

REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

FOR

NORTHERN POWERGRID (YORKSHIRE) PLC

NORTHERN POWERGRID (YORKSHIRE) PLC

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**NORTHERN POWERGRID (YORKSHIRE) PLC
COMPANY INFORMATION**

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NORTHERN POWERGRID (YORKSHIRE) PLC STRATEGIC REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2019

The directors present the annual reports and financial statements for the Regulatory Year ended 31 March 2019 of Northern Powergrid (Yorkshire) plc. (the "Company"), which have been prepared in accordance with Part A of standard condition 44 (Regulatory Accounts) of the electricity distribution licence.

BUSINESS MODEL

The Company is as an authorised distributor under the Electricity Act 1989 and holds an electricity distribution licence granted by the Secretary of State. As a distribution network operator ("DNO"), the Company is regulated by the Office of Gas and Electricity Markets ("Ofgem"), which in turn, is governed by the Gas and Electricity Markets Authority ("GEMA"). Ofgem require the DNOs to operate within a regulatory framework known as a price control, the purpose of which is to protect the interests of end consumers by setting an upper limit on the amount the DNOs can charge for the use of their networks. The completion of the 2018/19 Regulatory Year represents the mid-point of the current R10-ED1 price control which became effective on 1 April 2015 and is due to end on 31 March 2023 (the "ED1 period").

The principal activity of the Company is the distribution of electricity to approximately 2.3 million customers connected to its electricity distribution network throughout the areas of West Yorkshire, East Yorkshire, almost all of South Yorkshire, together with parts of North Yorkshire, Derbyshire, Nottinghamshire, Lincolnshire and Lancashire. The Company's distribution network includes over 54,000 kilometres of overhead and underground cables and over 35,000 substations. Electricity is received from National Grid's transmission system and from generators connected directly to the network, and then distributed at voltages of up to 132 kilovolts ("kV").

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

In common with Northern Powergrid Holdings Company and its subsidiaries (the "Northern Powergrid Group"), the Company operates a business model and strategy based on six core principles (the "Core Principles") which comprise Financial Strength, Customer Service, Operational Excellence, Employee Commitment, Environmental Respect and Regulatory Integrity. The Core Principles (which are applied by the Northern Powergrid Group's parent company, Berkshire Hathaway Energy Company ("Berkshire Hathaway Energy")), set out the basis on which the Company generates shareholder value over the longer-term and defines the standards by which the Northern Powergrid Group holds itself accountable. Each Core Principle is defined by a strategic objective which is intrinsically linked to the commitments made in the Company's 2015 to 2023 regulatory well justified business plan ("Business Plan") and is measured by financial and non-financial Key Performance Indicators ("KPI"). The Strategic Report focuses on each Core Principle and the performance of each KPI throughout the Regulatory Year in order to provide a summary of the success in achieving each strategic objective and the progress made against certain Business Plan commitments.

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STRATEGIC REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2019 (CONTINUED)**

FINANCIAL STRENGTH

Strategic objective: Strong finances that enable improvement and growth.

KPI	2018/19	2017/18
Operating profit	£188.5 million	£ 184.7 million
Cash from operating activities	£191.3 million	£178.7 million
Cash used in investing activities	£180.7 million	£ 158.7 million
Credit Rating (Standard & Poor's)	A	A

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

Revenue: The Company's revenue at £428.7 million was £14.3 million higher than the prior Regulatory Year due to higher distribution use of system revenues, higher amortisation of deferred revenue and introduction of assessment & design fees from 1st April 2018. The RIIO-ED1 price control provides the Company with some stability in terms of its income until 31 March 2023.

Operating profit and position at the Regulatory Year-end: The Company's operating profit of £188.5 million was £3.8 million higher than the previous Regulatory Year, primarily reflecting higher revenues offset by higher depreciation. The statement of financial position on page 24 shows that, as at 31 March 2019 the Company had total equity of £1,438.2 million (2017/18: £1,355.5 million). The directors consider the Company to have a strong financial position which, when coupled with the preference of its parent company, Berkshire Hathaway Energy, for operating with lower levels of debt than equivalent companies in the sector, creates a stable base for continued strong performance during the ED1 period.

Finance costs and investments: Finance costs net of investment income at £48.7 million were broadly in line with the prior regulatory year.

Taxation: The effective tax rate in the Regulatory Year was 18.7%. Corporation tax for the Regulatory Year was £26.3 million; this was in line with the prior Regulatory Year. Details of the income tax expense are provided in Note 8 to the financial statements.

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

- Cash flow from operating activities at £191.3 million was £13.6 million higher than the previous Regulatory Year due to higher operating profit and favourable movements in working capital.
- The net cash used in investing activities at £180.7 million was £22.0 million higher than the previous Regulatory Year, reflecting higher purchases of plant, property and equipment and lower customer contributions.

Pensions: The Company is a participating employer in the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "DB Scheme"), which is a defined benefit scheme. The Company also participates in the Northern Powergrid Pension Scheme, which is a defined contribution scheme.

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Insurance: As part of its insurance and risk strategy, the Northern Powergrid Group has in place insurance policies, which cover risks associated with employees, third party motor and public liability. The Northern Powergrid Group carries appropriate excesses on those policies and is effectively self-insured up to the level of those excesses. Consequently, the risk management programmes are viewed as extremely important, given the contribution they make to the elimination or reduction of exposure to such risks.

CUSTOMER SERVICE

Strategic objective: Delivering exceptional customer service.

KPI	2018/19	2017/18
BMCS	86.2%	85.6%
BMCS Rank (out of 14)	13	12
BMCS Power Cuts	87.9%	87.3%
BMCS General Enquiries	88.0%	88.4%
BMCS Connections	84.4%	83.4%
SECV rank (out of 6) (combined with Northern Powergrid (Northeast) Limited)	2	3

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

Performance during the Regulatory Year: Under the broad measure of customer satisfaction ("BMCS"), an independent market research company carried out telephone surveys with the Company's customers to find out how satisfied they were with services related to unplanned or planned power cuts, quotations and subsequent connections, and general enquiries. The Company recorded an improvement in overall satisfaction scores compared to the prior Regulatory Year (2018/19: 86.2% versus 2017/18: 85.6%). However, as other DNOs improved at a faster rate, the BMCS rank achieved of 13 declined marginally in comparison to the prior Regulatory Year (2017/18: 12). This was attributed to a reduction in the BMCS General Enquiries scores (accounting for 20% of the overall score) and the decline of the planned power cut element of the BMCS Power Cut score which accounted for a further 10%.

To address the decline in BMCS rank and to further enhance the service provided to customers, a number of initiatives from the Company's customer service improvement plan were implemented during the Regulatory Year. This included the continued development of the customer relationship management system, enhancement of pro-active customer communications via text, interactive voice response and social media, as well as a focus on improving self-service offerings to customers.

The Quality Framework (developed to deliver exceptional customer service) was improved further and an additional communication with customers was introduced to confirm satisfaction with the service provided and confirmation that the work in question had been completed.

CONNECTIONS TO THE NETWORK

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

Performance during the Regulatory year: Reducing end-to-end connections lead times continued to pose a challenge and as such, work to improve the level of customer service within the small works connections business (measured by the BMCS connections KPI) continued. In support of this, a new role was developed resulting in one individual assuming responsibility throughout each connections process from creating a quotation on site (using newly developed technology) to the final delivery of the connection itself. By continuing

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STRATEGIC REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2019 (CONTINUED)**

to introduce further enhancements, the Company is confident the 30% reduction by the end of the ED1 period remains achievable.

The Company continued to comply with the processes introduced by the Competition in Connections Code of Practice. This included the provision of dual quotations, enabling ICPs to self-determine and approve points of connection to the network and self-approve designs, and by facilitating the self-connection of network assets to our low and high voltage networks by competent ICP personnel.

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

CORPORATE RESPONSIBILITY

Business Plan commitments: To build effective relationships with stakeholders whilst providing additional support to customers, especially those who are vulnerable and hard to reach.

Performance during the Regulatory Year: The Company continued to work closely with key partners such as local authorities, local enterprise partnerships, Members of Parliament and local resilience forums, particularly during periods of severe weather. Collaboration with stakeholders in the wider energy industry included consultations on the emerging plans for the transition to Distribution System Operator ("DSO") and delivery of the annual Stakeholder Summit which is designed to update senior stakeholders from government, the private sector and customer groups on the Company's progress in delivering the Business Plan. In addition, a series of roundtable stakeholder discussions were held, the outputs of which will inform the annual strategic planning process.

In April 2019, the Company (with Northern Powergrid (Northeast) Limited) put forward its Stakeholder Engagement and Customer Vulnerability ("SECV") submission to Ofgem in respect of work undertaken during the previous Regulatory Year. The submission provided an overview of activities and case studies in areas such as safety, environment, customer service, reliability and availability. Following the submission to Ofgem's panel, the position of the Company in the context of the wider DNO group increased from third place to second. The improvement demonstrated the effectiveness of comprehensive, open dialogue with stakeholders on key issues which formed part of the refreshed engagement strategy updated in 2018.

Throughout the year, a number of tailored education and safety programmes were delivered including, 'Look up - It's live', a campaign run in partnership with the National Farmers' Union to promote safety messages to the rural community, make the Grade in Energy, an education, skills and employability programme, and Energy Heroes which promotes awareness of energy costs and ways of saving energy while developing mathematical skills to primary school pupils.

OPERATIONAL EXCELLENCE

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

KPI	2018/19		2017/18	
	Actual	Target	Actual	Target
Customer minutes lost	38.8	<57.9	36.4	<60.2
Customer interruptions	49.3	<65.2	48.1	<66.4
High voltage restoration time (minutes)	54.7		49.8	
Network investment	£224.8 million		£209.1 million	

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

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

The Company invested £224.8 million during the Regulatory Year through its approved network investment strategy (2018: £209.1 million), which has been designed to deliver improvements and increase the network's resilience. Various major projects were undertaken to reinforce the primary network, refurbish transformers, rebuild overhead lines, remove and replace oil-filled cables, change deteriorated poles, replace switchgear and install and commission new remote control points.

Enhancements to the network also continued through investment in the use of technology. This included the deployment of over 800 smart fuses to restore supplies in under three minutes to customers affected by intermittent faults, and the roll out of 100 next generation innovative low-voltage technology devices to perform multiple restorations of customers' supplies, again in under three minutes. In addition, the Company continued to further expand the automated power restoration system, designed to restore power to the network in a safe manner in under three minutes. In relation to high-voltage restoration, the Company's high-voltage restoration performance during the Regulatory Year averaged 54.7 minutes (2017/18: 49.8 minutes), after allowing for severe weather incidents and other exemptions.

EMPLOYEE COMMITMENT

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

KPI (all calendar year)	2019		2018	
	Actual	Target	Actual	Target
Northern Powergrid Group occupational safety and health administration rate	0.26	0.26	0.44	0.26
Preventable vehicle accidents	13	9	17	9
Lost time accidents	2	2	5	2
Restricted duty accidents	-	1	1	1
Medical treatment accidents	1	1	-	1
Operational incidents	4	5	6	6
Northern Powergrid Group absence rate	3.3%		2.9%	

HEALTH AND SAFETY

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

Performance during the Regulatory Year: In common with the Berkshire Hathaway Energy group, the Northern Powergrid Group measures its safety performance in terms of the Occupational Safety and Health Administration ("OSHA") rate, which is a measure used in the United States ("US") to capture safety incidents down to minor levels of medical treatment. The Northern Powergrid Group achieved its OSHA rate of 0.26 (2018: 0.44) recording a total of six recordable incidents against a target of six or fewer. The Company failed to meet the Preventable Vehicle Accidents target but improved on the prior Regulatory Year's performance. The failure was primarily the result of a series of relatively minor driving incidents for which corrective action has been initiated.

Improving safety performance remains a priority and the way in which this is achieved is set out in the Company's safety and health improvement plan ("SHIP"). The SHIP focuses on leadership engagement, supervisory oversight, and workplace risk management. These three areas are supported by driver training, operational safety seminars, stand-down briefings and regular safety reports and newflashes.

The health and wellbeing of staff also forms an integral part of the SHIP. Existing support available to employees includes an independent employee assistance service, which is a confidential, self-referral counselling and information service to assist with personal or work-related problems and access to services

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including counselling and physiotherapy referrals. A number of new initiatives focused specifically on mental health and wellbeing were launched during the Regulatory Year. These included the recruitment of mental health first aid volunteers, providing mental health awareness training and a series of mental health campaigns in conjunction with the United Kingdom mental health awareness week.

The Company's OHSAS 18001 health and safety management systems successfully retained certification.

EMPLOYEES

Business Plan commitments: To instil high standards of performance by engaging, collaborating and working with employees and their trade union representatives and to create opportunities for trainees and apprentices.

Performance during the Regulatory Year: The Company conducted an externally facilitated employee survey to benchmark the level of employee engagement against top performing organisations and to identify areas for improvement. In response to feedback from the most recent survey, a number of commitments were made in respect of communication and to enhance the quality and quantity of time spent discussing personal objectives and development.

During the financial year, 82 new recruits (2018: 68) joined the Company and Northern Powergrid (Northeast) Limited's workforce renewal programme.

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

At 31 March 2019, the Company employed 1,136 employees (2018:1,180). Further information concerning how the Northern Powergrid group is supporting gender diversity in the energy industry can be found in the Northern Powergrid Group's gender pay gap report via the Northern Powergrid Group's corporate website.

	2019			2018		
	Male	Female	All	Male	Female	All
Directors	6	1	7	6	1	7
Senior Managers ¹	8	0	8	13	0	13
Total Number of Employees	981	155	1,136	1,022	158	1,180

ENVIRONMENTAL RESPECT

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

KPI	2018/2019		2017/2018	
	Actual	Target	Actual	Target
Total oil/fluid lost (litres)	19,567	<18,420	17,438	<18,800
SF6 gas discharges (kg)	47.45	<67.00	64.96	<76.00
Environmental incidents	6	<5	7	<7
Carbon footprint (tonnes)	19,847		22,084	

¹ Following a number of Organisational changes, an exercise was undertaken in 2018 to ensure that all employees were allocated to the correct Northern Powergrid Group employing entity.

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

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

The Company’s carbon footprint reporting framework is certified under the Certified Emissions Measurement and Reduction Scheme for compliance with ISO 14064-1:2006. The last full audit was undertaken in November 2018, where continued certification was confirmed. Initiatives including the implementation of telematics in fleet vehicles facilitated a further improvement in reducing the Company’s carbon footprint during the Regulatory Year to 19,847 tonnes (2017/18: 22,084 tonnes).

In support of the target to further reduce oil and fluid loss, the 2018 annual environmental improvement plan continued to include initiatives to replace fluid-filled cables and locate cable fluid leaks across the network more quickly. The total oil and fluid loss of 19,567 litres (2017/18: 17,438) was greater than the previous Regulatory Year due to a number of leaks from underground cables. The Company continues to implement solutions to minimise its impact on the environment including placing overhead lines underground in National Parks and Areas of Outstanding Natural Beauty and by protecting wildlife and habitat.

SUSTAINABILITY

Business Plan commitments: To help facilitate the United Kingdom’s transition to a low-carbon economy in the Company’s capacity as a major participant in the United Kingdom energy industry and in terms of its own carbon footprint and to invest in appropriate enabling smart technology.

Performance during the Regulatory Year: As the country takes action to make significant reductions in its carbon emissions, the way in which electricity is produced and used is expected to have a substantial impact on the electricity network over time. This has already been seen through the number of low-carbon technology installations such as photovoltaic solar panels, electric vehicles and heat pumps. The volume and total capacity of decentralised energy generation has also been growing steadily and, given the greater range of load and generation technologies now connected to the network, the Company is taking action to develop innovative solutions that will reduce the need for traditional and potentially expensive reinforcement of the network.

From an innovation perspective, the Company is running a portfolio of projects in the priority areas of smart grids, smart meters, digital-enabled customer service and affordability.

A partnership with Nissan is supporting electric vehicle projects for the trialling of ‘vehicle to grid’ technology to enable car users to supply power to the electricity network. In addition, a project is exploring enhanced power system resilience by developing hybrid battery technology to expedite the restoration of the electricity supply following a power cut. Collaboration with Northern Gas Networks at the Integral demonstrator site continues to assess the potential future benefits of integrating both gas and electricity energy systems. Through the portfolio of innovation projects, the Company is exploring how it needs to change its role in order to support customers to buy and sell their electricity in more active local energy markets. In transitioning to the role of DSO, the Company continues to cost effectively deliver its traditional services while considering how it may support future competitive energy markets that benefit customers.

The Company’s climate change adaptation strategy recognises the impact that climate change is anticipated to have on the business, the risks this poses and the proposed actions to mitigate these risks including vegetation management, network specifications for changing temperatures and improved weather prediction.

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The installation of flood defences is one such key activity that is already underway and the delivery of the committed programme in the ED1 period remains on track.

REGULATORY INTEGRITY

Strategic objective: Trustworthy, fair and balanced, creating win-win outcomes. Managing the Company's business to the highest behavioural standards and adhere to a policy of strict compliance with all relevant standards, legislation and regulatory conditions.

KPI: Completion of a quarterly regulatory compliance affirmation process.

Performance during the year: In order to assure compliance with licence and other regulatory obligations, the Company operates a regulatory compliance affirmation process, under which ownership of approximately 1,800 regulatory obligations are assigned to around 80 responsible managers. Those responsible managers are required to review compliance with the relevant obligations on a quarterly basis and report on any identified non-compliances or perceived risks which are then addressed by members of the executive team. To minimise the risk of the Company breaching its licence conditions and other statutory requirements (which could lead to financial penalties), the board of directors review the outcome of each quarter's exercise.

The Company submitted a risk-based data-assurance plan to Ofgem for the Regulatory Year ahead, together with a report detailing the assurance work actually carried out in the Regulatory Year just ended and the findings of that work.

PRINCIPAL RISKS AND UNCERTAINTIES

The Northern Powergrid Group operates a structured and disciplined approach to the management of risk as part of its overall risk management policy and in support of its financial reporting practices. A robust system is in place to facilitate the identification of new risks, including those associated with the achievement of the Company's strategic objectives and Core Principles. Once identified, key risks and their respective controls and mitigation plans are continually assessed and formally reviewed by the Governance and Risk Management Group ("GRMG"), which reports to the Audit Committee.

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

Principal Risks

Cyber Security

Unauthorised access or compromise of the Information Technology or Operational Technology networks, resulting in loss of network control and availability.

Mitigation

- Robust cyber security risk mitigation programme is in place.
- Information security standards in place for certain discrete business areas.
- Internet security controls in place.
- Monitored by the Information Security Executive Committee and the board.

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Regulatory and policy positioning

Decisions taken resulting in negative impacts to our business model.

Mitigation

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

Network resilience

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

Mitigation

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

Safety

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

Mitigation

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

Environment

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

Mitigation

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

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Information security

Unauthorised access or loss of large volumes of data or sensitive data.

Mitigation

- Robust cyber security risk mitigation programme is in place.
- Information security standards in place for certain discrete business areas.
- Internet security controls in place.
- Monitored by the Information Security Executive Committee and the board.

Efficiency and output performance

Failure to maintain cost and output performance competitiveness in the industry.

Mitigation

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

Financial risks

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

Mitigation

- Monitored by the Treasury Committee.
- 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 March 2019, 100% of the Company's long-term borrowings were at fixed rates and the average maturity for these borrowings was 8 years.
- Financial covenant monitoring is in place.

Resource availability

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

Mitigation

- Mix of direct labour and contracted resource is used.
- Workforce renewal programmes in place to recruit and retain employees.
- On-going training and development builds internal capability.
- Employee engagement and health and well-being initiatives are in place.

Brexit

Britain leaving the European Union is not considered to be a principal risk to the Company.

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Internal control

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

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

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

The Northern Powergrid Group is committed to maintaining the highest ethical standards in the conduct of its business and, implements Berkshire Hathaway Energy's code of business conduct, details of which can be found on page 7. The Northern Powergrid Group has robust procedures in place to meet the requirements of the Bribery Act 2010. Every employee must undertake the code of business conduct training each year, which includes training in respect of the Northern Powergrid Group's anti-corruption and anti-bribery policy.

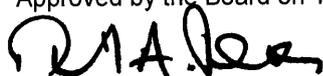
Viability Statement

The directors have chosen an eight-year period from 1 April 2015 for the purposes of making this statement as it equates to the ED1 period for which the Company's income has been set.

Various factors were contemplated when making an assessment of Company's prospects including the general stability associated with the regulatory environment, the principal risks and uncertainties facing the Company, the Company's business model and strategy, the forecasts developed as part of the Company's annual business plan and the commitments made in the Business Plan. Consideration was also given to the obligations contained in the Company's licence to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Company will have sufficient financial resources, financial facilities and operational resources available for the continuation of business for a period of 12 months. The board determined any material variations to the assumptions used when providing those certificates was unlikely.

Based on the results of their review, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the ED1 period.

Approved by the Board on 11 July 2019 and signed on its behalf by:



P A Jones
Director

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DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2019**

The directors present their report together with the auditor's report and the financial statements for the Regulatory Year ended 31 March 2019.

Dividends

During the financial year, an interim dividend of £31.2 million was paid (2017/18: £29.8 million). The directors recommend that no final dividend is paid in respect of the financial year (2018: £nil).

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

Directors of the Company

The directors, who held office during the Regulatory Year and up to the date of this report, were as follows:

T E Fielden
J M France (Resigned 5 April 2018)
T H France
N M Gill (Resigned 30 April 2019)
P A Jones
A J Maclellan
A R Marshall
P C Taylor

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

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

Future developments

The financial position of the Company, as at 31 March 2019, is shown in the statement of financial position on page 24. There have been no significant events since the Regulatory Year end. The directors intend that the Company will continue to implement its Business plan during the remainder of the ED1 period and by delivering the strategic objectives linked to the Core Principles, the Company will continue to develop its business by efficiently investing in the network and improving the quality of supply and service provided to customers. There are no plans to change the existing business model.

Research and development

The Company supports a programme of research (see page 4 for further details) that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. During the Regulatory Year, the Company invested £2.9 million (2017/18: £2.6 million) (Note 6 to the financial statements) in its research and development activities.

**NORTHERN POWERGRID (YORKSHIRE) PLC
DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2019 (CONTINUED)**

Financial instruments

Details of financial risks are included in the Principal Risks and Uncertainties on page 11 of the Strategic Report and Note 29 to the financial statements on page 69. As at 31 March 2019 and during the Regulatory Year it was the Company's policy not to hold any derivative financial instruments.

Political Donations

No contributions were made to political organisations during the Regulatory Year (2017/18: £nil).

Employment of disabled persons

The Company 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 will make reasonable adjustments, wherever possible.

In accordance with Section 414C of the Companies Act 2006 disclosures concerning relations with employees and greenhouse gas emissions can be found on pages 7 and 8 of the Strategic Report.

Employee involvement

A constitutional framework agreed with trade union representatives exists in respect of employee consultation. The management team keep employees and trade union representatives informed of and involved as appropriate in developments that may impact them now or in the future.

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

During the Regulatory Year, the President and Chief Executive Officer of the Northern Powergrid Group continued to provide employees with updates on the Northern Powergrid Group's financial, organisational, safety and customer service performance through regular electronic briefings.

Non-financial information statement

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

- Environmental: pages 7 and 8
- Employee: pages 6 and 7
- Respect for human rights: page 12
- Anti-corruption and anti-bribery matters: page 12
- Social matters: page 4
- Business model: page 2

**NORTHERN POWERGRID (YORKSHIRE) PLC
DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2019 (CONTINUED)**

CORPORATE GOVERNANCE STATEMENT

The Company has voluntarily sought to apply a number of the main principles and certain supporting principles and provisions set out in the UK Corporate Governance Code 2016 (the "Code") in so far as it considers them to be appropriate to a privately owned Company without a premium listing of equity shares.

The directors confirm that the governance framework in place is appropriate to the circumstances of the Company and where possible, the spirit of the Code has been applied. The framework is agreed with the Northern Powergrid Group's ultimate shareholder, Berkshire Hathaway Energy with whom the Northern Powergrid Group has a strong relationship which is maintained through regular reporting and meetings with the Northern Powergrid Group's President and Chief Executive Officer and senior management team. The Company has not complied with main principles A2, A3, B2, B6, B7, D1, D2 and E2 (or the associated supporting principles and provisions) for the reasons explained in the pages that follow. A copy of the Code can be found at <https://frc.org.uk/>.

Leadership

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

Operational management of the Company's business is delegated to a single management team with specific functional responsibilities in respect of operations, safety, health and environment, asset management, customer service, business development, policy and markets, regulation, human resources, organisation development, legal and finance. The management team meets with the senior management of the Northern Powergrid Group on a weekly and monthly basis to monitor performance and address issues of policy. A schedule of key delegations of authority has been approved by the board of the Company (and applies to the Northern Powergrid Group) which enables the management team to make decisions up to certain financial limits, above which point the decision making reverts to the directors. These limits reflect the board's level of risk appetite. Matters reserved for approval by the board include but are not limited to, the declaration of dividends, the approval of the annual statutory and regulatory accounts and changes to capital structure.

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

Attendance at meetings by the Company's board members during the Regulatory Year was as follows:

P A Jones	President and Chief Executive Officer	6/6
T E Fielden	Finance Director	6/6
J M France	Regulation Director (resigned 5 April 2018)	0/1
T H France	General Counsel	6/6
N M Gill	Operations Director (resigned 30 April 2019)	5/6
A J Maclennan	Commercial Director	5/6
A R Marshall	Independent non-executive Director	6/6
P C Taylor	Independent non-executive Director	4/6

**NORTHERN POWERGRID (YORKSHIRE) PLC
DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2019 (CONTINUED)**

Effectiveness

Although the board does not include a balanced number of executive and non-executive directors, the board believes that it possesses the requisite skills and experience necessary to provide effective leadership, stewardship and control of the Company. The non-executive directors of the Company constructively challenge the executive board and management team on the delivery of the Company's strategic objectives.

All of the Company's board directors have overall responsibility for the management of risk and the internal control environment which is designed to address Berkshire Hathaway Energy's United States Sarbanes-Oxley Act requirement, the key features of which can be found on pages 12 of the Strategic Report.

To facilitate the delivery of their duties, the directors continually update their knowledge of and familiarity with the operations of the Company and the Northern Powergrid Group. This is supported by robust reporting arrangements, access to the Northern Powergrid Group's operations and interaction with its staff. Information is provided to the board in a timely manner to enable directors to commit sufficient time to the preparation for and attendance at board meetings. In addition, updates and briefings are circulated during the course of the regular board meeting cycle. The directors are able to utilise the advice and services of the Company Secretary and her team. Upon request, the directors have access to independent professional advice.

Relations with the Northern Powergrid Group's shareholder

The Northern Powergrid Group has an established relationship with its shareholder, Berkshire Hathaway Energy, reflected by the leadership structure, whereby the President and Chief Executive Officer of the Northern Powergrid Group reports directly to the President and Chief Executive Officer of Berkshire Hathaway Energy.

Regular interaction and dialogue with Berkshire Hathaway Energy ensures that strategic views of the Northern Powergrid Group's shareholder are understood and aligned, and that appropriate values and standards are set. The relationship between the Northern Powergrid Group and its shareholder also negates the necessity to establish a nominations committee for the purpose of identifying board appointments and a remuneration committee to consider directors' and senior managers' remuneration. Both of these functions are undertaken by the appropriate representative of Berkshire Hathaway Energy and the President and Chief Executive Officer of the Northern Powergrid Group. All board appointments are considered with due regard to the board's overall composition including the balance of skills and experience ahead of recommendations being put to the board.

Remuneration

The Company's executive directors' and senior managers' remuneration is considered by the appropriate representative of Berkshire Hathaway Energy on an annual basis and is explicitly linked to the performance evaluation process. Each individual's effectiveness is measured against both personal and Berkshire Hathaway Energy goals with all resulting awards based on merit and linked to the delivery of stretching accountabilities. All remuneration is designed to promote the long-term success of the Company and the Northern Powergrid Group with no individual involved in determining their own remuneration.

Non-executive director remuneration is reviewed on an annual basis. Any increases are made in line with the wider Northern Powergrid Group's employee population and is subject to continued satisfactory performance. As the Articles of Association of the Company do not require the periodic retirement and re-election of directors, the letters of appointment in place for each of the Group's non-executive directors are reviewed regularly allowing for a mutual evaluation of the benefit of individuals remaining in post.

The board of the Company (or of any other Northern Powergrid Group subsidiary) does not undertake an annual evaluation of its performance, as performance is continually monitored and assessed by Berkshire

**NORTHERN POWERGRID (YORKSHIRE) PLC
DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2019 (CONTINUED)**

Hathaway Energy through the delivery of an agreed annual business plan. The committees reporting into the board are evaluated through the activity delivered in accordance with their terms of reference.

Diversity policy

The Northern Powergrid Group has adopted a number of policies (including the policy on diversity at work and code of business conduct) that collectively comprise the policy on diversity. Diversity is actively supported through recruitment, educational programmes, employee opportunities and the Global Days of Service charitable support programme. All appointments (which includes board, board committee, and senior management appointments) are based on merit with due regard for diversity, including gender.

Board and management committees

During the Regulatory Year, there were a number of committees in operation, acting under delegated terms of reference which oversee the Northern Powergrid Group and report regularly on their activities.

Health and safety management

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

Composition:

- P A Jones - President and Chief Executive Officer (Chairman)
- G M Earl - Director of Safety, Health and Environment
- T E Fielden - Finance Director
- T H France – General Counsel
- N M Gill - Operations Director (resigned 30 April 2019)
- A J Maclennan – Commercial Director
- A R Marshall – Non-executive Director (appointed to committee 26 April 2019)

Duties:

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

Treasury

Role: Meets as required to oversee and implement treasury policies.

Composition:

- T E Fielden, Finance Director (Chairman)
- 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
- L C Bennett, Treasurer and Investor Reporting Manager
- M D Brady, Treasury and Reporting Manager

Duties:

- oversee cash and liquidity management;
- manage interest rate and foreign exchange risk;
- manage bank relationships and secure long-term funding; and
- report to the board.

**NORTHERN POWERGRID (YORKSHIRE) PLC
DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2019 (CONTINUED)**

Pensions

Role: Meets Quarterly to oversee the Northern Powergrid Group's approach to the pension schemes.

Composition:

- T E Fielden, Finance Director (Chairman)
- N A Applebee, Director of People and Customer Service
- S J Lockwood, Group Financial Controller
- G Pearson, Head of Performance and Quality
- K A Mawson, Head of Regulatory Finance and Systems;
- R Dougherty, Pensions Manager

Duties:

- exercise duties in respect of the DB Scheme and defined contribution scheme;
- consider any matters impacting or requiring amendment relating to the DB Scheme or defined contribution scheme; and
- report to the board.

Audit committee

Role: Meets annually to consider the application of corporate reporting, risk management and internal control principles.

Composition:

- J N Reynolds, non-executive Director (Chairman)
- M Knowles, independent member (appointed 17 July 2018)
- T E Fielden, Finance Director

Duties:

- carry out the functions required by DTR 7.1.3R;
- oversee the Governance and Risk Management Group;
- monitor internal audit plan;
- sub-delegate activities to another person or body as seen fit. At the December 2018 meeting, duties were sub-delegated to Berkshire Hathaway Energy's audit committee; and
- report to the board.

NORTHERN POWERGRID (YORKSHIRE) PLC
DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2019 (CONTINUED)

Governance and risk management group (GRMG)

Role: Meets three times a year to ensure effective corporate governance and risk management processes are in place.

Composition:

- T E Fielden, Finance Director (Chairman)
- N A Applebee, Director of People and Customer Service
- A E Bilclough, Director of Field Operations
- M Drye, Director of Asset Management
- P Erwin, Policy and Markets Director
- T H France, General Counsel
- N M Gill, Operations Director (resigned 30 April 2019)
- A P Jones, Director of Performance and Planning
- P A Jones, President and Chief Executive Officer
- A J MacLennan, Commercial Director
- A J Patterson, Director of Organisation Development

Duties:

- monitor the risk management framework;
- oversee the Asset Risk Management Executive Review Group;
- oversee Emergency Planning Co-ordination Group;
- oversee the Information Security Committee; and
- report to the Audit Committee.

Internal control and risk management

Details of the main features of the Company's internal control and risk management systems can be found on page 12.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Regulatory Accounts, including the Strategic Report, the Directors' Report and the Corporate Governance Statement in accordance with standard condition 44 of the Licence and International Financial Reporting Standards ("IFRS").

In preparing 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 entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company. 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.

Going Concern

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

**NORTHERN POWERGRID (YORKSHIRE) PLC
DIRECTORS' REPORT FOR THE REGULATORY YEAR ENDED 31 MARCH 2019 (CONTINUED)**

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

- The Company is a stable electricity distribution business operating an essential public service and is regulated by Ofgem. In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Company is profitable with strong underlying cash flows and holds investment grade credit ratings;
- The Company is financed by long-term borrowings with an average maturity of 8 years and has access to borrowing facilities provided by Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc. In addition, the Company has access to further short-term borrowing facilities provided by YEG, another subsidiary within the Northern Powergrid Group.
- The Northern Powergrid Group issued a £150m 30 year bond on 24th May 2019 maturing in 2049 at an interest rate of 2.75%. Due to some debt repayments over the next 12 months (see Note 29-Financial Risk, Maturity analysis for financial liabilities) it is planned to issue further long term borrowing within the next 12 months. The recent bond issue demonstrated that there is an active market with strong appetite from investors; and
- The Company has prepared forecasts which taking into account reasonable possible changes in trading performance; showing that the Company has sufficient resources to settle its liabilities as they fall due. The directors have had discussions with the bank who have indicated that they would continue to provide the short term facilities to the Northern Powergrid Group for the foreseeable future on acceptable terms.

Directors' responsibility statement pursuant to DTR 4

Each of the directors as at the date of the annual reports and financial statements, whose names and functions are set out on page 15 in the Report of the Directors confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with applicable UK law and in conformity with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the 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.

Statement as to disclosure of information to auditor

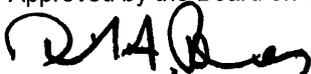
Each of the directors, who is a director of the Company as at the date of this report, confirms that:

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

Reappointment of auditor

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

Approved by the Board on 11 July 2019 and signed on its behalf by:



P A Jones
Director

INDEPENDENT AUDITOR'S REPORT TO THE GAS AND ELECTRICITY MARKETS AUTHORITY (THE "REGULATOR") AND TO NORTHERN POWERGRID (YORKSHIRE) LIMITED (THE "COMPANY")

Report on the audit of the Regulatory Accounts

Opinion

In our opinion the Regulatory Accounts of Northern Powergrid (Yorkshire) Limited (the 'Company') for the year ended 31 March 2019 present fairly, in all material aspects, in accordance with Standard Licence Condition 44 of the Regulatory Licence and the Company's accounting policies.

We have audited the regulatory accounts which comprise:

- the statement of profit and loss and other comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the notes to the Regulatory Accounts 1 to 31.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the regulatory accounts section of our report. We also conducted our report in accordance with applicable law, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England and Wales.

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

Emphasis of matter – basis of accounting

We draw attention to Note 1 to the regulatory accounts, which describe the basis of accounting. The regulatory accounts are separate from the statutory financial statements of the Company and are to meet the requirements of Standard Licence Condition 44 of the Regulatory Licence. As a result, the Regulatory Accounts may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the Regulatory Accounts and our auditor's report thereon. Our opinion on the Regulatory Accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-statutory financial statements or our knowledge obtained in the audit or otherwise appears to be

materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Regulatory Accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the Regulatory Accounts in accordance with Standard Licence Condition 44 of the Regulatory Licence and the Company's accounting policies. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of Regulatory Accounts that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the non-statutory financial statements

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

A further description of our responsibilities for the audit of the Regulatory Accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's directors and the Regulator in order to meet the requirements of Standard Licence Condition 44 of the Regulatory Licence. Our audit work has been undertaken so that we might state to the Company's directors and the Regulator those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report, or for the opinions we have formed.

Our opinion on the Regulatory Accounts within the annual report is separate from our opinion on the statutory financial statements of the Company for the year ended 31 December 2018 which are prepared for a different purpose. Our audit in relation to the statutory financial statements of the Company was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in



Dave Johnson, Senior Statutory Auditor
For and on behalf of Deloitte LLP
Statutory Auditor
Newcastle, United Kingdom
Date: 18th July 2019

NORTHERN POWERGRID (YORKSHIRE) PLC

REGISTERED NUMBER 04112320

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £m	2018 £m
Revenue	3	428.7	414.4
Cost of sales		<u>(18.2)</u>	<u>(15.3)</u>
Gross profit		410.5	399.1
Distribution costs		(153.9)	(148.3)
Administrative costs		(68.1)	<u>(66.1)</u>
Operating profit	6	188.5	184.7
Profit on disposal of property, plant and equipment		0.4	0.2
Investment income	7	1.3	0.7
Finance costs	8	(50.0)	<u>(49.1)</u>
Profit on ordinary activities before taxation		140.2	136.5
Income tax	9	(26.3)	<u>(24.9)</u>
Profit on ordinary activities after taxation		113.9	<u>111.6</u>

All activities relate to continuing operations.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

There has been no other income or expense for the Company. Therefore, total comprehensive for the year is £113.9 million (2018: £111.6 million).

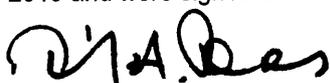
NORTHERN POWERGRID (YORKSHIRE) PLC

REGISTERED NUMBER 04112320

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £m	2018 £m
Assets			
Non-current assets			
Property, plant and equipment	11	3,309.9	3,190.2
Intangible assets	12	-	-
Investments		-	-
		<u>3,309.9</u>	<u>3,190.2</u>
Current assets			
Inventories	14	0.4	0.7
Cash and cash equivalents	15	204.7	207.9
Trade and other receivables	16	62.9	65.7
		<u>268.0</u>	<u>274.3</u>
Total assets		<u>3,577.9</u>	<u>3,464.5</u>
Equity			
Share Capital	22	290.0	290.0
Retained earnings	23	1,148.2	1,065.5
Total equity		<u>1,438.2</u>	<u>1,355.5</u>
Liabilities			
Current liabilities			
Trade and other payables	17	91.8	88.0
Current income tax liabilities	17	19.0	20.0
Deferred revenue	20	29.6	28.4
Borrowings	18	255.2	37.9
Provisions	21	1.1	1.0
		<u>396.7</u>	<u>175.3</u>
Non-current liabilities			
Borrowings	18	824.4	1,023.6
Deferred tax	19	126.9	127.8
Deferred revenue	20	791.0	781.1
Provisions	21	0.7	1.2
		<u>1,743.0</u>	<u>1,933.7</u>
Total liabilities		<u>2,139.7</u>	<u>2,109.0</u>
Total equity and liabilities		<u>3,577.9</u>	<u>3,464.5</u>

The financial statements were approved by the board of directors and authorised for issue on 11 July 2019 and were signed on its behalf by:



P A Jones
Director

NORTHERN POWERGRID (YORKSHIRE) PLC

REGISTERED NUMBER 04112320

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2019

	Share Capital (Note 22)	Retained Earnings (Note 23)	Total Equity
	£m	£m	£m
At 1 April 2017	290.0	983.7	1,273.7
Total comprehensive income for the year	-	111.6	111.6
Dividends paid	-	(29.8)	(29.8)
At 31 March 2018	290.0	1,065.5	1,355.5
Total comprehensive income for the year	-	113.9	113.9
Dividends paid	-	(31.2)	(31.2)
At 31 March 2019	290.0	1,148.2	1,438.2

NORTHERN POWERGRID (YORKSHIRE) PLC

REGISTERED NUMBER 04112320

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £m	2018 £m
Cash Flows from operating activities			
Cash generated from operations	24	269.9	256.2
Finance costs paid		(50.5)	(50.4)
Tax paid		(28.1)	(28.2)
		<u>191.3</u>	<u>177.7</u>
Net cash from operating activities			
Cash flows used in investing activities			
Proceeds from disposal of property, plant and equipment		0.4	0.2
Purchases of property, plant and equipment		(222.0)	(212.0)
Investment Income		1.3	0.7
Dividends Received		0.1	0.1
Customer contribution receipts		39.4	52.3
		<u>(180.7)</u>	<u>(158.7)</u>
Net cash used in investing activities			
Cash flows (used in)/from financing activities			
Equity dividends paid		(31.2)	(29.8)
Utilisation of short-term borrowings		17.5	10.5
		<u>(13.8)</u>	<u>(19.3)</u>
Net cash used in financing activities			
Net decrease in cash and cash equivalents		<u>(3.2)</u>	<u>(0.4)</u>
Cash and cash equivalents at beginning of year		<u>207.9</u>	<u>208.3</u>
Cash and cash equivalents at end of year		<u>204.7</u>	<u>207.9</u>

NORTHERN POWERGRID (YORKSHIRE) PLC

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

1 GENERAL INFORMATION

Northern Powergrid (Yorkshire) plc is a private company limited by shares incorporated in England and Wales and is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group"). The company is registered in England and Wales and 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 its activities are set out in the Strategic Report and in the Directors' Report.

2 ACCOUNTING POLICIES

Statement of compliance

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

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

The financial statements have been prepared in accordance with adopted IFRSs and under historical cost accounting rules.

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

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

Going Concern

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

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

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

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

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

The Company is financed by long-term borrowings with an average maturity of 11 years and has access to borrowing facilities provided by Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc;

The Northern Powergrid Group plans to issue long-term borrowings within the next 12 months and early indications from our relationship banks suggest there is an active market with appetite to invest; and

The Company has prepared forecasts which taking into account reasonable possible changes in trading performance show that the Company has sufficient resources to settle its liabilities as they fall due. The directors have had discussions with the bank who have indicated that they would continue to provide the short term facilities to the group for the foreseeable future on acceptable terms.

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policy

New standards, interpretations and amendments effective

The following have been applied for the first time from 1 January 2018 and have had an effect on the financial statements:

IFRS 9 - Financial Instruments

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

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

(a) Classifications and measurement of financial assets

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

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

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

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

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

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

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at FVTOCI,

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

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

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

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

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

(b) Impairment of financial assets

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

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

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

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

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

- Intercompany loan: the intercompany loan repayable on demand, expected credit losses are based on the assumption that repayment of the loan is demanded at the reporting date and the counterparty has sufficient accessible highly liquid assets in order to repay the loan if demanded at the reporting date; the expected credit loss is likely to be immaterial.

(c) Classification and measurement of financial liabilities

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

The application of the IFRS 9 impairment requirements has not resulted in additional loss allowance to be recognised in the current year (2018: £nil).

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

This change in accounting policy has not affected the Company.

Profit and other comprehensive income reported for 2019 and 2018 have not been affected as the Company did not have any financial liabilities designated as at FVTPL in the prior year.

(d) General hedge accounting

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

(e) Disclosures in relation to the initial application of IFRS 9

The below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

- Trade receivables (note 16) - basic loans and receivables where the objective of the entity's business model for realising these assets is collecting contractual cash flows are recognised at amortised cost under both IFRS 9 and as loans and receivables under IAS 39, there was no change in carrying value;
- Cash and bank balances - these were classified as financial assets at amortised cost under IFRS 9 and loans and receivables under IAS 39, there has been no change in carrying value.
- Investments in equity instruments (note 13) - Investments in equity instruments are designated as at FVTPL under IFRS 9 and IAS 39, there has been no change in carrying value.
- Intercompany treasury account - the objective of the entity's business model for realising these assets is collecting contractual cash flows, as such they are recognised at amortised cost under IFRS 9 and as loans and receivables under IAS 39, there has been no change in carrying value;

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

- Trade and other payables (note 17) - were recognised as financial liabilities at amortised cost under both IFRS 9 and IAS 39, there has been no change in carrying value.
- Borrowings (note 18) - were recognised as financial liabilities at amortised cost under both IFRS 9 and IAS 39, there has been no change in carrying value.

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

(f) Financial impact of initial application of IFRS 9

There has been no adjustment to financial statement line items because of the application of IFRS 9 for the current and prior years.

The consequential amendments to IFRS 7 have had no impact to the comparatives and therefore no restatement is required, they have resulted in more extensive disclosures in relation to the Group's exposure to credit risk in the financial risk review note 29.

IFRS 15 - Revenue from contracts with customers

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

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

New and revised standards in issue but not yet effective

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

IFRS 16 - Leases (1 January 2019)

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 distinguishes between leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions between operating leases and finance leases are removed for lessee accounting, and are replaced by a model where right-of-use asset and a corresponding liability have to be recognised for all leases by lessees except for short term leases and leases of low-value assets. As of 31 March 2019, the Company has non-cancellable operating lease commitments of £10.4 million; IAS 17 does not require recognition of any right-of-use asset or liability for future payments for these leases. A preliminary assessment indicates that these arrangements will meet the

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

definition of a lease under IFRS 16, and hence the Company will recognise a right-of-use asset and corresponding liability in respect of all these leases unless they qualify for low-value or short-term leases upon the application of IFRS 16.

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

Effective for periods beginning or after 1 January 2019

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

Effective for periods beginning or after 1 January 2020

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

Critical judgements in applying accounting policies

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

The allocation of overheads to property, plant and equipment which results in higher capital expenditure and a reduction in operating costs. Costs are capitalised where it is probable that future economic benefits associated with the asset will flow to the enterprise; and the cost of the item can be reliably measured.

The allocation of overheads to capital is derived from a detailed analysis of the costs and their relevant cost drivers, which is reviewed on annual basis. There has been no change in the methodology since the prior year.

The amount of overheads capitalised in the year was £46.7m (2018: £51.3m).

Key sources of estimation uncertainty

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

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

Recognition

The company earns revenue from the provision of services relating to Revenue from a contract to provide services is recognised by the following means:

- Distribution use of system income is recognised on a per GWh basis;
- Customer contributions for connections are amortised over the life of the corresponding asset;
- Meter asset provision are recognised over time;
- Intercompany recharges for services provided are based on costs incurred; and
- Other revenue includes assessment and design fees and disconnections from the network; these are recognised by reference to the proportion of total costs of providing the service.

This revenue is recognised in the accounting period when the services are rendered at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to customers.

The principles in IFRS are applied to revenue recognition criteria using the following 5 step model:

1. Identify the contracts with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

Fee arrangements

Below are details of fee arrangements and how these are measured and recognised, for revenue from the provision of services:

- For regulated fees the revenue for the service is recognised on the basis of agreed charging methodologies on a per GWh basis.
- For fixed fee for connection the revenue is recognised over the life of the corresponding asset.
- For fixed fee arrangements from services revenue is recognised based on the stage of completion and performance obligations met for actual services provided as a proportion of the total fixed fee agreed in the contract.
- For fee for service (time) revenue is recognised by time performed on the contract to the year-end date using contractual rates specified in the contract.

Performance obligations

The main performance obligations in contracts consist of the provision of a distribution network to electricity suppliers. For these contracts, through the distribution and connection use of system agreement (DCUSA) the delivery of performance obligations are measured at the balance sheet date by the number of GWh distributed by the system.

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

Tax

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

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

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

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

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

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

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives. Depreciation is recognised on a straight line basis as follows:

Asset class	Depreciation rate
Distribution system assets	45 years
Distribution generation assets	15 year
Metering equipment included in distribution system assets	up to 5 years
Information technology equipment included in distribution system assets	up to 10 years
Buildings - freehold	up to 60 years
Buildings - leasehold	lower of lease period or 60 years
Fixtures and fittings	up to 10 years

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

Intangible assets

An internally generated intangible asset arising from development is recognised if the conditions set out in IAS 38 relating to the recognition of intangible assets are met. The amount initially recognised for internally-generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria. Amortisation is recognised on a straight-line basis over their estimated useful lives.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
Software development costs	up to 10 years

Derecognition

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in the profit or loss when the asset is derecognised.

Cash and cash equivalents

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

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Provisions

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

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Leases

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

Impairment of non-financial assets

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

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

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

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

Share capital

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

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the company's shareholders.

Defined benefit pension obligation

The Company contributes to the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "DB Scheme"), a defined benefit scheme that shares risk between various entities under common control. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities and accordingly the Company financial statements account for the Northern Powergrid Group of the ESPS as if it were a defined contribution scheme.

Contributions to the Northern Powergrid Group of the ESPS are charged to the statement of profit or loss. The capital costs of ex-gratia and supplementary pensions are normally charged to the statement of profit or loss in the period in which they are granted.

The Company also participates in a defined contribution scheme. Contributions payable to the defined contribution scheme are charged to the statement of profit or loss in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Financial instruments

Initial recognition

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

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

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

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

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

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

Classification and measurement

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

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

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

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

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

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

Financial assets at amortised cost

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

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

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

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

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

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

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

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

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

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

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

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities at amortised cost

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

Financial liabilities at fair value through the profit or loss

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

Derecognition

Financial assets

The company derecognises a financial asset when;

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

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

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

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

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

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

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

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

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

Financial liabilities

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

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

Modification of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

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

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

Measurement of Expected Credit Losses

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

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

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

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

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

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

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

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

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

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

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

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

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

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

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

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

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

Definition of default

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

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

Accounting estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of certain financial assets, liabilities, income and expenses.

The use of estimates and assumptions is principally limited to the determination of provisions for impairment, the valuation of financial instruments as explained in more detail below:-

Provisions for impairment

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

Fair value of financial assets and liabilities

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

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

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 those 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. Therefore, the adoption of IFRS 8 does not impact these financial statements. However, in accordance with the Company's distribution licence, the Company must publish certain segmental information in the Regulatory Accounts, as follows:

	Distribution	Distributed Generation	Excluded Services	Metering	De Minimis	Total
	2019 £m	2019 £m	2019 £m	2019 £m	2019 £m	2019 £m
STATEMENT OF PROFIT OR LOSS						
Revenue	396.7	4.0	9.6	5.3	13.1	428.7
Cost of sales	(14.4)	-	(3.1)	-	(0.7)	(18.2)
Gross profit	382.3	4.0	6.5	5.3	12.4	410.5
Distribution costs	(144.7)	(6.9)	0.3	(2.6)	-	(153.9)
Administration costs	(55.1)	-	(0.5)	(0.2)	(12.3)	(68.1)
Operating profit/(loss)	182.5	(2.9)	6.3	2.5	0.1	188.5
OTHER INFORMATION						
Capital tangible additions	185.2	6.4	35.3	-	-	226.9

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

3 SEGMENTAL REPORTING (CONTINUED)

	Distribution	Distributed Generation	Excluded Services	Metering	De Minimis	Total
	2018 £m	2018 £m	2018 £m	2018 £m	2018 £m	2018 £m
STATEMENT OF PROFIT OR LOSS						
Revenue	382.8	2.9	6.7	5.9	16.1	414.4
Cost of sales	(13.5)	-	(1.5)	-	(0.3)	(15.3)
Gross profit	<u>369.3</u>	<u>2.9</u>	<u>5.2</u>	<u>5.9</u>	<u>15.8</u>	<u>399.1</u>
Distribution costs	(138.4)	(6.3)	0.2	(3.8)	-	(148.3)
Administration costs	(49.7)	-	(0.6)	(0.5)	(15.3)	(66.1)
Operating profit/(loss)	<u>181.2</u>	<u>(3.4)</u>	<u>4.8</u>	<u>1.6</u>	<u>0.5</u>	<u>184.7</u>
OTHER INFORMATION						
Capital tangible additions	<u>165.9</u>	<u>8.4</u>	<u>37.8</u>	<u>-</u>	<u>-</u>	<u>212.1</u>

Revenue is all in respect of contracts with customers in the United Kingdom.

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

4 STAFF COSTS

	2019 £m	2018 £m
Salaries	57.4	57.6
Social security costs	6.5	6.5
Defined benefit pension costs	16.0	16.7
Defined contribution pension costs	<u>3.3</u>	<u>2.8</u>
	83.2	83.6
Less charged to property, plant and equipment	<u>(46.9)</u>	<u>(49.5)</u>
	<u>36.3</u>	<u>34.1</u>

A large proportion of the Company's employees are members of the Northern Powergrid Group of the ESPS, details of which are given in Note 25.

The average monthly number of employees during the year was:

	2019 No.	2018 No.
Technical	387	385
Industrial	555	577
Administration	91	91
Other	<u>113</u>	<u>117</u>
	<u>1,146</u>	<u>1,170</u>

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

5 DIRECTORS' & KEY PERSONNEL REMUNERATION

DIRECTORS' REMUNERATION	2019 £'000	2018 £'000
<u>Highest Paid</u>		
Short-term employee benefits	378	402
Post-employment benefits	-	-
Other long-term benefits	475	435
	<u>853</u>	<u>837</u>
	2019 £'000	2018 £'000
<u>Total</u>		
Short-term employee benefits	773	837
Post-employment benefits	25	44
Other long-term benefits	654	682
	<u>1,452</u>	<u>1,563</u>
Directors who are members of the defined benefit scheme	<u>1</u>	<u>3</u>
Accrued pension benefit relating to highest paid director	<u>-</u>	<u>-</u>
OTHER KEY PERSONNEL REMUNERATION	2019 £'000	2018 £'000
<u>Total</u>		
Short-term employee benefits	354	451
Post-employment benefits	59	70
Other long-term benefits	184	228
	<u>597</u>	<u>749</u>

Other key personnel includes a number of senior functional managers who, whilst not board directors, have authority and responsibility for planning, directing and controlling the activities of the Company.

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

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

6 OPERATING PROFIT

	2019	2018
	£m	£m
This is stated after charging/(crediting):		
Staff costs (Note 4)	36.3	34.1
Research costs	2.9	2.6
Depreciation of property, plant and equipment	107.2	102.5
Amortisation of deferred revenue	(28.5)	(27.1)
Impairment loss on trade and other receivables	1.1	0.6
	<hr/>	<hr/>
Analysis of auditor's remuneration is as follows:		
	2019	2018
	£000	£000
Fees payable to the Company's auditor for the statutory audit of the Company's annual accounts	121	120
Other services supplied pursuant to legislation in respect of regulatory accounts	45	45
Other services	31	15
	<hr/>	<hr/>

Other services supplied pursuant to legislation relate to regulatory reporting in line with Ofgem's requirements.

Depreciation of property, plant and equipment as stated in the above table is included within Distribution Costs on the Statement of Profit or Loss, and Amortisation of deferred revenue is included within Administrative Costs.

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

7	<u>INVESTMENT INCOME</u>	2019 £m	2018 £m
	Interest Receivable from Group Undertakings	1.3	0.7
	Other Interest Receivable	-	-
	Total Investment Income	<u>1.3</u>	<u>0.7</u>

8	<u>FINANCE COSTS</u>	2019 £m	2018 £m
	Interest payable on loans and bonds	51.3	51.1
	Amounts included in the cost of qualifying assets	(1.3)	(2.0)
	Total finance costs	<u>50.0</u>	<u>49.1</u>

Interest is capitalised at 4.81% (2018: 4.85%).

9	<u>INCOME TAX</u>	2019 £m	2018 £m
	Analysis of tax expense		
	Corporation tax	27.1	25.1
	Deferred tax	(0.8)	(0.2)
	Total tax expense in statement of profit or loss	<u>26.3</u>	<u>24.9</u>

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

	2019 £m	2018 £m
Profit on ordinary activities before income tax	140.2	136.5
The total charge can be reconciled to the accounting profit as follows: Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2018 - 19%)	26.6	25.9
Effects of:		
Changes in legislation	(0.2)	(0.5)
Over provision for prior years	-	(0.3)
Other	(0.1)	(0.2)
Tax expense	<u>26.3</u>	<u>24.9</u>

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

9 INCOME TAX (CONTINUED)

	2019 £m	2018 £m
Tax expense comprises:		
Current tax expense:		
Corporation tax charge for the year	27.0	25.6
Over provision for prior years	<u>0.1</u>	<u>(0.5)</u>
Total current tax charge	27.1	25.1
Deferred tax:		
Deferred tax expenses relating to the origination and reversal of temporary differences	(0.7)	0.3
Effect of changes in legislation	<u>(0.1)</u>	<u>(0.5)</u>
Total deferred tax credit	<u>(0.8)</u>	<u>(0.2)</u>
Tax on profit before tax	<u>26.3</u>	<u>24.9</u>

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

10 DIVIDENDS

	2019 Pence per share	2018 Pence per share	2019 £m	2018 £m
Dividend paid	<u>10.76</u>	<u>10.28</u>	<u>31.2</u>	<u>29.8</u>

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

11 PROPERTY, PLANT AND EQUIPMENT

	Distribution system £m	Non- operational land & buildings £m	Fixtures and equipment £m	Total £m
COST				
At 1 April 2017	3,929.3	4.5	33.4	3,967.2
Additions	209.1	-	3.0	212.1
Disposals	(11.5)	-	(0.1)	(11.6)
At 1 April 2018	4,126.9	4.5	36.3	4,167.7
Additions	224.8	-	2.1	226.9
Disposals	(12.6)	-	(0.2)	(12.8)
At 31 March 2019	4,339.1	4.5	38.2	4,381.8
ACCUMULATED DEPRECIATION				
At 1 April 2017	861.4	2.5	22.7	886.6
Charge for the year	98.9	0.1	3.5	102.5
Disposals	(11.5)	-	(0.1)	(11.6)
At 1 April 2018	948.8	2.6	26.1	977.5
Charge for the year	103.4	0.2	3.6	107.2
Disposals	(12.6)	-	(0.2)	(12.8)
At 31 March 2019	1,039.6	2.8	29.5	1,071.9
Net book value at 31 March 2019	3,299.5	1.7	8.7	3,309.9
Net book value at 1 April 2018	3,178.1	1.9	10.2	3,190.2

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets in the course of construction included above:

	Distribution System	Non-operational land & buildings	Fixtures and equipment	Total
	£m	£m	£m	£m
At 1 April 2017	200.9	-	-	200.9
Additions	209.1	-	3.0	212.1
Available for use	<u>(248.4)</u>	<u>-</u>	<u>(3.0)</u>	<u>(251.4)</u>
At 1 April 2018	161.6	-	-	161.6
Additions	224.8	-	2.2	227.0
Available for use	<u>(217.9)</u>	<u>-</u>	<u>(2.2)</u>	<u>(220.1)</u>
At 31 March 2019	<u>168.5</u>	<u>-</u>	<u>-</u>	<u>168.5</u>

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The net book value of non-operational land and buildings comprises:

	2019	2018
	£m	£m
Freehold	0.9	1.1
Long-leasehold	0.7	0.7
Short-leasehold	0.1	0.1
	<u>1.7</u>	<u>1.9</u>

The Company has entered into contractual commitments in relation to the future acquisition of property, plant and equipment of £34.8m (2018: £18.5m).

12 INTANGIBLES

	Software Development Costs £m
COST	
At 1 April 2017, 1 April 2018 and 31 March 2019	<u>29.9</u>
AMORTISATION	
At 1 April 2017	29.7
Charge for the year	-
At 1 April 2018	29.7
Charge for the year	-
At 31 March 2019	<u>29.7</u>
Net book value at 31 March 2019	<u>-</u>
Net book value at 31 March 2018	<u>-</u>

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)13 INVESTMENTS

Details of the investments held by the Company as at 31 March 2019 are listed below:

Name of Company	Country of Registration	Holding of Ordinary Shares	Proportion	Nature of Business
Electralink Limited	England and Wales	619 at 10p	6.7%	Data transfer network operator
MRA Service Company Limited	England and Wales	1 at £1	1.0%	Governance of the electricity industry's Master Registration Agreement
DCUSA Limited	England and Wales	1 at £1	1.7%	Management and governance of the Distribution Connection and Use of System Agreement
Smart Energy Code Company Limited	England and Wales	1 at £1	0.9%	Management and governance of the Smart Energy Code

The above investments are unlisted. The cost and net book value of the investments are Electralink Limited £62 (2018: £62), MRA Service Company Limited £1 (2018: £1), DCUSA Limited £1 (2018: £1) and Smart Energy Code Company Limited £1 (2018: £1).

14 INVENTORIES

	2019 £m	2018 £m
Work in progress	<u>0.4</u>	<u>0.7</u>

15 CASH AND CASH EQUIVALENTS

	2019 £m	2018 £m
Amounts owed by group undertakings	<u>204.7</u>	<u>207.9</u>

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

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

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

16

TRADE AND OTHER RECEIVABLES

	2019	2018
	£m	£m
Distribution use of system receivables	57.9	58.4
Trade receivables	3.4	3.5
Loss allowance	(2.3)	(1.3)
Net trade receivables	59.0	60.6
Accrued income	0.1	0.3
Prepayments	3.8	4.8
	62.9	65.7

The average credit period on receivables is 30 days. No interest is charged on outstanding trade receivables.

The Company always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

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

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. None of the trade receivables that have been written off is subject to enforcement activities.

As the Company's historical credit loss experience does shows significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not distinguished between DUoS receivables, non-damages receivables, and damages receivables.

Movement in the loss allowance

	2019	2018
	£m	£m
At 1 January	1.3	1.4
Amounts utilised/written off in the year	(0.1)	(0.1)
Amounts recognised in the statement of profit or loss	1.1	-
At 31 December	2.3	1.3

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)**16 TRADE AND OTHER RECEIVABLES (CONTINUED)****Distribution use of system receivables**

The customers served by the Company's distribution network are supplied predominantly by a small number of electricity supply businesses with RWE NPower plc accounting for approximately 19% of distribution revenues in the regulatory year to 31 March 2019 (2018: 20%); and British Gas accounting for approximately 13% of distribution revenues in the regulatory year to 31 March 2019 (2018: 14%). Ofgem has determined a framework which sets credit limits for each supply business based on its credit rating or payment history and requires them to provide credit cover if their value at risk (measured as being equivalent to 45 days usage) exceeds the credit limit. Acceptable credit typically is provided in the form of a parent company guarantee, letter of credit or an escrow account.

Ofgem has indicated that, provided the Company has implemented credit control, billing and collection processes in line with best practice guidelines and can demonstrate compliance with the guidelines or is able to satisfactorily explain departure from the guidelines, any losses arising from supplier default will be recovered through an increase in future allowed income. Losses incurred to date have not been material therefore no ECL has been made on DUoS balances.

The following table details the age of DUoS receivables:

	Not due £000	Current £000	1-3 months £000	3-6 months £000
2019				
Total balance	34,606	21,441	862	660
Less specific provisions	-	(38)	(397)	(637)
Balance on which ECL made	34,606	21,403	465	23
Expected credit loss	-	-	46	12
2018				
Total balance	35,301	25,686	24	256
Less specific provisions	-	(22)	(23)	(253)
Balance on which ECL made	35,301	25,664	1	3
Expected credit loss	-	-	-	2

Other trade receivables

Sales of goods and services comprise all income streams which are not classified as UoS income. Examples of non-UoS income streams would be service alterations/disconnections, assessment and design fees, and recovery of amounts for damage caused by third parties to the distribution system. The average credit period on sales of goods and services is 30 days. Interest is not generally charged on the trade receivables paid after the due date.

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £1.8m (2018: £0.9m), 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.

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

16 TRADE AND OTHER RECEIVABLES (CONTINUED)

Non-damages

2019	Not due £000	Current £000	1-6 months £000	6-12 months £000	Over 1 year £000
Total balance	3,017	2,175	1,495	1,881	982
Less other balances	(2,899)	(1,962)	(1,114)	(1,730)	(628)
Balance on which ECL made	<u>118</u>	<u>213</u>	<u>381</u>	<u>151</u>	<u>354</u>
Lifetime ECL	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>15%</u>	<u>20%</u>
Expected credit loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>22</u>	<u>71</u>

2018	Not due £000	Current £000	1-6 months £000	6-12 months £000	Over 1 year £000
Total balance	2,396	971	1,835	427	1,085
Less other balances	(2,317)	(905)	(1,677)	(333)	(812)
Balance on which ECL made	<u>79</u>	<u>66</u>	<u>158</u>	<u>94</u>	<u>273</u>
Lifetime ECL	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>15%</u>	<u>20%</u>
Expected credit loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>14</u>	<u>55</u>

Damages

2019	1-6 months £000	6-12 months £000	1-2 years £000	2-3 years £000	Over 3 years £000
Total balance	1,289	637	1,183	471	29
Less specific provisions	(20)	(45)	(142)	(444)	-
Balance on which ECL made	<u>1,269</u>	<u>592</u>	<u>1,041</u>	<u>27</u>	<u>29</u>
Lifetime ECL	<u>10%</u>	<u>10%</u>	<u>15%</u>	<u>30%</u>	<u>60%</u>
Expected credit loss	<u>127</u>	<u>59</u>	<u>156</u>	<u>8</u>	<u>17</u>

2018	1-6 months £000	6-12 months £000	1-2 years £000	2-3 years £000	Over 3 years £000
Total balance	1,539	802	695	76	15
Less specific provisions	(30)	(96)	(488)	(38)	-
Balance on which ECL made	<u>1,509</u>	<u>706</u>	<u>207</u>	<u>38</u>	<u>15</u>
Lifetime ECL	<u>10%</u>	<u>10%</u>	<u>15%</u>	<u>30%</u>	<u>60%</u>
Expected credit loss	<u>151</u>	<u>71</u>	<u>31</u>	<u>11</u>	<u>9</u>

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

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

16 TRADE AND OTHER RECEIVABLES (CONTINUED)

Significant increase in credit risk

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

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

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

17 OTHER FINANCIAL LIABILITIES

Trade and other payables

	2019	2018
	£m	£m
Payments received on account	48.2	49.6
Trade payables	6.1	6.3
Amounts owed to Group undertakings (Note 27)	-	0.5
Other taxes and social security costs	8.7	6.6
Other payables	6.7	6.5
Accruals	22.1	18.5
	91.8	88.0

Current income tax liabilities

	2019	2018
	£m	£m
Corporation tax	19.0	20.0

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 statement of financial position date. Trade creditors and accruals principally comprise amounts outstanding for trade purchases and on-going 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.

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

17 OTHER FINANCIAL LIABILITIES (CONTINUED)

Categories of financial liabilities

	2019	2018
	£m	£m
Loans and payables	<u>1,092.4</u>	<u>1,074.8</u>
Total financial liabilities	<u>1,092.4</u>	<u>1,074.8</u>
Payments received on account	48.2	49.6
Income tax liabilities	145.9	147.8
Other taxes and social security	8.7	6.6
Accruals	22.1	18.5
Deferred revenue	820.6	809.5
Provisions	<u>1.8</u>	<u>2.2</u>
Total non-financial liabilities	<u>1,047.3</u>	<u>1,034.2</u>
Total liabilities	<u>2,139.7</u>	<u>2,109.0</u>

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

18 **BORROWINGS**

The Directors' consideration of liquidity and interest rate is described in the Strategic Report on page 11.

	Book value		Fair value	
	2019 £m	2018 £m	2019 £m	2018 £m
Loans	<u>1,079.6</u>	<u>1,061.5</u>	<u>1,218.9</u>	<u>1,216.1</u>
The borrowings are repayable as follows:				
On demand or within one year	255.2	37.9	255.2	37.9
After one year	<u>824.4</u>	<u>1,023.6</u>	<u>963.7</u>	<u>1,178.2</u>
	<u>1,079.6</u>	<u>1,061.5</u>	<u>1,218.9</u>	<u>1,216.1</u>
Analysis of borrowings:				
Short-term loan	28.0	10.5	28.0	10.5
Eurobond due 2020 (9.25%)	203.7	203.5	203.7	230.9
European Investment Bank due 2022 (4.133%)	155.3	155.3	170.3	173.3
Eurobond due 2032 (4.375%)	152.4	152.3	187.9	183.9
Eurobond due 2035 (5.125%)	206.9	206.8	277.3	272.4
Eurobond due 2025 (2.5%)	152.0	151.8	159.1	157.2
European Investment Bank Loan due 2027 (2.564%)	131.0	131.0	141.6	137.9
European Investment Bank Loan due 2025 (2.073%)	50.3	50.3	51.0	50.0
	<u>1,079.6</u>	<u>1,061.5</u>	<u>1,218.9</u>	<u>1,216.1</u>

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)18 BORROWINGS (CONTINUED)

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

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

The company's exposure to market and liquidity risk; including maturity analysis, in respect of loans and borrowings is disclosed in financial risk review note 28.

19 DEFERRED TAX

	Accelerated Tax Depreciation	Holdover Relief	Other	Total
	£m	£m	£m	£m
At 1 April 2018	128.3	0.3	(0.6)	128.0
Charge/(credit) to statement of profit or loss	(0.3)	-	0.1	(0.2)
As At 31 March 2018	128.0	0.3	(0.5)	127.8
At 1 April 2019 (Credit)/charge to statement of profit or loss	(0.8)	(0.1)	-	(0.9)
At 31 March 2019	127.2	0.2	(0.5)	126.9

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

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

20 DEFERRED REVENUE

	2019 £m	2018 £m
At 1 April 2018	809.5	792.9
Additions	39.6	43.7
Amortisation	<u>(28.5)</u>	<u>(27.1)</u>
At 31 March 2019	<u>820.6</u>	<u>809.5</u>
	2019 £m	2018 £m
Included in current liabilities	29.6	28.4
Included in non-current liabilities	<u>791.0</u>	<u>781.1</u>
	<u>820.6</u>	<u>809.5</u>

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

21 PROVISIONS

	Claims £m	Other £m	Total £m
At 1 April 2018	0.7	1.5	2.2
Utilised in the year	(1.3)	(0.5)	(1.8)
Charged to the statement of profit or loss	<u>1.3</u>	<u>0.1</u>	<u>1.4</u>
At 31 March 2019	<u>0.7</u>	<u>1.1</u>	<u>1.8</u>
		2019 £m	2018 £m
Included in current liabilities		1.1	1.0
Included in non-current liabilities		<u>0.7</u>	<u>1.2</u>
		<u>1.8</u>	<u>2.2</u>

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

Other: Primarily consists of a provision for future safe disposal of transformers which contain oil contaminated with Polychlorinated Biphenyls (PCBs) and for an amount to cover claims made under Section 74 of the New Road and Street Works Act 1991. Costs are expected to be incurred over the next 11 years.

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

22 SHARE CAPITAL

	2019 No./£	2018 No./£
Ordinary shares of £1 each	290.0	290.0
Allotted, called up and fully paid	<u>290,000,000</u>	<u>290,000,000</u>

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

23 RETAINED EARNINGS

	Retained Earnings £m
At 1 April 2017	983.7
Total comprehensive income for the year	111.6
Dividends paid	<u>(29.8)</u>
At 31 March 2018	1,065.5
Total comprehensive income for the year	113.9
Dividends paid	<u>(31.2)</u>
At 31 March 2019	<u>1,148.2</u>

24 RECONCILIATION OF PROFIT BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

	2019 £m	2018 £m
Profit before income tax	140.2	136.5
Depreciation and amortisation	107.2	102.5
Profit on disposal of fixed assets	(0.4)	(0.2)
Amortisation of deferred revenue	(28.5)	(27.1)
Decrease in provisions	(0.4)	(0.1)
Finance costs	48.8	49.1
Investment income	<u>(0.1)</u>	<u>(0.6)</u>
Operating cash flows before movements in working capital	266.8	260.1
Decrease/(increase) in inventories	0.3	(0.3)
Decrease/(increase) in receivables	2.4	(5.2)
Increase in payables	<u>0.4</u>	<u>1.6</u>
Cash generated from operations	<u>269.9</u>	<u>256.2</u>

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

25 PENSION AND OTHER SCHEMES

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £3.3m (2018 - £2.8m). The pension cost for 2020 is expected to be £3.3m.

Defined benefit pension scheme

The company operates a defined benefit pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £16.0m (2018 - £16.7m). The pension cost for 2020 is expected to be £15.7m.

Detailed information on the Northern Powergrid pension schemes as at 31 December 2018 is available in the Northern Powergrid Holdings Company financial statements, available from Lloyds Court, 78 Grey Street, Newcastle upon Tyne, Tyne and Wear, NE1 6AF.

26 OPERATING LEASE ARRANGEMENTS

	2019	2018
	£m	£m
Minimum lease payments under operating leases recognised in the year	<u>4.7</u>	<u>4.9</u>

At the statement of financial position date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2019	2018
	£m	£m
Within one year	2.3	2.5
In the second to fifth year inclusive	7.4	8.6
After five years	<u>0.7</u>	<u>1.1</u>
	<u>10.4</u>	<u>12.2</u>

Leases consist of rent payable in respect of properties and vehicle leases (primarily from related parties).

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)27 RELATED PARTY TRANSACTIONS

The Company has advanced loans to companies in the Northern Powergrid Group. The total interest included in investment income in the statement of profit or loss for the year ended 31 March 2019 was £1.3m (2018: £0.6m). Included within cash and cash equivalents is £204.7m as at 31 March 2019 (2018: £207.9m) in respect of these loans.

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

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

Related Party	Sales to Related Party	Purchases from Related Party	Amounts Owed to Related Party (Note17)
	£m	£m	£m
2019:			
Northern Powergrid Metering Limited	0.5	-	-
Integrated Utility Services Limited	0.1	2.3	-
Integrated Utility Services Limited (registered in Eire)	-	0.4	-
Northern Electric plc	-	2.6	-
Northern Powergrid (Northeast) Limited	12.3	22.8	-
Vehicle Lease and Service Limited	-	4.1	-
	<hr/>	<hr/>	<hr/>
2018:			
Northern Powergrid Metering Limited	0.6	-	-
Integrated Utility Services Limited	0.1	2.1	-
Integrated Utility Services Limited (registered in Eire)	-	0.3	-
Northern Electric plc	-	2.8	-
Northern Powergrid (Northeast) Limited	15.1	20.1	-
Vehicle Lease and Service Limited	0.1	4.2	0.5
	<hr/>	<hr/>	<hr/>

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

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.

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

28 CLASSIFICATION OF FINANCIAL AND NON-FINANCIAL ASSETS AND FINANCIAL AND NON-FINANCIAL LIABILITIES

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

	Financial assets at amortised cost £m	Financial liabilities at amortised cost £m	Non-financial assets & liabilities £m
Assets			
Non-current assets			
Property, plant and equipment	-	-	3,309.9
Intangible assets	-	-	-
	<u>-</u>	<u>-</u>	<u>3,309.9</u>
Current assets			
Inventories	-	-	0.4
Trade and other receivables	59.0	-	3.9
Cash and cash equivalents	204.7	-	-
	<u>263.7</u>	<u>-</u>	<u>4.3</u>
Total assets	<u>263.7</u>	<u>-</u>	<u>3,314.2</u>
Liabilities			
Non-current liabilities			
Loans and borrowings	-	(824.4)	-
Provisions	-	-	(0.7)
Deferred revenue	-	-	(791.0)
Deferred tax liabilities	-	-	(126.9)
	<u>-</u>	<u>(824.4)</u>	<u>(918.6)</u>
Current liabilities			
Trade and other payables	-	(91.8)	-
Loans and borrowings	-	(255.2)	-
Income tax liability	-	(19.0)	-
Deferred revenue	-	-	(29.6)
Provisions	-	-	(1.1)
	<u>-</u>	<u>(366.0)</u>	<u>(30.7)</u>
Total liabilities	<u>-</u>	<u>(1,190.4)</u>	<u>(949.3)</u>

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

28 CLASSIFICATION OF FINANCIAL AND NON-FINANCIAL ASSETS AND FINANCIAL AND NON-FINANCIAL LIABILITIES (CONTINUED)

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

	Financial assets at amortised cost £m	Financial liabilities at amortised cost £m	Non-financial assets & liabilities £m
Assets			
Non-current assets			
Property, plant and equipment	-	-	3,190.2
	-	-	3,190.2
Current assets			
Inventories	-	-	0.7
Trade and other receivables	61.3	-	4.4
Cash and cash equivalents	207.9	-	-
	269.2	-	5.1
Total assets	269.2	-	3,195.3
Liabilities			
Non-current liabilities			
Loans and borrowings	-	(1,023.6)	-
Provisions	-	-	(1.2)
Deferred revenue	-	-	(781.1)
Deferred tax liabilities	-	-	(127.8)
	-	(1,023.6)	(910.1)
Current liabilities			
Trade and other payables	-	(88.0)	-
Loans and borrowings	-	(37.9)	-
Income tax liability	-	(20.0)	-
Deferred revenue	-	-	(28.4)
Provisions	-	-	(1.0)
	-	(145.9)	(29.4)
Total liabilities	-	(1,169.5)	(939.5)

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

29 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	At 1 April 2018 £ m	Financing cash flows £ m	Other changes £ m	At 31 March 2019 £ m
Long-term borrowings	1,051.0	-	0.6	1,051.6
Short-term borrowings	10.5	17.5	-	28.0
	<u>1,061.5</u>	<u>17.5</u>	<u>0.6</u>	<u>1,079.6</u>

	At 1 April 2017 £m	Financing cash flows £ m	Other changes £m	At 31 March 2018 £ m
Long term borrowings	1,050.3	-	0.7	1,051.0
Short term borrowings	-	10.5	-	10.5
	<u>1,050.3</u>	<u>10.5</u>	<u>0.7</u>	<u>1,061.5</u>

Other changes relate to amortisation of financing fees and discounts.

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

30 FINANCIAL RISK REVIEW

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

The capital structure of the Company consists of net debt (borrowings as detailed in note 18 offset by equity of the Company (comprising issued capital, reserves and retained earnings as detailed in notes 22 and 23).

Capital management

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

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.

The Company's Senior Total Net Debt as at 31 March 2019 totalled £854.3m. Using the RAV value as at March 2019, as outlined by Ofgem in its electricity distribution price control financial model published in November 2018 and adjusting for the effects of movements in the value of the Retail Price Index gives a RAV value as at March 2019 of £1,855.6m. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 46.0% (2018 46.8%).

Credit risk

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

The Company's income is primarily generated from use of system revenue from electricity suppliers; suppliers are credit checked by independent ratings agencies. Impaired income from DUoS will be recovered in future periods through system charges and is therefore of no material risk to the Company. The Company's receivables are subject to expected credit loss calculations disclosed further within the trade receivables (note 16).

		Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
2019	Notes			
Trade and other receivables	16	<u>65.2</u>	<u>(2.3)</u>	<u>62.9</u>
2018				
Trade and other receivables	16	<u>67.0</u>	<u>(1.3)</u>	<u>65.7</u>

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NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

30 FINANCIAL RISK REVIEW (CONTINUED)

For trade receivables the Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Note 16 includes further details on the loss allowance for these assets.

The carrying amount of the Company's financial assets at FVTPL as disclosed in note 28 best represents their respective maximum exposure to credit risk. The Company holds no collateral over any of these balances.

Liquidity risk

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

The Company has access to £75 million under a five-year committed revolving credit facility provided by Lloyds Bank plc, The Royal Bank of Scotland plc and Abbey National Treasury Services plc., which expires on 30 April 2020. In addition, the Company has access to further short-term borrowing facilities provided by YEG and to a £19 million overdraft facility provided by Lloyds Bank plc, which is reviewed annually; these borrowings are repayable on demand. At 31 March 2018, the Company had available £66.0m (2018: £83.5m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Maturity analysis for financial liabilities

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

	Less than 3 month £m	3 months to 1 year £m	1-5 years £m	5+ Years £m	Total £ m
2019					
Non-derivative liabilities					
Non-interest bearing	43.6	-	-	-	43.6
Variable interest rate liabilities	28.0	-	-	-	28.0
Fixed interest rate liabilities	14.0	235.7	269.4	885.0	1,404.1
Total	85.6	235.7	269.4	885.0	1,475.7
2018					
Non-derivative liabilities					
Non-interest bearing	38.4	-	-	-	38.4
Variable interest rate liabilities	-	-	-	-	-
Fixed interest rate liabilities	14.0	35.7	494.2	909.9	1,453.8
Total	52.4	35.7	494.2	909.9	1,492.2

NORTHERN POWERGRID (YORKSHIRE) PLC

REGISTERED NUMBER 04112320

NOTES TO THE REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

30 FINANCIAL RISK REVIEW (CONTINUED)

Market risk

The Company's activities do not expose it to significant financial risks of changes in foreign currency exchange rates and interest rates. Materially all income and expenses are denominated in pound sterling. Interest on short-term loans and inter-company short term loans is charged at a floating rate of LIBOR plus 0.35%, thus exposing the Company to cash flow interest rate risk. A 1% movement in interest rates would subject the Company to an approximate change in interest costs of £0.2m 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.

31 IMMEDIATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking of Northern Powergrid (Yorkshire) Plc is Yorkshire Electricity Group plc. The ultimate controlling party and ultimate parent undertaking of 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 United Kingdom, can both be obtained from the Company Secretary, Northern Powergrid Holdings Company, Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.

Relationship between entity and parents

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

3555 Farnam Street, Omaha, Nebraska 68131.

The parent of the smallest group in which these financial statements are consolidated is Northern Powergrid Holdings Company, incorporated in United Kingdom. The address of Northern Powergrid Holdings Company is:

Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.