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STRATEGIC REPORT, REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

FOR

NORTHERN POWERGRID (YORKSHIRE) PLC

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FOR THE YEAR ENDED 31 DECEMBER 2014

COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2014

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STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

The directors present their strategic report for the year ended 31 December 2014.

The directors present the annual reports and accounts of Northern Powergrid (Yorkshire) plc (the "Company") for the year ended 31 December 2014, which includes the Strategic Report, the Report of the Directors and the audited financial statements for that year. Pages 2 to 21 inclusive of this annual report comprise the Strategic Report and pages 22 to 30 comprise the Report of the Directors, which have been drawn up and presented in accordance with the Companies Act 2006.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

BUSINESS MODEL

The Company is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group") and, as a distribution network operator ("DNO"), distributes electricity to approximately 2.3 million customers connected to its electricity distribution network at voltages of up to 132kV.

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

Principle	Strategy	Indicator
Financial strength	Effective stewardship of the Company's financial resources, investing in assets and focusing on long-term opportunities, which contribute to the Company's future strength.	Profitability, cash flow and maintenance of investment grade credit ratings.
Customer service	Delivering reliability, dependability, fair prices and exceptional service.	Improving network resilience and performance, measured by: customer minutes lost, customer interruptions and customer satisfaction.
Operational excellence	Setting high standards for the Company's operations, system investment and maintenance.	Effective asset management, managing commercial risk and improving network resilience and performance.
Employee commitment	Equipping employees with the resources and support they need to operate successfully and in a safe and rewarding work environment.	Leading safety performance, engaging employees and effective leadership.
Environmental respect	Using natural resources wisely and protecting the environment, where it is impacted by the Company's operations.	Reducing environmental impact and promoting and pursuing long-term sustainability.
Regulatory integrity	Adhering to a policy of strict compliance with applicable laws, regulations, standards and policies.	Strong internal controls, regulatory engagement and industry influence.

STRATEGIC OBJECTIVES

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

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

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

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

REVIEW OF THE YEAR
The Company delivered a satisfactory financial performance for the year, which benefited from a further change to the rate of taxation and continued effective cost control, with revenue at £434.8 million being £42.8 million more than in 2013. Although units distributed were 3.5% lower than 2013, the increase in revenue was mainly due to the five-year profile of allowed revenues inherent in the price control formula under the Distribution Price Control period to 31 March 2015 ("DPCR5"). In addition, 2013 included the voluntary rebate made to the electricity suppliers in relation to domestic customers following a request by the Department of Energy and Climate Change.

One of the main priorities for the Company in 2014 was the preparation of its response to Ofgem's decision that the Company's well-justified business plan was not to proceed on the "fast track" as part of the process for setting the Company's income for the next regulatory period, which will run from 1 April 2015 to 31 March 2023 and is known as ED1.The Company revisited its plan and provided Ofgem with further justification of the associated costs on 17 March 2014. Ofgem published its final determination in November 2014, which sets out allowed revenues and rules by which Ofgem expects to adjust the Company's revenues in certain circumstances during ED1. Under Ofgem's proposals, excluding the effects of incentive schemes and any deferred revenues from DPCR5, the Company's base allowed revenue will decrease by approximately 12% in the regulatory year to 31 March 2016 before the addition of inflation, as measured by the Retail Prices Index ("RPI") in order to derive the final price change.

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

(i) Ofgem's decision to demand further cost savings in relation to smart grid technology over and above the ones captured by its original benchmarking exercise;

(ii) Ofgem's assessment of the variation in wage rates across the country; and

(iii) Ofgem's projections for labour cost increases.

If permission to appeal is granted, the appeal is expected to conclude in the fourth quarter of 2015 in accordance with the timetable required of the CMA. British Gas Trading Limited also sought permission to appeal the price control, with the same review timetable. The outcome of these appeals may increase or reduce the revenue available to the Company if the CMA amends the price control determination.

Having again delivered its largest ever capital expenditure programme of £243.1 million in 2013, the Company continued with its policy of investing efficiently in its electricity distribution network during 2014. During the year, the Company invested £253.5 million in its distribution network such that it exceeded its investment in 2013 and remains well-placed in respect of the outputs it intends to deliver by the end of DPCR5.

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

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

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

REVIEW OF THE YEAR - continued

Environmental performance continued to be strong with the Company delivering its most successful year. Incidents reportable to the Environment Agency, oil spills and leaks from the Company's assets and SF6 gas discharges from electrical plant were all better than target. Given the impact on the environment of such events, the Company is committed to reducing losses from fluid-filled cables and, during ED1, plans to replace a significant number of those assets on a phased and prioritised basis and to increase the use of perfluorocarbon tracers to improve the efficiency of oil leak identification.

The Company's safety performance continued to be strong, with an Occupational Safety and Health Administration ("OSHA") rate of 0.45 being recorded (2013: 0.54), such that it made an effective contribution to the Northern Powergrid Group delivering its best ever safety performance and the long-term overall trend continued to compare well with that of the industry.

CORE PRINCIPLES

Financial strength

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

The Company benefits from the stability provided by the arrangements agreed in respect of DPCR5 in terms of its income until 31 March 2015 and, in that respect, recognises that it needs to show that it is delivering reliable services at a fair price to its customers, while operating in an efficient and effective manner.

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

Revenue
The Company's revenue at £434.8 million was £42.8 million higher than the prior year mainly due to the five-year profile of allowed revenues inherent in the DPCR5 price control formula.

Operating profit and position at the year end
Operating profit at £231.9 million was £33.1 million higher than the previous year, reflecting increased revenues, partly offset by increases in some operating costs such as salaries and maintenance. The statement of financial position on page 35 shows that, as at 31 December 2014, the Company had total equity of £1,000.4 million. The directors consider the Company to have a strong statement of financial position which, when coupled with the preference of its parent company, Berkshire Hathaway Energy Company ("Berkshire Hathaway Energy"), for operating with lower levels of debt than equivalent companies in the sector, creates a stable base for continued strong performance into ED1.

Finance costs and investments
Finance costs net of investment income at £40.5 million were broadly in line with the prior year.

Taxation
The effective tax rate in the current year is 21.4%. Details are provided in Note 7 to the accounts.

Results and dividends
The Company made a profit after tax for the year of £150.6 million (2013: £143.7 million). An interim dividend of £40.0 million was paid during the year (2013: £40.0 million) and the directors recommend that no final dividend be paid in respect of the year.

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

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

CORE PRINCIPLES - continued

Financial strength - continued

Cash flow

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

Movements in cash flows were as follows:

Operating activities: Cash flow from operating activities at £201.6 million was £9.6 million higher than the previous year. Higher profits were partially offset by adverse working capital movements.

Investing activities: Net cash used in investing activities at £204.7 million was £17.7 million lower than the previous year, reflecting higher net capital expenditure.

Financing activities: The net cash from financing activities at £3.1 million represents a £6.2 million adverse variance compared to the previous year, reflecting net movements in borrowings in the year.

Liquidity risk

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

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

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

Interest rate risk

The Company is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 December 2014, 100% of the Company's long-term borrowings were at fixed rates and the average maturity for these borrowings was 13 years.

Currency risk

No material currency risks are faced by the Company.

Pensions

The Company is a participating employer in the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "Scheme"), a defined benefit scheme. Full details of the Company's commitments to the Scheme and the associated deficit repair payments are provided in Note 21 to the accounts.

The Company also participates in the Northern Powergrid Pension Scheme, which is a defined contribution scheme.

Insurance

As part of its insurance and risk strategy, the Northern Powergrid Group has in place a range of insurance policies, including policies which cover risks associated with damage to property, employer's and third party motor liability and public liability. The Northern Powergrid Group carries appropriate excesses on those policies and is effectively self-insured up to the level of those excesses. Consequently, the risk management and health and safety programmes in place are viewed as extremely important elements of the business, given the contribution they make to the elimination or reduction of exposure to such risks.

CORE PRINCIPLES - continued

Customer service

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

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

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

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

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

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

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

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

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

CORE PRINCIPLES - continued

Customer service - continued

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

	Year to 31 March 2014		Year to 31 March 2013	
	Actual	**Target**	Actual	Target
CML	**58.7**	**76.0**	62.8	76.0
CI	**64.6**	**75.3**	72.2	75.3

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

The Regulatory Year was the fourth year in which the Ofgem discretionary reward for stakeholder engagement had been in operation and the second year that a financial incentive had been available. In May 2014, the Company put forward a submission to Ofgem in respect of its stakeholder engagement during the Regulatory Year, which included initiatives with increased focus on the Company's social obligations, such as its partnership with the Trussell Trust food banks, and improved on-line services for its customers. The Company presented its submission to Ofgem's panel on 9 July 2014 and improved its position from the previous year, being ranked as the second placed DNO group and securing a reward of £0.9 million for the Northern Powergrid Group, which will be received during the regulatory year ended 31 March 2016. The Company intends to reinvest its reward in its key initiatives and to continue to build on this strong stakeholder engagement performance.

Under the Broad Measure of Customer Satisfaction, an independent market research company, Accent, carries out telephone surveys with the Company's customers to find out how satisfied they are with the services provided. During the Regulatory Year, Accent surveyed a number of customers who had contacted the Company regarding an unplanned or a planned power cut, had requested a price quotation and a subsequent connection or had a general enquiry where a service had been provided or a job completed. The Company recorded an overall satisfaction score of 80.7% for the Regulatory Year and expects that its customer service improvement plan, including the range of initiatives noted on page 7, will improve the services provided to customers and so increase the satisfaction rating year-on-year.

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

Connections to the network

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

CORE PRINCIPLES - continued

Customer service - continued

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

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

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

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

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

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

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

CORE PRINCIPLES - continued

Customer service - continued

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

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

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

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

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

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

Operational excellence

The Company's core service continues to be providing and maintaining an efficient distribution network that delivers electricity effectively. During the year, £253.5 million was invested in the improvement of the distribution network, a 4% increase on the £243.1 million recorded in the previous year. The Company's continued and substantial investment in its distribution network has seen reliability increase throughout DPCR5. During that period, an electricity supply has been available to the Company's customers for approximately 99.98% of the time and the Company has generally outperformed the targets set by Ofgem in respect of CI and CML. The Company's inspection and maintenance regimes have ensured that the underlying health of the network assets has been sustained and none of the leading indicators used by the Company suggest any diminishing performance in this respect in the future.

CORE PRINCIPLES - continued

Operational excellence - continued

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

The Company changed its Field Operations structure during 2014 in order to tailor its services and response to the needs of customers and local communities by delivering improved performance standards in the restoration of power following power cuts and in new connection activities for small works. That structure is now organised into new operating zones around the main conurbations of West Yorkshire and South Yorkshire, the industrialised area around the Humber and the rural areas of the Yorkshire Dales, the east coast of Yorkshire and North Lincolnshire.

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

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

The Company's priorities during the year included delivering a significant level of capital expenditure on the network as in the previous year, a further reduction in the average level of fault repair work in progress, a robust approach to the control of operations on the low voltage network and continued focus on the restoration times associated with both high and low voltage power cuts, with the Company's high voltage restoration performance averaging some 60.5 minutes (2013: 57.0 minutes), after allowing for severe weather incidents and other exemptions. During the year, the Company substantially completed the outputs committed within the DPCR5 price control period, allowing final completion of all outputs in advance of the price control end date of 31 March 2015.

The Company undertook various major projects during the year in support of those targets and as part of the investment strategy, including:

- Completion of the substation replacement projects at Blackburn Valley and Rawdon with two new 33/11kV transformers and new 11kV switchgear installed and commissioned at each site;

- The final 132 kV circuit breaker was replaced at Wold Newton completing earlier works;

- Primary switchgear replacement was completed at South Kirkby and commenced at West End Lane, Harpswell and Park Hill;

- One of the 33/11 kV transformers was replaced at Burton Road;

CORE PRINCIPLES - continued

Operational excellence

Operational activity – continued

- Minor refurbishment work was completed on another 150 primary transformers;

- Reinforcement of the primary network in the Doncaster area made good progress in the year, with 33kV cable interconnectors installed, a firm route for the planned 132kV cable was secured and both planning approval and land acquisition was completed for the Potteric Carr substation site at Mallard Way;

- In excess of 15 km of 33kV underground cable was replaced, including eight kilometres of oil-filled cable and four kilometres of gas insulated cable;

- 132kV cable replacement projects from Creyke Beck to Hull South and from Ferrybridge to Osbaldwick continued throughout the year and are nearing completion;

- 300 overhead line towers were refurbished and approximately 60 extra-high voltage poles were installed to replace 50 time-served woodhouse masts across three projects;

- 231km of high voltage overhead line and 47km of low voltage overhead line were refurbished or rebuilt;

- 44 units of high voltage outdoor switchgear, 109 high voltage distribution substations and 377 units of high voltage indoor switchgear were replaced; and

- 191 additional remote control points were installed on the distribution network.

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

Employee commitment

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

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

One of the key deliverables in the Company's safety and health Improvement plan has been to raise awareness and improve the concentration skills of the Company's operational engineers and other employees via face-to-face and online training courses, which contributed to delivery of the Northern Powergrid Group's best ever operational incident performance with the number of switching issues being experienced on the high voltage network reducing to 13 in the year for the Northern Powergrid Group, seven of which occurred within the Company’s distribution service area.

CORE PRINCIPLES - continued

Employee commitment - continued

Health and safety - continued
As part of the safety and health improvement plan, the Company also delivered operational seminars and stand down briefings and issued regular safety newsflashes to staff in order to cascade information on safety trends, issues and incidents. The Company's safety and health improvement plan targets continuous improvement and delivery of the various initiatives contained in that plan contributed to the Company recording an OSHA rate for the year of 0.45 (2013: 0.54).

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

	2014		2013	
	Target	**Actual**	Target	Actual
Lost time accidents	**1**	**4**	1	4
Restricted duty accidents	**2**	**1**	2	1
Medical treatment accidents	**2**	**0**	2	1
Operational incidents	**6**	**7**	4	6
Preventable vehicle accidents	**13**	**16**	13	16

The Company's safety performance was similar to that delivered in 2013 such that it made a strong contribution to the Northern Powergrid Group delivering its best ever safety performance and the long-term overall trend continued to compare well with that of the industry. None of the incidents experienced in 2014 gave rise to any significant safety-related risks.

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

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

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

During the year, the Company was awarded a President's Award from the Royal Society for the Prevention of Accidents for achieving 10 consecutive Gold Awards in recognition of achievements in 2013 and for continued or improving standards of health and safety over a sustained period. The Company's health and safety management systems were subject to the regular bi-annual external surveillances and, on conclusion of those assessments, the auditor recommended that the Company maintained its OHSAS 18001 accreditation.

CORE PRINCIPLES - continued

Employee commitment - continued

Health and safety - continued

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

Management structure
Operational management of the Company's business and that of its affiliate, Northern Powergrid (Northeast) Limited, is undertaken by a single senior management team, with specific functional responsibilities. Those functional responsibilities are in respect of field operations, health, safety and environment, asset management (including procurement), commercial (including customer service, new connections to the network and stakeholder engagement), regulation and strategy, human resources, organisation development, legal and finance (including property management and information technology). Certain of those functions also provide services across the Northern Powergrid Group.

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

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

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

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

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

The Company employed 1,187 staff at the end of December 2014 (2013: 1,203).

Environmental respect

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

CORE PRINCIPLES - continued

Environmental respect - continued

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

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

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

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

These improvements supported the Company in delivering its most successful year in terms of environmental performance. Only nine incidents were reportable to the Environment Agency, which was significantly ahead of the target of 20, oil spills and leaks from the Company's assets were 25% better than the target of 41,000 litres and SF_6 gas discharges from electrical plant were 4% better than the target of 90 kilogrammes. In addition, the Company recycled more of its waste than before and maintained its positive performance with regard to street works. Work continued with many of the Company's key stakeholders, including the Environment Agency, to enhance the advanced environmental management processes already in place and, in 2015, the Company plans to maintain this progress so that the impact on the environment in which it works is reduced and the most effective ways of doing so are utilised.

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

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

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

CORE PRINCIPLES - continued

Environmental respect - continued

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

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

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

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

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

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

Regulatory integrity

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

CORE PRINCIPLES - continued

Regulatory integrity - continued

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

A revenue-related issue arose during 2010 in that the adjustment of settlements data by certain suppliers had the effect of distorting the apparent performance of the Company under the losses incentive scheme. The Company engaged with Ofgem and other industry participants between 2010 and 2014 in order to resolve the complex issues surrounding the losses incentive arrangements for both the current and previous price control periods. Ofgem removed the DPCR5 losses incentive and, on 21 March 2014, published its decision on the restatement of the 2009/2010 data and closing out the Distribution Price Control Review 4 losses incentive, together with details of the final sums to be returned by the Company during ED1. One party to the arrangements subsequently requested leave to appeal Ofgem's decision but was not granted permission to do so, effectively bringing the overall process to a conclusion. In accordance with International Financial Reporting Standards, the Company has not included any recognition of this issue in these Accounts.

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

The final determination sets out allowed revenues and rules, by which Ofgem expects to adjust these revenues in certain circumstances during ED1. Under Ofgem's proposals, excluding the effects of incentive schemes and any deferred revenues from DPCR5, the Company's base allowed revenue will decrease by approximately 12% in the regulatory year to 31 March 2016 before the addition of inflation, as measured by RPI, in order to derive the final price change. In the following regulatory year, the Company's base revenues will decrease by a further 0.2% before the addition of inflation. In subsequent regulatory years the base allowed revenues will increase approximately in line with inflation.

Under the new price control, Ofgem also intends to:

- derive and update the allowed cost of debt by reference to a long-run trailing average based on external benchmarks of utility debt costs;

- lengthen the period over which new regulatory assets are depreciated, from the current 20 years to 45 years, with the change being phased over eight years;

- adjust revenues during ED1, rather than at the next price control review, to partially reflect cost variances relative to cost allowances;

- adjust revenues in relation to some new service standard incentives, principally relating to the speed of and service standards for new connections to the network; and

- undertake a mid-period review and adjust revenues in the latter half of ED1 for any changes in the outputs required of licensees for certain specified reasons.

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

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

CORE PRINCIPLES - continued

Regulatory integrity - continued

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

Financial risk

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

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

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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Financial risk - continued
The other financial risks facing the Company are outlined on page 6 of this Strategic Report.

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

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

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

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

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

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

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

The Northern Powergrid Group identifies and assesses risks associated with the achievement of its strategic objectives, including those of an environmental and social nature. Any key actions needed to further enhance the control environment are identified, along with the person responsible for the management of the specific risk. A regular review of the key risks, controls and action plans is undertaken.

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Risk Management - continued
The risk management programme includes regular review of the crisis management, disaster recovery and major incident plans, which are periodically tested, the sharing of best practice on disaster preparedness and response, penetration tests against firewall systems and disaster recovery tests of IT servers and priority processes and a peer review of the Northern Powergrid Group's risk management systems by Berkshire Hathaway Energy.

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

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

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

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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES - continued

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

ON BEHALF OF THE BOARD:

T E Fielden
Director

17 March 2015

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

DIVIDENDS

During the year, an interim dividend of £40.0 million (13.79p per ordinary share) was paid (2013: £40.0 million, 13.79p per ordinary share). The directors recommend that no final dividend be paid in respect of the year.

RESEARCH AND DEVELOPMENT

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

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

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

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

During the year, the Company invested £3.3 million (2013: £4.7 million) (Note 6 to the accounts) in its research and development activities.

FUTURE DEVELOPMENTS

The financial position of the Company, as at 31 December 2014, is shown in the statement of financial position on page 35.

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

EVENTS SINCE THE YEAR END

On 2 March 2015 the Company sought permission from the CMA to appeal against the licence modifications that give effect to the ED1 price control. The appeal relates to three specific areas and, if permission to appeal is granted, the appeal is expected to conclude in the fourth quarter of 2015 in accordance with the timetable required of the CMA. Further details are provided in the Review of the Year on page 4 of the Strategic Report.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2014

DIRECTORS

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

J P Barnett	Commercial Director
R Dixon	Non-executive Director
T E Fielden	Finance Director
J M France	Regulation Director
N M Gill	Field Operations Director
P A Jones	President and Chief Executive Officer
A R Marshall	Non-executive Director
P C Taylor	Non-executive Director

A R Marshall and P C Taylor were appointed to the board on 1 April 2014 in the capacity of sufficiently independent directors in accordance with condition 43A of the Company's electricity distribution licence.

FINANCIAL RISK MANAGEMENT

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

Trading risk

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

Financial derivatives

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

POLITICAL DONATIONS

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

EMPLOYEES

Employee consultation

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

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

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

Disabled employees

The Northern Powergrid Group is committed to equality at work and, as such, its policy is to provide all protected groups, including disabled people, with equality at work in respect of employment, training, career development and promotion, having regard to their aptitudes and abilities. Should any member of staff become disabled during their employment, the Company would work to retrain and/or redeploy that member of staff, wherever possible.

CORPORATE GOVERNANCE STATEMENT

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

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

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

Section A: Leadership

Main Principle A1: The Role of the Board

The directors have agreed a quarterly schedule of board meetings at which they review performance, strategy and operational and risk-related issues. Regular items on the agenda for consideration at board meetings include general business performance, regulatory compliance, operational issues and key business activities.

In addition, the President and Chief Executive Officer participates in weekly performance review meetings with the Chairman of Berkshire Hathaway Energy and other senior managers of the Berkshire Hathaway Energy group, including the Executive Vice President and Chief Financial Officer. At those weekly meetings, the views of the Chairman of Berkshire Hathaway Energy and the senior management team regarding the key, current issues facing the Northern Powergrid Group are discussed.

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

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

J P Barnett	Commercial Director	5	
R Dixon	Non-Executive Director	3	
T E Fielden	Finance Director	5	
J M France	Regulation Director	3	
N M Gill	Field Operations Director	4	
P A Jones	President and Chief Executive Officer	3	
A R Marshall	Non-Executive Director	3	(of 3 following appointment)
P C Taylor	Non-Executive Director	2	(of 3 following appointment)

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

Section A: Leadership - continued

Main Principle A1: The Role of the Board - continued

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE STATEMENT - continued

Section A: Leadership - continued

Main Principle A1: The Role of the Board - continued

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

Governance and Risk Management Group

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

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

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

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

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

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

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

Main Principle A2: Division of Responsibility

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

CORPORATE GOVERNANCE STATEMENT - continued

Section A: Leadership - continued

Main Principle A1: The Role of the Board - continued

Main Principle A3: The Chairman
The board does not have a formally appointed Chairman. Dr Jones chairs board meetings, is responsible for the operation and management of both the Company and the Northern Powergrid Group and divides his time accordingly between his various commitments within the Northern Powergrid Group. Dr Jones reports directly to Mr Abel.

Main Principle A4: Non-Executive Directors
Three non-executive directors served on the board during the year, each of whom acts under the terms of their individual service contracts or terms of reference. Mrs A R Marshall and Professor P C Taylor were appointed to the board as non-executive directors with effect from 1 April 2014 in accordance with the requirement in condition 43A of the Company's electricity distribution licence (the "Licence") for the board to include two sufficiently independent directors, as defined in the Licence.

Section B: Effectiveness

Main Principle B1: The composition of the board
The board comprises five executive directors and three non-executive directors, who, collectively, bring a range of skills and experience to the board. Although the board does not include a balanced number of executive and non-executive directors, the board believes that it possesses the skills and experience necessary to provide effective leadership, stewardship and control of the Company, a position supported by the presence of the sufficiently independent directors required by the Licence.

Main Principle B2: Appointments to the board
The Company does not have a nomination committee. Appointments to the board are made by Berkshire Hathaway Energy, in conjunction with the President and Chief Executive Officer.

Main Principle B3: Commitment
The Company's non-executive directors commit sufficient time to preparation for and attendance at board meetings, although their service contracts or terms of reference do not quantify the time commitment required.

Main Principle B4: Development
The directors continually update their knowledge of and familiarity with the operations of the Company due to the robust reporting arrangements in place and have on-going access to the Company's operations and its staff. Following their appointment to the board, Mrs Marshall and Professor Taylor were provided with a series of briefings in respect of the Company's key business priorities and its plans for ED1. Those briefings included health and safety matters, the customer service improvement plan, stakeholder engagement, network operations, asset management, the regulatory environment and new connections to the network.

Main Principle B5: Information and support
Directors receive monthly reports outlining progress against the Company's goals and targets, enabling financial performance against budget and operational performance against a number of indicators to be reviewed, and are also able to participate in weekly meetings, which consider the key issues of that week in some detail. The directors are able to utilise the advice and services of the Company Secretary, in respect of their duties and responsibilities as directors and any new legislation that may affect those duties and responsibilities. The directors also have access to external legal advice should they feel it necessary. Interim briefings are provided to the non-executive directors, as appropriate.

Main Principle B6: Evaluation
As part of their approved terms of reference, certain committees report regularly on their activities, enabling the directors to evaluate the activities of those committees. However, the board does not have a process of evaluation of its own performance or of the performance of individual directors in their capacity as directors. Berkshire Hathaway Energy has a performance appraisal and development scheme in place, under which each senior manager of the Northern Powergrid Group is subject to a formal annual appraisal of performance against his individual and Berkshire Hathaway Energy's goals.

Main Principle B7: Re-election
The Company's articles of association do not require periodic retirement and re-election of directors.

CORPORATE GOVERNANCE STATEMENT - continued

Section C: Accountability

Main Principle C1: Financial and business reporting
The board considers that the annual reports and accounts, which include the Strategic Report and the Report of the Directors, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The directors explain, at page 3, the Core Principles behind the Company's strategy and, at pages 29 and 30, their responsibility for preparing the Strategic Report, the Report of the Directors and the financial statements, have reported, at page 30 in the Report of the Directors that the Company is a going concern and have included the Report of the Independent Auditor to the Company at page 32 of these accounts.

Main Principle C2: Risk management and internal control
Details of the principal risks and uncertainties facing the Company and its internal control system, together with details of the issues addressed by the Company during the year, can be found at pages 18 to 21 of the Strategic Report.

Other key features of the internal control system are:

- Comprehensive business planning and financial reporting procedures, including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;

- Regular review of key performance indicators to assess progress towards objectives;

- A range of policies, codes of practice and more detailed instructions that define the processes to be followed;

- A strong internal audit function, which provides independent scrutiny of internal control systems and risk management procedures, including the standards required by the United States Sarbanes-Oxley Act;

- On-going health and safety performance reviews carried out by in-house safety professionals in addition to the regime of routine health and safety risk assessment and management processes carried out within each of the operating units;

- Processes and procedures to operate under OHSAS 18001, which is subject to external certification and regular assessment;

- An external obligations register, which assists with compliance with financial, legal and regulatory obligations;

- Centralised treasury operations that operate within defined limits and are subject to regular reporting requirements and audit reviews; and

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

Main Principle C3: Audit committee and auditor
The board of Northern Powergrid Holdings Company has established an audit committee for the Northern Powergrid Group under delegated terms of reference, which include monitoring of the financial reporting process, the effectiveness of the internal control, internal audit and risk management systems, the statutory audit of the accounts, the independence of and the provision of additional services by the auditor.

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

R Dixon	Non-Executive Director
T E Fielden	Finance Director

CORPORATE GOVERNANCE STATEMENT - continued

Section C: Accountability - continued

Main Principle C3: Audit committee and auditor - continued
Details of the fees paid by the Company to Deloitte LLP in relation to non-audit services during the year are provided in Note 6 to the accounts.

The employee section on page 14 of the Strategic Report contains details of the Company's "speaking up" policy.

Section D: Remuneration

Main Principle D1: The level and components of remuneration
The Company does not have a remuneration committee. Annual remuneration awards for the senior management of the Northern Powergrid Group are subject to the performance appraisal and development scheme process and consideration by the Chairman of Berkshire Hathaway Energy and the President and Chief Executive Officer. As the Company has no equity securities listed on the London Stock Exchange, it is not required to make directors' remuneration disclosures, other than those required for private companies.

Main Principle D2: Procedure
As noted under main principle D1, the Company does not have a remuneration committee. Annual remuneration awards for the senior management of the Northern Powergrid Group are subject to the performance appraisal and development scheme process and consideration by the Chairman of Berkshire Hathaway Energy and the President and Chief Executive Officer. No director is involved in deciding his own remuneration.

Section E: Relations with shareholders

Main Principle E1: Dialogue with Shareholders
As a wholly-owned subsidiary of a privately held group of companies, the board is in continuing dialogue with Berkshire Hathaway Energy.

Main Principle E2: Constructive use of the AGM
This section of the Code is not applicable to the Company, as it is a wholly-owned subsidiary of a privately held group of companies and, therefore, has no institutional shareholders.

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

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

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

- Properly select and apply accounting policies;

- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and

- Make an assessment of the Company's ability to continue as a going concern.

STATEMENT OF DIRECTORS' RESPONSIBILITIES - continued
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 Report of the Directors and the appropriate notes to the accounts.

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

- The Company is a stable electricity distribution business operating an essential public service and is regulated by GEMA. In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;

- The Company is profitable with strong underlying cash flows and holds investment grade credit ratings; and

- The Company is financed by long-term borrowings with an average maturity of 13 years and has access to borrowing facilities provided by Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc.

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR
Each of the directors, who is a director of the Company as at the date of this report, confirms that:

a) so far as he or she is aware, there is no relevant audit information of which the Company's auditor is unaware; and

b) he or she has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

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

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

ON BEHALF OF THE BOARD:

T E Fielden
Director

17 March 2015

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

Each of the directors as at the date of the Annual Report, whose names and functions are set out on page 23 in the Report of the Directors confirms that, to the best of their knowledge:

a) the Company's accounts, prepared in accordance with applicable UK law and in conformity with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

b) the Management Report (which is comprised of the Strategic Report and the Report of the Directors) includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties it faces.

ON BEHALF OF THE BOARD:

T E Fielden
Director

17 March 2015

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF NORTHERN POWERGRID (YORKSHIRE) PLC

We have audited the financial statements of Northern Powergrid (Yorkshire) plc ("the Company") for the year ended 31 December 2014, which comprise the Statement of Profit or Loss, the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor
As explained more fully in the Statement of Directors' Responsibilities set out on page 29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, 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.

Chris Powell

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

17 March 2015

NORTHERN POWERGRID (YORKSHIRE) PLC

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

	Notes	**2014 £'000**	2013 £'000
CONTINUING OPERATIONS			
Revenue	3	**434,772**	391,974
Cost of sales		**(17,109)**	(15,036)
GROSS PROFIT		**417,663**	376,938
Operating expenses		**(185,758)**	(178,146)
OPERATING PROFIT		**231,905**	198,792
Other gains		**185**	249
Finance costs	5	**(40,783)**	(40,335)
Finance income	5	**280**	100
PROFIT BEFORE INCOME TAX	6	**191,587**	158,806
Income tax	7	**(40,958)**	(15,074)
PROFIT FOR THE YEAR		**150,629**	143,732

The notes on pages 38 to 64 form part of these financial statements

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

	2014	2013
	£'000	£'000
PROFIT FOR THE YEAR	**150,629**	143,732
OTHER COMPREHENSIVE INCOME	**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**150,629**	143,732

The notes on pages 38 to 64 form part of these financial statements

STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2014

	Notes	2014 £'000	2013 £'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	10	-	417
Property, plant and equipment	11	2,723,286	2,547,824
		2,723,286	2,548,241
CURRENT ASSETS			
Inventories	12	281	249
Trade and other receivables	13	71,191	55,725
		71,472	55,974
TOTAL ASSETS		2,794,758	2,604,215
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	14	290,000	290,000
Retained earnings	15	710,408	599,779
TOTAL EQUITY		1,000,408	889,779
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables	16	698,817	676,239
Borrowings			
Interest bearing loans and borrowings	17	694,343	693,977
Deferred tax	20	147,560	145,820
Provisions	19	912	707
		1,541,632	1,516,743
CURRENT LIABILITIES			
Trade and other payables	16	110,767	98,542
Borrowings			
Interest bearing loans and borrowings	17	122,721	79,645
Tax payable		17,943	18,232
Provisions	19	1,287	1,274
		252,718	197,693
TOTAL LIABILITIES		1,794,350	1,714,436
TOTAL EQUITY AND LIABILITIES		2,794,758	2,604,215

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

T E Fielden
Director

NORTHERN POWERGRID (YORKSHIRE) PLC

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

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2013	290,000	496,047	786,047
Changes in equity			
Dividends	-	(40,000)	(40,000)
Total comprehensive income	-	143,732	143,732
Balance at 31 December 2013	290,000	599,779	889,779
Changes in equity			
Dividends	-	(40,000)	(40,000)
Total comprehensive income	-	150,629	150,629
Balance at 31 December 2014	290,000	710,408	1,000,408

The notes on pages 38 to 64 form part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 £'000	2013 £'000
Cash flows from operating activities			
Cash generated from operations	23	**283,769**	271,066
Finance costs paid		**(42,967)**	(42,947)
Dividends received		**39**	100
Interest received		**240**	-
Tax paid		**(39,507)**	(36,223)
Net cash from operating activities		**201,574**	191,996
Cash flows from investing activities			
Purchase of tangible fixed assets		**(253,897)**	(261,498)
Sale of tangible fixed assets		**190**	249
Receipt of customer contributions		**49,019**	38,883
Net cash used in investing activities		**(204,688)**	(222,366)
Cash flows from financing activities			
Movements in borrowings		**38,049**	31,000
Movement in loans from group undertaking		**5,065**	18,316
Equity dividends paid		**(40,000)**	(40,000)
Net cash from financing activities		**3,114**	9,316
Decrease in cash and cash equivalents		**-**	(21,054)
Cash and cash equivalents at beginning of year		**-**	21,054
Cash and cash equivalents at end of year		**-**	-

The notes on pages 38 to 64 form part of these financial statements

1. GENERAL INFORMATION

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

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

2. ACCOUNTING POLICIES

Accounting convention and basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have also been prepared in accordance with IFRSs as adopted by the European Union and with those parts of the Companies Act 2006 (the "Act") that are applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the 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 measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability

The principal accounting policies are set out below.

Application of new and revised IFRSs

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

2. **ACCOUNTING POLICIES- continued**

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

- IFRS 9 - Financial Instruments (1 January 2018).	A revised version of IFRS 9, Financial Instruments, was issued in July 2014 mainly to include: a) impairment requirements for financial assets; and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments. The directors anticipate that the application of IFRS 9 in the future is unlikely to have an impact on amounts reported in respect of the Company's financial assets and financial liabilities.
- IFRS 15 - Revenue from Contracts with Customers (1 January 2017).	In May 2014, IFRS 15, Revenue from Contracts with Customers, was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 11 Construction Contracts, IAS 18 Revenue and the related Interpretations. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The directors anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company's financial statements. However, it is not practicable to provide a reasonable estimate of the effect until the Company undertakes a detailed review.
- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (1 January 2016).	The amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation, prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for the amortisation of an intangible asset. Currently the Company uses the straight-line method for depreciation and amortisation of property, plant and equipment, and intangible assets. The directors believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and, accordingly, the directors do not anticipate that the application of these amendments will have a material impact on the Company's financial statements.
- Amendments to IAS 19 - Defined Benefit Plans: Employee Contributions (1 July 2014).	The amendments to IAS 19, Defined Benefit Plans: Employee Contributions, clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee. The directors do not anticipate that the application of these amendments to IAS 19 will have a significant impact on the Company's financial statements.

2. **ACCOUNTING POLICIES- continued**

- Annual Improvements to IFRSs 2010-2012 Cycle (1 July 2014) and Annual Improvements to IFRSs 2011-2013 Cycle (1 July 2014).	The Annual Improvements to IFRSs 2010-2012 Cycle and IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs. The directors do not anticipate that the application of these amendments will have a significant impact on the Company's financial statements.

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

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

- Revenue recognition.

Key sources of estimation uncertainty
The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- Useful economic lives for property, plant and equipment;

- The split of operating and capital expenditure and the allocation of overheads to capital projects;

- Impairment reviews carried out to evaluate the carrying value of assets held at the end of the reporting period; and

- Fair valuation measurements and valuation processes.

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

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

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

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

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

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

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

2. ACCOUNTING POLICIES - continued

Revenue - continued

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

Software development costs

Costs in respect of major developments are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful life of the software of up to 15 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Property, plant and equipment

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

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

Distribution system assets	45 years
Distributed generation assets	up to 15 years
Metering equipment included in distribution system assets	up to 5 years
Information technology equipment included in distribution system assets	up to 10 years
Non-operational assets:	
Buildings - freehold	up to 60 years
Buildings - leasehold	lower of lease period or 60 years
Fixtures and equipment	up to 10 years
Software development costs	up to 15 years

Freehold land is not depreciated.

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

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

Financial instruments

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

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

Inventories

Work in progress is valued at the cost of direct materials and labour plus attributable overheads based on the normal level of activity less progress payments.

2. **ACCOUNTING POLICIES – continued**

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

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

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

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

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

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

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

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

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

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

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

2. **ACCOUNTING POLICIES - continued**

Provisions - continued
When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

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

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

The Company also participates in a defined contribution scheme. Contributions payable to the defined contribution scheme are charged to the statement of profit or loss in the year or capitalised as appropriate when employees have rendered service entitling them to the contributions.

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

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

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

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

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

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

2. **ACCOUNTING POLICIES - continued**

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

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

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

3. **SEGMENTAL REPORTING**

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the President and Chief Executive Officer of the Northern Powergrid Group in order to allocate resources to these segments and to assess their performance.

In practice, the President and Chief Executive Officer allocates resources and assesses performance based upon the aggregate results of the Company and Northern Powergrid (Northeast) Limited, another distribution network operator in the Northern Powergrid Group, suggesting that no segmental reporting is required.

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

Revenue represents charges made to customers for use of the distribution system, the recharge of costs incurred on behalf of related parties, amortisation of customer contributions and other services and is included net of value added tax.

4. **EMPLOYEES AND DIRECTORS**

	2014	2013
	£'000	£'000
Salaries	**56,441**	50,975
Social security costs	**5,601**	5,225
Defined benefit pension costs	**17,577**	18,808
Defined contribution pension costs	**1,949**	1,266
	81,568	76,274
Less charged to property, plant and equipment	**(48,386)**	(45,918)
	33,181	30,536

The majority of the Company's employees are members of the Northern Powergrid Group of the ESPS and most of the remaining employees are members of the Northern Powergrid Pension Scheme. Details of both schemes are given in the employee benefits note (note 21).

4. EMPLOYEES AND DIRECTORS - continued

The average monthly number of employees during the year was:

	2014	2013
Technical	**362**	345
Industrial	**611**	602
Administration	**101**	100
Other	**120**	114
	1,194	1,161

DIRECTORS' REMUNERATION

	2014 £'000	2013 £'000
Highest Paid:		
Short-term employee benefits	**192**	206
Post-employment benefits	**24**	23
Other long-term benefits	**301**	270
	517	499

	2014 £'000	2013 £'000
Total:		
Short-term employee benefits	**544**	523
Post-employment benefits	**85**	83
Other long-term benefits	**567**	630
	1,196	1,236
Directors who are a member of the defined benefit scheme	**4**	4

OTHER KEY PERSONNEL REMUNERATION

	2014 £'000	2013 £'000
Total:		
Short-term employee benefits	**206**	167
Post-employment benefits	**49**	42
Other long-term benefits	**106**	120
	361	329

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.

5. NET FINANCE COSTS

	2014 £'000	2013 £'000
Finance income:		
Dividends received	**39**	100
Deposit account interest	**1**	-
Interest receivable on loans to Group undertakings	**240**	-
	280	100
Finance costs:		
Bank interest	**1,024**	-
Interest payable on other loans	**42,619**	43,156
Interest payable on loans from Group undertakings	**-**	240
Borrowing costs capitalised	**(2,860)**	(3,061)
	40,783	40,335
Net finance costs	**40,503**	40,235

6. PROFIT BEFORE INCOME TAX

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

	2014 £'000	2013 £'000
Depreciation - owned assets	**80,897**	80,405
Profit on disposal of fixed assets	**(185)**	(249)
Software development costs amortisation	**417**	769
Research costs	**3,269**	4,721
Amortisation of deferred revenue	**(21,653)**	(20,284)
Impairment of trade and other receivables	**515**	252

Analysis of auditor's remuneration is as follows:

	2014 £'000	2013 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**96**	107
Other assurance services	**14**	35
Total fees payable to the Company's auditor	**110**	142

7. INCOME TAX

Analysis of tax expense

	2014	2013
	£'000	£'000
Current tax	**39,218**	38,228
Deferred tax	**1,740**	(23,154)
Total tax expense in statement of profit or loss	**40,958**	15,074

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

	2014	2013
	£'000	£'000
Profit on ordinary activities before income tax	**191,587**	158,806
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21.5% (2013 - 23.25%)	**41,191**	36,922
Effects of:		
Changes in legislation	**-**	(21,873)
Over provision for prior years	**(1,780)**	(927)
Permanent disallowances	**29**	27
Prior deferred tax	**1,539**	841
Other	**(21)**	84
Tax expense	**40,958**	15,074

	2014	2013
	£'000	£'000
Tax expense comprises:		
Current tax expense:		
Corporation tax charge for the year	**40,998**	39,155
Over provision for prior years	**(1,780)**	(927)
Total current tax charge	**39,218**	38,228
Deferred tax:		
Deferred tax expenses relating to the origination and reversal of temporary differences	**1,740**	(1,281)
Effect of changes in legislation	**-**	(21,873)
Total deferred tax charge	**1,740**	(23,154)
Tax on profit before tax	**40,958**	15,074

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

8. DIVIDENDS

	2014	2013
	£'000	£'000
Interim dividend at 14p per share	**40,000**	40,000

9. OPERATING EXPENSES

	2014	2013
	£'000	£'000
Operating expenses comprise		
Distribution costs	**128,164**	124,876
Administrative expenses	**57,594**	53,270
	185,758	178,146

10. INTANGIBLE ASSETS

	Software development costs £'000
COST	
At 1 January 2014 and 31 December 2014	**29,497**
AMORTISATION	
At 1 January 2014	**29,080**
Amortisation for year	**417**
At 31 December 2014	**29,497**
NET BOOK VALUE	
At 31 December 2014	**-**

	Software development costs £'000
COST	
At 1 January 2013 and 31 December 2013	29,497
AMORTISATION	
At 1 January 2013	28,311
Amortisation for year	769
At 31 December 2013	29,080
NET BOOK VALUE	
At 31 December 2013	417

11. PROPERTY, PLANT AND EQUIPMENT

	Non operational land & buildings £'000	**Distribution system £'000**	**Fixtures and fittings £'000**	**Totals £'000**
COST				
At 1 January 2014	**4,505**	**3,150,099**	**22,851**	**3,177,455**
Additions	**-**	**253,474**	**2,890**	**256,364**
Disposals	**-**	**(8,484)**	**(210)**	**(8,694)**
At 31 December 2014	**4,505**	**3,395,089**	**25,531**	**3,425,125**
DEPRECIATION				
At 1 January 2014	**1,882**	**610,597**	**17,152**	**629,631**
Charge for year	**177**	**78,709**	**2,011**	**80,897**
Eliminated on disposal	**-**	**(8,479)**	**(210)**	**(8,689)**
At 31 December 2014	**2,059**	**680,827**	**18,953**	**701,839**
NET BOOK VALUE				
At 31 December 2014	**2,446**	**2,714,262**	**6,578**	**2,723,286**

	Non operational land & buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
COST				
At 1 January 2013	4,505	2,919,791	21,386	2,945,682
Additions	-	243,114	1,744	244,858
Disposals	-	(12,806)	(279)	(13,085)
At 31 December 2013	4,505	3,150,099	22,851	3,177,455
DEPRECIATION				
At 1 January 2013	1,704	545,236	15,371	562,311
Charge for year	178	78,167	2,060	80,405
Eliminated on disposal	-	(12,806)	(279)	(13,085)
At 31 December 2013	1,882	610,597	17,152	629,631
NET BOOK VALUE				
At 31 December 2013	2,623	2,539,502	5,699	2,547,824

11. PROPERTY, PLANT AND EQUIPMENT - continued

Assets in the course of construction included above:

	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
At 1 January 2014	**169,255**	**-**	**169,255**
Additions	**253,474**	**2,890**	**256,364**
Available for use	**(231,510)**	**(2,890)**	**(234,400)**
At 31 December 2014	**191,219**	**-**	**191,219**

The Company has entered into contractual commitments in relation to the future acquisition of property, plant and equipment of £54.2m (2013: £46.2m).

The net book value of non-operating land and buildings comprise:

	2014 £'000	2013 £'000
Freehold	**1,467**	1,587
Long leasehold	**804**	837
Short leasehold	**175**	199
	2,446	2,623

12. INVENTORIES

	2014 £'000	2013 £'000
Work-in-progress	**281**	249

13. TRADE AND OTHER RECEIVABLES

	2014 £'000	2013 £'000
Current:		
Distribution use of system receivables	**67,006**	47,086
Amounts receivable from sale of goods and services	**1,780**	1,364
Prepayments and accrued income	**2,405**	7,275
	71,191	55,725

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.

13. TRADE AND OTHER RECEIVABLES - continued

Distribution use of system receivables

The customers served by the Company's distribution network are supplied predominantly by a small number of electricity supply businesses with RWE NPower plc accounting for approximately 26% of distribution revenues in 2014 (2013: 27%). Ofgem has determined a framework which sets credit limits for each supply business based on its credit rating or payment history and requires them to provide credit cover if their value at risk (measured as being equivalent to 45 days usage) exceeds the credit limit. Acceptable credit typically is provided in the form of a parent company guarantee, letter of credit or an escrow account. Included within other payables are customer deposits of £141,000 as at 31 December 2014 (2013: £97,000).

Ofgem has indicated that, provided the Company has implemented credit control, billing and collection processes in line with best practice guidelines and can demonstrate compliance with the guidelines or is able to satisfactorily explain departure from the guidelines, any bad debt losses arising from supplier default will be recovered through an increase in future allowed income. Losses incurred to date have not been material. Included in the Company's use of system ("UoS") receivables are debtors with a carrying value of £nil, which have been placed into administration and have therefore been provided in full at the year-end (2013: £nil)

Amounts receivable from sale of goods and services

Sales of goods and services comprise all income streams which are not classified as UoS income. Examples of non-UoS income streams would be customer contributions in relation to distribution system assets and recovery of amounts for damage caused by third parties to the distribution system.

The average credit period on sales of goods and services is 30 days (2013: 30 days). Interest is not generally charged on the trade receivables paid after the due date. An allowance for doubtful debts is made for debts past their due date based on estimated irrecoverable amounts from the sale of goods and services, determined by reference to past default experience.

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £1.5 million (2013: £1.5 million) which are past due at the reporting date and for which the Company has provided an irrecoverable amount of £0.6 million (2013: £0.2 million) based on past experience. The Company does not hold any collateral over these balances. The average age of these receivables is 307 days (2013: 281 days).

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £0.5 million (2013: £0.4 million). These amounts are past due at the reporting date and the Company has not provided for any amounts as not being recoverable, because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances. The average age of these receivables is 76 days (2013: 62 days).

Ageing of past due but not impaired receivables

	2014 **£'000**	2013 £'000
30-60 days	**276**	303
60-120 days	**94**	77
120-210 days	**81**	30
Total	**451**	410

13. TRADE AND OTHER RECEIVABLES – continued

Movement in the allowance for doubtful debts

	2014	2013
	£'000	£'000
At 1 January	**240**	177
Amounts utilised/written off in the year	**(137)**	(189)
Amounts recognised in statement of profit or los	**515**	252
At 31 December	**618**	240

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

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £0.4 million (2013: £0.1 million) which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

Categories of financial assets

	2014	2013
	£'000	£'000
Loans and receivables at amortised cost	**68,786**	48,450
Total financial assets	**68,786**	48,450
Non-current assets	**2,723,286**	2,548,241
Inventories	**281**	249
Prepayments and accrued income	**2,405**	7,275
Total non-financial assets	**2,725,972**	2,555,765
Total assets	**2,794,758**	2,604,215

14. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	**2014** **£'000**	2013 £'000
290,000,000	Ordinary share capital	£1	**290,000**	290,000

15. RESERVES

	Retained earnings £'000
At 1 January 2014	**599,779**
Profit for the year	**150,629**
Dividends	**(40,000)**
At 31 December 2014	**710,408**

	Retained earnings £'000
At 1 January 2013	496,047
Profit for the year	143,732
Dividends	(40,000)
At 31 December 2013	599,779

16. TRADE AND OTHER PAYABLES

	2014 £'000	2013 £'000
Current:		
Payments on account	**33,792**	30,935
Trade creditors	**4,633**	4,185
Amounts owed to Group undertakings	**456**	451
Social security and other taxes	**12,447**	6,080
Other creditors	**6,200**	4,692
Deferred revenue	**23,043**	21,809
Accrued expenses	**30,196**	30,390
	110,767	98,542
Non-current:		
Deferred revenue	**698,817**	676,239
Aggregate amounts	**809,584**	774,781

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.

16. TRADE AND OTHER PAYABLES - continued

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

	Less than 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
2014:					
Non-interest bearing	**53,932**	**-**	**-**	**-**	**53,932**
Variable interest rate liability	**92,400**	**-**	**-**	**-**	**92,400**
Fixed interest rate liability	**18,500**	**23,053**	**166,213**	**987,535**	**1,195,301**
	164,832	**23,053**	**166,213**	**987,535**	**1,341,633**
2013:					
Non-interest bearing	45,798	-	-	-	45,798
Variable interest rate liability	49,367	-	-	-	49,367
Fixed interest rate liability	18,500	23,053	166,213	1,029,088	1,236,854
	113,665	23,053	166,213	1,029,088	1,332,019

Categories of financial liabilities

	2014 £'000	2013 £'000
Loans and payables at amortised cost	**828,353**	782,950
Total financial liabilities	**828,353**	782,950
Payments received on account	**33,792**	30,935
Income tax liabilities	**165,503**	164,052
Other taxes and social security	**12,447**	6,080
Accruals	**30,196**	30,390
Deferred revenue	**721,860**	698,048
Provisions	**2,199**	1,981
Total non-financial liabilities	**965,997**	931,486
Total liabilities	**1,794,350**	1,714,436

Deferred Revenue

	2014 £'000	2013 £'000
At 1 January	**698,048**	673,500
Additions	**45,465**	44,832
Amortisation	**(21,653)**	(20,284)
At 31 December	**721,860**	698,048

16. TRADE AND OTHER PAYABLES - continued

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

17. BORROWINGS

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

	Book Value		**Fair Value**	
	2014	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Loans	**793,664**	755,304	**938,828**	837,226
Amounts owed to Group undertakings	**23,400**	18,318	**23,400**	18,318
	817,064	773,622	**962,228**	855,544
The borrowings are repayable as follows:				
On demand or within one year	**122,721**	79,645	**122,721**	79,645
After five years	**694,343**	693,977	**839,507**	775,899
	817,064	773,622	**962,228**	855,544
Analysis of borrowings:				
Short-term loan	**69,058**	31,049	**69,058**	31,049
Inter-company short-term loan	**23,400**	18,318	**23,400**	18,318
2020 - 9.25% bonds	**216,931**	216,783	**280,130**	277,066
2035 - 5.125% bonds	**203,724**	203,647	**246,345**	217,352
2032 - 4.375% bonds	**150,295**	150,187	**168,704**	149,414
2022 - European Investment Bank 4.133%	**153,656**	153,638	**174,591**	162,345
	817,064	773,622	**962,228**	855,544

The fair value of the external borrowings is determined with reference to quoted market prices. The directors' estimates of the fair value of internal borrowings are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments. The fair value of short-term borrowings is equal to their book value. All loans are non-secured and are denominated in sterling. The valuation of liabilities set out above is based on Level 1 inputs.

Interest on short-term loans and on inter-company short-term loans is charged at a floating rate of interest at LIBOR plus 1.25%, 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 £0.4m per year. This is considered to be an acceptable level of risk. All other loans are at fixed interest rates and expose the Company to fair value interest rate risk.

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

17. BORROWINGS - continued

The Company's Senior Total Net Debt as at 31 December 2014 totalled £793.4 million. Using the RAV value as at March 2015, as outlined by Ofgem in its Final Determination for Distribution Prices published in November 2014, and adjusting for the effects of movements in the value of the Retail Prices Index ("RPI") gives an approximation for the RAV value as at December 2014 of £1,575.0 million. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 50.4%.

At 31 December 2014, the Company had available £63.0 million (2013: £63.0 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

18. LEASING AGREEMENTS

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2014	2013
	£'000	£'000
Within one year	**3,124**	3,205
Between one and five years	**5,737**	6,887
In more than five years	**284**	400
	9,145	10,492

	2014	2013
	£'000	£'000
Minimum lease payments under operating leases recognised in the year	**4,658**	4,451

19. PROVISIONS

	2014	2013
	£'000	£'000
Provisions	**2,199**	1,981
Analysed as follows:		
Current	**1,287**	1,274
Non-current	**912**	707
	2,199	1,981

	Claims	**Other**	**Total**
	£'000	**£'000**	**£'000**
At 1 January 2014	**875**	**1,106**	**1,981**
Utilised/paid in the year	**(1,189)**	**(488)**	**(1,677)**
Charged to statement of profit or loss	**1,171**	**724**	**1,895**
At 31 December 2014	**857**	**1,342**	**2,199**

Claims: Provision has been made to cover costs arising from actual claims, which are not externally insured. Settlement is expected substantially within 12 months.

Other: Primarily consists of a provision for future safe disposal of transformers which contain oil contaminated with Polychlorinated Biphenyls (PCBs) and for an amount to cover claims made under section 74 of the New Road and Street Works Act 1991. Costs are expected to be incurred over the next 20 years.

20. DEFERRED TAX

	Accelerated Tax Depreciation £'000	Other £'000	Total £'000
At 1 January 2014	**146,000**	**(180)**	**145,820**
Charge to statement of profit or loss	**1,820**	**(80)**	**1,740**
At 31 December 2014	**147,820**	**(260)**	**147,560**

	Accelerated Tax Depreciation £'000	Other £'000	Total £'000
At 1 January 2013	169,151	(177)	168,974
Charge to statement of profit or loss	(23,151)	(3)	(23,154)
At 31 December 2013	146,000	(180)	145,820

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

21. EMPLOYEE BENEFIT OBLIGATIONS

Introduction
The Company contributes to two pension schemes, which are operated by Northern Electric plc on behalf of the participating companies within the Northern Powergrid Group. Those pension schemes are:

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

- The Northern Powergrid Pension Scheme.

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

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

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

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

The DB Scheme is a defined benefit plan that shares the risk between various entities under common control. There is no contractual agreement or stated policy for charging the defined benefit cost for the plan as a whole to individual companies within the Northern Powergrid Group and accordingly the Company accounts for the DB Scheme as if it were a defined contribution scheme. The Company does not provide any other post-retirement benefits to members of the DB Scheme.

Unless otherwise stated, disclosures within this note are representative of the Northern Powergrid Group as a whole and not the Company on an individual basis as the Company accounts for the DB Scheme as if it were a defined contribution scheme.

21. **EMPLOYEE BENEFIT OBLIGATIONS - continued**

Role of Trustees

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

Funding requirements

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

Agreement was reached during October 2014 with the Trustees to repair the funding deficit of £286.4m as at 31 March 2013 over the 11 year period to 31 March 2025, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2013 being borne out in practice. The agreement includes cash payments of £34.9m per annum (of which £9.9m is borne by the Company) over the period to 31 March 2015, made on a monthly basis, followed by an agreed profile of payments to be made over the remaining ten years of the recovery plan, as set out below:

1 April 2015 to 31 March 2016:	£28.6m p.a. (of which £8.2m will be borne by the Company)
1 April 2016 to 31 March 2025:	£18.4m p.a. (of which £5.2m will be borne by the Company)

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

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

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

Pensions' Regulation

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

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

21. EMPLOYEE BENEFIT OBLIGATIONS - continued

Pensions' Regulation – continued
The Pensions Regulator has various powers including the power to:

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

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

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

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

Risk	Description	Mitigation
Volatile asset returns	The DBO is calculated using a discount rate set with reference to corporate bond yields. If assets underperform this discount rate, this will create an element of deficit. The DB Scheme aims to hold a significant proportion (48%) of its assets in return-seeking assets (such as equities) which, although expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term.	The allocation to return-seeking assets is monitored to ensure it remains appropriate given the DB Scheme's long-term objectives. The Trustees regularly review the strategy regarding return-seeking assets and have diversified some return-seeking assets from equities into Reinsurance and Listed Infrastructure to reduce overall risk. To avoid concentration risk, the allocation to UK equity is restricted to 35% of the total equity allocation.
Changes in bond yields	A decrease in corporate bond yields will increase the value placed on the DBO for accounting purposes, although this will be partially offset by an increase in the value of the DB Scheme's bond holdings.	The DB Scheme also holds a substantial proportion of its assets (52%) as bonds, which provide a hedge against falling bond yields (falling yields which increase the DBO will also increase the value of the bond assets). There are some differences in the credit quality of bonds held by the DB Scheme and the bonds analysed to decide the DBO discount rate, such that there remains some risk should yields on different quality bond/swap assets diverge.
Inflation risk	A significant proportion of the DBO is indexed in line with price inflation (specifically in line with RPI) and higher inflation will lead to higher liabilities.	The DB Scheme holds around 30% in UK government index-linked bonds which provide a hedge against higher than expected inflation increases of the DBO (rising inflation will increase both the DBO and the value of the index-linked bond portfolio).

21. EMPLOYEE BENEFIT OBLIGATIONS - continued

Risks associated with the DB Scheme - continued

Risk	Description	Mitigation
Currency risk	To increase diversification, the DB Scheme invests in overseas assets. This leads to a risk that foreign currency movements negatively impact the value of assets in Sterling terms.	The DB Scheme hedges a proportion of the overseas investments currency risk for those overseas currencies that can be hedged efficiently. The DB Scheme's currency hedging ratio is currently 50% in respect of overseas developed market currencies.
Life expectancy	The majority of the DB Scheme's obligations are to provide benefits for the pensionable lifetime of the member, so increases in life expectancy will result in an increase in the liabilities.	The DB Scheme regularly reviews actual experience of its membership against the actuarial assumptions underlying the future benefit projections and carries out detailed analysis when setting an appropriate scheme specific mortality assumption.

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

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

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

Reporting at 31 December 2014
For the purposes of this disclosure, the current and future pension costs of the Northern Powergrid Group have been assessed by Aon Hewitt, a qualified independent actuary, using the assumptions set out below, which the actuary has confirmed represent a reasonable best estimate of those costs. This review has been based on the same membership and other data as at 31 March 2013. The board of Northern Powergrid Holdings Company has accepted the advice of the actuary and formally approved the use of these assumptions for the purpose of calculating the pension cost of the Northern Powergrid Group.

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

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

21. EMPLOYEE BENEFIT OBLIGATIONS - continued

The Company's pension cost for the year ended 31 December 2014 was £19.5m (2013: £20.1m).

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

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

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

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

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

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

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

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

21. EMPLOYEE BENEFIT OBLIGATIONS - continued

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

Changes to the present value of the DBO during the year	**2014**	2013
	£m	£m
Opening DBO	**1,321.3**	1,259.3
Current service cost	**14.5**	13.9
Interest expense on defined benefit obligation	**57.3**	54.6
Contributions by DB Scheme participants	**1.5**	1.6
Actuarial gains on DB Scheme liabilities arising from changes in demographic assumptions	**(19.2)**	(23.2)
Actuarial losses on DB Scheme liabilities arising from changes in financial assumptions	**110.4**	57.6
Actuarial losses on DB Scheme liabilities arising from experience	**33.3**	10.7
Net benefits paid out	**(55.9)**	(53.2)
Closing DBO	**1,463.2**	1,321.3

Changes in the fair value of DB Scheme assets of the Northern Powergrid Group during the year	**2014**	2013
	£m	£m
Opening fair value of DB Scheme assets	**1,310.7**	1,222.8
Interest income on DB Scheme assets	**57.6**	53.8
Re-measurement gains on DB Scheme assets	**149.6**	36.4
Contributions by the employer	**54.1**	50.8
Contributions by DB Scheme participants	**1.5**	1.6
Net benefits paid out	**(55.9)**	(53.2)
Administration costs incurred	**(1.5)**	(1.5)
Closing fair value of DB Scheme assets	**1,516.1**	1,310.7

Actual return on DB Scheme assets	**2014**	2013
	£m	£m
Interest income on DB Scheme assets	**57.6**	53.8
Re-measurement gain on DB Scheme assets	**149.6**	36.4
Actual return on DB Scheme assets	**207.2**	90.2

Sensitivity to key assumptions

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

	Changes in DBO	Revised DBO
	£'000	£'000
Following a 10 bps decrease in the discount rate	**26.1**	1,489.3
Following a 10 bps increase in the discount rate	**(25.7)**	1,437.5
Following a 10 bps increase in the inflation assumption	**24.3**	1,487.5
Following a 10 bps decrease in the inflation assumption	**(24.0)**	1,439.2
Following a 1 year increase in life expectancy	**48.3**	1,511.5
Following a 1 year decrease in life expectancy	**(48.8)**	1,414.4

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

22. RELATED PARTY DISCLOSURES

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

Related Party	Sales to related parties £'000	Purchases from related parties £'000	Amounts owed to related parties £'000	Finance (costs)/income to related parties £'000	Borrowings to/(from related parties) £'000
2014					
Integrated Utility Services Limited	**400**	**1,663**	-	-	-
Integrated Utility Services Limited (registered in Eire)	-	**197**	**15**	-	-
Northern Electric plc	-	**4,663**	-	-	-
Northern Powergrid Insurance Services Limited	-	**846**	-	-	-
Northern Powergrid Metering Limited	**117**	**-**	-	-	-
Northern Powergrid (Northeast) Limited	**9,354**	**15,466**	-	-	-
Vehicle Lease and Service Limited	**62**	**4,019**	**441**	-	-
Yorkshire Electricity Group plc	-	**-**	-	**240**	**(23,400)**
	9,933	**26,854**	**456**	**240**	**(23,400)**

Related Party	Sales to related parties £'000	Purchases from related parties £'000	Amounts owed to related parties £'000	Finance (costs)/income to related parties £'000	Borrowings to/(from related parties) £'000
2013					
Integrated Utility Services Limited	113	123	-	-	-
Integrated Utility Services Limited (registered in Eire)	-	117	18	-	-
Northern Electric plc	-	3,891	-		-
Northern Powergrid Insurance Services Limited	-	761	-	-	-
Northern Powergrid Limited	-	-	-	-	-
Northern Powergrid (Northeast) Limited	7,697	13,832	-	-	-
Vehicle Lease and Service Limited	-	3,909	433	-	-
Yorkshire Electricity Group plc	-	-	-	(240)	(18,318)
	7,810	22,633	451	(240)	(18,318)

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

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

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

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

	2014	2013
	£'000	£'000
Profit before income tax	**191,587**	158,806
Depreciation charges	**81,314**	81,174
Profit on disposal of fixed assets	**(185)**	(249)
Amortisation of deferred revenue	**(21,653)**	(20,284)
Increase/(decrease) in provisions	**218**	(378)
Finance costs	**40,783**	40,335
Finance income	**(280)**	(100)
	291,784	259,304
Increase in inventories	**(32)**	(18)
(Increase)/decrease in trade and other receivables	**(16,387)**	11,374
Increase in trade and other payables	**8,404**	406
Cash generated from operations	**283,769**	271,066

24. ULTIMATE CONTROLLING PARTY

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

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