

Registered number: 07647856 (England and Wales)

# Northern Powergrid Metering Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019



## **Northern Powergrid Metering Limited Contents**

Company Information	1
Strategic Report	2 to 4
Directors' Report	5 to 7
Independent Auditor's Report	8 to 10
Income Statement	11
Statement of Comprehensive Income	12
Statement of Financial Position	13
Statement of Changes in Equity	14
Statement of Cash Flows	15
Notes to the Financial Statements	16 to 47

**Northern Powergrid Metering Limited  
Company Information**

<b>Directors</b>	T E Fielden T H France A J Maclellan P A Jones
<b>Company Secretary</b>	J C Riley
<b>Registered office</b>	Lloyds Court 78 Grey Street Newcastle upon Tyne Tyne and Wear NE1 6AF
<b>Registered number</b>	07647856 (England and Wales)
<b>Auditor</b>	Deloitte LLP Statutory auditor Newcastle upon Tyne United Kingdom

## Northern Powergrid Metering Limited Strategic Report for the Year Ended 31 December 2019

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

### BUSINESS MODEL

The Company is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group") and acts as a meter asset provider of conventional and smart meters (and associated equipment) to domestic and commercial energy suppliers.

In common with the Northern Powergrid Group, the Company operates a business model and strategy based on core principles (the "Core Principles"). The Core principles relevant to the Company comprise Financial Strength, Customer Service, Operational Excellence, Environmental Respect and Regulatory Integrity. The Strategic Report focuses on each Core Principle and the achievement of associated strategic objectives which are measured by a number of financial and non-financial key performance indicators ("KPIs").

### FINANCIAL STRENGTH

**Strategic objective:** Strong finances that enable improvement and growth.

KPI	2019	2018
Operating profit	£ 26.0 million	£ 20.7 million
Net cash flow generated from operating activities	£ 54.4 million	£ 57.3 million
Net cash flow used in investing activities	£ 23.0 million	£ 93.8 million
Net cash flows (used in)/generated from financing activities	£(29.5) million	£ 48.1 million

**Performance during the year:** The Company's revenue at £70.1 million was £11.5 million higher than the prior year mainly due to additional meters installed. Profit after tax at £15.1 million was £4.1 million higher reflecting higher revenues offset by higher depreciation and increased finance costs.

**Cash flow:** The Company aims to collect cash from customers and pay suppliers within contracted terms.

- Cash flow from operating activities at £54.4 million was £2.9 million lower than the previous year, mainly as a result of adverse working capital movements offset by higher activity levels due to the smart meter roll-out programme.
- The net cash used in investing activities at £23.0 million was £70.8 million lower than the previous year, reflecting lower purchases of fixed assets as a result of the profile of demand from the smart meter roll-out programme.
- The net cash outflow from financing activities at £29.5 million was £77.6 million lower than the £48.1 million inflow in the previous year, reflecting net movement on borrowings used to finance business operations.

### CUSTOMER SERVICE

**Strategic objective:** Provide competitive pricing and a high-level of customer service.

**Performance during the year:** The Company offered services including flexible funding options and the management of the meter assets comprising logistics, triage, refurbishments and storage. The Company has developed close and effective relationships with meter manufacturers in order to deliver an excellent service to its customers.

### OPERATIONAL EXCELLENCE

**Strategic objective:** Market leader in the rental provision of smart metering systems and equipment.

**Performance during the year:** The Company has in place effective asset management systems and processes that utilise industry data flows as well as additional reporting mechanisms to manage its assets throughout their lifecycle. These processes ensure that assets are tracked appropriately when energy users switch between energy suppliers.

The Company's contract managers liaise with agents, manufacturers and stakeholders, ensuring the smooth delivery and management of the meter contracts and recovery of churned and removed meters. The company has arrangements with logistics providers to ensure its meters are triaged, repaired, returned or disposed of in a manner compliant with its obligations.

## Northern Powergrid Metering Limited Strategic Report for the Year Ended 31 December 2019 (continued)

### ENVIRONMENTAL RESPECT

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

**Performance during the year:** In accordance with the Northern Powergrid Group's environmental policy, whenever practicable, meters are recycled and reinstalled. In addition, meters and their components are always disposed of using an approved agent to ensure that the Company's environmental obligations are met.

The installation of smart meters has an important part to play in the United Kingdom's transition to a low-carbon economy. Smart meters will enable energy users to monitor their consumption levels and the times at which they consume energy, allowing them to understand their energy usage and therefore make decisions as to how to use energy more efficiently.

### REGULATORY INTEGRITY

**Strategic objective:** Trustworthy, fair and balanced.

**Performance during the year:** The Company manages its business to the highest behavioural standards and adheres to a policy of strict compliance with all relevant standards and legislation. Activity in respect of engagement with The Office of Gas and Electricity Markets ("Ofgem"), and The Department of Business, Energy and Industrial Strategy ("BEIS") was prevalent during the year and included discussions regarding the level of specific energy supplier debt, churn contract arrangements, energy supplier licence compliance and the enrolment of meters into the smart meter programme.

### SECTION 172(1) STATEMENT

The information pursuant to Section 414CZA of the Companies Act 2006 which describes how the directors have had regard to the matters set out in Section 172(1) (a) to (f) when performing their duty under Section 172 is set out below:

*(a) the likely consequences of any decision in the long term.*

Decisions are made with due regard to the principal activity of the Company, the Core Principles and the wider impact upon stakeholders including the Northern Powergrid Group.

*(b) the interests of the Company's employees.*

The Company does not have any employees.

*(c) the need to foster the Company's business relationships with suppliers, customers and others.*

Detail is provided in 'Business Relationships' on page 5.

*(d) the impact of the Company's operations on the community and the environment.*

Detail is provided in 'Environmental Respect' on page 3.

*(e) the desirability of the Company maintaining a reputation for high standards of business conduct.*

Detail is provided in 'Regulatory Integrity' on page 3.

*(f) the need to act fairly as between members of the Company.*

The Company has one class of shares which are held by Northern Electric plc, a company owned by the Northern Powergrid Group.

### PRINCIPAL RISKS AND UNCERTAINTIES

Details regarding the main features of the Northern Powergrid Group's internal control and risk management systems can be found in the annual reports and financial statements of Northern Powergrid Holding Company for the year to 31 December 2019. The principal risks and uncertainties specific to the Company are outlined as follows:

#### Risk/Uncertainty and Mitigations

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

## Northern Powergrid Metering Limited Strategic Report for the Year Ended 31 December 2019 (continued)

### **Mitigation**

- Strict policies for credit checking, payment terms, payment performance tracking and debt management in place.
- Monthly invoices are issued (in arrears) to energy suppliers for rental income.
- Unpaid debts are placed with an appointed administrator.
- Credit cover is sought in direct and churn contracts.
- Borrowing facilities are made available (if required) by other companies in the Northern Powergrid Group.
- Financed by long-term borrowings at fixed and floating rates and short-term borrowings at floating rates.
- At 31 December 2019, 86% of the Company's long-term borrowings were at fixed rates and the average maturity for these borrowings was 4 years.
- Interest rate swaps are used to mitigate exposure to uncertain future interest rates

**Churn:** Failure to receive payment from incoming suppliers.

### **Mitigation:**

- Incoming suppliers without agreed terms for the provision meters are obliged to:
  - a) pay for or remove the smart meter;
  - b) enter into contracts with meter asset providers for the smart meters it acquires; and
  - c) inform meter asset providers of the location of meters owned by the meter asset provider.

**Regulatory:** Delay of the UK smart meter roll-out to 2024.

### **Mitigation:**

- Contracts with suppliers and manufacturers accommodate the delay to the smart meter programme.

**Environment:** Failure to source or disposed of meters responsibly.

### **Mitigation:**

- Robust due diligence in place for all assets purchased to ensure relevant standards of environmental compliance are observed.
- Meters are disposed of using responsible logistics providers who have the appropriate environmental standards accreditation.
- Any materials which give rise to hazardous waste are also handled and disposed of in line with Health and Safety Executive guidelines.

**Brexit:** Britain's departure from the European Union.

### **Mitigation:**

- Brexit is not considered a principal risk to the company

**Pandemic:** Infection rate leads to high staff absence. Delay of goods and materials.

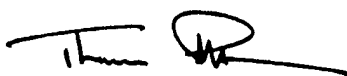
### **Mitigation:**

- Pandemic mitigation plan in place.
- Business contracts allow for circumstances where meter manufacturers incur delays with their products due to a pandemic.
- Briefings and advice provided.

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

The Company's revenue derives principally from the rental of smart meters and this is not expected to be materially affected by the current pandemic. The Company has access to long-term financing from a range of sources, principally the sterling bond market, which has offered funding at rates commensurate with the Companies' strong credit ratings. The Company continues to monitor cash flows and liquidity.

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



T E Fielden  
Director

## **Northern Powergrid Metering Limited Directors' Report for the Year Ended 31 December 2019**

The directors present their annual report with the audited financial statements of the Company for the year ended 31 December 2019.

### **Dividends**

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

### **Directors of the Company**

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

T E Fielden  
T H France  
A J Maclennan  
P A Jones

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

### **Research and development**

The Company does not undertake research and development.

### **Brexit**

Brexit is not considered a principal risk to the Company.

### **Future developments**

The financial position of the Company, as at the year end, is shown in the statement of financial position on page 13. There have been no significant events since the year end and it is the intention of the directors that the Company will continue to rent meters to energy suppliers and in doing so, support the smart meter roll-out. There are no plans to change the existing business model.

### **Financial risk management**

Details of financial risks are included in the Principal Risks and Uncertainties on page 3 of the Strategic Report and in Note 17, within the Notes to the financial statements.

### **Financial derivatives**

As at 31 December 2019 the Company held one derivative financial instrument (2018: one derivative financial instrument) to mitigate the interest rate risk on a floating interest rate loan. More details on derivative financial instruments are available in Note 19 to the financial statements.

### **Political donations**

During the year, no contributions were made to political organisations (2018: £nil).

### **Business relationships**

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

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

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

Customers, whether they are domestic or commercial, are the primary stakeholder group served by the Company and therefore the services offered are all tailored to provide a benefit or enhance an experience. Further detail of the Company's relationship with customers, the support programmes provided and the decisions made during the year is discussed on page 2.

As outlined on page 3, activity in respect of Regulatory Integrity which included frequent engagement and interaction with regulatory bodies was undertaken throughout the year. Given the implications on the Company's long-term strategy, the relationship with Ofgem and BEIS were regular items on the board agenda throughout the year.

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors acknowledge their responsibilities for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

### **Going Concern**

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

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

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

- The Northern Powergrid Group's main subsidiaries, Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc, are stable electricity distribution businesses operating an essential public service and are regulated by the Gas and Electricity Markets Authority ("GEMA"). In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Northern Powergrid Group is profitable with strong underlying cash flows. Northern Powergrid Holdings Company, a company in the Northern Powergrid Group, Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc hold investment grade credit ratings;



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

- The Northern Powergrid Group is financed by long-term borrowings with an average maturity of 12 years and has access to short-term committed borrowing facilities of £97 million provided by Lloyds Bank plc, National Westminster Bank plc and Santander UK plc;
- The Northern Powergrid Group plans to issue long-term borrowings within the next 12 months and benefits from strong investment-grade credit ratings which allow access to a range of financing options. Recent successful bond issues by the Northern Powergrid Group and by other issuers in the weeks immediately prior to the date of these accounts suggest that the Northern powergrid Group's bonds remain attractive to investors;
- The Northern Powergrid Group has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Northern Powergrid Group has sufficient resources to settle its liabilities as they fall due for at least the 12 months from the date of these accounts. The directors have had discussions with the bank who have indicated that they would continue to provide the short-term facilities to the Northern Powergrid Group for the foreseeable future on acceptable terms; and
- Consideration was also given to the obligations contained in Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Northern Powergrid Group will have sufficient financial and operational resources available for the continuation of business for a period of at least 12 months. The board determined any material variations to the assumptions used when providing those certificates were unlikely within the eight-year period or beyond.

Consequently, after making enquiries, including detailed considerations of the impact of the coronavirus pandemic, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In addition, a letter of support was received from Northern Powergrid Holdings Company. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

**Disclosure of information to the auditor**

Each of the directors, who is a director of the Company as at the date of this report, confirms that, so far as they're aware, there is no relevant audit information of which the Company's auditor is unaware, and they have taken all the steps they ought to have taken as a director in order to make themselves 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 Section 418 of the Companies Act 2006.

**Reappointment of auditor**

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

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



T E Fielden  
Director

**Northern Powergrid Metering Limited**  
**Independent Auditor's Report to the Members of Northern Powergrid Metering Limited**

**Report on the audit of the financial statements**

**Opinion**

In our opinion the financial statements of Northern Powergrid Metering Limited (the 'Company'):

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

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

- the Income Statement;
- the statement of other comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the cash flow statement; and
- the related Notes 1 to 22.

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

**Basis for opinion**

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

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

**Conclusions relating to going concern**

The ISAs (UK) require us to report to you where:

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

We have nothing to report in respect of these matters.

**Other information**

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

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

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

We have nothing to report in respect of these matters.

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**

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

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

**Report on other legal and regulatory requirements**

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

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

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

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

**Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

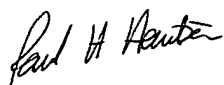
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law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

We have nothing to report in respect of these matters.

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

**Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Paul Hewitson FCA (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP, Statutory Auditor  
Newcastle upon Tyne  
United Kingdom  
22 May 2020

**Northern Powergrid Metering Limited**  
**Income Statement for the Year Ended 31 December 2019**

	Note	2019 £ 000	2018 £ 000
Revenue	3	70,109	58,579
Operating expenses		<u>(44,080)</u>	<u>(37,891)</u>
Operating profit	6	26,029	20,688
Finance costs	5	<u>(7,345)</u>	<u>(7,124)</u>
Profit before tax		18,684	13,564
Income tax expense	8	<u>(3,560)</u>	<u>(2,583)</u>
Profit for the year		<u><u>15,124</u></u>	<u><u>10,981</u></u>

**Northern Powergrid Metering Limited**  
**Statement of Comprehensive Income for the Year Ended 31 December 2019**

	Note	2019 £ 000	2018 £ 000
Profit for the year		<u>15,124</u>	<u>10,981</u>
<b>Items that may be reclassified subsequently to profit or loss</b>			
Unrealised (loss)/gain on cash flow hedges before tax	20	(2,265)	1,296
Deferred tax credit/(expense) relating to movement on cash flow hedge		<u>385</u>	<u>(220)</u>
		<u>(1,880)</u>	<u>1,076</u>
Total comprehensive income for the year		<u><u>13,244</u></u>	<u><u>12,057</u></u>

**Northern Powergrid Metering Limited**  
**(Registration number: 07647856)**  
**Statement of Financial Position as at 31 December 2019**

	Note	31 December 2019 £ 000	31 December 2018 £ 000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	281,102	301,738
Trade and other receivables	10	2,737	3,135
Deferred tax assets	8	281	-
Derivative assets	20	-	837
		<u>284,120</u>	<u>305,710</u>
<b>Current assets</b>			
Trade and other receivables	10	26,049	17,410
Cash and cash equivalents	11	29,970	28,065
Restricted cash	12	13,873	13,809
Derivative assets	20	-	114
		<u>69,892</u>	<u>59,398</u>
Total assets		<u>354,012</u>	<u>365,108</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Paid Up Share Capital		-	-
Cash flow hedging reserve		1,091	(789)
Retained earnings		<u>(42,173)</u>	<u>(27,049)</u>
Total equity	14	<u>(41,082)</u>	<u>(27,838)</u>
<b>Non-current liabilities</b>			
Loans and borrowings	19	(135,502)	(162,893)
Deferred tax liabilities	8	-	(128)
Derivative liabilities	20	<u>(1,130)</u>	<u>-</u>
		<u>(136,632)</u>	<u>(163,021)</u>
<b>Current liabilities</b>			
Trade and other payables	15	(7,561)	(11,983)
Loans and borrowings	19	(167,046)	(161,699)
Income tax liability		(1,507)	(567)
Derivative liabilities	20	<u>(184)</u>	<u>-</u>
		<u>(176,298)</u>	<u>(174,249)</u>
Total liabilities		<u>(312,930)</u>	<u>(337,270)</u>
Total equity and liabilities		<u>(354,012)</u>	<u>(365,108)</u>

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



T E Fielden  
Director

The notes on pages 16 to 47 form an integral part of these financial statements.  
Page 13

**Northern Powergrid Metering Limited**  
**Statement of Changes in Equity for the Year Ended 31 December 2019**

	Share capital £ 000	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2019	-	789	27,049	27,838
Profit for the year	-	-	15,124	15,124
Other comprehensive expense	-	(1,880)	-	(1,880)
Total comprehensive (expense)/income	-	(1,880)	15,124	13,244
At 31 December 2019	-	(1,091)	42,173	41,082

	Share capital £ 000	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018	-	(287)	16,068	15,781
Profit for the year	-	-	10,981	10,981
Other comprehensive income	-	1,076	-	1,076
Total comprehensive income	-	1,076	10,981	12,057
At 31 December 2018	-	789	27,049	27,838



**Northern Powergrid Metering Limited**  
**Statement of Cash Flows for the Year Ended 31 December 2019**

	Note	2019 £ 000	2018 £ 000
<b>Cash flows from operating activities</b>			
Profit for the year		15,124	10,981
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	6	41,771	34,757
Profit on disposal of property plant and equipment		(1,986)	(443)
Finance costs	5	7,345	7,124
Income tax expense	8	<u>3,560</u>	<u>2,583</u>
		65,814	55,002
Increase in trade and other receivables	10	(4,626)	(912)
(Decrease)/increase in trade and other payables	15	<u>(4,181)</u>	<u>5,868</u>
Cash generated from operations		57,007	59,958
Income taxes paid	8	<u>(2,644)</u>	<u>(2,657)</u>
Net cash flow generated from operating activities		<u>54,363</u>	<u>57,301</u>
<b>Cash flows from investing activities</b>			
Acquisitions of property plant and equipment		(26,838)	(94,626)
Proceeds from sale of property plant and equipment		<u>3,833</u>	<u>859</u>
Net cash flow used in investing activities		<u>(23,005)</u>	<u>(93,767)</u>
<b>Cash flows from financing activities</b>			
Movement in intercompany loans		2,125	37,114
Interest paid	5	(6,467)	(6,318)
Repayment of other borrowing		(25,047)	(11,046)
Proceeds from other borrowing draw downs		-	40,000
Restricted cash		<u>(64)</u>	<u>(11,627)</u>
Net cash flows (used in)/generated from financing activities		<u>(29,453)</u>	<u>48,123</u>
Net increase in cash and cash equivalents		1,905	11,657
Cash and cash equivalents at 1 January		<u>28,065</u>	<u>16,408</u>
Cash and cash equivalents at 31 December		<u>29,970</u>	<u>28,065</u>

The notes on pages 16 to 47 form an integral part of these financial statements.

# Northern Powergrid Metering Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019

### 1 General information

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

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

The Company acts as a meter asset provider of conventional and smart meters (and associated equipment) to domestic and commercial energy suppliers. Further details are found within the Business Review section of the Strategic Report.

### 2 Accounting policies

#### Statement of compliance

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

#### Summary of significant accounting policies and key accounting estimates

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

#### Basis of preparation

The financial statements have been prepared in accordance with adopted IFRSs and under historical cost accounting rules, except for derivative financial instruments that have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

#### Fair value measurement

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 Company 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 financial statements is determined on such a basis, except for leasing transactions which are within 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 measurements 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.

## **Northern Powergrid Metering Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Going Concern**

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

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

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

- The Northern Powergrid Group's main subsidiaries, Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc, are stable electricity distribution businesses operating an essential public service and are regulated by the Gas and Electricity Markets Authority ("GEMA"). In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Northern Powergrid Group is profitable with strong underlying cash flows. Northern Powergrid Holdings Company, a company in the Northern Powergrid Group, Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc hold investment grade credit ratings;
- The Northern Powergrid Group is financed by long-term borrowings with an average maturity of 12 years and has access to short-term committed borrowing facilities of £97 million provided by Lloyds Bank plc, National Westminster Bank plc and Santander UK plc;
- The Northern Powergrid Group plans to issue long-term borrowings within the next 12 months and benefits from strong investment-grade credit ratings which allow access to a range of financing options. Recent successful bond issues by the Northern Powergrid Group and by other issuers in the weeks immediately prior to the date of these accounts suggest that the Northern powergrid Group's bonds remain attractive to investors;
- The Northern Powergrid Group has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Northern Powergrid Group has sufficient resources to settle its liabilities as they fall due for at least the 12 months from the date of these accounts. The directors have had discussions with the bank who have indicated that they would continue to provide the short-term facilities to the Northern Powergrid Group for the foreseeable future on acceptable terms; and
- Consideration was also given to the obligations contained in Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Northern Powergrid Group will have sufficient financial and operational resources available for the continuation of business for a period of at least 12 months. The board determined any material variations to the assumptions used when providing those certificates were unlikely within the eight-year period or beyond.

Consequently, after making enquiries, including detailed considerations of the impact of the coronavirus pandemic, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In addition, a letter of support was received from Northern Powergrid Holdings Company. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

##### **Changes in accounting policy**

##### **New standards, interpretations and amendments effective**

The following have been applied for the first time from 1 January 2019:

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

**2 Accounting policies (continued)**

**IFRS 16- Leases**

The date of initial application of IFRS 16 is 1 January 2019. Distinctions between operating leases and finance leases are removed for lessee accounting, and is replaced by a model where right-of-use asset and a corresponding liability have to be recognised for all leases by lessees except for short term leases and leases of low-value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The Company has taken a practical expedient to not reassess whether a contract is/or contains lease. The application of IFRS 16 has not had a material impact on the Company's financial statements.

**Amendments to IFRS 9 and IFRS 7**

In September 2019, the IASB issued Interest Rate Benchmark Reform - Amendments to IFRS 9 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of ongoing interest rate benchmark reforms. The amendments are relevant to the Company given that it applies hedge accounting to its benchmark interest rate exposures.

The application of the amendments impacts the Company's accounting in the following ways:

- The Company has £164m sterling-denominated LIBOR linked floating rate debt outstanding at 31 December 2019 which is subject to an 86% floating-to-fixed interest rate swap. The Company currently accounts for the swap as a cash flow hedge. The amendments permit continuation of hedge accounting even if in the future the hedged benchmark interest rate, GBP LIBOR, may no longer be separately identifiable. However, this relief does not extend to the requirement that the designated interest rate risk component must continue to be reliably measureable. If the risk component is no longer reliably measureable, the hedging relationship is discontinued.
- The Company will retain the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Company consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

The Company has chosen to early apply the amendments to IFRS 9 for the reporting period ending 31 December 2019, which are mandatory for annual reporting periods beginning on or after 1 January 2020. Adopting these amendments allows the Company to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms.

**Other amendments**

The consequential amendments to IAS 28, IAS 19, IFRS 16 and IFRIC 23 have had no material effect on the financial statements including the comparatives and therefore no restatement is required.

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

## Northern Powergrid Metering Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 2 Accounting policies (continued)

*Effective for periods beginning or after 1 January 2020*

- Amendments to IFRS 3 - Definition of a business;
- Amendments to IAS 1 and IAS 8 - Definition of material; and
- Amendments to References to the Conceptual Framework in IFRS Standards; and
- Amendments to IFRS 9 Financial instruments- Hedging.

#### **Critical judgements in applying accounting policies**

There are no critical judgements that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on amounts recognised in the consolidated financial statements.

#### **Key sources of estimation uncertainty**

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

#### **Revenue recognition**

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.

All revenue within the Company relates to the provision of meter assets; this is accounted for under IAS 17 Leases and is outside the scope of IFRS 15.

#### **Leases**

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

#### **Cash and cash equivalents**

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

#### **Borrowing costs**

All borrowing costs are recognised in profit or loss in the period which they are incurred.

#### **Foreign currencies transactions and balances**

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 foreign currency are not retranslated.

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

**2 Accounting policies (continued)**

**Property, plant and equipment**

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

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.

Metering Equipment- up to 15 years

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 those estimates accounted for on a prospective basis. Due to the significance of the Company's investments in property, plant and equipment, variations in estimates could impact operating results both positively and negatively.

**Tax**

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

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

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

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

**Impairment of tangible and intangible assets**

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

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

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

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

**2 Accounting policies (continued)**

**Financial instruments**

**Initial recognition**

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

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

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

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

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

**Classification and measurement**

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

Financial assets are classified into one of the following three categories:

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVTPL).

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

**Financial assets at amortised cost**

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

**2 Accounting policies (continued)**

**Financial assets at fair value through other comprehensive income (FVTOCI)**

A financial asset is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

**Financial assets at fair value through the profit or loss (FVTPL)**

Financial assets not otherwise classified above are classified and measured as FVTPL.

**Financial liabilities at amortised cost**

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

**Financial liabilities at fair value through the profit or loss**

Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.



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

**2 Accounting policies (continued)**

**Derecognition**

*Financial assets*

The Company derecognises a financial asset when;

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

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

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

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

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

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

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

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

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

*Financial liabilities*

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

**Modification of financial assets and financial liabilities**

*Financial assets*

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

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

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

**2 Accounting policies (continued)**

*Financial liabilities*

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

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

**Impairment of financial assets**

*Measurement of Expected Credit Losses*

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

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

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

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

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

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

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

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

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

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

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

## **Northern Powergrid Metering Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

Evidence that the financial asset is credit-impaired include the following;

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

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

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

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

#### *Definition of default*

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

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

#### **Derivative financial instruments**

Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

Derivative financial instruments are recognised in the statement of financial position at fair value. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate.

In statement of financial position, derivative financial instruments with positive fair values (unrealised gains) are included as assets and derivative financial instruments with negative fair values (unrealised losses) are included as liabilities.

The changes in the fair values of derivative financial instruments entered into for trading purposes are included in trading income.

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

**2 Accounting policies (continued)**

**Hedge accounting**

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities.

The Company designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and hedge items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting that changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated.

These hedging relationships are discussed below.

*Cash flow hedges*

The Company makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, then the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central clearing counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.

**Share capital**

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

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

**3 Revenue**

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

	<b>2019</b>	<b>2018</b>
	<b>£ 000</b>	<b>£ 000</b>
Income from meter asset rentals	<u>70,109</u>	<u>58,579</u>

Revenue is largely generated in the UK.

**4 Directors and other key personnel remuneration**

The directors' remuneration for the year was as follows:

	<b>2019</b>	<b>2018</b>
	<b>£ 000</b>	<b>£ 000</b>
Remuneration	<u>226</u>	<u>240</u>

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

	<b>2019</b>	<b>2018</b>
	<b>No.</b>	<b>No.</b>
Accruing benefits under money purchase pension scheme	<u>4</u>	<u>4</u>

In respect of the highest paid director:

	<b>2019</b>	<b>2018</b>
	<b>£ 000</b>	<b>£ 000</b>
Short-term employee benefits	56	53
Other long-term benefits	<u>64</u>	<u>69</u>
	<u>120</u>	<u>122</u>

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

**4 Directors and other key personnel remuneration (continued)**

In respect of other key personnel:

	<b>2019</b>	<b>2018</b>
	<b>£ 000</b>	<b>£ 000</b>
Short-term employee benefits	53	53
Post retirement benefits - defined benefit	-	3
Defined contribution	25	18
Other long-term benefits	24	33
	<u>102</u>	<u>107</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.

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

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

The Company did not have any employees during the year (2018: Nil), other than directors.

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

**5 Finance income and costs**

	<b>2019</b>	<b>2018</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>Finance costs</b>		
Interest on overdrafts and borrowings	(5,933)	(5,921)
Interest paid to group undertakings	<u>(1,412)</u>	<u>(1,203)</u>
Total interest expense for financial liabilities not classified as FVTPL	<u><u>(7,345)</u></u>	<u><u>(7,124)</u></u>

**6 Operating profit**

Arrived at after charging/(crediting)

	<b>2019</b>	<b>2018</b>
	<b>£ 000</b>	<b>£ 000</b>
Depreciation expense	41,771	34,757
Intercompany charge for salaries, social security and pension costs	971	610
Loss allowance	1,585	1,268
Profit on disposal of property, plant and equipment	<u>(1,986)</u>	<u>(443)</u>

**7 Auditor's remuneration**

	<b>2019</b>	<b>2018</b>
	<b>£ 000</b>	<b>£ 000</b>
Fees payable for audit of the financial statements	<u>14</u>	<u>14</u>

There were no non-audit services for current or prior year.

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

**8 Income tax**

Tax charged in the income statement

	<b>2019</b>	<b>2018</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>Current taxation</b>		
UK corporation tax	3,539	2,576
Increase in current tax from adjustment for prior periods	<u>45</u>	<u>6</u>
	3,584	2,582
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	<u>(24)</u>	<u>1</u>
Tax expense in the income statement	<u><u>3,560</u></u>	<u><u>2,583</u></u>

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

The differences are reconciled below:

	<b>2019</b>	<b>2018</b>
	<b>£ 000</b>	<b>£ 000</b>
Profit before tax	<u>18,684</u>	<u>13,564</u>
Corporation tax at standard rate	3,549	2,577
Increase in current tax from adjustment for prior periods	45	6
Decrease in deferred tax from adjustment for prior periods	(33)	-
Other	<u>(1)</u>	<u>-</u>
Total tax charge	<u><u>3,560</u></u>	<u><u>2,583</u></u>

Finance Bill 2016 included provisions to reduce the main rate of corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the cut in the rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%. As this has not been enacted by the balance sheet date, balances as at 31 December 2019 continue to be measured at 17%, the amended tax rate would give rise to an increase of approximately £33,000 to the deferred tax asset.



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

**8 Income tax (continued)**

**Deferred tax**

Deferred tax assets and liabilities

Deferred tax movement during the year:

	<b>At 1 January</b>		<b>Recognised in</b>	<b>other</b>	<b>At</b>
	<b>2019</b>	<b>Recognised in</b>	<b>comprehensive</b>	<b>income</b>	<b>31 December</b>
	<b>£ 000</b>	<b>income</b>	<b>income</b>	<b>income</b>	<b>2019</b>
		<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
Accelerated tax depreciation	(1)	-	-	-	(1)
Revaluation of cash flow hedges	(162)	-	385	-	223
Other	35	24	-	-	59
Net tax liabilities/(asset)	<u>(128)</u>	<u>24</u>	<u>385</u>	<u>-</u>	<u>281</u>

Deferred tax movement during the prior year:

	<b>At 1 January</b>		<b>Recognised in</b>	<b>other</b>	<b>At</b>
	<b>2018</b>	<b>Recognised in</b>	<b>comprehensive</b>	<b>income</b>	<b>31 December</b>
	<b>£ 000</b>	<b>income</b>	<b>income</b>	<b>income</b>	<b>2018</b>
		<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
Accelerated tax depreciation	-	(1)	-	-	(1)
Revaluation of cash flow hedges	59	-	(221)	-	(162)
Other	35	-	-	-	35
Net tax liabilities/(asset)	<u>94</u>	<u>(1)</u>	<u>(221)</u>	<u>-</u>	<u>(128)</u>

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

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

**9 Property, plant and equipment**

	<b>Metering equipment £ 000</b>	<b>Furniture, fittings and equipment £ 000</b>	<b>Total £ 000</b>
<b>Cost or valuation</b>			
At 1 January 2018	296,062	-	296,062
Additions	78,288	82	78,370
Disposals	<u>(1,866)</u>	<u>-</u>	<u>(1,866)</u>
At 31 December 2018	<u>372,484</u>	<u>82</u>	<u>372,566</u>
At 1 January 2019	372,484	82	372,566
Additions	26,486	111	26,597
Disposals	<u>(12,579)</u>	<u>-</u>	<u>(12,579)</u>
At 31 December 2019	<u>386,391</u>	<u>193</u>	<u>386,584</u>
<b>Depreciation</b>			
At 1 January 2018	37,521	-	37,521
Charge for year	34,750	7	34,757
Eliminated on disposal	<u>(1,450)</u>	<u>-</u>	<u>(1,450)</u>
At 31 December 2018	<u>70,821</u>	<u>7</u>	<u>70,828</u>
At 1 January 2019	70,821	7	70,828
Charge for the year	41,738	33	41,771
Eliminated on disposal	<u>(7,117)</u>	<u>-</u>	<u>(7,117)</u>
At 31 December 2019	<u>105,442</u>	<u>40</u>	<u>105,482</u>
<b>Carrying amount</b>			
At 31 December 2018	<u>301,663</u>	<u>75</u>	<u>301,738</u>
At 31 December 2019	<u>280,949</u>	<u>153</u>	<u>281,102</u>

All items included within metering equipment are subject to operating leases, and all those within furniture, fixture and fittings are not subject to operating leases.

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

**10 Trade and other receivables**

	<b>31 December 2019 £ 000</b>	<b>31 December 2018 £ 000</b>
<b>Current:</b>		
Trade receivables	24,608	14,319
Loss allowance	<u>(2,862)</u>	<u>(1,277)</u>
Net trade receivables	21,746	13,042
Prepayments	3,148	3,204
Amounts receivable in respect of finance leases	<u>1,155</u>	<u>1,164</u>
	<u>26,049</u>	<u>17,410</u>
<b>Non-current:</b>		
Amounts receivable in respect of finance leases	<u>2,737</u>	<u>3,135</u>
	<u>28,786</u>	<u>20,545</u>

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 the end of the reporting period. The maximum exposure to risk to the Company is the book value of these receivables less any provisions for impairment. The average credit period on lease payments is 30 days. Interest is not generally charged on the trade receivables paid after the due date.

**Movement in the loss allowance**

	<b>31 December 2019 £ 000</b>	<b>31 December 2018 £ 000</b>
At 1 January	1,277	9
Amounts recognised in the statement of profit or loss	<u>1,585</u>	<u>1,268</u>
At 31 December	<u>2,862</u>	<u>1,277</u>

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

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

**10 Trade and other receivables (continued)**

<b>Contracted</b>					
<b>2019</b>	<b>Current £ 000</b>	<b>1-3 months £ 000</b>	<b>3-6 months £ 000</b>	<b>6-12 months £ 000</b>	<b>Over 1 year £ 000</b>
Total balance	3,848	2,883	74	612	842
Less specific provisions	-	-	-	(492)	(842)
Balance on which ECL made	<u>3,848</u>	<u>2,883</u>	<u>74</u>	<u>120</u>	<u>-</u>
Lifetime ECL	<u>0%</u>	<u>0%</u>	<u>10%</u>	<u>50%</u>	<u>100%</u>
Expected credit loss	<u>-</u>	<u>-</u>	<u>7</u>	<u>60</u>	<u>-</u>
<b>2018</b>	<b>Current £ 000</b>	<b>1-3 months £ 000</b>	<b>3-6 months £ 000</b>	<b>6-12 months £ 000</b>	<b>Over 1 year £ 000</b>
Total balance	4,270	3,090	195	-	-
Less specific provisions	(152)	(360)	-	-	-
Balance on which ECL made	<u>4,118</u>	<u>2,730</u>	<u>195</u>	<u>-</u>	<u>-</u>
Lifetime ECL	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>50%</u>	<u>100%</u>
Expected credit loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Churn Contract</b>					
<b>2019</b>	<b>Current £ 000</b>	<b>1-3 months £ 000</b>	<b>3-6 months £ 000</b>	<b>6-12 months £ 000</b>	<b>Over 1 year £ 000</b>
Total balance	1,862	716	123	63	55
Less specific provisions	-	(214)	(84)	(25)	(55)
Balance on which ECL made	<u>1,862</u>	<u>502</u>	<u>39</u>	<u>38</u>	<u>-</u>
Lifetime ECL	<u>0%</u>	<u>0%</u>	<u>10%</u>	<u>50%</u>	<u>100%</u>
Expected credit loss	<u>-</u>	<u>-</u>	<u>4</u>	<u>19</u>	<u>-</u>
<b>2018</b>	<b>Current £ 000</b>	<b>1-3 months £ 000</b>	<b>3-6 months £ 000</b>	<b>6-12 months £ 000</b>	<b>Over 1 year £ 000</b>
Total balance	258	382	56	-	-
Less specific provisions	(108)	(363)	(53)	-	-
Balance on which ECL made	<u>150</u>	<u>19</u>	<u>3</u>	<u>-</u>	<u>-</u>
Lifetime ECL	<u>0%</u>	<u>0%</u>	<u>10%</u>	<u>50%</u>	<u>100%</u>
Expected credit loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

**10 Trade and other receivables (continued)**

**Non-contracted churn**

<b>2019</b>	<b>Current £ 000</b>	<b>1-3 months £ 000</b>	<b>3-6 months £ 000</b>	<b>6-12 months £ 000</b>	<b>Over 1 year £ 000</b>
Total balance	5,922	1,539	107	266	196
Less specific provisions	<u>(1,268)</u>	<u>(43)</u>	<u>(48)</u>	<u>(176)</u>	<u>(187)</u>
Balance on which ECL made	<u>4,654</u>	<u>1,496</u>	<u>59</u>	<u>90</u>	<u>9</u>
Lifetime ECL	<u>0%</u>	<u>0%</u>	<u>10%</u>	<u>50%</u>	<u>100%</u>
Expected credit loss	<u>-</u>	<u>-</u>	<u>6</u>	<u>45</u>	<u>9</u>
<b>2018</b>	<b>Current £ 000</b>	<b>1-3 months £ 000</b>	<b>3-6 months £ 000</b>	<b>6-12 months £ 000</b>	<b>Over 1 year £ 000</b>
Total balance	1,713	318	4	-	-
Less specific provisions	<u>(78)</u>	<u>(139)</u>	<u>(3)</u>	<u>-</u>	<u>-</u>
Balance on which ECL made	<u>1,635</u>	<u>179</u>	<u>1</u>	<u>-</u>	<u>-</u>
Lifetime ECL	<u>0%</u>	<u>0%</u>	<u>10%</u>	<u>50%</u>	<u>100%</u>
Expected credit loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

**Significant increase in credit risk**

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

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

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

**10 Trade and other receivables (continued)**

**Finance leases**

The Company enters into finance arrangements for the provision of smart meters with electricity and gas supply companies. All agreements are denominated in sterling. The term of the finance agreements is predominantly ten years. The interest rate inherent in the agreements is fixed at the contract date for all of the term of the agreement.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

	<b>Minimum lease payments £ 000</b>	<b>Interest £ 000</b>	<b>Present value £ 000</b>
<b>2019</b>			
Within one year	1,258	(103)	1,155
In two to five years	5,033	(2,624)	2,409
In over five years	1,526	(1,198)	328
	<u>7,817</u>	<u>(3,925)</u>	<u>3,892</u>
	<b>Minimum lease payments £ 000</b>	<b>Interest £ 000</b>	<b>Present value £ 000</b>
<b>2018</b>			
Within one year	1,258	(94)	1,164
In two to five years	5,033	(2,494)	2,539
In over five years	2,842	(2,246)	596
	<u>9,133</u>	<u>(4,834)</u>	<u>4,299</u>

The present values of future finance lease payments are analysed as follows:

	<b>31 December 2019 £ 000</b>	<b>31 December 2018 £ 000</b>
Current liabilities	1,155	1,164
Non-current liabilities	<u>2,737</u>	<u>3,135</u>
	<u>3,892</u>	<u>4,299</u>

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

**Operating leases**

Operating leases relate to the metering assets owned by the Company with lease terms of 10 years. The lessee does not have an option to purchase the meters at the expiry of the lease period.

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

	<b>31 December 2019 £ 000</b>	<b>31 December 2018 £ 000</b>
Within one year	65,130	59,393
In two to five years	252,642	235,878
In over five years	<u>145,104</u>	<u>188,359</u>
	<u><u>462,876</u></u>	<u><u>483,630</u></u>

**11 Cash and cash equivalents**

	<b>31 December 2019 £ 000</b>	<b>31 December 2018 £ 000</b>
Cash at bank	<u>29,970</u>	<u>28,065</u>

**12 Restricted cash**

	<b>31 December 2019 £ 000</b>	<b>31 December 2018 £ 000</b>
Restricted cash	<u>13,873</u>	<u>13,809</u>

Restricted cash are cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreements.

**13 Share capital**

**Allotted, called up and fully paid shares**

	<b>31 December 2019</b>		<b>31 December 2018</b>	
	No.	£	No.	£
Ordinary Share Capital of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

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

**14 Reserves**

	<b>Cash flow hedging reserve £ 000</b>	<b>Retained earnings £ 000</b>	<b>Total £ 000</b>
At 1 January 2019	789	27,049	27,838
Profit for the year	-	15,124	15,124
Other comprehensive loss	(1,880)	-	(1,880)
Total comprehensive (loss)/income	<u>(1,880)</u>	<u>15,124</u>	<u>13,244</u>
At 31 December 2019	<u>(1,091)</u>	<u>42,173</u>	<u>41,082</u>

	<b>Cash flow hedging reserve £ 000</b>	<b>Retained earnings £ 000</b>	<b>Total £ 000</b>
At 1 January 2018	(287)	16,068	15,781
Profit for the year	-	10,981	10,981
Other comprehensive income	1,076	-	1,076
Total comprehensive income	<u>1,076</u>	<u>10,981</u>	<u>12,057</u>
At 31 December 2018	<u>789</u>	<u>27,049</u>	<u>27,838</u>

**15 Trade and other payables**

	<b>31 December 2019 £ 000</b>	<b>31 December 2018 £ 000</b>
Trade payables	21	4,941
Accrued expenses	853	489
Social security and other taxes	2,982	2,457
Capital Accruals	<u>3,705</u>	<u>4,096</u>
	<u>7,561</u>	<u>11,983</u>

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 Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.



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

**16 Classification of financial and non-financial assets and financial and non-financial liabilities**

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

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTOCI £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	-	-	-	281,102
Trade and other receivables	2,737	-	-	-
Deferred tax assets	-	-	-	281
	<u>2,737</u>	<u>-</u>	<u>-</u>	<u>281,383</u>
<b>Current assets</b>				
Trade and other receivables	22,901	-	-	3,148
Cash and cash equivalents	29,970	-	-	-
Restricted cash	13,873	-	-	-
	<u>66,744</u>	<u>-</u>	<u>-</u>	<u>3,148</u>
Total assets	<u>69,481</u>	<u>-</u>	<u>-</u>	<u>284,531</u>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Loans and borrowings	-	-	(135,502)	-
Other non-current financial liabilities	-	(1,130)	-	-
	<u>-</u>	<u>(1,130)</u>	<u>(135,502)</u>	<u>-</u>
<b>Current liabilities</b>				
Trade and other payables	-	-	(7,561)	-
Loans and borrowings	-	-	(167,046)	-
Income tax liability	-	-	(1,507)	-
Other current financial liabilities	-	(184)	-	-
	<u>-</u>	<u>(184)</u>	<u>(176,114)</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>(1,314)</u>	<u>(311,616)</u>	<u>-</u>

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

**16 Classification of financial and non-financial assets and financial and non-financial liabilities (continued)**

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

	Financial assets at amortised cost £ 000	Financial assets & liabilities at FVTOCI £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	-	-	-	301,738
Trade and other receivables	3,135	-	-	-
Other non-current financial assets	-	837	-	-
	<u>3,135</u>	<u>837</u>	<u>-</u>	<u>301,738</u>
<b>Current assets</b>				
Trade and other receivables	14,206	-	-	3,204
Cash and cash equivalents	28,065	-	-	-
Restricted cash	13,809	-	-	-
Other current financial assets	-	114	-	-
	<u>56,080</u>	<u>114</u>	<u>-</u>	<u>3,204</u>
Total assets	<u>59,215</u>	<u>951</u>	<u>-</u>	<u>304,942</u>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Loans and borrowings	-	-	(162,893)	-
Deferred tax liabilities	-	-	-	(128)
	<u>-</u>	<u>-</u>	<u>(162,893)</u>	<u>(128)</u>
<b>Current liabilities</b>				
Trade and other payables	-	-	(11,983)	-
Loans and borrowings	-	-	(161,699)	-
Income tax liability	-	-	(567)	-
	<u>-</u>	<u>-</u>	<u>(174,249)</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>(337,142)</u>	<u>(128)</u>

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

**17 Financial risk review**

This Note presents information about the Company's exposure to financial risks.

**Capital management**

The Northern Powergrid Group manages its capital centrally to ensure that entities in the Northern Powergrid Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Northern Powergrid Group's overall strategy remains unchanged from 2018.

The capital structure of the Company consists of net debt (borrowings as detailed in Note 19 offset by cash and cash equivalents as detailed in Note 11 and restricted cash as detailed in Note 12) and equity of the Company (comprising issued capital, reserves and retained earnings as detailed in Notes 13 and 14). The Company is not subject to externally imposed capital requirements.

The Company is financed by long term borrowings at fixed and floating rates and short-term borrowings at floating rates. As at 31 December 2019, 86% of the Company's long term borrowings were at fixed rates and the average maturity for these borrowings was 4 years. The Company uses interest rate swaps to mitigate exposure to uncertain future interest rates.

**Credit risk**

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

The Company's customers are the energy suppliers, not the end user, thus credit risk and operational complexity are reduced. The regulated nature of the wider market also offers an additional level of security over future cash flows.

If an energy supplier fails, the OFGEM governed Supplier of Last Resort process is activated and allows for energy suppliers to bid and take on the failed energy supplier's customers and associated obligations (including meter rentals). This ensures that end-users are not impacted by the supplier failure and to oversee the continued operation of the energy market for the benefit of customers.

		<b>Gross carrying amount £ 000</b>	<b>Loss allowance £ 000</b>	<b>Net carrying amount £ 000</b>
<b>2019</b>	<b>Notes</b>			
Trade and other receivables	10	31,648	(2,862)	28,786
Cash and cash equivalents		29,970	-	29,970
		<u>61,618</u>	<u>(2,862)</u>	<u>58,756</u>
<b>2018</b>				
Trade and other receivables	10	21,822	(1,277)	20,545
Cash and cash equivalents		28,065	-	28,065
		<u>49,887</u>	<u>(1,277)</u>	<u>48,610</u>

For trade receivables the Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Note 10 includes further details on the loss allowance for these assets.

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

**17 Financial risk review (continued)**

**Liquidity risk**

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

**Maturity analysis for financial liabilities**

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

	<b>Less than 3 month £ 000</b>	<b>3 months - 1 year £ 000</b>	<b>1-5 years £ 000</b>	<b>More than 5 years £ 000</b>	<b>Total £ 000</b>
<b>2019</b>					
<b>Non-derivative liabilities</b>					
Non-interest bearing	7,561	-	-	-	7,561
Variable interest rate liabilities	141,659	4,177	15,524	5,227	166,587
Fixed interest rate liabilities	-	26,196	97,368	32,784	156,348
<b>Total</b>	<u>149,220</u>	<u>30,373</u>	<u>112,892</u>	<u>38,011</u>	<u>330,496</u>

	<b>Less than 3 month £ 000</b>	<b>3 months - 1 year £ 000</b>	<b>1-5 years £ 000</b>	<b>More than 5 years £ 000</b>	<b>Total £ 000</b>
<b>2018</b>					
<b>Non-derivative liabilities</b>					
Non-interest bearing	12,001	-	-	-	12,001
Variable interest rate liabilities	139,533	-	-	-	139,533
Fixed interest rate liabilities	-	27,741	112,939	71,897	212,577
<b>Total</b>	<u>151,534</u>	<u>27,741</u>	<u>112,939</u>	<u>71,897</u>	<u>364,111</u>

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

**17 Financial risk review (continued)**

**Market Risk**

Market risk is the risk of loss arising from movements in market variables such as interest rates, exchange rates and commodity prices. Risks are mitigated by utilising appropriate risk management products.

Interest on inter-company short-term loans is charged at a floating rate of interest at 1 month LIBOR plus 0.20% and 14% of the amortising loan is at a floating rate of 3 month LIBOR plus 1.75%, thus exposing the Company to cash flow interest rate risk. A 1% movement in interest rates would subject the Company to an approximate change in interest costs of £1.7m per year. This is considered to be an acceptable level of risk.

**Financial risk**

The Company is exposed to GBP LIBOR within its hedge accounting relationships, which are subject to interest rate benchmark reform. As listed in Note 18, the 2026 Amortising loan is a floating rate loan linked to GBP LIBOR and is 86% swapped at a fixed rate of 2.8182% with the remaining 14% floating at 3 month GBP LIBOR plus 1.75%.

The Company, in conjunction with the banks, continue to monitor the market and the output from the various industry working groups managing the transition to new benchmark interest rates. When deemed necessary the Company will enter into discussions with the banks to implement any necessary amendments required to be made to the debt and hedging documents.

The Company will continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms end. The Company has assumed that this uncertainty will continue until the Company's contracts that reference GBP LIBOR are amended, if necessary, to reflect the transition to an alternative benchmark rate.

**18 Reconciliation of liabilities arising from financing activities**

**Net debt reconciliation**

	<b>At 1 January</b>			<b>At 31</b>
	<b>2019</b>	<b>Cash flows</b>	<b>Other changes</b>	<b>December</b>
	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>	<b>2019</b>
				<b>£ 000</b>
Cash and cash equivalents	28,065	1,905	-	29,970
Restricted cash	13,809	64	-	13,873
Borrowings	<u>(324,592)</u>	<u>22,922</u>	<u>(878)</u>	<u>(302,548)</u>
	<u>(282,718)</u>	<u>24,891</u>	<u>(878)</u>	<u>(258,705)</u>
	<b>At 1 January</b>			<b>At 31</b>
	<b>2018</b>	<b>Cash flows</b>	<b>Other changes</b>	<b>December</b>
	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>	<b>2018</b>
				<b>£ 000</b>
Cash and cash equivalents	16,408	11,657	-	28,065
Restricted cash	2,182	11,627	-	13,809
Borrowings	<u>(257,718)</u>	<u>(66,068)</u>	<u>(806)</u>	<u>(324,592)</u>
	<u>(239,128)</u>	<u>(42,784)</u>	<u>(806)</u>	<u>(282,718)</u>

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

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

**19 Loans and borrowings**

	<b>31 December 2019 £ 000</b>	<b>31 December 2018 £ 000</b>
<b>Non-current loans and borrowings</b>		
Borrowings	135,502	162,893
<b>Current loans and borrowings</b>		
Borrowings	25,387	22,165
Intercompany borrowings	<u>141,659</u>	<u>139,534</u>
	<u>167,046</u>	<u>161,699</u>
	<u><u>302,548</u></u>	<u><u>324,592</u></u>

	<b>Book value</b>		<b>Fair value</b>	
	<b>31 December 2019 £ 000</b>	<b>31 December 2018 £ 000</b>	<b>31 December 2019 £ 000</b>	<b>31 December 2018 £ 000</b>
Inter-company short term loan	141,659	139,534	141,659	139,534
2026 Amortising Loan at 2.780%	<u>160,889</u>	<u>185,058</u>	<u>162,259</u>	<u>185,058</u>
	<u><u>302,548</u></u>	<u><u>324,592</u></u>	<u><u>303,918</u></u>	<u><u>324,592</u></u>

\* Loan is 86% swapped at a fixed rate of 2.8182%, with the remaining 14% floating at a 3 month LIBOR plus 1.75%.

The fair value of the bonds is determined with reference to quoted market prices. The directors' estimates of the fair value of bank loans and internal borrowings are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments. The fair value of short-term borrowings is equal to their book value. All loans are non-secured and are denominated in sterling. The fair valuation of long-term liabilities above is based on Level 2 inputs.

The inter-company short term loan relates to a £200.0 million unsecured sterling revolving loan facility provided by Yorkshire Electricity group plc.

The Company's exposure to market and liquidity risk; including maturity analysis, in respect of loans and borrowings is disclosed in financial risk review Note 17.

**20 Derivatives held for risk management and hedge accounting**

**Derivatives held for risk management**

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange rates, credit spreads, commodities, equity or other indices. In accordance with Board approved policies, derivatives are transacted to manage our exposure to fluctuations in interest rate. The Company uses derivatives to manage these risks from our financing portfolio to optimise the overall cost of accessing the debt capital markets.

The following table provides a reconciliation by risk category of components of equity and analysis of other comprehensive income items (net of tax) resulting from hedge accounting. All derivative financial instruments relate to cash flow hedges.

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

**20 Derivatives held for risk management and hedge accounting (continued)**

	2019		2018	
	Assets £ 000	Liabilities £ 000	Assets £ 000	Liabilities £ 000
Non-current	-	1,130	837	-
Current	-	184	114	-
	<u>-</u>	<u>1,314</u>	<u>951</u>	<u>-</u>
	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>2019</b>	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
Notional principal	19,799	86,021	35,553	141,373
Cash flow hedge	(184)	(800)	(331)	(1,315)
	<u>19,615</u>	<u>85,221</u>	<u>35,222</u>	<u>140,058</u>
	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>2018</b>	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
Notional principal	19,239	83,195	58,177	160,611
Cash flow hedge	114	492	345	951
	<u>19,353</u>	<u>83,687</u>	<u>58,522</u>	<u>161,562</u>

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges to reduce the Company's cash flow exposure resulting from variable interest rate borrowings. The interest rate swaps and interest payments on the underlying loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

The interest rate swaps are settled on a quarterly basis and are based on receiving a floating rate of 3-month LIBOR and paying a fixed rate of 1.0682%. The Company will settle the difference between the fixed and floating interest rate on a net basis.

**Effectiveness testing**

The Company is using regression analysis to assess the effectiveness of the interest rate swap on a retrospective and prospective basis throughout the term of the hedging relationship. The dollar offset method was also performed at inception, showing zero ineffectiveness.

**Nature of the risk being hedged**

The Company is hedging the risk of variability in cash flows indexed to 3-month LIBOR. Further details of the Company's risk management is available in the strategic report, pages 3 to 4, and in financial risk review, Note 17.

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

**21 Related party transactions**

**Summary of transactions with other related parties**

Included within these amounts are:

- Integrated Utility Services that provide use of staff and resources;
- Northern Electric plc that provides use of staff and resources;
- Northern Powergrid (Northeast) Limited that provides use of staff and resources;
- Northern Powergrid (Yorkshire) plc that provides use of staff and resources ; and
- Yorkshire Electricity Group plc that operates the group intercompany treasury account.

**Expenditure with and payables to related parties**

	<b>Parent</b>	<b>Other related parties</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>2019</b>		
Purchase of goods	408	604
	<u>408</u>	<u>604</u>
<b>2018</b>		
Purchase of goods	418	650
	<u>418</u>	<u>650</u>

**Loans from related parties**

	<b>Other related parties</b>
	<b>£ 000</b>
<b>2019</b>	
At start of period	139,534
Advanced	2,125
Interest charged	1,412
Interest paid	(1,412)
At end of period	<u>141,659</u>
<b>2018</b>	
At start of period	102,420
Advanced	37,114
Interest charged	1,203
Interest paid	(1,203)
At end of period	<u>139,534</u>



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

**22 Parent and ultimate parent undertaking**

The Company's immediate parent is Northern Electric plc.

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

**Relationship between entity and parents**

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

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

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

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