory year. Consequently, one of the risks faced by Northern Powergrid is that its costs may increase by more than RPI. Any changes in costs incurred will have a direct impact on Northern Powergrid's financial results, as will changes in performance under incentive schemes, such as in customer service, which can lead to adjustments to allowed revenues.

Ofgem recognises that defined benefit pension schemes and, particularly, the current deficit positions of various schemes, represent a significant cost to the DNOs and, in its DPCR5 final proposals, confirmed that DNOs would be allowed to recover the actuarial value of the deficits attributable to a licensee's distribution business in existence as at 31 March 2010 via its regulated revenues (after an adjustment to reflect the residual of unfunded early retirement deficiency costs as at 31 March 2010). Ofgem re-affirmed these principles in its ED1 final determination.

However, given the stable and regulated nature of the DNOs' businesses, Ofgem took the view that a notional repair period of 15 years from 1 April 2010 was appropriate for the purpose of assessing the DNOs' allowed revenues in respect of pension costs in DPCR5.

The other financial risks facing the Group are outlined on page 6 of this Strategic Report.

**Operational risk**

There are a number of risks to Northern Powergrid's operational performance in respect of which mitigating actions have been taken. Appropriate credit cover arrangements are in place with the electricity suppliers, which would allow recovery of defaulted payments through the price control mechanism and a robust major incident management plan is implemented whenever severe weather impacts on the distribution network's performance. Metal theft continued to be a significant issue for Northern Powergrid during the year with the activities of metal thieves causing power cuts on various occasions, which affected a large number of customers in aggregate. In response, Northern Powergrid maintained the programme of risk-assessed and enhanced security measures at its sites and pursued awareness raising activity at a national and local level.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**PRINCIPAL RISKS AND UNCERTAINTIES - continued**

**Operational risk - continued**

Northern Powergrid recognises that there are uncertainties around the future take-up of low carbon technologies and the resulting capacity requirements for the network and from the fitting of smart meters throughout Northern Powergrid's distribution services area, which is expected to result in a requirement to address a substantial number of reported defects. Northern Powergrid believes that it can effectively manage these issues through its usual risk management practices.

**Commercial risk**

Managing commercial risk continued to be of key importance and the Group remained focused on ensuring that its policies for credit checking, payment terms, payment performance tracking and debt management were strictly adhered to.

Northern Powergrid's relationship with its main customers is governed by a distribution connection and use of system agreement ("DCUSA"), which is in place with each of those customers. Those customers are the electricity suppliers who, under the terms of the DCUSA, pay charges for the use of the distribution network, in respect of which it is necessary to ensure that credit cover arrangements in line with Ofgem's guidance remain in place. The principal electricity suppliers that use Northern Powergrid's network are RWE Npower, British Gas, EDF Energy, E.ON, Scottish and Southern Energy and Scottish Power.

Northern Powergrid operates its business utilising a mix of direct labour and contracted resource and has a range of contracts in place with various service providers for delivery of its work programmes, which are subject to regular market testing and tendering exercises. Those services include vegetation management, overhead line inspection and construction, substation construction and maintenance, underground cable laying services, vehicle leasing and servicing, tower painting and information technology services. Northern Powergrid also has an extensive suite of contracts in place for the procurement of all of the goods and equipment it requires to deliver its capital expenditure programme and to run its business, including for varying types of transformers, switchgear and cables.

**Risk Management**

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 DPCR5 and previous price control periods, accepted and successfully managed substantial cost and delivery risks by developing a culture of cost and risk management over that period of time. Risks are assessed with due regard to probability and impact and the risk environment is reviewed continually in order that new or emerging potential risks are identified. Those risks assessed to be significantly high are logged within a risk register that the GRMG reviews regularly and key indicators are used to track and monitor those risks considered to be significant.

Risk mitigation and loss control plans are prepared in response to strategic risks in order that the directors can be assured that appropriate mitigating actions are in place and are being implemented. These plans are monitored through to implementation and reviewed to determine whether the residual, mitigated risk is within an acceptable level of tolerance.

The Northern Powergrid Group identifies and assesses risks associated with the achievement of its strategic objectives, including those of an environmental and social nature. Any key actions needed to further enhance the control environment are identified, along with the person responsible for the management of the specific risk. A regular review of the key risks, controls and action plans is undertaken. The risk management programme includes regular review of the crisis management, disaster recovery and major incident plans, which are periodically tested, the sharing of best practice on disaster preparedness and response, penetration tests against firewall systems and disaster recovery tests of IT servers and priority processes and a peer review of the Northern Powergrid Group's risk management systems by Berkshire Hathaway Energy.

Risk management continues to be a central theme of senior management priority setting as well as an explicit business process that helps to stimulate the senior leadership's consciousness of lower probability, high consequence threats to business success or continuity. This approach is reinforced by that of the wider Berkshire Hathaway Energy group, whose activities have continued to include a structured benchmarking of risk management activities across its business units, including the sharing of significant lessons learned associated with risk management.

**GROUP STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**PRINCIPAL RISKS AND UNCERTAINTIES - continued**

**Risk Management - continued**

A key element and requirement of the risk management process is that a written certificate is provided by the President and Chief Executive Officer of the Northern Powergrid Group confirming that the effectiveness of the system of internal controls has been reviewed during the year. A self-certification process is in place, in support of this review, whereby senior managers are required to confirm that the system of internal control in their area of the business is operating effectively.

**Internal Control**

A rigorous internal control environment exists within the Northern Powergrid Group based on regular reporting, a series of operational and financial policy statements, investigations undertaken by internal audit and a stringent process for ensuring the implementation of any recommendations. Berkshire Hathaway Energy requires a quarterly control risk self-assessment to be undertaken by all senior managers as part of its programme for compliance with the requirements of the United States Sarbanes-Oxley Act and, while no significant areas of weakness have been identified, any recommended improvements are implemented.

In addition, the Northern Powergrid Group employs comprehensive business planning and financial reporting procedures, regularly reviews key performance indicators to assess progress towards its goals and has a strong internal audit function to provide independent scrutiny of its internal control systems. The Northern Powergrid Group has risk management procedures in place, including the standards required by the United States Sarbanes-Oxley Act, and has centralised treasury operations and established procedures for the planning, approving and monitoring of major capital expenditure.

The Northern Powergrid Group is committed to maintaining the highest ethical standards in the conduct of its business and, in that respect, implements Berkshire Hathaway Energy's code of business conduct for employees. The code of conduct sets out and emphasises the required standards and commitment to ethical behaviour, provides reporting mechanisms for known or suspected ethical issues, helps prevent wrongdoing and creates and sustains an ethical work environment across the Northern Powergrid Group. All employees are required to complete annual training on the code of business conduct and then confirm that they understand the requirements outlined in the code. The training is available online and employees who do not have access to the online system attend a briefing with their line manager.

The Northern Powergrid Group is also committed to preventing corruption in all its forms and continues to have a zero-tolerance approach to corruption in its business or by those with whom it does business. The board of Northern Powergrid Holdings Company has addressed the risks introduced by the Bribery Act 2010 through a compliance policy, changes to contractual terms, training and other staff awareness measures. The introduction of annual risk assessments and enhanced due diligence in respect of new business transactions has further assisted in ensuring compliance. The Northern Powergrid Group requires staff, suppliers of services and business partners to comply with the Bribery Act. Its policies encourage an employee who has any suspicion of bribery or other form of corruption within or related to the Northern Powergrid Group to report the suspicion to a manager or via the international, anonymous help line mentioned in the employee section.

Northern Powergrid has appropriate controls in place directed at ensuring compliance with the conditions in its licence requiring any payments made to, or received from, affiliates or related undertakings in respect of goods and services provided or supplied to be on an arm's length basis and on normal commercial terms.

**ON BEHALF OF THE BOARD:**



P A Jones  
Director

17 April 2015

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

The directors present their report with the financial statements of the Company and the Group for the year ended 31 December 2014.

**DIVIDENDS**

During the year, an interim dividend of £30.0 million (24p per ordinary share) was paid (2013: £30.0 million). The directors recommend that no final dividend be paid in respect of the year (2013: £nil).

**RESEARCH AND DEVELOPMENT**

During the year, Northern Powergrid continued working, on behalf of the Northern Powergrid Group and in partnership with British Gas, Durham University, Newcastle University and EA Technology, on its major project under Ofgem's Low Carbon Networks Fund, known as the Customer-Led Network Revolution, and the formal project completion milestone was reached on 31 December 2014. The draft project findings were issued to Ofgem for consideration ahead of their wider dissemination during 2015 as part of a three-month consultation period with the other DNOs in order to explore and refine the conclusions.

The Customer-Led Network Revolution remains the largest project supported by Ofgem in the time that the Low Carbon Networks Fund has been in place and the Group will incur expenditure of £31.0 million over the life of the project. Of that expenditure, 90% is funded by electricity customers in Great Britain. Successful delivery of the project over the period agreed with Ofgem will enable recovery of the additional 10% from customers and potentially qualify for a further discretionary award.

The project assessed the potential for new network technology and flexible customer response to facilitate speedier and more economical take-up by customers of low-carbon technologies and the connection to the distribution network of increasing amounts of low-carbon or renewable energy generation. Equipment and operational techniques were trialled to allow the efficient application of low carbon technologies on the network. The scale of the project's output was such that Ofgem agreed to extend the project to four years in order to ensure that the quality of learning delivered is relevant, timely and provides value-for-money for all stakeholders. Further details are provided in the Sustainability section on pages 15 and 16 in the Strategic Report.

The Group also supports a programme of research that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. New activities in the areas of real time asset condition monitoring and in automatic network management to improve the service provided to generation customers, were initiated during the year. A major, multi-year project demonstrating a high voltage fault current limiter was unable to meet the intended technical requirements and was brought to a halt, although a great deal of learning was generated and shared while that project was ongoing. Other work completed during 2014, included the development of enhanced techniques for estimating network metrics between instrumented measuring points, which will enhance Northern Powergrid's ability to accommodate low-carbon technologies on its network.

During the year, the Group invested £5.7 million (2013: £8.2 million) (Note 6 to the accounts) in its research and development activities.

**FUTURE DEVELOPMENTS**

The financial position of the Group, as at 31 December 2014, is shown in the consolidated statement of financial position on pages 37 and 38.

Northern Powergrid submitted its revised well-justified business plan for the future of its electricity distribution business to Ofgem on 17 March 2014 and Ofgem issued its final determination in respect of that plan in November 2014. Northern Powergrid's plan sets out the priorities for and the challenges it expects to see during ED1, including reducing prices in the first year of ED1 and then maintaining those prices at a relatively consistent level over the remainder of the period, delivering 20% shorter power cuts and providing a connections service that is 30% faster, together with a range of new and improved services. The directors intend that Northern Powergrid will continue to develop its business by operating that business with the goal of efficiently investing in the network and improving the quality of supply and service provided to customers.

IUS will continue to develop its business in a manner that concentrates on its core skills of engineering contracting by delivering a high standard of service to its existing clients and pursuing opportunities to increase its portfolio of clients across all regions of the United Kingdom in the sectors within which it operates. Northern Powergrid Metering Limited will continue to pursue opportunities in the market for meter asset provision as the smart meter roll-out programme develops.

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**EVENTS SINCE THE YEAR END**

On 2 March 2015 Northern Powergrid sought permission from the CMA to appeal against the licence modifications that give effect to the ED1 price control. The appeal relates to three specific areas and, as the CMA granted permission to appeal on 30 March 2015, the appeal is expected to conclude in the fourth quarter of 2015 in accordance with the timetable required of the CMA. Further details are provided in the Review of the Year on page 3 of the Strategic Report.

**DIRECTORS**

The directors shown below have held office during the whole of the period from 1 January 2014 to the date of this report.

G E Abel	Chairman
J A Andreasen	General Counsel
R Dixon	Non-executive Director
T E Fielden	Finance Director
J M France	Regulation Director
P J Goodman	Executive Vice-President and Chief Financial Officer, Berkshire Hathaway Energy Company
P A Jones	President and Chief Executive Officer

**FINANCIAL RISK MANAGEMENT**

The Group's short-term financial objective is to ensure that it has access to sufficient liquidity to enable it to meet its obligations as they fall due and to provide adequately for contingencies. The long-term objective is to provide a stable and low cost of financing over time whilst observing approved risk parameters. The main risks are liquidity and interest rate risk.

**Trading risk**

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

**Financial derivatives**

As at 31 December 2014 and during the year it was the Group's policy not to hold any derivative financial instruments.

**POLITICAL DONATIONS**

During the year, no contributions were made to political organisations (2013: £nil).

**EMPLOYEES**

**Employee consultation**

The Northern Powergrid Group has a constitutional framework in place for employee consultation and has agreed that framework with trade union representatives. In addition, the Northern Powergrid Group communicates directly and through the management structure with personal contract holders and keeps them informed of and involved as appropriate in developments that may impact on them now or in the future.

The Northern Powergrid Group is committed to maintaining and improving effective communication with employees, principally through regular staff briefs on current issues, meetings with staff and their representatives and increased use of Northern Powergrid's intranet to improve communication and engagement with the workforce.

During the year, the President and Chief Executive Officer continued to provide employees with updates on the Northern Powergrid Group's financial, organisational, safety and customer service performance through postings and weekly blogs on the Northern Powergrid Group's intranet in order to provide updates on key elements of performance during the preceding week.

**Disabled employees**

The Northern Powergrid Group is committed to equality at work and, as such, its 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 Group would work to retrain and/or redeploy that member of staff, wherever possible.

**VOTE HOLDER AND ISSUER NOTIFICATION**

There have been no disclosures to the Company under Disclosure and Transparency Rule 5 (Vote Holder and Issuer Notification Rules).

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORPORATE GOVERNANCE STATEMENT**

The Company provides the following statement setting out how it has applied the main principles in the version of the UK Corporate Governance Code made available on the Financial Reporting Council's website in September 2012 (the "Code"). To the extent that it departs from the Code, the Company explains from which parts of the Code it departs and the reasons for so doing.

**Compliance statement**

Set out below and in the review of the year in the Strategic Report are the areas in which the Group adopts and complies with the main principles of the Code. The Group has not complied with certain of the main principles of the Code, including main principles A2, A3, B2, B6, B7, C3, D1, D2 and E2. The directors confirm that such non-compliance was of a continuing nature throughout the year but consider the governance framework in place to be appropriate to the circumstances of the Group, given that the framework is agreed with Berkshire Hathaway Energy and includes regular reporting to and meetings with the Chairman and senior management of Berkshire Hathaway Energy, the presence of an independent, non-executive director at board meetings of the Company and a strong internal control environment designed to meet the standards required by the United States Sarbanes-Oxley Act.

The Code is based on the "comply or explain" approach and the directors are of the opinion that, in the instances noted above where the Group does not comply with the Code, this approach is justifiable, given that the Company is a wholly-owned subsidiary of Berkshire Hathaway Energy and the governance framework in place throughout the Northern Powergrid Group is agreed with Berkshire Hathaway Energy.

**Section A: Leadership**

**Main Principle A1: The Role of the Board**

The directors have agreed a schedule of board meetings at which they review performance, strategy and operational and risk-related issues. In addition, the President and Chief Executive Officer participates in weekly performance review meetings with the Chairman of Berkshire Hathaway Energy and other senior managers of the Berkshire Hathaway Energy group, including the Executive Vice President and Chief Financial Officer. At those weekly meetings, the views of the Chairman of Berkshire Hathaway Energy and the senior management team regarding the key, current issues facing the Northern Powergrid Group are discussed.

The Chairman of Berkshire Hathaway Energy also receives weekly, monthly, quarterly and ad-hoc reports on the Northern Powergrid Group's performance from the President and Chief Executive Officer. Berkshire Hathaway Energy's Executive Vice President and Chief Financial Officer and Executive Vice President, General Counsel and Corporate Secretary also hold similar weekly review meetings in respect of Berkshire Hathaway Energy's financial and legal functions, at which the Northern Powergrid Group's Finance Director and General Counsel present their respective weekly reports.

The board meets as required to consider relevant issues and met on six occasions during the year, with the attendance of the directors being as follows:

G E Abel	Chairman	0
J A Andreasen	General Counsel	1
R Dixon	Non-Executive Director	4
T E Fielden	Finance Director	6
J M France	Regulation Director	6
P J Goodman	Executive Vice-President and Chief Financial Officer, Berkshire Hathaway Energy Company	0
P A Jones	President and Chief Executive Officer	6

Operational management of Northern Powergrid's business (and that of its affiliate, Northern Powergrid (Yorkshire) plc) is delegated to a single senior management team, with specific functional responsibilities. That senior management team meets monthly with the senior management of the Northern Powergrid Group to monitor performance and address issues of policy across all areas of the business and holds weekly conference calls to report on and consider performance-related issues for that week. Further details of the management structure of the Northern Powergrid Group are provided in the Strategic Report.

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORPORATE GOVERNANCE STATEMENT – continued**

**Section A: Leadership - continued**

**Main Principle A1: The Role of the Board - continued**

The directors have overall responsibility for the internal control environment, which, within the Northern Powergrid Group, is based on regular reporting, a series of operational and financial policy statements, investigations undertaken by internal audit and a stringent process for ensuring the implementation of any recommendations. In addition, Berkshire Hathaway Energy requires a quarterly control risk self-assessment to be undertaken by all senior managers as part of its programme for compliance with the requirements of the United States Sarbanes-Oxley Act. The assessments undertaken during the year did not identify any significant weaknesses in the process but resulted in the implementation of various recommended improvements. The key features of the Group's internal control system and the issues addressed by the Group during the year can be found in the Strategic Report.

A schedule of key delegations of authority has been approved by the board, which delegates authority for decision-making to senior and other managers in respect of issues such as capital expenditure, procurement, contractual, human resource and payment matters and for the conduct of claims and litigation. That schedule reserves decision-making to the directors above certain financial limits.

During the year, there were a number of committees in operation, acting under delegated terms of reference, which oversee the Northern Powergrid Group and, therefore, Group policy. As part of their approved terms of reference, certain of those committees report regularly to the board on their activities.

The committees are as follows:

**Health and Safety Management Committee**

The board of Northern Powergrid Holdings Company has established the Northern Powergrid Group Health and Safety Management Committee with delegated powers to manage the health and safety policy and performance of the Northern Powergrid Group. Membership of the committee comprises:

J P Barnett	Commercial Director
G M Earl	Director of Safety, Health and Environment
T E Fielden	Finance Director
J M France	Regulation Director
N M Gill	Field Operations Director
P A Jones	President and Chief Executive Officer
A J Maclennan	Managing Director, Integrated Utility Services Limited

The committee meets on a regular basis in order to oversee implementation of the health and safety policy, review and agree strategy for the management of health and safety issues, monitor health and safety performance across the Northern Powergrid Group, review the effectiveness of the health and safety policy and the health and safety management system and consider recommendations for changes in policy due to changes in appropriate legislation, codes of practice or guidance or due to recommendations arising from significant incidents.

**Treasury Committee**

The Treasury Committee oversees and implements the treasury policies, which are outlined in the Strategic Report and the Directors' Report, and comprises:

G E Abel	Chairman
D Brady	Treasurer
T E Fielden	Finance Director
P J Goodman	Executive Vice President and Chief Financial Officer, Berkshire Hathaway Energy Company
S Gormally	Corporate Accountant and Secretary to the Committee
P A Jones	President and Chief Executive Officer
S J Lockwood	Group Financial Controller
O Sutherland	Investor Reporting Manager

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORPORATE GOVERNANCE STATEMENT – continued**

**Section A: Leadership - continued**

**Main Principle A1: The Role of the Board - continued**

**Pensions Committee**

The Pensions Committee oversees the Northern Powergrid Group's approach to the pension schemes to which it contributes and comprises:

N Dawson	Pensions Manager
T E Fielden	Finance Director
J M France	Regulation Director
L Hutchinson	Director of Human Resources
S J Lockwood	Group Financial Controller
K Mawson	Head of Regulatory Finance and Systems
L Tweedie	Head of Field Change

**Governance and Risk Management Group**

The GRMG is the principal management forum in the Northern Powergrid Group with regard to corporate governance. Its purpose is to ensure that companies in the Northern Powergrid Group apply and maintain appropriate arrangements to deliver sound corporate governance and comply with the overall strategy, framework and supporting policies. The GRMG monitors and reviews the strategic risk environment, ensuring the continued suitability, adequacy and effectiveness of risk management arrangements and reports to the Northern Powergrid Group's Audit Committee.

The GRMG comprises:

D Anderson	Head of Internal Audit
J P Barnett	Commercial Director
R Dixon	Non-Executive Director
M Drye	Director of Asset Management
G Earl	Director of Safety, Health and Environment
J Elliott	Company Secretary
T E Fielden	Finance Director
J M France	Regulation Director
N M Gill	Field Operations Director
L Hutchinson	Director of Human Resources
A J MacLennan	Managing Director, Integrated Utility Services Limited
O Sutherland	Investor Reporting Manager

During the year, the GRMG undertook a review of how it operates, which resulted in a proposal that will improve the effectiveness of the risk management and control activities, better define the risk environment within the Northern Powergrid Group, rationalise the reporting procedures to focus attention on key risk movements and identify accountabilities for each risk sector. The GRMG approved the proposal at its meeting in November 2014 and the new process was implemented during Quarter 1 of 2015.

Notwithstanding the proposed changes noted above, the GRMG continued to monitor the risk management framework regularly during the year to ensure that all strategic risks, including those relating to environmental and social issues, were being addressed. Risk management policies and procedures were reviewed and updated to ensure a robust and clear approach was maintained. Mr Dixon attended meetings of the GRMG to provide an independent view in respect of the matters discussed.

Asset risk continued to be a strong focus through the Asset Risk Management Executive Review Group and comprehensive plans continued to be in place to manage risks affecting all critical property assets and to strengthen the arrangements for crisis management and business continuity planning.

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORPORATE GOVERNANCE STATEMENT – continued**

**Section A: Leadership - continued**

**Main Principle A1: The Role of the Board - continued**

Further details of the Northern Powergrid Group's approach to corporate governance and the management of internal controls can be found in the Strategic Report.

As explained in respect of main principles B2 and D1, the Company does not have either a remuneration committee or a nomination committee.

**Main Principle A2: Division of Responsibilities**

Mr G E Abel, the Chairman of Berkshire Hathaway Energy, is also Chairman of the Company. As President and Chief Executive Officer, Dr Jones is responsible for the operation and management of both the Company and the Northern Powergrid Group and reports directly to Mr Abel.

**Main Principle A3: The Chairman**

Dr Jones chairs board meetings, is responsible for the operation and management of both the Group and the Northern Powergrid Group and divides his time accordingly between his various commitments within the Northern Powergrid Group. Dr Jones reports directly to Mr Abel.

**Main Principle A4: Non-Executive Directors**

Mr Dixon was the Company's sole independent non-executive director during the year and acts under agreed terms of reference.

**Section B: Effectiveness**

**Main Principle B1: The composition of the board**

The board comprises six executive directors and Mr Dixon, an independent non-executive director, who, collectively, bring a range of skills and experience to the board. Although the board does not include a balanced number of executive and non-executive directors, the board believes that it possesses the skills and experience necessary to provide effective leadership, stewardship and control of the Group.

**Main Principle B2: Appointments to the board**

The Company does not have a nomination committee. Appointments to the board are made by Berkshire Hathaway Energy, in conjunction with the President and Chief Executive Officer.

**Main Principle B3: Commitment**

The Company's non-executive director commits sufficient time to preparation for and attendance at board meetings, although his terms of reference do not quantify the time commitment required.

**Main Principle B4: Development**

The directors continually update their knowledge of and familiarity with the operations of the Group due to the robust reporting arrangements in place and have on-going access to the Group's operations and its staff.

**Main Principle B5: Information and support**

Directors receive monthly reports outlining progress against the Group's goals and targets, enabling financial performance against budget and operational performance against a number of indicators to be reviewed, and are also able to participate in weekly meetings, which consider the key issues of that week in some detail. The directors are able to utilise the advice and services of the Company Secretary in respect of their duties and responsibilities as directors and any new legislation that may affect those duties and responsibilities. The directors also have access to external legal advice should they feel it necessary. Interim briefings are provided to the non-executive director, as appropriate.

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**CORPORATE GOVERNANCE STATEMENT – continued**

**Section B: Effectiveness - continued**

**Main Principle B6: Evaluation**

As part of their approved terms of reference, certain committees report regularly on their activities, enabling the directors to evaluate the activities of those committees. However, the board does not have a process of evaluation of its own performance or of the performance of individual directors in their capacity as directors. Berkshire Hathaway Energy has a performance appraisal and development scheme in place, under which each senior manager of the Northern Powergrid Group is subject to a formal annual appraisal of performance against his individual and Berkshire Hathaway Energy's goals.

**Main Principle B7: Re-election**

The directors retire by rotation and offer themselves for re-election in accordance with the Company's articles of association.

**Section C: Accountability**

**Main Principle C1: Financial and business reporting**

The board considers that the annual reports and accounts, which include the Strategic Report and the Report of the Directors, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The directors explain, at pages 2 and 3, the Core Principles behind the Group's strategy and, at page 29, their responsibility for preparing the Strategic Report, the Directors' Report and the financial statements, have reported, at page 29 in the Directors' Report that the Company and the Group are going concerns and have included the Report of the Independent Auditor to the Company at page 34 of these accounts.

**Main Principle C2: Risk management and internal control**

Details of the principal risks and uncertainties facing the Group and its internal control system, together with details of the issues addressed by the Group during the year, can be found at pages 18 to 20 of the Strategic Report.

Other key features of the internal control system are:

- Comprehensive business planning and financial reporting procedures, including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- Regular review of key performance indicators to assess progress towards objectives;
- A range of policies, codes of practice and more detailed instructions that define the processes to be followed;
- A strong internal audit function, which provides independent scrutiny of internal control systems and risk management procedures, including the standards required by the United States Sarbanes-Oxley Act;
- On-going health and safety performance reviews carried out by in-house safety professionals in addition to the regime of routine health and safety risk assessment and management processes carried out within each of the operating units;
- Processes and procedures to operate under OHSAS 18001, which is subject to external certification and regular assessment;
- An external obligations register, which assists with compliance with financial, legal and regulatory obligations;
- Centralised treasury operations that operate within defined limits and are subject to regular reporting requirements and audit reviews; and

## **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014**

## **CORPORATE GOVERNANCE STATEMENT – continued**

**Section C: Accountability – continued**

## Main Principle C2: Risk management and internal control - continued

- Established procedures for planning, approving and monitoring major capital expenditure, major projects and the development of new business which includes short and long-term budgets, risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews.

### **Main Principle C3: Audit committee and auditor**

The board of Northern Powergrid Holdings Company has established an audit committee for the Northern Powergrid Group under delegated terms of reference, which include monitoring of the financial reporting process, the effectiveness of the internal control, internal audit and risk management systems, the statutory audit of the accounts, the independence of and the provision of additional services by the auditor.

The Audit Committee comprises one member who is independent and one member who has competence in accounting and receives annual reports from the GRMG and from the Northern Powergrid Group's Head of Internal Audit on the work of the Internal Audit Section during the year and the audit plan for the following year. The Audit Committee comprises:

Details of the fees paid by the Group to Deloitte LLP in relation to non-audit services during the year are provided in Note 6 to the accounts.

The employees section on page 13 and 14 of the Strategic Report contains details of the Group's "speaking up" policy.

## Section D: Remuneration

### **Main Principle D1: The level and components of remuneration**

The Company does not have a remuneration committee. Annual remuneration awards for the senior management of the Northern Powergrid Group are subject to the performance appraisal and development scheme process and consideration by the Chairman of Berkshire Hathaway Energy and the President and Chief Executive Officer. As the Company has no equity securities listed on the London Stock Exchange, it is not required to make directors' remuneration disclosures, other than those required for private companies.

### Main Principle D2: Procedure

As noted under main principle D1, the Company does not have a remuneration committee. Annual remuneration awards for the senior management of the Northern Powergrid Group are subject to the performance appraisal and development scheme process and consideration by the Chairman of Berkshire Hathaway Energy and the President and Chief Executive Officer. No director is involved in deciding his own remuneration.

## **Section E: Relations with shareholders**

## Main Principle E1: Dialogue with Shareholders

As a wholly-owned subsidiary of a privately held group of companies, the board is in continuing dialogue with Berkshire Hathaway Energy.

### **Main Principle E2: Constructive use of the AGM**

This section of the Code is not applicable to the Company, as it is a wholly-owned subsidiary of a privately held group of companies and, therefore, has no institutional shareholders.

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Strategic Report, the Report of the Directors and the financial statements in accordance with applicable law and regulations.

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

In preparing these financial statements, International Accounting Standard 1 requires the directors to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's and the Group's financial position and financial performance; and
- Make an assessment of the Company's and the Group'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 Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and 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 Group'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 Group'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 accounts.

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

- The Group's main subsidiary, Northern Powergrid, is a stable electricity distribution business operating an essential public service and is regulated by GEMA. In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Group is profitable with strong underlying cash flows; and
- The Group is financed by long-term borrowings with an average maturity of 14 years and has access to borrowing facilities provided by Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc.

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

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR**

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

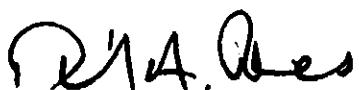
- a) so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- b) he has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

**AUDITOR**

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

**ON BEHALF OF THE BOARD:**



P A Jones  
Director

17 April 2015

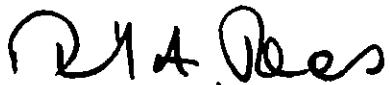
**RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORTS AND ACCOUNTS**

Each of the directors as at the date of the Annual Report, whose names and functions are set out on page 22 in the Report of the Directors confirms that, to the best of their knowledge:

- a) The accounts, prepared in accordance with applicable UK law and in conformity with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- b) The Management Report (which is comprised of the Strategic Report and the Report of the Directors) includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 17 April 2015 and signed on its behalf by:

**ON BEHALF OF THE BOARD:**



P A Jones  
Director

17 April 2015

**DIRECTORS' BIOGRAPHIES**

**GREGORY E ABEL**

Appointed in January 1997, Mr Abel, 52, is chairman, president and CEO of Berkshire Hathaway Energy, based in Des Moines, Iowa. Through its energy-related businesses, Berkshire Hathaway Energy provides electric and natural gas service to more than 11.5 million customers worldwide. These businesses are Pacific Power, Rocky Mountain Power and PacifiCorp Energy, comprising PacifiCorp; MidAmerican Energy Company; NV Energy, Inc.; Northern Powergrid Holdings Company; BHE Pipeline Group; BHE U.S. Transmission; AltaLink, L.P.; BHE Renewables; and HomeServices of America, Inc., which is the second-largest residential real estate brokerage firm in the U.S. Mr Abel serves as chairman, CEO and director of Berkshire Hathaway Energy and PacifiCorp; as chairman and director of NV Energy, Northern Powergrid Holdings Company and Northern Natural Gas, and as a director of AltaLink and HomeServices Mr Abel serves on the board and executive committee of the Edison Electric Institute and the Greater Des Moines Partnership. He also serves on the H.J. Heinz Company board of directors and the AEGIS Insurance Services, Inc. board of directors; the Nuclear Electric Insurance Limited board of directors; the Kum & Go, L.C. board of directors; the executive board of the Mid-Iowa Council Boy Scouts of America; the American Football Coaches Foundation board of directors; and is a past member of the Drake University board of trustees.

**JON A ANDREASEN**

Appointed in March 2010, Mr Andreasen, 51, has been Vice President & General Counsel for the Northern Powergrid Group since 2005. In addition to this appointment, he provides legal counsel to Berkshire Hathaway Energy and its other subsidiaries. He is a 1989 graduate of the University of Iowa College of Law and has worked in the electricity utility business since 1989. From 2000-2002 he worked in Newcastle-upon-Tyne for the Northern Powergrid Group and is currently based in Urbandale, Iowa, USA.

**RONALD DIXON**

Appointed in October 1997, Mr Dixon, 77, worked for North Eastern Electricity Board and Northern Electric plc throughout his career, being appointed Secretary in 1987. He was appointed Managing Director of the Power Division in 1990, responsible for electricity supply and distribution, and Commercial Director in 1991. He retired from the board on 31 July 1997 and was re-appointed in the capacity of a non-executive director on 22 October 1997. Mr Dixon is also a non-executive director of Northern Powergrid Holdings Company, Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc.

**JOHN M FRANCE**

Appointed in January 2000, Dr France, 57, is Regulation Director for the Northern Powergrid Group. After leaving university he joined the British Gas Corporation where he held a number of posts before becoming a member of the team that handled the privatisation of British Gas in 1986. He joined Northern Electric plc as its Regulation Manager in 1989 and has been involved with all the distribution (and supply) price control reviews that have affected the Company since privatisation. He was a member of the team that negotiated the acquisition of the distribution business of Yorkshire Electricity Group plc and the sale of the Northern Electric plc supply businesses in 2001.

**THOMAS E FIELDEN**

Appointed in October 2009, Mr Fielden joined the Northern Powergrid Group in July 2009 and became Finance Director on 12 October 2009. Mr Fielden, 44, is a chartered accountant, having started his career at Coopers & Lybrand and has held a variety of finance appointments in BT, working in BT Group and BT Global Services, before joining Great North East Railway (GNER) as Financial Controller in 2005. He became Finance Director of GNER in 2006, transferring to National Express East Coast in 2007.

**PATRICK J GOODMAN**

Mr Goodman, 48, is executive vice president and chief financial officer of Berkshire Hathaway Energy. Goodman is responsible for managing all aspects of the company's financial operations. Goodman serves as a director of PacifiCorp, Northern Powergrid, Kern River Gas Transmission Company and Northern Natural Gas Company. Mr Goodman supports the evaluation, negotiation and closing of the company's domestic and international financings, acquisitions and project developments. Additionally, he manages all accounting, financial reporting, tax, budgeting, long-range financial planning and internal audit functions for the company. Mr Goodman has been the chief financial officer since 1999 and has served in various financial positions, including chief accounting officer since joining the company in 1995. Mr Goodman has more than 20 years of experience in public accounting and management and is a certified public accountant. He received his accounting degree from the University of Nebraska at Omaha.

**DIRECTORS' BIOGRAPHIES - continued**

**PHILIP A JONES**

Appointed in April 2007, Dr Jones, 46, is President and Chief Executive Officer of the Northern Powergrid Group, the UK platform in the global portfolio of Berkshire Hathaway Energy. Prior to his appointment as President and Chief Executive Officer, he was Strategy & Investment Director and, as such, was responsible for technical, economic and regulatory strategy within the organisation. Dr Jones is a chartered electrical engineer and has been working in the UK power distribution sector since completing his PhD in Electronic & Electrical Engineering in 1993. He has held a range of technical and managerial roles, mostly in the engineering field. He is also actively involved in a range of other industry bodies. He has been a director of the Institute of Asset Management and of the Energy Networks Association, the trade association that represents the power transmission and distribution companies.

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

We have audited the financial statements of Northern Electric plc ("the Company") for the year ended 31 December 2014, which comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows and related notes 1 to 29. 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.

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 a Report of the Auditor 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.

### Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page twenty nine, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the circumstances of the Company and the Group and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and the Report of the Directors to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's and the Group's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with the requirements of the Companies Act 2006 and in accordance with IFRSs as adopted by the European Union;
- in respect of the Company have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006;
- in respect of the Group Financial Statements, have been properly prepared in accordance with Article 4 of the IAS Regulations.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Group Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

### 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 by the Company, or
- returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements of the Company or the Group 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.



Christopher Powell FCA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Newcastle upon Tyne

Date: 23 April 2015

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Notes	2014 £'000	2013 £'000
<b>CONTINUING OPERATIONS</b>			
Revenue	3	409,503	350,919
Cost of sales		<u>(63,424)</u>	<u>(42,162)</u>
<b>GROSS PROFIT</b>		<b>346,079</b>	<b>308,757</b>
Operating expenses		<u>(135,370)</u>	<u>(127,930)</u>
<b>OPERATING PROFIT</b>		<b>210,709</b>	<b>180,827</b>
Other gains		752	444
Finance costs	5	(34,865)	(35,895)
Finance income	5	<u>1,660</u>	<u>1,963</u>
<b>PROFIT BEFORE INCOME TAX</b>	6	<b>178,256</b>	<b>147,339</b>
Income tax	7	<u>(38,015)</u>	<u>(14,971)</u>
<b>PROFIT FOR THE YEAR</b>		<b><u>140,241</u></b>	<b><u>132,368</u></b>
Profit attributable to:			
Owners of the parent		<b><u>140,241</u></b>	<b><u>132,368</u></b>

The notes on pages 44 to 88 form part of these financial statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 £'000	2013 £'000
<b>PROFIT FOR THE YEAR</b>	<b>140,241</b>	132,368
<b>OTHER COMPREHENSIVE INCOME</b>		
Item that will not be reclassified to profit or loss:		
Re-measurement of net pension obligation	25,100	(8,700)
Income tax relating to item of other comprehensive income	<u>(4,444)</u>	<u>(4,275)</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX</b>	<b><u>20,656</u></b>	<b><u>(12,975)</u></b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b><u>160,897</u></b>	<b><u>119,393</u></b>
Total comprehensive income attributable to:		
Owners of the parent	<u>160,897</u>	<u>119,393</u>

The notes on pages 44 to 88 form part of these financial statements

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**31 DECEMBER 2014**

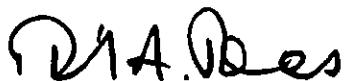
	Notes	2014 £'000	2013 £'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	11	23,821	14,762
Property, plant and equipment	12	1,946,871	1,790,233
Investments	13	3,441	3,392
Pension asset	24	52,900	-
Trade and other receivables	15	7,494	6,081
		<u>2,034,527</u>	<u>1,814,468</u>
<b>CURRENT ASSETS</b>			
Inventories	14	12,304	10,399
Trade and other receivables	15	72,029	50,192
Cash and cash equivalents	16	85,586	105,897
		<u>169,919</u>	<u>166,488</u>
<b>TOTAL ASSETS</b>		<u>2,204,446</u>	<u>1,980,956</u>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Called up share capital	17	72,173	72,173
Share premium	18	158,748	158,748
Other reserves	18	6,185	6,185
Retained earnings	18	649,788	518,891
<b>TOTAL EQUITY</b>		<u>886,894</u>	<u>755,997</u>

The notes on pages 44 to 88 form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued  
31 DECEMBER 2014

	Notes	2014 £'000	2013 £'000
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables	19	500,762	484,500
Borrowings			
Interest bearing loans and borrowings	20	466,960	466,759
Pension liability	24	-	10,600
Deferred tax	23	107,930	93,164
Provisions	22	1,967	2,063
		<u>1,077,619</u>	<u>1,057,086</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	19	146,783	119,743
Borrowings			
Interest bearing loans and borrowings	20	85,204	44,536
Tax payable		6,314	2,017
Provisions	22	1,632	1,577
		<u>239,933</u>	<u>167,873</u>
<b>TOTAL LIABILITIES</b>		<u>1,317,552</u>	<u>1,224,959</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>2,204,446</u>	<u>1,980,956</u>

The financial statements were approved by the Board of Directors on 17 April 2015 and were signed on its behalf by:



P A Jones  
Director

The notes on pages 44 to 88 form part of these financial statements

COMPANY STATEMENT OF FINANCIAL POSITION  
31 DECEMBER 2014

	Notes	2014 £'000	2013 £'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	1,728	1,788
Investments	13	<u>328,070</u>	<u>328,070</u>
		<u>329,798</u>	<u>329,858</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	15	308	338
Tax receivable		3,763	7,067
Cash and cash equivalents	16	<u>29,806</u>	<u>33,187</u>
		<u>33,877</u>	<u>40,592</u>
<b>TOTAL ASSETS</b>		<u>363,675</u>	<u>370,450</u>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Called up share capital	17	72,173	72,173
Share premium	18	<u>158,748</u>	<u>158,748</u>
Other reserves	18	6,185	6,185
Retained earnings	18	<u>113,523</u>	<u>119,293</u>
<b>TOTAL EQUITY</b>		<u>350,629</u>	<u>356,399</u>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Borrowings			
Interest bearing loans and borrowings	20	1,117	1,117
Deferred tax	23	<u>5,210</u>	<u>6,140</u>
Provisions	22	<u>1,689</u>	<u>1,725</u>
		<u>8,016</u>	<u>8,982</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	19	2,750	2,796
Borrowings			
Interest bearing loans and borrowings	20	<u>2,273</u>	<u>2,273</u>
Provisions	22	<u>7</u>	<u>-</u>
		<u>5,030</u>	<u>5,069</u>
<b>TOTAL LIABILITIES</b>		<u>13,046</u>	<u>14,051</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>363,675</u>	<u>370,450</u>

The financial statements were approved by the Board of Directors on 17 April 2015 and were signed on its behalf by:



P A Jones  
Director

The notes on pages 44 to 88 form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2014

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Other reserves £'000	Total equity £'000
<b>Balance at 1 January 2013</b>	<b>72,173</b>	<b>429,498</b>	<b>158,748</b>	<b>6,185</b>	<b>666,604</b>
<b>Changes in equity</b>					
Dividends	-	(30,000)	-	-	(30,000)
Total comprehensive income	-	119,393	-	-	119,393
<b>Balance at 31 December 2013</b>	<b>72,173</b>	<b>518,891</b>	<b>158,748</b>	<b>6,185</b>	<b>755,997</b>
<b>Changes in equity</b>					
Dividends	-	(30,000)	-	-	(30,000)
Total comprehensive income	-	160,897	-	-	160,897
<b>Balance at 31 December 2014</b>	<b>72,173</b>	<b>649,788</b>	<b>158,748</b>	<b>6,185</b>	<b>886,894</b>

**COMPANY STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Other reserves £'000	Total equity £'000
<b>Balance at 1 January 2013</b>	<b>72,173</b>	<b>124,872</b>	<b>158,748</b>	<b>6,185</b>	<b>361,978</b>
<b>Changes in equity</b>					
Dividends	-	(30,000)	-	-	(30,000)
Total comprehensive income	-	24,421	-	-	24,421
<b>Balance at 31 December 2013</b>	<b>72,173</b>	<b>119,293</b>	<b>158,748</b>	<b>6,185</b>	<b>356,399</b>
<b>Changes in equity</b>					
Dividends	-	(30,000)	-	-	(30,000)
Total comprehensive income	-	24,230	-	-	24,230
<b>Balance at 31 December 2014</b>	<b>72,173</b>	<b>113,523</b>	<b>158,748</b>	<b>6,185</b>	<b>350,629</b>

The notes on pages 44 to 88 form part of these financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

	Notes	2014 £'000	2013 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	28	215,949	198,035
Finance costs paid		(38,268)	(38,005)
Interest received		1,171	1,017
Tax paid		(23,396)	(30,162)
Net cash from operating activities		<u>155,456</u>	<u>130,885</u>
<b>Cash flows from investing activities</b>			
Purchase of intangible fixed assets		(11,070)	(8,776)
Purchase of tangible fixed assets		(216,760)	(199,392)
Sale of tangible fixed assets		752	444
Customer contributions		40,203	32,670
Dividends received		440	492
Net cash used in investing activities		<u>(186,435)</u>	<u>(174,562)</u>
<b>Cash flows from financing activities</b>			
Movement in external loans		38,594	30,341
Movement in loans from Group		2,074	(838)
Equity dividends paid		(30,000)	(30,000)
Net cash from/(used in) financing activities		<u>10,668</u>	<u>(497)</u>
<b>Decrease in cash and cash equivalents</b>		<b>(20,311)</b>	<b>(44,174)</b>
<b>Cash and cash equivalents at beginning of year</b>		<u>105,897</u>	<u>150,071</u>
<b>Cash and cash equivalents at end of year</b>		<u>85,586</u>	<u>105,897</u>

The notes on pages 44 to 88 form part of these financial statements

**COMPANY STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Notes	2014 £'000	2013 £'000
<b>Cash flows from operating activities</b>			
Cash generated from/(used in) operations	28	1,499	(2,511)
Finance costs paid		(9,011)	(9,401)
Interest received		413	660
Dividends received		30,407	30,405
Tax received/(paid)		<u>3,303</u>	<u>(2,234)</u>
Net cash from operating activities		<u>26,611</u>	<u>16,919</u>
<b>Cash flows from investing activities</b>			
Purchase of tangible fixed assets		-	(3)
Sale of tangible fixed assets		<u>8</u>	<u>-</u>
Net cash from/(used in) investing activities		<u>8</u>	<u>(3)</u>
<b>Cash flows from financing activities</b>			
Equity dividends paid		<u>(30,000)</u>	<u>(30,000)</u>
Net cash used in financing activities		<u>(30,000)</u>	<u>(30,000)</u>
<b>Decrease in cash and cash equivalents</b>		<b>(3,381)</b>	<b>(13,084)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>33,187</b>	<b>46,271</b>
<b>Cash and cash equivalents at end of year</b>		<b><u>29,806</u></b>	<b><u>33,187</u></b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**1. GENERAL INFORMATION**

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

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

**2. ACCOUNTING POLICIES**

**Accounting convention and basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have also been prepared in accordance with IFRSs as adopted by the European Union, and with those parts of the Companies Act 2006 (the "Act") that are applicable to companies reporting under IFRS. The Company's financial statements have also been prepared in accordance with IFRS, as applied in accordance with the provisions of the Act. The directors have taken advantage of the exemption offered by Section 408 of the Act not to present a separate statement of profit or loss for the Company.

The financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions which are in the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries made up to 31 December each year. Control is achieved where the Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns.

**Investments in associates and joint ventures**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have the rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**2. ACCOUNTING POLICIES - continued**

**Investments in associates and joint ventures - continued**

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting except when classified as held for sale. Investments in associates or joint venture entities are initially recognised at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture, the Group discontinues recognising its share of future losses.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Fixed asset investments are stated at cost less provision or amounts written off for impairment in value.

**Application of new and revised IFRSs**

In the current year, the Group has not been impacted by any amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2014.

**New and revised standards in issue but not yet effective**

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective for the year ended 31 December 2014:

- IFRS 9 - Financial Instruments (1 January 2018). A revised version of IFRS 9, Financial Instruments, was issued in July 2014 mainly to include: a) impairment requirements for financial assets; and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments. The directors anticipate that the application of IFRS 9 in the future is unlikely to have an impact on amounts reported in respect of the Group's financial assets and financial liabilities.
- IFRS 15 - Revenue from Contracts with Customers (1 January 2017). In May 2014, IFRS 15, Revenue from Contracts with Customers, was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 11 Construction Contracts, IAS 18 Revenue and the related Interpretations. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

2. ACCOUNTING POLICIES - continued

New and revised standards in issue but not yet effective - continued

- IFRS 15 - Revenue from Contracts with Customers (1 January 2017) - continued. The directors anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's financial statements. However it is not practicable to provide a reasonable estimate of the effect until the Group undertakes a detailed review.
- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (1 January 2016). The amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation, prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for the amortisation of an intangible asset. Currently the Group uses the straight-line method for depreciation and amortisation of property, plant and equipment, and intangible assets. The directors believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors do not anticipate that the application of these amendments will have a material impact on the Group's financial statements.
- Amendments to IAS 19 - Defined Benefit Plans: Employee Contributions (1 July 2014). The amendments to IAS 19, Defined Benefit Plans: Employee Contributions, clarify how an entity should account for contributions made by employees or third parties to defined benefit plans based on whether those contributions are dependent on the number of years of service provided by the employee. The directors do not anticipate that the application of these amendments to IAS 19 will have a significant impact on the Group's financial statements.
- Annual Improvements to IFRSs 2010-2012 Cycle (1 July 2014) and Annual Improvements to IFRSs 2011-2013 Cycle (1 July 2014). The Annual Improvements to IFRSs 2010-2012 Cycle and IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs. The directors do not anticipate that the application of these amendments will have a significant impact on the Group's financial statements.

Note: IFRS 14, Regulatory Deferral Accounts, is not applicable to the Group as the Group is not a first-time adopter of IFRSs.

**Critical judgements in applying accounting policies**

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

- Revenue recognition; and
- Discount rate used to determine the carrying amount of the Group's defined benefit obligation.

**Key sources of estimation uncertainty**

The following are the 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:

- Useful economic lives for property, plant and equipment;
- The split of operating and capital expenditure and the allocation of overheads to property, plant and equipment;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

2. ACCOUNTING POLICIES - continued

**Key sources of estimation uncertainty - continued**

- Assumptions used when evaluating long-term pension plans;
- Assumptions used when evaluating construction contracts; and
- Fair valuation measurements and valuation processes.

**Revenue**

Revenue is only recognised when the risks and rewards of ownership have been transferred to a third party. No revenue is recognised where there are significant uncertainties regarding the consideration to be received or the costs associated with the transaction.

Revenue is measured at the fair value of consideration received or receivable.

Revenue represents charges for the use of the Group's distribution network, amortisation of customer contributions, recharge of costs incurred on behalf of related parties and the invoiced value of other goods sold and services provided, exclusive of value added tax.

Revenues from charges to end customers for the use of the Group's distribution network include estimates of the units distributed. The estimated usage is based on historic data, judgement and assumptions. Revenues are gradually adjusted to reflect actual usage in the period during which actual meter readings are obtained.

Any under or over-recovery of allowed distribution network revenues as prescribed by Ofgem is not provided for in the financial statements and will be recovered/repaid through future tariffs.

Customer contributions towards distribution system assets are included in deferred revenue. The Group'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.

Income from credit sale charges is apportioned in the statement of profit or loss over the period of the sales agreements.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group 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.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

**Construction contracts**

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of the costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**2. ACCOUNTING POLICIES - continued**

**Construction contracts - continued**

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

**Software development costs**

Costs in respect of major developments are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful life of the software of up to 10 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

**Property, plant and equipment and depreciation**

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the purchase price of the asset and any costs, including internal employee and other costs, directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method:

Distribution system assets	45 years
Distributed generation expenditure included in distribution system assets	15 years
Information technology equipment included in distribution system assets	up to 10 years
Metering equipment	up to 10 years
Non-operational assets:	
Buildings - freehold	up to 60 years lower of lease period or 60 years up to 10 years
Buildings - leasehold	
Fixtures and equipment	
Software development costs	up to 10 years

Freehold land is not depreciated.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any material changes in estimate accounted for on a prospective basis. Due to the significance of the Group's investment in property, plant and equipment, variations in estimates could impact operating results both positively and negatively although, historically, few changes have been required.

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 Group'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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**2. ACCOUNTING POLICIES – continued**

**Financial instruments**

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Raw materials and goods for resale are valued at purchase cost on an average price basis. Work in progress is valued at the cost of direct materials and labour plus attributable overheads based on the normal level of activity less progress payments.

Assets held for sale comprise of vehicles which have been sold to the Group at the end of the lease agreement and are stated at the lower of the value attributed to the vehicle under the terms of the agreement or net realisable value. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal. Within the statement of profit or loss, any profits or losses arising from the sale of assets held for sale are recognised in costs of sales.

**Taxation**

The income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**2. ACCOUNTING POLICIES - continued**

**Research costs**

Expenditure on research activities is written off to the statement of profit or loss in the year in which it is incurred.

Other than the software development licenses, the Group and the Company do not carry out any other development activity that would give rise to an intangible asset.

**Foreign currencies**

Transactions in foreign currencies are recognised at the rate of exchange prevailing at the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at that date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

**Leases**

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease rentals are charged to the statement of profit or loss or in property, plant and equipment on a straight-line basis over the lease term.

**Pensions**

The Group contributes to the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "Northern Powergrid Group of the ESPS"), a defined benefit scheme.

The cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Re-measurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Re-measurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying a discount rate at the beginning of the period to the net defined liability or asset. Defined benefit costs are categorised as service cost, net interest expense or income and re-measurement.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

The Group 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 or capitalised as appropriate when employees have rendered service entitling them to the contributions.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service. Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service. Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**2. ACCOUNTING POLICIES - continued**

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Financial assets**

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

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

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

Cash and cash equivalents (which are presented as a single class of assets on the face of the statement of financial position) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of profit or loss.

**Going Concern**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

3. SEGMENTAL REPORTING

The tables below represent the internal information provided to the President and Chief Executive Officer of the Northern Powergrid Group for the purposes of resource allocation and segmental performance appraisal.

The Group operates in three principal areas of activity, those of the distribution of electricity, engineering contracting and smart meter rental in the United Kingdom.

Group revenue, Group profit before tax and Group net assets are analysed below:

	Distribution 2014 £m	Contracting 2014 £m	Other 2014 £m	Consolidation adjustments 2014 £m	Total 2014 £m
<b>REVENUE</b>					
External sales	359.0	42.6	7.9	-	409.5
Inter-segment sales	0.6	0.6	4.9	(6.1)	-
<b>Total revenue</b>	<b>359.6</b>	<b>43.2</b>	<b>12.8</b>	<b>(6.1)</b>	<b>409.5</b>
<b>SEGMENT RESULTS</b>					
Operating profit	171.4	-	2.1	37.2	210.7
Other gains					0.7
Finance costs					(34.9)
Finance income					1.7
<b>Profit before tax</b>					<b>178.2</b>
<b>OTHER INFORMATION</b>					
Capital additions	216.3	0.1	15.9	(2.2)	230.1
Depreciation and amortisation	65.6	-	0.4	(1.6)	64.4
Amortisation of deferred revenue	(19.8)	-	-	-	(19.8)
<b>STATEMENT OF FINANCIAL POSITION</b>					
Segment assets	2,076.0	19.7	35.9	(16.2)	2,115.4
Unallocated corporate assets					89.0
<b>Total assets</b>					<b>2,204.4</b>
Segment liabilities	(615.3)	(6.7)	(8.0)	(21.5)	(651.5)
Unallocated corporate liabilities					(666.1)
<b>Total liabilities</b>					<b>(1,317.6)</b>
Net assets/(liabilities) by segment	1,460.7	13.0	27.9	(37.7)	1,463.9
Unallocated net corporate liabilities					(577.1)
<b>Total net assets</b>					<b>886.8</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

3. SEGMENTAL REPORTING - continued

	Distribution 2013 £m	Contracting 2014 £m	Other 2013 £m	Consolidation adjustments 2013 £m	Total 2013 £m
<b>REVENUE</b>					
External sales	310.3	34.3	6.3	-	350.9
Inter-segment sales	0.6	0.1	6.3	(7.0)	-
<b>Total revenue</b>	<b>310.9</b>	<b>34.4</b>	<b>12.6</b>	<b>(7.0)</b>	<b>350.9</b>
<b>SEGMENT RESULTS</b>					
Operating profit	140.6	1.0	1.7	37.5	180.8
Other gains					0.4
Finance costs					(35.9)
Finance income					2.0
<b>Profit before tax</b>					<b>147.3</b>
<b>OTHER INFORMATION</b>					
Capital additions	210.2	0.1	-	0.6	210.9
Depreciation and amortisation	62.6	0.1	-	(1.5)	61.2
Amortisation of deferred revenue	(18.2)	-	-	-	(18.2)
<b>STATEMENT OF FINANCIAL POSITION</b>					
Segment assets	1,903.0	11.6	15.9	(58.9)	1,871.6
Unallocated corporate assets					109.4
<b>Total assets</b>					<b>1,981.0</b>
Segment liabilities	(597.6)	(7.7)	(4.4)	(8.8)	(618.5)
Unallocated corporate liabilities					(606.5)
<b>Total liabilities</b>					<b>(1,225.0)</b>
Net assets/(liabilities) by segment	1,305.4	3.9	11.5	(67.7)	1,253.1
Unallocated net corporate liabilities					(497.1)
<b>Total net assets</b>					<b>756.0</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

3. SEGMENTAL REPORTING - continued

"Other" comprises smart meter rental and business support units.

Sales and purchases between the different segments are made at commercial prices.

Unallocated corporate assets and liabilities include cash and cash equivalents (2014: £85.6 million, 2013: £105.9 million), borrowings (2014: £552.2 million, 2013: £511.3 million) and taxation (2014: £114.2 million, 2013: £95.2 million).

External sales to RWE Npower plc in 2014 of £92.9 million (2013: £86.6 million) are included within the Distribution segment.

Sales and purchases between the different segments are made at commercial prices.

Consolidation Adjustments include the recognition of the £52.9m retirement benefit asset (2013: £10.6 million liability).

4. EMPLOYEES AND DIRECTORS

	2014 £'000	2013 £'000
Salaries	60,949	54,097
Social security costs	6,157	6,154
Defined benefit pension costs	(2,986)	(2,600)
Defined contribution pension costs	1,761	953
	<hr/>	<hr/>
Less charged as capital expenditure	65,881	58,604
	(37,422)	(37,089)
	<hr/>	<hr/>
	28,459	21,515

The majority of the Group's employees are members of the Northern Powergrid Group of the ESPS, details of which are given in the Employee Benefit Obligations note (note 24).

The average monthly number of employees during the year was:

	2014 No.	2013 No.
Distribution	1,081	1,020
Engineering contracting	167	170
Other	41	44
	<hr/>	<hr/>
	1,289	1,234

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

4. EMPLOYEES AND DIRECTORS - continued

DIRECTORS' REMUNERATION

	2014 £'000	2013 £'000
Highest Paid:		
Short-term employee benefits	194	208
Post-employment benefits	24	23
Other long-term benefits	303	272
	<u>521</u>	<u>503</u>
Total:		
Short-term employee benefits	396	398
Post-employment benefits	40	39
Other long-term benefits	449	485
	<u>885</u>	<u>922</u>
Directors who are a member of the defined benefit scheme	<u>3</u>	<u>3</u>
Accrued pension benefit relating to highest paid director	<u>-</u>	<u>-</u>
OTHER KEY PERSONNEL REMUNERATION		
Total:		
Short-term employee benefits	340	294
Post-employment benefits	94	87
Other long-term benefits	229	271
	<u>663</u>	<u>652</u>

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 and the Group.

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 Group.

5. NET FINANCE COSTS

	2014 £'000	2013 £'000
Finance income:		
Interest in joint venture	456	472
Dividends received	33	87
Deposit account interest	250	-
Interest receivable on loans to Group undertakings	<u>921</u>	<u>1,404</u>
	<u>1,660</u>	<u>1,963</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

5. NET FINANCE COSTS - continued

	2014 £'000	2013 £'000
Finance costs:		
Bank interest	911	-
Interest payable on other loans	22,365	22,633
Interest payable on loans from Group undertakings	6,371	7,041
Capitalised interest	(3,783)	(2,780)
Preference dividends payable	<u>9,001</u>	<u>9,001</u>
	<u>34,865</u>	<u>35,895</u>
Net finance costs	<u>33,205</u>	<u>33,932</u>

6. PROFIT BEFORE INCOME TAX

The profit before income tax is stated after charging/(crediting):

	2014 £'000	2013 £'000
Depreciation - owned assets	62,435	59,753
Profit on disposal of fixed assets	(752)	(444)
Software development costs amortisation	2,011	1,402
Research costs	5,683	8,158
Amortisation of deferred revenue	(19,757)	(18,218)
Impairment of trade and other receivables	<u>266</u>	<u>281</u>

Analysis of auditor's remuneration is as follows:

	2014 £'000	2013 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	32	25
Fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation	<u>153</u>	<u>167</u>
Total audit fees	185	192
Other services	<u>47</u>	<u>159</u>
Total auditor's remuneration	<u>232</u>	<u>351</u>
	2014 £'000	2013 £'000
Fees payable to the Company's auditor and its associates in respect of the audit of associated pension schemes	<u>6</u>	<u>6</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

7. INCOME TAX

**Analysis of tax expense**

	2014 £'000	2013 £'000
Current tax	35,949	33,006
Deferred tax	<u>2,066</u>	<u>(18,035)</u>
Total tax expense in consolidated statement of profit or loss	<u>38,015</u>	<u>14,971</u>

**Factors affecting the tax expense**

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2014 £'000	2013 £'000
Profit on ordinary activities before income tax	<u>178,256</u>	<u>147,339</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21.50% (2013 - 23.25%)	38,325	34,256
Effects of:		
Dividends on non-equity preference shares	1,935	2,093
Tax effect of result of joint venture	(98)	(110)
Over provision for prior years	(1,707)	(1,499)
Changes in legislation	-	(21,566)
Group capital losses received at a discount	(556)	-
Pension contributions recognised in Other Comprehensive Income ("OCI")	576	2,238
Other	<u>(460)</u>	<u>(441)</u>
Tax expense	<u>38,015</u>	<u>14,971</u>
Tax expense comprises:		
Current tax expense:		
Corporation tax charge for the year	37,656	34,305
Over provision for prior years	<u>(1,707)</u>	<u>(1,499)</u>
Total current tax charge	35,949	33,006
Deferred tax:		
Deferred tax expenses relating to the origination and reversal of temporary differences	2,066	3,531
Effect of changes in tax rates	-	(21,566)
Total deferred tax charge	<u>2,066</u>	<u>(18,035)</u>
Tax on profit before tax	<u>38,015</u>	<u>14,971</u>

The Finance Act 2013 included a provision that the standard rate of corporation tax in the United Kingdom was to reduce from 23% to 21% from April 2014 and to 20% from April 2015. Accordingly, 20% has been applied when calculating deferred tax assets and liabilities throughout the Northern Powergrid Group as at 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

8. PROFIT OF PARENT COMPANY

As permitted by Section 408 of the Companies Act 2006, the statement of profit or loss of the Company is not presented as part of these financial statements. The Company's profit for the financial year was £24.2 million (2013: £24.4 million).

9. DIVIDENDS

	2014 £'000	2013 £'000
Interim dividend at 24p per share (2013: 24p)	<u>30,000</u>	<u>30,000</u>

10. OPERATING EXPENSES

Operating expenses comprise:

	2014 £'000	2013 £'000
Distribution costs	93,435	90,324
Administrative expenses	<u>41,935</u>	<u>37,606</u>
	<u><b>135,370</b></u>	<u><b>127,930</b></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

11. INTANGIBLE ASSETS

Group	Software development costs £'000
<b>COST</b>	
At 1 January 2014	43,957
Additions	<u>11,070</u>
At 31 December 2014	<u>55,027</u>
<b>AMORTISATION</b>	
At 1 January 2014	29,195
Amortisation for year	<u>2,011</u>
At 31 December 2014	<u>31,206</u>
<b>NET BOOK VALUE</b>	
At 31 December 2014	<u>23,821</u>
	Software development costs £'000
<b>COST</b>	
At 1 January 2013	35,181
Additions	<u>8,776</u>
At 31 December 2013	<u>43,957</u>
<b>AMORTISATION</b>	
At 1 January 2013	27,793
Amortisation for year	<u>1,402</u>
At 31 December 2013	<u>29,195</u>
<b>NET BOOK VALUE</b>	
At 31 December 2013	<u>14,762</u>

The Company had no intangible assets at 31 December 2014 (2013: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

12. PROPERTY, PLANT AND EQUIPMENT

Group	Non operational land and buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Metering equipment £'000	Totals £'000
<b>COST</b>					
At 1 January 2014	6,550	2,496,307	57,382	63,936	2,624,175
Additions	-	199,561	3,113	16,407	219,081
Disposals	(16)	(9,518)	(115)	(119)	(9,768)
At 31 December 2014	<u>6,534</u>	<u>2,686,350</u>	<u>60,380</u>	<u>80,224</u>	<u>2,833,488</u>
<b>DEPRECIATION</b>					
At 1 January 2014	5,662	717,762	53,087	57,431	833,942
Charge for year	203	59,195	1,666	1,371	62,435
Eliminated on disposal	(8)	(9,518)	(115)	(119)	(9,760)
At 31 December 2014	<u>5,857</u>	<u>767,439</u>	<u>54,638</u>	<u>58,683</u>	<u>886,617</u>
<b>NET BOOK VALUE</b>					
At 31 December 2014	<u>677</u>	<u>1,919,229</u>	<u>5,742</u>	<u>21,223</u>	<u>1,946,871</u>
	Non operational land and buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Metering equipment £'000	Totals £'000
<b>COST</b>					
At 1 January 2013	6,404	2,304,785	56,170	63,347	2,430,706
Additions	146	199,971	1,220	835	202,172
Disposals	-	(8,449)	(8)	(246)	(8,703)
At 31 December 2013	<u>6,550</u>	<u>2,496,307</u>	<u>57,382</u>	<u>63,936</u>	<u>2,624,175</u>
<b>DEPRECIATION</b>					
At 1 January 2013	4,680	672,111	51,747	54,354	782,892
Charge for year	982	54,100	1,348	3,323	59,753
Eliminated on disposal	-	(8,449)	(8)	(246)	(8,703)
At 31 December 2013	<u>5,662</u>	<u>717,762</u>	<u>53,087</u>	<u>57,431</u>	<u>833,942</u>
<b>NET BOOK VALUE</b>					
At 31 December 2013	<u>888</u>	<u>1,778,791</u>	<u>4,295</u>	<u>6,259</u>	<u>1,790,233</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

12. PROPERTY, PLANT AND EQUIPMENT - continued

**Group**

Assets in the course of construction included above:

	<b>Distribution system</b> £'000	<b>Fixtures and fittings</b> £'000	<b>Total</b> £'000
At 1 January 2014	185,722	-	185,722
Additions	202,235	1,643	203,878
Available for use	(201,345)	(1,643)	(202,988)
At 31 December 2014	<b>186,612</b>	<b>-</b>	<b>186,612</b>

The Group has entered into contractual commitments in relation to the future acquisition of property, plant and equipment of £31.9 million (2013: £36.0 million).

The net book value of the Group's non-operational land and buildings comprises:

	<b>2014</b> £'000	<b>2013</b> £'000
Freehold	209	420
Long leasehold	368	368
Short leasehold	100	100
	<b>677</b>	<b>888</b>

**Company**

	<b>Non operational land and buildings</b> £'000	<b>Distribution system</b> £'000	<b>Fixtures and fittings</b> £'000	<b>Totals</b> £'000
<b>COST</b>				
At 1 January 2014	296	1,259	3,634	5,189
Disposals	(16)	-	-	(16)
At 31 December 2014	<b>280</b>	<b>1,259</b>	<b>3,634</b>	<b>5,173</b>
<b>DEPRECIATION</b>				
At 1 January 2014	21	-	3,380	3,401
Charge for year	9	-	43	52
Eliminated on disposal	(8)	-	-	(8)
At 31 December 2014	<b>22</b>	<b>-</b>	<b>3,423</b>	<b>3,445</b>
<b>NET BOOK VALUE</b>				
At 31 December 2014	<b>258</b>	<b>1,259</b>	<b>211</b>	<b>1,728</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

12. PROPERTY, PLANT AND EQUIPMENT - continued

Company

	Non operational land and buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
<b>COST</b>				
At 1 January 2013	296	1,259	3,631	5,186
Additions	-	-	3	3
At 31 December 2013	<u>296</u>	<u>1,259</u>	<u>3,634</u>	<u>5,189</u>
<b>DEPRECIATION</b>				
At 1 January 2013	9	-	3,340	3,349
Charge for year	<u>12</u>	-	<u>40</u>	<u>52</u>
At 31 December 2013	<u>21</u>	-	<u>3,380</u>	<u>3,401</u>
<b>NET BOOK VALUE</b>				
At 31 December 2013	<u>275</u>	<u>1,259</u>	<u>254</u>	<u>1,788</u>

All of the Company's non-operational land and buildings are freehold.

13. INVESTMENTS

Group

	Share of joint venture's net assets £'000	Shares in other undertakings £'000	Total £'000
At 31 December 2013	3,371	21	3,392
Movement	<u>49</u>	-	<u>49</u>
At 31 December 2014	<u>3,420</u>	<u>21</u>	<u>3,441</u>

Company

	Share of joint venture's net assets £'000	Shares in other undertakings £'000	Total £'000
At 31 December 2013 and 31 December 2014	<u>327,099</u>	<u>971</u>	<u>328,070</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

13. INVESTMENTS - continued

Details of the principal investments of the Group at 31 December 2014 are listed below:

Name of company	Holding of shares	Proportion of voting rights and shares held	Nature of business
<b>Principal subsidiary undertakings</b>			
<b>Held by Company:</b>			
Integrated Utility Services Limited			
Northern Electric & Gas Limited	3,103,000 at £1	100%	Engineering contracting services
Northern Electric Properties Limited	84,785,000 at £1	100%	Non-trading company
Northern Powergrid Metering Limited	32,207,100 at £1	100%	Property holding and management company
Northern Powergrid (Northeast) Limited	1 at £1	100%	Meter rental company
Northern Transport Finance Limited	200,000,100 at £1	100%	Distribution of electricity
	7,000,000 at £1	100%	Car finance company
<b>Held by the Company's subsidiaries:</b>			
Northern Electric Finance plc	50,000 at £1	100%	Finance company
<b>Joint venture held by the Company:</b>			
Vehicle Lease and Service Limited	950,000 at £1	50%	Transport services

All the above companies are registered in England and Wales.

**Interest in Joint venture**

Summarised financial information in respect of the Group's joint venture is set out below:

	2014 £'000	2013 £'000
Long-term assets	16,753	17,735
Current assets	15,460	15,425
Long-term liabilities	(15,228)	(16,093)
Current liabilities	<u>(10,145)</u>	<u>(10,325)</u>
Net assets	<u>6,840</u>	<u>6,742</u>
Group's share of joint venture's net assets	<u>3,420</u>	<u>3,371</u>
Revenue	<u>17,156</u>	<u>15,680</u>
Profit for the year	<u>912</u>	<u>944</u>
Group's share of joint venture's profit for the year	<u>456</u>	<u>472</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

14. INVENTORIES

	Group	
	2014	2013
	£'000	£'000
Stocks	11,592	9,697
Work-in-progress	151	91
Assets held for sale	<u>561</u>	<u>611</u>
	<u><u>12,304</u></u>	<u><u>10,399</u></u>

The Company had no inventories at 31 December 2014 (2013 - £nil).

15. TRADE AND OTHER RECEIVABLES

	Group	Company	
	2014	2014	2013
	£'000	£'000	£'000
<b>Current:</b>			
Distribution use of system receivables	45,562	30,181	-
Construction contract customers	5,218	6,557	-
Amounts due from customers for contract work	<u>12,654</u>	4,364	-
Amounts receivable in respect of finance leases	4,168	3,683	-
Other receivables	-	71	61
Amounts receivable for sale of goods and services	2,366	955	81
Social security and other taxes	-	-	-
Prepayments and accrued income	<u>2,061</u>	<u>4,381</u>	<u>227</u>
	<u><u>72,029</u></u>	<u><u>50,192</u></u>	<u><u>308</u></u>
			338
<b>Non-current:</b>			
Amounts receivable in respect of finance leases	<u>7,494</u>	<u>6,081</u>	<u>-</u>
Aggregate amounts	<u><u>79,523</u></u>	<u><u>56,273</u></u>	<u><u>308</u></u>
			338

The directors consider that the carrying amount of trade and other receivables approximates their fair value calculated by discounting the future cash flows at the market rate at end of the reporting period. The fair valuation of the assets is based on Level 1 inputs. The maximum exposure of risk to the Group is the book value of these receivables less any provisions for impairment.

**Distribution use of system receivables**

The customers served by the Group's distribution network are supplied predominantly by a small number of electricity supply businesses with RWE NPower plc accounting for approximately 25% of distribution revenues in 2014 (2013: 27%). 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. Included within other payables are customer deposits of £130,000 as at 31 December 2014 (2013: £36,000).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**15. TRADE AND OTHER RECEIVABLES – continued**

**Distribution use of system receivables - continued**

Ofgem has indicated that, provided Northern Powergrid (Northeast) Limited 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 bad debt losses arising from supplier default will be recovered through an increase in future allowed income. Losses incurred to date have not been material. Included in the Group's use of system ("UoS") receivables are debtors with a carrying value of £nil, which have been placed into administration and have therefore been provided in full at the year-end (2013: £nil).

**Construction contract customers**

The average credit period on construction contracts is 30 days. Interest is not generally charged on construction contracts paid after the due date. The Group has provided fully for all receivables over one year for UK Contracting debts and all receivables over six months for Multi-Utility debts. Trade receivables between 30 days and these pre-determined provision dates are provided for based on estimated irrecoverable amounts, determined by reference to past default experience.

Included in the Group's construction contracts balance are debtors with a carrying amount of £2,764,000 (2013: £2,261,000), which are past due at the reporting date for which the Group has provided for an irrecoverable amount of £162,000 (2013: £155,000) based on experience. The Group does not hold collateral over these balances. The average age of these receivables is 55 days (2013: 70 days).

Included in the Group's construction contracts balance are debtors with a carrying amount of £nil (2013: £nil) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

**Amounts due from customers for contract work**

Contracts in progress at the reporting date:

	2014 £'000	2013 £'000
Contract costs incurred plus recognised profits less recognised losses to date	55,046	37,934
Less: progress billings	<u>(42,392)</u>	<u>(33,570)</u>
Amount due from customers	<u><u>12,654</u></u>	<u><u>4,364</u></u>

At 31 December 2014, retentions held by customers for contract work amounted to £0.8 million (2013: £0.4 million).

Advances received from customers for contract work amounted to £nil (2013: £nil).

The Company had no construction contracts at 31 December 2014 (2013: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

## 15. TRADE AND OTHER RECEIVABLES - continued

## Finance lease receivables

	Minimum lease payments		Present value	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Amounts receivable under finance leases:				
Within one year	4,552	4,218	4,168	3,683
In the second to fifth years inclusive	8,582	6,520	7,494	6,081
	13,134	10,738	11,662	9,764
Less: unearned finance income	(1,472)	(974)	-	-
	11,662	9,764	11,662	9,764

Northern Transport Finance Limited ("NTFL"), a wholly-owned subsidiary, enters into credit finance arrangements for motor vehicles with employees in the Northern Powergrid Group. All agreements are denominated in sterling. The term of the finance agreements is predominantly three years.

The interest rate inherent in the agreements is fixed at the contract date for all of the term of the agreement. The average effective interest rate contracted is approximately 6.5% (2013: 6.5%) per annum. None of these debts are past due and there are no indicators of impairment.

Northern Powergrid Metering Limited, a wholly-owned subsidiary, enters into credit finance arrangements for smart meters with electricity supply companies. All agreements are denominated in sterling. The term of the finance agreements is predominantly ten years.

The directors consider the carrying value of finance lease receivables approximates their fair value. The maximum risk exposure is the book value of these receivables, less the residual value of the leased assets.

## Amounts receivable from sale of goods and services

Sales of goods and services comprise all income streams which are not classified as UoS income. Examples of non-UoS income streams would be customer contributions in relation to the distribution system assets 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. An allowance for doubtful debts is made for debts past their due date based on estimated irrecoverable amounts from the sale of goods and services, determined by reference to past default experience.

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £740,000 (2013: £740,000) which are past due at the reporting date and for which the Group has provided an irrecoverable amount of £339,000 (2013: £506,000) based on past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 451 days (2013: 688 days).

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £449,000 (2013: £548,000). These amounts are past due at the reporting date and the Group has not provided for any amounts as not being recoverable because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 75 days (2013: 65 days).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

15. TRADE AND OTHER RECEIVABLES - continued

Ageing of past due but not impaired receivables:

	2014 £'000	2013 £'000
30-60 days	282	396
60-120 days	86	95
120-210 days	81	57
<b>Total</b>	<b>449</b>	<b>548</b>

Movement in the allowance for doubtful debts

	2014 £'000	2013 £'000
At 1 January	661	497
Amounts utilised/written off in the year	(426)	(117)
Amounts recognised in statement of profit or loss	266	281
<b>At 31 December</b>	<b>501</b>	<b>661</b>

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

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £160,000 (2013: £287,000 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.

Categories of financial assets

	2014 £'000	2013 £'000
<b>Group:</b>		
Cash and bank balances	85,586	105,897
Loans and receivables at amortised cost	77,462	51,892
<b>Total financial assets</b>	<b>163,048</b>	<b>157,789</b>
Non-current assets	1,974,133	1,808,387
Inventories	12,304	10,399
Prepayments and accrued income	2,061	4,381
Pension asset	52,900	-
<b>Total non-financial assets</b>	<b>2,041,398</b>	<b>1,823,167</b>
<b>Total assets</b>	<b>2,204,446</b>	<b>1,980,956</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**15. TRADE AND OTHER RECEIVABLES – continued**

	2014 £'000	2013 £'000
<b>Company:</b>		
Cash and bank balances	<u>29,806</u>	33,187
Loans and receivables at amortised cost	<u>81</u>	61
 Total financial assets	<u><u>29,887</u></u>	<u>33,248</u>
 Non-current assets	<u>329,798</u>	329,858
Prepayments and accrued income	<u>227</u>	196
Social security and other taxes	<u>-</u>	81
Income tax receivables	<u>3,763</u>	7,067
 Total non-financial assets	<u><u>333,788</u></u>	<u>337,202</u>
 Total assets	<u><u>363,675</u></u>	<u>370,450</u>

**16. CASH AND CASH EQUIVALENTS**

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Amounts owed by Group undertakings	<u>85,586</u>	<u>105,897</u>	<u>29,806</u>	<u>33,187</u>
	<u><u>85,586</u></u>	<u><u>105,897</u></u>	<u><u>29,806</u></u>	<u><u>33,187</u></u>

Cash and cash equivalents have a maturity of less than three months, are readily convertible to cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

Amounts owed by Group undertakings represent surplus cash remitted to Yorkshire Electricity Group plc ("YEG"), a fellow company in the Northern Powergrid Group, and invested to generate a market rate of return for the Group. This is repayable on demand by YEG.

**17. CALLED UP SHARE CAPITAL**

	2014 No.	2013 No.
Ordinary shares at 56 12/23p each		
Allotted, called up and fully paid	<u>127,689,809</u>	<u>127,689,809</u>
 Ordinary shares at 56 12/13p each		
Allotted, called up and fully paid	<u>72,173</u>	<u>72,173</u>

The Company has one class of ordinary shares which carries no right to fixed income.

Details of the cumulative non-equity preference shares are contained in the borrowings note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

18. RESERVES

Group	Retained earnings £'000	Share premium £'000	Other reserves £'000	Totals £'000
At 1 January 2014	518,891	158,748	6,185	683,824
Profit for the year	140,241	-	-	140,241
Dividends	(30,000)	-	-	(30,000)
Movements on pension reserve	<u>20,656</u>	<u>-</u>	<u>-</u>	<u>20,656</u>
At 31 December 2014	<u>649,788</u>	<u>158,748</u>	<u>6,185</u>	<u>814,721</u>
	Retained earnings £'000	Share premium £'000	Other reserves £'000	Totals £'000
At 1 January 2013	429,498	158,748	6,185	594,431
Profit for the year	132,368	-	-	132,368
Dividends	(30,000)	-	-	(30,000)
Movements on pension reserve	<u>(12,975)</u>	<u>-</u>	<u>-</u>	<u>(12,975)</u>
At 31 December 2013	<u>518,891</u>	<u>158,748</u>	<u>6,185</u>	<u>683,824</u>
Company	Retained earnings £'000	Share premium £'000	Other reserves £'000	Totals £'000
At 1 January 2014	119,293	158,748	6,185	284,226
Profit for the year	24,230	-	-	24,230
Dividends	(30,000)	-	-	(30,000)
At 31 December 2014	<u>113,523</u>	<u>158,748</u>	<u>6,185</u>	<u>278,456</u>
	Retained earnings £'000	Share premium £'000	Other reserves £'000	Totals £'000
At 1 January 2013	124,872	158,748	6,185	289,805
Profit for the year	24,421	-	-	24,421
Dividends	(30,000)	-	-	(30,000)
At 31 December 2013	<u>119,293</u>	<u>158,748</u>	<u>6,185</u>	<u>284,226</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

## 19. TRADE AND OTHER PAYABLES

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
<b>Current:</b>				
Payments on account	37,137	34,378	-	-
Trade payables	5,542	6,486	427	871
Amounts owed to related parties	706	631	-	-
Social security and other taxes	3,835	614	688	641
Other creditors	8,327	10,579	980	598
Deferred revenue	21,770	22,701	-	-
Accrued expenses	69,466	44,354	655	686
	<b><u>146,783</u></b>	<b><u>119,743</u></b>	<b><u>2,750</u></b>	<b><u>2,796</u></b>
<b>Non-current:</b>				
Deferred revenue	<b><u>500,762</u></b>	<b><u>484,500</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
	<b><u>500,762</u></b>	<b><u>484,500</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
Aggregate amounts	<b><u>647,542</u></b>	<b><u>604,243</u></b>	<b><u>2,750</u></b>	<b><u>2,796</u></b>

The directors consider that the carrying amount of other financial liabilities approximates their fair value, calculated by discounting future cash flows at market rate at the end of the reporting period. The valuation of liabilities set out above is based on Level 1 inputs. Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Invoices are paid at the end of the month following the date of the invoice. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The following tables detail the remaining contractual maturities for non-derivative financial liabilities. The tables have been drawn up based on the discounted cash flows of financial liabilities based on the earliest possible date on which the Company or the Group can be required to pay. The tables include both interest and principal cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

19. TRADE AND OTHER PAYABLES - continued

Group

	Less than 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
<b>2014:</b>					
Non-interest bearing	87,876	-	-	-	87,876
Variable interest rate liability	72,083	-	-	-	72,083
Fixed interest rate liability	5,031	22,463	188,348	628,781	844,623
	<b>164,990</b>	<b>22,463</b>	<b>188,348</b>	<b>628,781</b>	<b>1,004,582</b>
<b>2013:</b>					
Non-interest bearing	62,664	-	-	-	62,664
Variable interest rate liability	31,020	-	-	-	31,020
Fixed interest rate liability	5,031	22,463	149,975	694,649	872,118
	<b>98,715</b>	<b>22,463</b>	<b>149,975</b>	<b>694,649</b>	<b>965,802</b>

Company

	Less than 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
<b>2014:</b>					
Non-interest bearing	2,797	-	-	-	2,797
Fixed interest rate liability	-	9,000	36,000	115,532	160,532
	<b>2,797</b>	<b>9,000</b>	<b>36,000</b>	<b>115,532</b>	<b>163,329</b>
<b>2013:</b>					
Non-interest bearing	2,797	-	-	-	2,797
Fixed interest rate liability	-	9,000	36,000	115,532	160,532
	<b>2,797</b>	<b>9,000</b>	<b>36,000</b>	<b>115,532</b>	<b>163,329</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

19. TRADE AND OTHER PAYABLES - continued

Categories of financial liabilities

	2014 £'000	2013 £'000
<b>Group:</b>		
Loans and payables at amortised cost	<u>566,739</u>	<u>528,991</u>
<b>Total financial liabilities</b>	<b><u>566,739</u></b>	<b><u>528,991</u></b>
Payments received on account	37,137	34,378
Income tax liabilities	114,244	95,181
Other taxes and social security	3,835	614
Accruals	69,466	44,354
Deferred revenue	522,532	507,201
Pension liability	-	10,600
Provisions	<u>3,599</u>	<u>3,640</u>
<b>Total non-financial liabilities</b>	<b><u>750,813</u></b>	<b><u>695,968</u></b>
<b>Total liabilities</b>	<b><u>1,317,552</u></b>	<b><u>1,224,959</u></b>
<b>Company:</b>		
Loans and payables at amortised cost	<u>4,797</u>	<u>4,859</u>
<b>Total financial liabilities</b>	<b><u>4,797</u></b>	<b><u>4,859</u></b>
Income tax liabilities	5,210	6,140
Other taxes and social security	688	64)
Accruals	655	686
Provisions	<u>1,696</u>	<u>1,725</u>
<b>Total non-financial liabilities</b>	<b><u>8,249</u></b>	<b><u>9,192</u></b>
<b>Total liabilities</b>	<b><u>13,046</u></b>	<b><u>14,051</u></b>
<b>Deferred Revenue</b>		
At 1 January	507,201	492,354
Additions	35,088	33,065
Amortisation	<u>(19,757)</u>	<u>(18,218)</u>
<b>At 31 December</b>	<b><u>522,532</u></b>	<b><u>507,201</u></b>

Deferred revenue represents contributions from customers made in advance towards distribution system assets. This income is released to the statement of profit or loss over 45 years on a straight line basis (except for distributed generation which is released over 15 years on a straight line basis), in line with the useful economic life of the distribution system assets.

The Company had no deferred revenue at 31 December 2014 (2013: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

## 20. BORROWINGS

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

## Group

	Book Value		Fair Value	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Loans	446,236	407,441	523,151	457,831
Cumulative preference shares	3,368	3,368	160,811	160,532
Amounts owed to Group undertakings	102,560	100,486	134,663	117,143
	<b>552,164</b>	<b>511,295</b>	<b>818,625</b>	<b>735,506</b>

The borrowings are repayable as follows:

On demand or within one year	85,204	44,536	85,204	44,536
After five years	466,960	466,759	733,421	690,970
	<b>552,164</b>	<b>511,295</b>	<b>818,625</b>	<b>735,506</b>

## Analysis of borrowings:

Short-term loan	69,144	30,550	69,144	30,550
Inter-company short-term loan	2,544	470	2,544	470
Bond 2020 - 8.875%	100,923	100,805	135,364	132,556
Bond 2035 - 5.125%	152,814	152,746	183,922	163,000
Cumulative preference shares	3,368	3,368	160,811	160,532
European Investment Bank 2018 - 4.065%*	41,405	41,400	44,312	43,901
European Investment Bank 2019 - 4.241%*	41,467	41,462	45,342	44,286
European Investment Bank 2020 - 4.386%*	40,483	40,478	45,067	43,538
Yorkshire Electricity Group plc 2037 - 5.9%	100,016	100,016	132,119	116,673
	<b>552,164</b>	<b>511,295</b>	<b>818,625</b>	<b>735,506</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

20. BORROWINGS - continued

Company

	£'000	£'000	£'000	£'000
The borrowings are repayable as follows:				
On demand or within one year	2,273	2,273	2,273	2,273
After five years	<u>1,117</u>	<u>1,117</u>	<u>158,560</u>	<u>158,281</u>
	<u><u>3,390</u></u>	<u><u>3,390</u></u>	<u><u>160,833</u></u>	<u><u>160,554</u></u>
Analysis of borrowings:				
Inter-company short-term loan	22	22	22	22
Cumulative preference shares	<u>3,368</u>	<u>3,368</u>	<u>160,811</u>	<u>160,532</u>
	<u><u>3,390</u></u>	<u><u>3,390</u></u>	<u><u>160,833</u></u>	<u><u>160,554</u></u>

Of the total financial liabilities of £449.6 million relates to external borrowings and preference shares whose fair value is determined with reference to quoted market prices. The directors' estimates of the fair value of 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 valuation of liabilities set out above is based on Level 1 inputs.

\* The borrowings from the European Investment Bank were drawn down in twelve tranches, repayable in 2018, 2019 and 2020. The interest rates shown are average rates for those repayment dates. The spread of interest rates is as follows:

2018: 3.901% - 4.283%  
2019: 4.077% - 4.455%  
2020: 4.227% - 4.586%

Interest on short-term loans and on inter-company short-term loans is charged at a floating rate of interest LIBOR plus 1.25%, thus exposing the Group to cash flow interest rate risk. A 1% movement in interest rates would not subject the Group to any material change in interest costs. All other loans are at fixed interest rates and expose the Group to fair value interest rate risk.

The Company had authorised 115,000,000 non-equity cumulative preference shares of 1p each as at 31 December 2014 and 2013. As at 31 December 2014 and 2013 111,662,378 were allotted, called up and fully paid.

The terms of the cumulative preference shares:

- i) entitle holders, in priority to holders of all other classes of shares, to a fixed cumulative preferential dividend of 8.061p (net) per share per annum payable half-yearly in equal amounts on 31 March and 30 September;
- ii) on a return of capital on a winding up, or otherwise, will carry the right to repayment of capital together with a premium of 99p per share and a sum equal to any arrears or accruals of dividend. This right is in priority to the rights of ordinary shareholders;
- iii) carry the right to attend a general meeting of the Company and vote if, at the date of the notice convening the meeting, payment of the dividend to which they are entitled is six months or more in arrears, or if a resolution is to be considered at the meeting for winding-up the Company or abrogating, varying or modifying any of the special rights attaching to them; and
- iv) are redeemable in the event of the revocation by the Secretary of State of the Company's Public Electricity Supply Licence at the value given in (ii) above.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**20. BORROWINGS - continued**

During the year ended 31 December 2001, under the terms of the Company's transfer scheme, as approved by the Secretary of State in accordance with the provisions of the Utilities Act 2000, the Company's Public Electricity Supply Licence was converted into an Electricity Distribution Licence and an Electricity Supply Licence.

At 31 December 2014, the Group had available £28 million (2013: £67 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

No material market risks in relation to currency or interest rates are faced by the Group. As at 31 December 2014, 100% (2013: 100%) of the Group's long-term borrowings were at fixed rates and the average maturity for these borrowings was 14 years (2013: 15 years).

**21. LEASING AGREEMENTS**

**Group**

	<b>Non-cancellable operating leases</b>	
	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Within one year	5,930	5,438
Between one and five years	15,746	16,594
In more than five years	<u>2,097</u>	<u>5,964</u>
	<b><u>23,773</u></b>	<b><u>27,996</u></b>
Minimum lease payments under operating leases recognised in the year	<b><u>5,172</u></b>	<b><u>4,930</u></b>

**Company**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Within one year	172	172
Between one and five years	<u>390</u>	<u>561</u>
	<b><u>562</u></b>	<b><u>733</u></b>
Minimum lease payments under operating leases recognised in the year	<b><u>2,195</u></b>	<b><u>2,201</u></b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

22. PROVISIONS

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Other provisions	<u>3,599</u>	<u>3,640</u>	<u>1,696</u>	<u>1,725</u>
Analysed as follows:				
Current	1,632	1,577	7	-
Non-current	<u>1,967</u>	<u>2,063</u>	<u>1,689</u>	<u>1,725</u>
	<u>3,599</u>	<u>3,640</u>	<u>1,696</u>	<u>1,725</u>
At 1 January 2014				
Claims	988	2,652	3,640	
Utilised/paid in the year	(613)	(593)	(1,206)	
Charged to statement of profit or loss	<u>664</u>	<u>501</u>	<u>1,165</u>	
At 31 December 2014	<u>1,039</u>	<u>2,560</u>	<u>3,599</u>	

Claims: Provision has been made to cover costs arising from actual 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 20 years.

Also included in 'other' is a provision to cover the actuarial assessment of the costs of unfunded pension arrangements in respect of former employees. Further details can be found in the Employee Benefit Obligations note.

23. DEFERRED TAX

	Accelerated tax depreciation	Rollover/ holdover relief	Retirement benefit (obligations/ assets)	Other	Total
	£'000	£'000	£'000	£'000	£'000
Group					
At 1 January 2014	88,312	7,491	(2,460)	(179)	93,164
Charge/(credit) to the statement of profit or loss	15,780	(865)	(12,756)	(93)	2,066
Charge to other comprehensive income	-	-	12,700	-	12,700
At 31 December 2014	<u>104,092</u>	<u>6,626</u>	<u>(2,516)</u>	<u>(272)</u>	<u>107,930</u>
At 1 January 2013	99,993	8,545	(9,547)	(112)	98,879
Charge/(credit) to the statement of profit or loss	(11,681)	(1,054)	(5,233)	(67)	(18,035)
Charge to other comprehensive income	-	-	12,320	-	12,320
At 31 December 2013	<u>88,312</u>	<u>7,491</u>	<u>(2,460)</u>	<u>(179)</u>	<u>93,164</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

23. DEFERRED TAX - continued

	Accelerated tax depreciation £'000	Rollover/ holdover relief £'000	Retirement benefit (obligations/ assets) £'000	Total £'000
<b>Company</b>				
At 1 January 2014	(38)	6,520	(342)	6,140
Charge/(credit) to statement of profit or loss	(7)	(926)	3	(930)
<b>At 31 December 2014</b>	<b>(45)</b>	<b>5,594</b>	<b>(339)</b>	<b>5,210</b>
	Accelerated tax depreciation £'000	Rollover/ holdover relief £'000	Retirement benefit (obligations/ assets) £'000	Total £'000
At 1 January 2013	(22)	7,471	(398)	7,051
Charge/(credit) to statement of profit or loss	(16)	(951)	56	(911)
<b>At 31 December 2013</b>	<b>(38)</b>	<b>6,520</b>	<b>(342)</b>	<b>6,140</b>

Other comprises provisions and employee expenses deductible for tax on a paid basis.

24. EMPLOYEE BENEFIT OBLIGATIONS

**Introduction**

The Company contributes to two pension schemes, which it operates on behalf of the participating companies within the Northern Powergrid Group. Those pension schemes are:

- The Northern Powergrid Group of the ESPS (the "DB Scheme"); and
- The Northern Powergrid Pension Scheme.

The Northern Powergrid Pension Scheme was introduced for new employees of the Northern Powergrid Group from July 1997 and is a money purchase arrangement accounted for as a defined contribution scheme.

The DB Scheme is a defined benefit scheme for directors and employees, which provides pension and other related retirement benefits based on final pensionable pay. The DB Scheme closed to staff commencing employment with the Northern Powergrid Group on or after 23 July 1997. Members who joined before this date, including some Protected Persons under The Electricity (Protected Persons) (England and Wales) Pension Regulations 1990, continue to build up future pension benefits.

Under the DB Scheme, employees are typically entitled to annual pensions on retirement at age 63 of one-eightieth of final pensionable salary for each year of service plus an additional tax-free cash lump sum at retirement of three times pension. Benefits are also payable on death and following other events such as withdrawing from active service.

No other post-retirement benefits are provided to members of the DB Scheme.

**Role of Trustees**

The DB Scheme is administered by a board of Trustees which is legally separate from the Company. The assets of the DB Scheme are held in a separate trustee-administered fund. The board of Trustees is made up of Trustees appointed by the Company, as the Principal Employer of the DB Scheme, Trustees elected by the membership and an independent trustee. The Trustees are required by law to act in the interests of all relevant beneficiaries and are responsible in particular for the asset investment strategy plus the day-to-day administration of the benefits payable. They also are responsible for jointly agreeing with the Principal Employer the level of contributions due to the DB Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

**Funding requirements**

UK legislation requires that pension schemes are funded prudently (i.e. to a level in excess of the current expected cost of providing benefits). The last actuarial valuation of the DB scheme was carried out by the Trustees' actuarial advisors, Aon Hewitt, as at 31 March 2013. Such valuations are required by law to take place at intervals of no more than three years. Following each valuation, the Trustees and the Northern Powergrid Group must agree the contributions required (if any) to ensure the DB Scheme is fully funded over time on the basis of suitable, prudent assumptions. Contributions agreed in this manner constitute a minimum funding requirement. The next funding valuation is due no later than 31 March 2016 at which the funding position will be reviewed.

Agreement was reached during October 2014 with the Trustees to repair the funding deficit of £286.4m as at 31 March 2013 over the 11 year period to 31 March 2025, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2013 being borne out in practice. The agreement includes cash payments of £34.9m per annum over the period to 31 March 2015, made on a monthly basis, followed by an agreed profile of payments to be made over the remaining ten years of the recovery plan, as set out below:

1 April 2015 to 31 March 2016	£28.6m p.a.
1 April 2016 to 31 March 2025	£18.4m p.a.

All contributions set out above are in 2014/15 prices and will be increased each year in line with increases in RPI over the period until they fall due.

The contributions payable by the Northern Powergrid Group to the DB Scheme in respect of future benefits, which are accruing, are 37.0% of pensionable pay. These contributions were determined as part of the 31 March 2013 actuarial valuation and are payable in addition to the deficit repair contributions mentioned above. These rates will remain in place until such a time as a new schedule of contributions is agreed between the Trustees and the Company as part of the 31 March 2016 or earlier valuation.

Under the rules of the DB Scheme, any future surplus in the DB Scheme may, following consultation with the Group Trustees, be allocated for the benefit of the members of the DB Scheme and/or the Principal and Participating Employers.

**Pensions' Regulation**

The UK pensions market is regulated by the Pensions Regulator whose key statutory objectives in relation to UK defined benefit plans are to:

- protect the benefits of members;
- promote and to improve understanding of good administration;
- reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund ("PPF"); and
- minimise any adverse impact on the sustainable growth of an employer.

The Pensions Regulator has various powers including the power to:

- wind up a scheme where winding up is necessary to protect members' interests;
- appoint or remove a trustee;
- impose a schedule of company contributions or the calculation of the technical provisions where trustees and company fail to agree on appropriate contributions; and
- impose contributions where there has been a detrimental action against the scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

**Profile of the DB Scheme**

The Defined Benefit Obligation ("DBO") includes benefits for current employees, former employees and current pensioners. The overall duration of the DB Scheme's obligation was assessed to be about 17 years based on the results of the 31 March 2013 funding valuation. This is the weighted-average time over which benefit payments are expected to be made.

Broadly, about 40% of the liabilities are attributable to current employees (duration about 23 years), 10% to former employees (duration about 24 years) and 50% to current pensioners (duration about 12 years).

**Risks associated with the DB Scheme**

The DB Scheme exposes the Northern Powergrid Group to a number of risks, the most significant of which are:

Risk	Description	Mitigation
Volatile asset returns	The DBO is calculated using a discount rate set with reference to corporate bond yields. If assets underperform this discount rate, this will create an element of deficit. The DB Scheme aims to hold a significant proportion (48%) of its assets in return-seeking assets (such as equities) which, although expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term.	The allocation to return-seeking assets is monitored to ensure it remains appropriate given the DB Scheme's long-term objectives. The Trustees regularly review the strategy from return-seeking assets and have diversified some return-seeking assets from equities into Reinsurance and Listed Infrastructure to reduce overall risk. To avoid concentration risk, the allocation to UK equity is restricted to 35% of the total equity allocation.
Changes in bond yields	A decrease in corporate bond yields will increase the value placed on the DBO for accounting purposes, although this will be partially offset by an increase in the value of the DB Scheme's bond holdings.	The DB Scheme also holds a substantial proportion of its assets (52%) as bonds, which provide a hedge against falling bond yields (falling yields which increase the DBO will also increase the value of the bond assets). There are some differences in the credit quality of bonds held by the DB Scheme and the bonds analysed to decide the DBO discount rate, such that there remains some risk should yields on different quality bond/swap assets diverge.
Inflation risk	A significant proportion of the DBO is indexed in line with price inflation (specifically in line with RPI) and higher inflation will lead to higher liabilities	The DB Scheme holds around 30% in UK government index-linked bonds which provide a hedge against higher than expected inflation increases of the DBO (rising inflation will increase both the DBO and the value of the index-linked bond portfolio).
Currency risk	To increase diversification, the DB Scheme invests in overseas assets. This leads to a risk that foreign currency movements negatively impact the value of assets in Sterling terms.	The DB Scheme hedges a proportion of the overseas investments currency risk for those overseas currencies that can be hedged efficiently. The DB Scheme's currency hedging ratio is currently 50% in respect of overseas developed market currencies.
Life expectancy	The majority of the DB Scheme's obligations are to provide benefits for the pensionable lifetime of the member, so increases in life expectancy will result in an increase in the liabilities.	The DB Scheme regularly reviews actual experience of its membership against the actuarial assumptions underlying the future benefit projections and carries out detailed analysis when setting an appropriate scheme specific mortality assumption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

The Company and Trustees have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes an element of asset-liability matching, which aims to reduce the volatility of the funding level of the DB Scheme by investing in certain assets, which perform in line with the liabilities of the DB Scheme.

**Other risks**

There are a number of other risks associated with the DB Scheme including operational risks (such as paying out the wrong benefits), legislative risks (such as the government increasing the burden on pension schemes through new legislation) and other demographic risks (such as a higher proportion members dying than assumed with a dependant eligible to receive a survivor's pension from the DB Scheme).

A particular legislative risk exists in relation to the equalisation of the Guaranteed Minimum Pension ("GMP"), a quasi-state benefit accrued by many UK plans over the period 1978 to 1997 as a result of a UK government programme allowing pension plans to "contract out" of the State Second Pension. The UK Government has announced its intention to ensure that these benefits, which currently pay out at different levels for men and women, are gender-equalised in accordance with sex-discrimination legislation. This would increase the DBO but it is not possible to fully quantify the impact of this change at this stage. However, it could lead to an increase in the order of 2% to the DBO for a typical scheme.

**Reporting at 31 December 2014**

For the purposes of this disclosure, the current and future pension costs of the Northern Powergrid Group have been assessed by Aon Hewitt, a qualified independent actuary, using the assumptions set out below, which the actuary has confirmed represent a reasonable best estimate of those costs. This review has been based on the same membership and other data as at 31 March 2013. The board of Northern Powergrid Holdings Company has accepted the advice of the actuary and formally approved the use of these assumptions for the purpose of calculating the pension cost of the Northern Powergrid Group.

The results of the latest funding valuation at 31 March 2013 have been adjusted to 31 December 2014. Those adjustments take account of experience over the period since 31 March 2013, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the DBO and the related current service cost were measured using the Projected Unit Credit Method.

For schemes closed to new members, such as the DB Scheme, the current service cost calculated under the Projected Unit Credit Method is expected to increase as the members of the scheme approach retirement.

The principal assumptions used to calculate the liabilities under IAS 19 are set out below:

Main financial assumptions	2014 % p.a.	2013 % p.a.
RPI Inflation	2.80	3.15
Rate of long-term increase in salaries	2.80	3.15
Pension increases	2.70	3.05
Discount rate for scheme liabilities	3.60	4.40

The financial assumptions reflect the nature and term of the DB Scheme's liabilities.

Main demographic assumptions	2014	2013
Life expectancy for a male currently aged 60	27.1	27.1
Life expectancy for a female currently aged 60	28.9	28.8
Life expectancy at 60 for a male currently aged 45	28.7	28.8
Life expectancy at 60 for a female currently aged 45	30.6	30.6
Proportion of pension exchanged for additional cash at retirement	10%	10%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

The mortality assumptions are based on recent actual mortality experience of DB Scheme members and allow for expected future improvements in mortality rates.

The DB Scheme's funds are invested in the following assets:

Asset allocation	2014	2013
	£m	£m
Developed market equity	306.2	290.7
Emerging market equity	12.6	12.1
Property	130.3	112.2
Reinsurance	64.5	61.8
Listed infrastructure	84.7	66.8
Investment grade corporate bonds	343.1	331.2
Other debt	57.4	37.2
Fixed interest gilts	28.5	21.6
Index-linked gilts	452.7	358.7
Cash	36.1	18.4
<b>Total</b>	<b>1,516.1</b>	<b>1,310.7</b>

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets whereas the fair values of properties are not based on quoted prices in active markets.

As at 31 December 2014, the fair value of the DB Scheme's assets, which related to self-investment, amounted to £Nil (2013: £Nil).

The amounts recognised on the statement of financial position are set out below:

Reconciliation of funded status to statement of financial position	2014	2013
	£m	£m
Fair value of scheme assets	1,516.1	1,310.7
Present value of funded defined benefit obligations	(1,463.2)	(1,321.3)
<b>Asset/(liability) recognised on the statement of financial position</b>	<b>52.9</b>	<b>(10.6)</b>

When determining the adjustment in respect of the minimum funding requirement, it has been assumed that the Group would be entitled to a refund from the plant of any surplus arising in the plan in future. This reflects the provisions of the plan documentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

The amounts recognised in comprehensive income are set out below:

	2014 £m	2013 £m
<b>Operating cost</b>		
Service costs:		
Current service cost	14.5	13.9
Administration expenses	1.5	1.5
<b>Financing cost</b>		
Interest on net defined benefit liability/(asset)	<u>(0.3)</u>	<u>0.8</u>
Pension expense recognised in profit and loss	15.7	16.2
<b>Re-measurements in OCI:</b>		
Return on plan assets in excess of that recognised in net interest	(149.6)	(36.4)
Actuarial losses due to changes in financial assumptions	110.4	57.6
Actuarial gains due to changes in demographic assumptions	(19.2)	(23.2)
Actuarial losses due to liability experience	<u>33.3</u>	<u>10.7</u>
Total amount recognised in OCI	<u>(25.1)</u>	<u>8.7</u>
Total amount recognised in profit and loss and OCI	<u>(9.4)</u>	<u>24.9</u>
<b>Changes to the present value of the DBO during the year</b>	2014 £m	2013 £m
Opening DBO	1,321.3	1,259.3
Current service cost	14.5	13.9
Interest expense on defined benefit obligation	57.3	54.6
Contributions by DB Scheme participants	1.5	1.6
Actuarial gains on DB Scheme liabilities arising from changes in demographic assumptions	(19.2)	(23.2)
Actuarial losses on DB Scheme liabilities arising from changes in financial assumptions	110.4	57.6
Actuarial losses on DB Scheme liabilities arising from experience	33.3	10.7
Net benefits paid out	<u>(55.9)</u>	<u>(53.2)</u>
Closing DBO	<u>1,463.2</u>	<u>1,321.3</u>
<b>Changes in the fair value of DB Scheme assets during the year</b>	2014 £m	2013 £m
Opening fair value of DB Scheme assets	1,310.7	1,222.8
Interest income on DB Scheme assets	57.6	53.8
Re-measurement gains on DB Scheme assets	149.6	36.4
Contributions by the employer	54.1	50.8
Contributions by DB Scheme participants	1.5	1.6
Net benefits paid out	<u>(55.9)</u>	<u>(53.2)</u>
Administration costs incurred	<u>(1.5)</u>	<u>(1.5)</u>
Closing fair value of DB Scheme assets	<u>1,516.1</u>	<u>1,310.7</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

Actual return on DB Scheme assets	2014 £m	2013 £m
Interest income on DB Scheme assets	57.6	53.8
Re-measurement gain on DB Scheme assets	149.6	36.4
Actual return on DB Scheme assets	<u>207.2</u>	<u>90.2</u>
Analysis of amounts recognised in SoCI	2014 £m	2013 £m
Total re-measurement gains/(losses)	<u>25.1</u>	<u>(8.7)</u>

**Sensitivity to key assumptions**

The key assumptions used for IAS 19 are discount rate, inflation and mortality. If different assumptions were used, it could have a material effect on the results of the Group. The sensitivity of the results to these assumptions is as follows.

	Changes in DBO £m	Revised DBO £m
<b>Current Figures</b>	<b>1,463.2</b>	
Following a 10 bps decrease in the discount rate	26.1	1,489.3
Following a 10 bps increase in the discount rate	(25.7)	1,437.5
Following a 10 bps increase in the inflation assumption	24.3	1,487.5
Following a 10 bps decrease in the inflation assumption	(24.0)	1,439.2
Following a 1 year increase in life expectancy	48.3	1,511.5
Following a 1 year decrease in life expectancy	(48.8)	1,414.4

The sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the statement of financial position date. This is the same approach as has been adopted in previous periods.

A provision to cover the actuarial assessment of the costs of unfunded pension arrangements in respect of former employees has been made by the Group and the Company as follows:

	£m
1 January 2014	1.7
Utilised/paid in the year	(0.1)
Transferred from statement of profit or loss	<u>0.1</u>
31 December 2014	<u>1.7</u>

25. DIRECTORS' TRANSACTIONS

During the year, 2 directors (2013: 2) and 5 key personnel (2013: 6) utilised the services provided by NTFL. The amounts included in finance lease receivables owed by these directors and key personnel total £43,000 (2013: £30,000) in respect of non-current and £80,000 (2013: £15,000) in respect of current receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

26. RELATED PARTY DISCLOSURES

**Group**

Details of transactions between the Group and other related parties are disclosed below.

The Group entered into transactions, in the ordinary course of business, with affiliated companies. Transactions entered into and balances outstanding at the year-end were as follows:

	Sales to £'000	Purchases from £'000	Amounts owed from £'000	Finance/ investment income/ (costs) from/(to) £'000	Borrowings to/(from) £'000
<b>Related Party</b>					
<b>2014</b>					
Integrated Utility Services Limited (registered in Eire)	6	(2,722)	289	-	-
Northern Powergrid Gas Limited	96	-	-	-	-
Northern Powergrid Limited	-	-	-	(6,222)	-
Northern Powergrid Insurance Services Limited	-	(476)	-	-	-
Northern Powergrid (Yorkshire) plc	21,792	(9,934)	-	-	-
Vehicle Lease and Service Limited	245	(3,703)	417	456	-
Yorkshire Electricity Group plc	-	-	-	(5,450)	(102,560)
	<u>22,139</u>	<u>(16,835)</u>	<u>706</u>	<u>(11,216)</u>	<u>(102,560)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

26. RELATED PARTY DISCLOSURES - continued

	Sales to £'000	Purchases from £'000	Amounts owed from/(to) £'000	Finance/ investment income/ (costs) from/(to) £'000	Borrowings to/(from) £'000
<b>Related Party</b>					
2013					
Integrated Utility Services Limited (registered in Eire)	-	(1,428)	232	-	-
Northern Powergrid Gas Limited	46	-	-	-	-
Northern Powergrid Limited	-	-	-	(6,222)	-
Northern Powergrid Insurance Services Limited	-	(428)	-	-	-
Northern Powergrid (Yorkshire) plc	17,723	(7,697)	-	-	-
Vehicle Lease and Service Limited	169	(4,155)	399	472	
Yorkshire Electricity Group plc	-	-	-	(5,637)	(100,486)
	<u>17,938</u>	<u>(13,708)</u>	<u>631</u>	<u>(11,387)</u>	<u>(100,486)</u>

Sales and purchases from related parties were made at commercial prices.

Interest on loans from Northern Powergrid Group companies is charged at a commercial rate.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

**Company**

Details of transactions between the Company and other related parties are disclosed below.

The Company entered into transactions, in the ordinary course of business, with affiliated companies. Transactions entered into and balances outstanding at the year-end were as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

26. RELATED PARTY DISCLOSURES - continued

	Sales to £'000	Purchases from £'000	Amounts owed from/(to) £'000	Finance/ investment income/ (costs) from/(to) £'000	Borrowings to/(from) £'000
<b>Related Party</b>					
2014					
Integrated Utility Services Limited	63	(520)	-	-	-
Northern Powergrid Gas Limited	96	-	-	-	-
Northern Powergrid Limited	-	-	-	(6,222)	-
Northern Powergrid (Northeast) Limited	7,300	(145)	-	30,000	-
Northern Powergrid (Yorkshire) plc	4,663	-	-	-	-
Northern Transport Finance Limited	28	-	-	-	-
Vehicle Lease and Service Limited	207	-	-	407	-
Yorkshire Electricity Group plc	-	-	-	267	29,806
	<u>12,357</u>	<u>(665)</u>	<u>-</u>	<u>24,452</u>	<u>29,806</u>
<b>Related Party</b>					
2013					
Integrated Utility Services Limited	423	-	-	-	-
Northern Powergrid Gas Limited	46	-	-	-	-
Northern Limited	-	-	-	(6,222)	-
Northern Powergrid (Northeast) Limited	6,476	(162)	-	30,000	-
Northern Powergrid (Yorkshire) plc	3,891	-	-	-	-
Northern Transport Finance Limited	22	-	-	-	-
Vehicle Lease and Service Limited	169	-	-	405	-
Yorkshire Electricity Group plc	-	-	-	660	33,187
	<u>11,027</u>	<u>(162)</u>	<u>-</u>	<u>24,843</u>	<u>33,187</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014

26. RELATED PARTY DISCLOSURES - continued

Sales and purchases from related parties were made at commercial prices.

Interest on loans from Northern Powergrid Group companies is charged at a commercial rate.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

27. RECONCILIATION OF PROFIT BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

Group	2014 £'000	2013 £'000
Profit before income tax	178,256	147,339
Depreciation charges	64,446	61,155
Profit on disposal of fixed assets	(752)	(444)
Amortisation of deferred revenue	(19,757)	(18,218)
Retirement benefit obligations	(38,400)	(34,600)
(Decrease)/increase in provisions	(41)	60
Finance costs	34,865	35,895
Finance income	(1,660)	(1,963)
	 216,957	 189,224
(Increase)/decrease in inventories	(1,905)	610
(Increase)/decrease in trade and other receivables	(23,477)	14,913
Increase/(decrease) in trade and other payables	<u>24,374</u>	<u>(6,712)</u>
<b>Cash generated from operations</b>	<b><u>215,949</u></b>	<b><u>198,035</u></b>
Company	2014 £'000	2013 £'000
Profit before income tax	23,301	23,195
Depreciation charges	52	52
Decrease in provisions	(29)	(18)
Finance costs	9,012	9,015
Finance income	(30,820)	(30,679)
	 1,516	 1,565
Decrease in trade and other receivables	30	228
Decrease in trade and other payables	<u>(47)</u>	<u>(4,304)</u>
<b>Cash generated from/(used in) operations</b>	<b><u>1,499</u></b>	<b><u>(2,511)</u></b>

28. OTHER RESERVES

At the Company's Annual General Meeting in August 1994, the shareholders gave approval to on-market purchases of up to 10% of its shares and this was given effect on 21 September 1994 when 12,370,400 shares were purchased. This transaction resulted in the creation of a capital redemption reserve of £6.2m. Under section 831(4) of the Companies Act 2006 this reserve is treated as an un-distributable reserve.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**29. ULTIMATE CONTROLLING PARTY**

The immediate parent undertaking of Northern Electric plc Group is Northern Powergrid Limited. The ultimate controlling party and ultimate parent undertaking of Northern Powergrid Limited is Berkshire Hathaway, Inc., a company incorporated in the United States of America.

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

**NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the Annual General Meeting of Northern Electric plc will be held at Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF on 17 June 2015 at 10.00 am for the following purposes:

The following resolutions will be proposed as ordinary resolutions.

**Resolution 1**

To receive and consider the strategic, directors' and auditor's reports and the Group accounts for the year ended 31 December 2014.

**Resolution 2**

To declare that no final dividend be paid for the year ended 31 December 2014.

**Resolution 3**

To re-elect Mr J A Andreasen as a director.

**Resolution 4**

To re-elect Mr R Dixon as a director.

**Resolution 5**

To re-elect Mr P J Goodman as a director.

**Resolution 6**

To re-appoint Deloitte LLP as auditor until the conclusion of the next general meeting at which accounts are laid and to authorise the directors to determine their remuneration.

**By order of the board**

**John Elliott  
Secretary  
17 April 2015**

**Registered office:**

**Lloyds Court, 78 Grey Street,  
Newcastle upon Tyne, NE1 6AF  
Registered in England No 2366942**

Note:

1. All the issued ordinary shares in the Company are held by or on behalf of Northern Powergrid Limited.
2. Holders of preference shares have the right to receive notice of, attend and speak at the Annual General Meeting but are only entitled to vote if, at the date of the notice of the meeting, payment of the dividend to which they are entitled is six months or more in arrears or if a resolution is to be considered at the meeting for the winding up of the Company or abrogating, varying or modifying any of the special rights attaching to the preference shares. As none of these circumstances apply to this Annual General Meeting, preference shareholders should note that they do not have the right to vote on any of the business to be considered.
3. Members are entitled to appoint a proxy to exercise all or any of their rights on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the shareholder. A proxy need not be a shareholder of the Company.
4. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a nominated person does not have such a right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.

**NOTICE OF ANNUAL GENERAL MEETING - continued**

5. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
6. The current price of the Company's preference shares can be obtained from the web site of the London Stock Exchange at [www.londonstockexchange.com](http://www.londonstockexchange.com).