

REGISTERED NUMBER: 04112320 (England and Wales)

**STRATEGIC REPORT, REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
FOR
NORTHERN POWERGRID (YORKSHIRE) PLC**

NORTHERN POWERGRID (YORKSHIRE) PLC

**CONTENTS OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Page
Company Information	1
Strategic Report	2
Report of the Directors	15
Report of the Independent Auditor	19
Statement of Profit or Loss	24
Statement of Profit or Loss and Other Comprehensive Income	25
Statement of Financial Position	26
Statement of Changes in Equity	27
Statement of Cash Flows	28
Notes to the Financial Statements	29

NORTHERN POWERGRID (YORKSHIRE) PLC

**COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017**

DIRECTORS:

T E Fielden
J M France
T H France
N M Gill
P A Jones
A J Maclellan
A R Marshall
P C Taylor

COMPANY SECRETARY:

J C Riley

REGISTERED OFFICE:

Lloyds Court
78 Grey Street
Newcastle upon Tyne
NE1 6AF

REGISTERED NUMBER:

04112320 (England and Wales)

AUDITOR:

Deloitte LLP
Statutory Auditor
Newcastle upon Tyne
United Kingdom

NORTHERN POWERGRID (YORKSHIRE) PLC

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017







The directors present the annual reports and financial statements for the year ended 31 December 2017 of Northern Powergrid (Yorkshire) plc (the "Company"), which have been drawn up and are presented in accordance with the Companies Act 2006.

BUSINESS MODEL

The Company is 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 distributes 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. Some 21,628 gigawatt-hours of electricity were distributed to those customers during the year.

The Company's distribution network includes over 53,000 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").

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 are:


Core Principle	Strategic objective	Key Performance Indicators ("KPI")
 Financial strength	Strong finances that enable improvement and growth.	<ul style="list-style-type: none"> - Operating profit - Maintenance of investment grade credit ratings - Cash flow
 Customer service	Delivering exceptional customer service.	<ul style="list-style-type: none"> - Broad measure of customer satisfaction - Stakeholder Engagement rank
 Operational excellence	High-quality, efficient operators running a smart reliable energy system.	<ul style="list-style-type: none"> - Customer Minutes Lost - Customer Interruptions - Network investment - High voltage restoration time
 Employee commitment	High-performing people doing rewarding jobs in a safe and secure workplace.	<ul style="list-style-type: none"> - Occupational Safety and Health Administration Rate - Preventable Vehicle Accidents - Lost time accidents - Restricted duty accidents - Medical treatment accidents - Operational incidents - Absence rate
 Environmental respect	Leaders in environmental respect and low carbon technologies.	<ul style="list-style-type: none"> - Total Oil/Fluid Lost - SF6 Gas discharges - Environmental Incidents - Carbon Footprint
 Regulatory integrity	Trustworthy, fair and balanced, creating win-win outcomes.	<ul style="list-style-type: none"> - Quarterly certification

The core principles are defined by a number of strategic objectives. Throughout the report, the strategic focus of each principle sets out the way in which each objective is to be achieved through the delivery of key performance indicators.

NORTHERN POWERGRID (YORKSHIRE) PLC

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

REVIEW OF THE YEAR

	FINANCIAL STRENGTH		
Strategic objective	KPI	2017	2016
Strong finances that enable improvement and growth.	Operating Profit	£187.6 million	£199.4 million
	Credit Rating (Standard & Poor's)	A	A
	Cash Flow	Operating activities	£215.7 million
		Investing activities	£(183.3) million
		£(157.4) million	

Strategic focus: To provide the financial resources to support long-term corporate stability.

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. The ED1 price control has been set for eight years with provision for a mid-period review if there are changes to the outputs that the Company is required to deliver. The ED1 price control provides the Company with some stability in terms of its income until 31 March 2023.

Revenue: The Company's revenue at £413.5 million was £1.6 million lower than the prior year due to the profile of allowed revenues over the ED1 price control period and reduced units distributed.

Operating profit and position at the year-end: The Company's operating profit of £187.6 million was £11.8 million less than the previous year, primarily reflecting higher depreciation charges, increased business rates and pension costs. The statement of financial position on page 26 shows that, as at 31 December 2017, the Company had total equity of £1,322.7 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 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 £48.2 million were £1.8 million higher than the prior year due to impact a full year of 2016 financing and lower investment income.

Taxation: The effective tax rate in the year was 18.7%. Corporation tax of £28.6 million was paid in the year, this was higher than the prior year of £3.0 million due to the conclusion of a tax claim with HMRC in 2016. Details of the income tax expense are provided in Note 7 to the financial statements.

Share capital: There were no changes to the Company's share capital during the year.

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

- Operating activities Cash flow from operating activities at £174.6 million was £41.1 million lower than the previous year, mainly due to higher tax paid, adverse working capital movements, and lower profit.
- Investing activities Net cash used in investing activities at £157.4 million was £25.9 million lower than the previous year, reflecting lower capital expenditure and higher customer contributions.
- Financing activities The net cash used in financing activities at £30.6 million was £51.9 million higher than prior year reflecting the lower external financing taken out in the year.

NORTHERN POWERGRID (YORKSHIRE) PLC


STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

REVIEW OF THE YEAR - continued

FINANCIAL STRENGTH - continued

Pensions: The Company is a participating employer in the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "Scheme"), a defined benefit scheme. Further details of the Company's commitments to the Scheme and the associated deficit repair payments are provided in Note 22 to the financial statements. The Company also participates in the Northern Powergrid Pension Scheme, which is a defined contribution scheme.

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

	CUSTOMER SERVICE		
	KPI	2017	2016
Delivering exceptional customer service.	BMCS	85.4%	86.0%
	BMCS Rank	12	9
	BMCS Power Cuts	87.6%	87.4%
	BMCS General Enquiries	87.8%	87.7%
	BMCS Connections	83.0%	84.6%
	SECV rank (combined with Northern Powergrid (Northeast) Limited)	3	5

Strategic focus: To improve the service delivered to customers.

Performance during the year:

Under the broad measure of customer satisfaction ("BMCS"), an independent market research company carried out telephone surveys with the Company's customers to find out how satisfied they were with services related to unplanned or planned power cuts, quotations and subsequent connections, and general enquiries. The Company recorded an overall satisfaction score of 85.4%, which was comparable to the prior year (86.0%). To further enhance the service provided to customers, a number of initiatives from the Company's customer experience improvement plan were implemented during the year. This included the continued development of the customer relationship management system and enhancing the self-service offerings available to customers.

Throughout the year, further improvements were made to the way in which the Contact Centre operates were implemented. The Quality Management Framework that was launched in 2016 to define the standards required of Contact Centre colleagues to deliver exceptional customer service was extended to incorporate the connections business. In addition, the Contact Centre was restructured to introduce a metering defect customer support team, designed to effectively support customers during the government's smart meter roll-out programme.

In May 2017, the Company, together with its affiliate Northern Powergrid (Northeast) Limited, put forward its Stakeholder Engagement and Customer Vulnerability ("SECV") submission to the Office for Gas and Electricity Markets ("Ofgem") in respect of its work during the year. The submission provided an overview of initiatives including an increased focus on data quality which had resulted in cleansing the Company's Priority Services Register ("PSR") and strengthening relationships with partners who deliver key services to customers. Following the submission to Ofgem's panel, the position of the Company in the context of the wider DNO group increased from fifth place to third. The improvement demonstrated the effectiveness of the revised stakeholder engagement strategy launched in 2016.

NORTHERN POWERGRID (YORKSHIRE) PLC

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

REVIEW OF THE YEAR - continued

CUSTOMER SERVICE - continued

Connections to the network

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

Performance during the year:

Within connections services, work continued on the transformation of the small works connections business to improve customer service. A new process was implemented during January 2017 which introduced a single point of customer contact for the delivery of small works connections. In parallel the online service alterations process was overhauled to offer customers more choice in the way they receive a quotation.

The Company continued to embed 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 simplifying the authorisation process for ICPs' operational staff.

During the year, the Company commenced the delivery of 22 actions included in the major works service improvement plan as part of the ICE. Working proactively with customers and obtaining their feedback, the Company formally increased the number of improvement actions to 31 during the midyear return to Ofgem. All actions were completed and Ofgem determined that the Company had met the assessment criteria for developing and delivering the ICE service improvement plan.

Corporate responsibility

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

Performance during the year: The Company worked closely with key partners such as the Environment Agency, local authorities and local resilience forums, particularly during periods of severe weather. Collaboration with stakeholders in the wider energy industry included the continued promotion of the national '105' number and preparation for the January 2018 overhead line safety campaign, an Energy Networks Association initiative, supported by DNOs.

With the assistance of the Social Issues Expert Group (which includes external experts and advisers) the Company further developed the services provided to vulnerable customers including those on the PSR. To improve the accessibility and knowledge of the services available to vulnerable customers, a network of partners was established with community and third sector organisations.


Safety remains the Company's first priority and underpins all operations. Accordingly, the Northern Powergrid Group has maintained its support to charitable organisations and continued to sponsor the "Safety Champions" initiative, which is aimed at enhancing safety performance. Throughout the year, the Northern Powergrid Group engaged with thousands of school children through its series of safety events, and in addition, became the sponsor of the Cub Home Safety Activity Badge which has been designed to teach Cub Scouts about safety in and around the home.

Supporting customers through the use of tailored education programmes continued throughout 2017. Activity included, Make the Grade in Energy, an education, skills and employability programme, Energy Heroes, targeted at the primary school pupils to promote awareness of energy costs and ways of saving energy, and attendance at The Big Bang Fair, which encourages young people to pursue science, technology, engineering and maths subjects.

NORTHERN POWERGRID (YORKSHIRE) PLC

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

REVIEW OF THE YEAR - continued

	OPERATIONAL EXCELLENCE				
Strategic objective	KPI	2016/17		2015/16	
		Actual	Target	Actual	Target
High-quality, efficient operators running a smart reliable energy system.	Customer Minutes Lost	38.0	<61.6	41.8	<63.1
	Customer Interruptions	48.5	<67.5	52.5	<68.5
	KPI	2017		2016	
		Actual		Actual	
	Network investment	£213.9 million		£225.1 million	
	High voltage restoration time	51.0 minute		52.8 minute	

Strategic focus: To provide, maintain and invest in an efficient distribution network that delivers electricity effectively. Enhancing the reliability of the network in support of the commitment to achieve 8% fewer unplanned power cuts and reduce the average length of unplanned power cuts by 20% during the ED1 period.

Performance during the year: Customer minutes lost ("CML") and customer interruptions ("CI") are the key performance indicators set by Ofgem and used by the Company to measure the quality of supply and system performance. Both CML and CI are measured on a regulatory year basis which commences on 1 April of any given year and concludes on 31 March of the subsequent year. 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. In respect of these key customer service performance indicators, the goal is to achieve performance that is below Ofgem's target number. The Company's performance during the most recent regulatory year was better than Ofgem's target for both CML and CI.

The Company invested £213.9 million during the year through its approved network investment strategy (2016: £225.1 million), which has been designed to deliver improvements and increase the network's resilience. Various major projects were undertaken to reinforce the primary network, replace plant, 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 continued through investment into the use of technology including the expansion of the automated power restoration system ("APRS"). In the event of a high-voltage fault, APRS analyses the information presented by intelligent assets installed on the network and, from that information, determines where the fault is located and executes switching to restore power to the 'healthy' network in a safe manner in under three minutes. It is planned to enable APRS at 306 primary substations across the Northern Powergrid Group by the end of the ED1 period. The Company's high-voltage restoration performance during the calendar year 2017 averaged some 51.0 minutes (2016: 52.8 minutes), after allowing for severe weather incidents and other exemptions.

The Company aims to respond effectively to the needs of customers and local communities and to achieve the guaranteed standard for the restoration of supply: restoration within 12 hours of a power cut occurring under normal weather conditions. The Company's major incident management procedure is utilised during severe weather events that affect the network.

NORTHERN POWERGRID (YORKSHIRE) PLC

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

REVIEW OF THE YEAR - continued

	EMPLOYEE COMMITMENT				
Strategic objective	KPI (Calendar year)	2017		2016	
High-performing people doing rewarding jobs in a safe and secure workplace.		Actual	Target	Actual	Target
	Occupational Safety and Health Administration Rate (Northern Powergrid Group)	0.44	0.26	0.30	0.30
	Preventable Vehicle Accidents	17	9	12	13
	Lost time accidents	5	2	4	2
	Restricted duty accidents	1	1	0	1
	Medical treatment accidents	0	1	1	1
	Operational incidents	6	6	4	6
	Northern Powergrid Group Absence rate	2.9%		2.9%	

Health and Safety

Strategic focus: To deliver a comprehensive safety and health improvement plan ("SHIP") resulting in world class safety performance and to achieve the Northern Powergrid Group commitment of halving its accident rate during the ED1 period.

Performance during the year: In common with the Berkshire Hathaway Energy group, the Northern Powergrid Group measures its safety performance in terms of the Occupational Safety and Health Administration ("OSHA") rate, which is a measure used in the United States to capture safety incidents down to minor levels of medical treatment. The Northern Powergrid Group missed its target OSHA rate of 0.26 which equated to only six recordable incidents. Whilst the outcome was disappointing, the Company's long term safety record suggests that it is one of the safest in its sector. This has been recognised in the form of a Gold President's Award from the Royal Society for the Prevention of Accidents for the achievement of 13 consecutive Gold Awards. The Company failed to meet both the preventable vehicle accidents and lost time accident targets. The failure to meet these targets was primarily the result of a series of relatively minor driving incidents and trips, slips and falls. The Company continues to take action to seek to minimise these lower level risks.

Improving safety performance remains a priority and the way in which this is achieved is set out in the Company's SHIP. The SHIP focuses on leadership engagement, improving two-way communication on safety issues, supervisory oversight, ensuring managers and supervisors fulfil their safety inspection programmes and provide regular coaching and instruction to work teams, and workplace risk management, to develop competence in identification and risk mitigation methods. These three areas are supported by driver training, operational safety seminars, stand-down briefings and regular safety reports and newswatches.

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

Employees

Strategic focus: To effectively manage headcount whilst emphasising the importance of leadership and high standards of performance in support of the Core Principles by engaging, collaborating and working with employees and their trade union representatives.

NORTHERN POWERGRID (YORKSHIRE) PLC

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

REVIEW OF THE YEAR - continued

EMPLOYEE COMMITMENT - continued

Performance during the year:


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 staff 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.

In order to support the well-being of its employees, the Northern Powergrid Group provides an independent employee assistance service to all staff. The programme is a confidential, self-referral counselling and information service to assist with personal or work-related problems that may be affecting health, wellbeing or performance and is available 24 hours a day, 365 days a year. Working with its occupational health provider, the Northern Powergrid Group is delivering a long-term programme aimed at improving the health of its staff.

During the year, 68 new recruits (2016: 71) joined the Northern Powergrid Group workforce renewal programme, including for the first time, two Cyber Apprentices. In addition, 19 trainees graduated from their training programmes.

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 are based on merit with due regard for diversity, including gender.

At 31 December 2017, the Company employed 1,191 staff (2016: 1,184).

	ENVIRONMENTAL RESPECT				
	KPI	2017		2016	
		Actual	Target	Actual	Target
Leaders in environmental respect and low carbon technologies.	Total Oil/Fluid Lost (litres)	18,101	<18,900	15,722	<25,714
	SF6 Gas discharges (kg)	68.78	<78.00	99.95	<84
	Environmental Incidents	8	<5	3	<7
	Carbon Footprint (tonnes)	28,884		30,518	

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

Performance during the year:

The Company has operated a United Kingdom Accreditation Service scheme for environmental management since the late 1990s and is certified to the environmental management systems standard ISO 14001: 2015. A full recertification assessment was carried out in March 2017 and a surveillance audit conducted in September 2017. 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 October 2017 where continued certification was confirmed. Initiatives including the implementation of telematics in fleet vehicles have facilitated a further improvement in reducing the Company's carbon footprint during the year to 28,884 tonnes (2016: 30,518 tonnes).

In support of the target to further reduce oil and fluid loss, the 2017 annual environmental improvement plan included replacing fluid-filled cables and locating cable fluid leaks more quickly which resulted in a total fluid loss of 18,101 litres (2016: 15,722). Additional activity to minimise the Company's impact on the environment included placing overhead lines underground in National Parks and Areas of Outstanding Natural Beauty and protecting wildlife and habitat.

NORTHERN POWERGRID (YORKSHIRE) PLC

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

REVIEW OF THE YEAR - continued

Sustainability

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

Performance during the 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 new 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 new project was launched in the year to develop hybrid battery technology to expedite the restoration of the electricity supply following a power cut. Collaboration with Northern Gas Networks at the Integrel demonstrator site continues to assess the potential future benefits of integrating both gas and electricity energy systems. The Company is also scoping the role of distribution system operator ("DSO") with a new project to explore the value of the transition for customers and to understand the business changes that are required to realise those benefits.

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

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017**

REVIEW OF THE YEAR - continued

	REGULATORY INTEGRITY
Strategic objective	KPI
Trustworthy, fair and balanced, creating win-win outcomes.	Completion of a quarterly regulatory compliance affirmation process

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

Performance during the year:

Under the RIIO (revenue = incentives + innovation + outputs) model for regulation, price controls are set for eight years with provision for a mid-period review if there are changes to the outputs that network companies are required to deliver. The ED1 price control became effective on 1 April 2015 and is due to end on 31 March 2023. The Company's base allowed revenue (excluding the effects of incentive schemes and any deferred revenues from the prior price control) before inflation reduced by 0.5% for the regulatory year ended 31 March 2017, relative to the previous regulatory year. Base allowed revenues before inflation remain constant for each subsequent regulatory year through to the 31 March 2023. Nominal base allowed revenues will increase in line with inflation (as measured by the United Kingdom's Retail Prices Index).

In order to assure compliance with licence and other regulatory obligations, the Company operates a regulatory compliance affirmation process, under which ownership of approximately 1,950 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 submits a number of information returns to Ofgem and is required, under the terms of the Company's licence, to assure the accuracy of those returns. These arrangements involve the preparation and submission to Ofgem, by the end of February in each year, of a risk-based data-assurance plan 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.

NORTHERN POWERGRID (YORKSHIRE) PLC

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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 Northern Powergrid Group's strategic objectives and Core Principles. Once identified, key risks and their respective controls and mitigation plans are continually assessed and formally reviewed by the Governance and Risk Management Group, 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 continue to benchmark risk management activities across its business units and share significant lessons learned.

Category	Risk / Uncertainty	Mitigation
Financial	The Gas and Electricity Markets Authority ("GEMA") resetting the price control formula (which determines the maximum permitted revenue for each Regulatory Year) set out in the electricity distribution licence without the consent of the electricity distribution licence holder.	Appeal to the Competition and Markets Authority against a decision by GEMA to proceed with such a modification.
Financial	The Company costs increase or change by more than RPI having a direct impact on the Company's financial results. The rate of inflation as measured by RPI is taken into account in setting the Company's allowed income in respect of each regulatory year.	The Company monitors performance against regulatory allowances including forecasts for the remainder of the price period and takes appropriate corrective action to ensure it lives within regulatory allowances.
Financial	Changes in performance under incentive schemes, such as in customer service, may lead to adjustments to allowed revenues.	Performance against incentives is routinely measured and management action taken to address any performance issues.
Financial	Cost of the defined benefit pension schemes and the possible effect on the current deficit position.	The cost of the defined benefit pension scheme, including deficit repair payments, is managed in triennial cycles by negotiation with the trustees of the scheme. On-going and repair costs form part of the assessment of cost made by Ofgem in each price control, and if judged efficient, these costs are permitted to be recovered through revenues at a stable level to provide certainty for customers. The Company works with scheme trustees to ensure that scheme judgements reflect this indirect obligation to customers.
Financial	The existing Data Protection policies and procedures are not sufficient to comply with the additional requirements of the incoming General Data Protection Regulation ("GDPR").	A programme to identify the impact of GDPR and the actions required ahead of the regulation becoming effective in May 2018 is in place and is under regular review.
Financial	Interest rate risk – the exposure to uncertain future interest rates.	The Company is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 December 2017, 100% of the Company's long-term borrowings were at fixed rates and the average maturity for these borrowings was 9 years.

NORTHERN POWERGRID (YORKSHIRE) PLC

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Category	Risk / Uncertainty	Mitigation
Financial	Trading risk - investments fail to deliver anticipated outcome	The Company's policy is that no trading in financial instruments should be undertaken.
Financial / Operational	Major Incidents (including weather and terrorism attacks) causing network disruption resulting in customer service penalties and a reduction in the number of units delivered on which income is charged.	A number of major incident and crisis management policies, plans and governance arrangements are in place to react to and deal with such situations. In addition, an industry mutual aid agreement is in place. The initiatives (including network investment) under the operational excellence Core Principle are in place to ensure grid resilience is maintained.
Operational	Health and Safety incident - The electricity distribution business is inherently hazardous. Employees work at height, in closed spaces, alone and with live electricity, increasing the risk of potential safety incidents.	Health and Safety is given the highest priority within the Company and clear policies and procedures are in place both to ensure the safety of the employees and customers but also ensure compliance with relevant legislation.
Operational	Cyber-attack or cyber-security breach affecting hardware, systems, customer data or intellectual property.	A robust cyber security risk mitigation programme is in place including accreditation under the ISO 27001 Information Security (process security) standard for certain discrete business areas and compliance with the Centre for Internet Security Critical Security Controls. Further advances are being continuously implemented and managed.
Operational	The take-up of low-carbon technologies and the resulting effect on the networks capacity.	In addition to smart grid deployment activity, the Company has a range of innovation projects to develop and demonstrate future technologies and commercial practices. The Company is considering how the transition to a DSO role could assist customers to connect more low carbon technologies.
Commercial	The emergence of increased competition in the electricity distribution market including the emerging role of DSO.	The Company is setting out the policy position supporting the expanded role of DSO which is underpinned by electricity distributors being ideally placed to deliver benefits to customers from a DSO role and to maintain overall accountability for the stability of local networks.
Commercial	Credit control – protecting the Company from incurring bad debt and maintaining strong cash flow.	The Company requires strict adherence to credit checking, payment terms, payment performance tracking and debt management policies
Commercial	Credit-cover arrangements with electricity suppliers.	The relationship with energy suppliers, including credit-cover arrangements, is governed by a distribution connection and use of system agreement which sets out how creditworthiness will be determined and, as a result, whether the supplier needs to provide collateral.
Commercial	Availability of resource to deliver work programmes.	The Company uses a mix of direct labour and contracted resource to facilitate the delivery of work programmes (including the capital expenditure programme).

NORTHERN POWERGRID (YORKSHIRE) PLC

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Internal Control

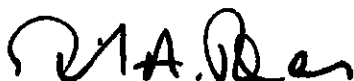
A rigorous internal control environment exists within the Northern Powergrid Group to support the financial reporting process, the key features of which include regular reporting, a series of operational and financial policy statements, investigations undertaken by internal audit and a stringent process for ensuring the implementation of internal audit recommendations. In addition, the Northern Powergrid Group utilises comprehensive business planning procedures, regularly reviews key performance indicators 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 United States Sarbanes-Oxley Act, the Company undertakes a quarterly risk control assessment confirming that the effectiveness of the system of internal controls has been reviewed during the year. A self-certification process is in place, in support of this review, whereby 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 Company 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 Company 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 8. The Company has robust procedures in place to meet the requirements of the Bribery Act 2010.

ON BEHALF OF THE BOARD:



P A Jones
Director

24 April 2018

NORTHERN POWERGRID (YORKSHIRE) PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their report together with the audited financial statements and the auditor's report for the year ended 31 December 2017.

DIVIDENDS

During the year, an interim dividend of £29.8 million was paid (2016: £28.7 million). The directors recommend that no final dividend be paid in respect of the year (2016: £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.

RESEARCH AND DEVELOPMENT

The Company supports a programme of research that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. New activities initiated in the year included projects regarding the use of bi-directional power flow to electric vehicles, an improved methodology to determine the overall societal impact of network investment and operations, a project to understand and test cross-vector energy systems in collaboration with the regional gas distribution network operator and a project to explore and understand the technical and economic opportunities and implications of the DSO role.

During the year, the Company invested £1.7 million (2016: £1.6 million) (Note 6 to the financial statements) in its research and development activities.

FUTURE DEVELOPMENTS AND FUTURE OUTLOOK

The financial position of the Company, as at 31 December 2017, is shown in the statement of financial position on page 23. There have been no significant events since the year end. The directors intend that the Company will continue to implement its well-justified business plan during the remainder of the ED1 price control and by delivering the strategic objectives linked to the Core Principles, the Company will continue to develop its business by efficiently investing in the network and improving the quality of supply and service provided to customers. There are no plans to change the existing business model.

DIRECTORS

The directors who held office during the year under review and to the date of signing were:

R Dixon	Non-executive Director (retired 26 October 2017)
T E Fielden	Finance Director
J M France	Regulation Director
T H France	General Counsel
N M Gill	Operations Director
P A Jones	President and Chief Executive Officer
A J MacLennan	Business Development Director
A R Marshall	Non-executive Director
P C Taylor	Non-executive Director

During and as at the end of the year, none of the directors was interested in any contract, which was significant in relation to the business of the Company.

During the financial 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.

FINANCIAL RISK MANAGEMENT

Details of financial risks are included in the Principal Risks and Uncertainties on page 11-14 of the Strategic Report.

FINANCIAL DERIVATIVES

As at 31 December 2017 and during the year it was the Company's policy not to hold any derivative financial instruments.

NORTHERN POWERGRID (YORKSHIRE) PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017

POLITICAL DONATIONS

No contributions were made to political organisations during the year (2016: £nil).

EMPLOYEES

Employee consultation

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 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.

Disabled employees

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.

CORPORATE GOVERNANCE STATEMENT

The directors have elected to apply the exception set out in Section 1B.1.6R of the Disclosure and Transparency Rules ("DTR").

AUDIT COMMITTEE

The board of Northern Powergrid Holdings Company has established an audit committee for the Northern Powergrid Group under delegated terms of reference which carries out the functions required by DTR 7.1.3 R.

Committee members:

J Reynolds	Non-Executive Director (appointed as Chairman on 26 October 2017)
R Dixon	Non-Executive Director (retired 26 October 2017)
T E Fielden	Finance Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

NORTHERN POWERGRID (YORKSHIRE) PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES - continued

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

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

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 Company's 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 or loss of the Company and the Strategic Report and the Report of the Directors include 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.

NON-FINANCIAL INFORMATION STATEMENT

In accordance with Section 414CB(7) of the Companies Act 2006, the directors have elected to set out the information required by Section 414CB (1) to (6) in the group annual report and audited consolidated financial statements of Northern Powergrid Holdings Company, a copy of which can be found on Northern Powergrid's corporate website.

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;
- The Company is profitable with strong underlying cash flows and holds investment grade credit ratings; and
- The Company is financed by long-term borrowings with an average maturity of 9 years and has access to borrowing facilities provided by Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc.

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

NORTHERN POWERGRID (YORKSHIRE) PLC

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2017**

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

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.

ON BEHALF OF THE BOARD:



P A Jones
Director

24 April 2018

NORTHERN POWERGRID (YORKSHIRE) PLC

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2017**

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

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.

ON BEHALF OF THE BOARD:

T E Fielden
Director

5 April 2018

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

- the statement of profit or loss;
- the statement of profit or loss and other comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the notes to the financial statements 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of audit approach

- Key audit matter The key audit matter that we identified in the current year was the overhead allocation and the replacement of failed assets
- Materiality The materiality that we used in the current year was £7.2m which was determined on the basis of 5% of profit before tax for the year.
- Scoping We have performed the scoping of our work by considering the risk associated with each of the balances and the quantum of the balance in the accounts relative to our materiality. The main area of focus of our testing was around fixed assets, which represent the largest balance within the accounts and our significant risk area.

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

We have nothing to report in respect of these matters.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
NORTHERN POWERGRID (YORKSHIRE) PLC - continued**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS - continued

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Overhead allocation

Key audit matter description	Total additions in the year were £217m, which includes capitalised overheads. Due to the potential for bias to be involved in making these estimates, the nature of expenditure capitalised by the distribution business is a key audit matter. A portion of overheads are capitalised to the extent they are considered to relate to capital additions that have taken place during the year. The calculation of capitalised overheads remains an area at risk of potential bias due to the level of subjectivity in the percentages of overheads capitalised. The key risk here being management's judgement in the percentage amounts capitalised are not reflective of the capital spend.
------------------------------	---

How the scope of the audit responded to the key audit matter	We have reviewed the capital spend in the year, the current policies in place and assessed their suitability in line with IAS 16, along with reviewing of the approach management takes towards assessing capitalised overheads and any changes introduced in the current year.
--	---

We have obtained relevant industry benchmarks for the proportions to capitalised, using these benchmarks to challenge management as to the appropriateness of their judgement.

We have evaluated the design and implementation of controls surrounding accounting for capital spend.

We have reviewed the overhead allocation model, including testing the underlying overhead expenditure being apportioned.

We have performed a substantive analytical review to consider whether the apportionment between entities is consistent with the prior year.

We have performed detailed testing of the total overheads included within the allocation model which are subsequently capitalised based on management's assessment of percentage allocation.

Key observations	No material differences were identified based upon the procedures above. We have therefore concluded management's overhead capitalisation judgement is reasonable, with policies applied being appropriate and consistent with prior year and IFRS requirements.
------------------	--

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
NORTHERN POWERGRID (YORKSHIRE) PLC - continued**

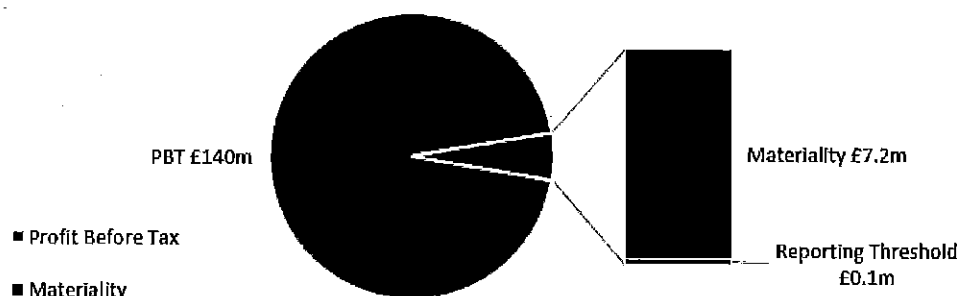
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS - continued

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£7.2m
Basis for determining materiality	5% of profit before tax during the current year.
Rationale for the benchmark applied	The company's primary activity is to borrow funds to lend to other group companies. Therefore the interest income balance is considered to be a key driver of company activity.



Our application of materiality - continued

We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £0.1m (2016: £0.3m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board of Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Northern Powergrid (Yorkshire) plc is a wholly owned subsidiary of Northern Powergrid Holdings Company. The entity is the distribution network operator for Yorkshire within the United Kingdom, providing electricity to homes under the regulatory oversight of Ofgem.

When deriving our significant risks, we have determined these based on the materiality of the balances to the company, and the likelihood of these risks to represent a possibility of fraud or misstatement. As a result of our ongoing assessment of key business risks each year, the presumed revenue recognition risk for the regulated business was rebutted based on the lack of judgement involved and the fact that revenues are predetermined by the regulator.

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHERN POWERGRID (YORKSHIRE) PLC - continued

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS - continued

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

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

We have nothing to report in 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 financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
NORTHERN POWERGRID (YORKSHIRE) PLC - continued**

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records	Under the Companies Act 2006 we are required to report to you if, in our opinion: <ul style="list-style-type: none">- we have not received all the information and explanations we require for our audit; or- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or- the financial statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.
Directors' remuneration	Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.	We have nothing to report in respect of these matters.

Other Matters

Auditor tenure	Following the recommendation of the audit committee, we were appointed by the board of Northern Powergrid Holdings Company in 1998 to audit the financial statements for the year ending 31 December 1998 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 19 years, covering the years ending 31 December 1998 to 31 December 2017.
----------------	--

Consistency of the audit report with the additional report to the Board of Directors
Our audit opinion is consistent with the additional report to the Board of Directors we are required to provide in accordance with ISAs (UK).



David M Johnson FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Newcastle upon Tyne
United Kingdom

25 April 2018

NORTHERN POWERGRID (YORKSHIRE) PLC

**STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 £'000	2016 £'000
CONTINUING OPERATIONS			
Revenue	3	413,477	415,126
Cost of sales		<u>(16,709)</u>	<u>(16,799)</u>
GROSS PROFIT		396,768	398,327
Operating expenses		<u>(209,179)</u>	<u>(198,959)</u>
OPERATING PROFIT		187,589	199,368
Other gains		388	483
Finance costs	5	(48,853)	(47,522)
Finance income	5	<u>621</u>	<u>1,116</u>
PROFIT BEFORE INCOME TAX	6	139,745	153,445
Income tax	7	<u>(26,137)</u>	<u>(5,316)</u>
PROFIT FOR THE YEAR		<u>113,608</u>	<u>148,129</u>

The notes on pages 29 to 59 form part of these financial statements

NORTHERN POWERGRID (YORKSHIRE) PLC

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017 £'000	2016 £'000
PROFIT FOR THE YEAR	113,608	148,129
OTHER COMPREHENSIVE INCOME	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>113,608</u>	<u>148,129</u>

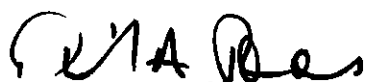
The notes on pages 29 to 59 form part of these financial statements

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 04112320)

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

	Notes	2017 £'000	2016 £'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	10	-	-
Property, plant and equipment	11	<u>3,170,616</u>	<u>3,054,645</u>
		<u>3,170,616</u>	<u>3,054,645</u>
CURRENT ASSETS			
Inventories	12	776	265
Trade and other receivables	13	72,864	68,499
Cash and cash equivalents	14	<u>186,727</u>	<u>199,298</u>
		<u>260,367</u>	<u>268,062</u>
TOTAL ASSETS		<u>3,430,983</u>	<u>3,322,707</u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	15	290,000	290,000
Retained earnings	16	<u>1,032,704</u>	<u>948,896</u>
TOTAL EQUITY		<u>1,322,704</u>	<u>1,238,896</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables	17	780,039	762,475
Interest bearing loans and borrowings	18	1,023,449	1,022,804
Deferred tax	21	127,963	127,673
Provisions	20	<u>1,168</u>	<u>1,170</u>
		<u>1,932,619</u>	<u>1,914,122</u>
CURRENT LIABILITIES			
Trade and other payables	17	124,193	115,229
Interest bearing loans and borrowings	18	33,346	33,340
Tax payable		17,285	20,087
Provisions	20	<u>836</u>	<u>1,033</u>
		<u>175,660</u>	<u>169,689</u>
TOTAL LIABILITIES		<u>2,108,279</u>	<u>2,083,811</u>
TOTAL EQUITY AND LIABILITIES		<u>3,430,983</u>	<u>3,322,707</u>

The financial statements were approved by the Board of Directors on 24 April 2018 and were signed on its behalf by:



P A Jones
Director

The notes on pages 29 to 59 form part of these financial statements

NORTHERN POWERGRID (YORKSHIRE) PLC

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016	290,000	829,467	1,119,467
Changes in equity			
Dividends	-	(28,700)	(28,700)
Total comprehensive income	-	148,129	148,129
Balance at 31 December 2016	<u>290,000</u>	<u>948,896</u>	<u>1,238,896</u>
Changes in equity			
Dividends	-	(29,800)	(29,800)
Total comprehensive income	-	113,608	113,608
Balance at 31 December 2017	<u>290,000</u>	<u>1,032,704</u>	<u>1,322,704</u>

The notes on pages 29 to 59 form part of these financial statements

NORTHERN POWERGRID (YORKSHIRE) PLC

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 £'000	2016 £'000
Cash flows from operating activities			
Cash generated from operations	24	253,125	266,810
Finance costs paid		(50,478)	(49,301)
Dividends received		54	43
Interest received		567	1,073
Tax paid		(28,649)	(2,964)
Net cash from operating activities		<u>174,619</u>	<u>215,661</u>
Cash flows used in investing activities			
Purchase of tangible fixed assets		(213,222)	(234,831)
Sale of tangible fixed assets		388	494
Receipt of customer contributions		<u>55,444</u>	<u>51,006</u>
Net cash used in investing activities		<u>(157,390)</u>	<u>(183,331)</u>
Cash flows used in financing activities			
Movements in borrowings in the year		-	50,000
Equity dividends paid		<u>(29,800)</u>	<u>(28,700)</u>
Net cash (used in)/from financing activities		<u>(29,800)</u>	<u>21,300</u>
(Decrease)/increase in cash and cash equivalents		(12,571)	53,630
Cash and cash equivalents at beginning of year		<u>199,298</u>	<u>145,668</u>
Cash and cash equivalents at end of year		<u>186,727</u>	<u>199,298</u>

The notes on pages 29 to 59 form part of these financial statements

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

Northern Powergrid (Yorkshire) plc (the "Company") is a public 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 address of the registered office is Lloyds Court, 78 Grey Street, Newcastle-upon-Tyne, NE1 6AF.

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

2. ACCOUNTING POLICIES

Accounting convention and basis of preparation

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

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

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

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

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

The principal accounting policies are set out below.

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES- continued

Application of new and revised IFRS

In the current year, the Company has a number of amendments to IFRS issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2017:

- | | |
|--|---|
| - Amendments to IAS 12 Income Taxes | The amendments to IAS 12 Income Taxes clarify when a deferred tax asset should be recognised for unrealised losses. The application of the amendments has not resulted in any impact on the financial performance or financial position of the Company. |
| - Amendments to IAS 7 Statement of Cashflows | The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The directors of the Company do not anticipate the application of these amendments has not had a material impact on the Company's financial statements. |
| - Annual Improvements to IFRSs 2014-2016 Cycle | The Annual Improvements to IFRSs 2014-2016 Cycle include a number of amendments to various IFRSs. The application of these amendments has had no effect on the Company's financial statements. |

New and revised standards in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective for the year ended 31 December 2017:

- | | |
|---|--|
| - IFRS 9 - Financial Instruments (1 January 2018). | A revised version of IFRS 9, Financial Instruments, was issued in July 2014 mainly to include: a) impairment requirements for financial assets; and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments. The directors of the Company anticipate that the application of IFRS 9 in the future is unlikely to have a material impact on amounts reported in respect of the Company's financial assets and financial liabilities. |
| - IFRS 15 - Revenue from Contracts with Customers (1 January 2018). | In May 2014, IFRS 15, Revenue from Contracts with Customers, was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 11 Construction Contracts, IAS 18 Revenue and the related Interpretations. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. On the whole the directors anticipate that the application of IFRS 15 will not have a material impact on the Company's financial statements; however there is ongoing discussion in the industry and amongst the accounting professions to consider the appropriate accounting treatment for customer contributions towards distribution system assets. We continue to engage in these conversations and will evaluate and conclude prior to the application of the standard. |

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES- continued

- 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 is replaced by a model where right-of-use asset and a corresponding liability have to be recognised for all leases by lessees except for short term leases and leases of low-value assets. As of 31 December 2016, the Company has non-cancellable operating lease commitments of £8.9 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 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.

- Amendments to IAS 7 (1 January 2017)

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The directors of the Company do not anticipate the application of these amendments will have a material impact on the Company's financial statements.

Critical judgements in applying accounting policies

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

- The split of operating and capital expenditure and the allocation of overheads to property, plant and equipment:

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.

The amount of overheads capitalised in the year was £50.9m (2016: £47.4m)

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.

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES- continued

Revenue

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

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

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

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

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

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

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

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

Software development costs

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

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

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES - continued

Property, plant and equipment

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

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

Distribution system:

Distribution system assets	45 years
Distributed generation assets	15 years
Metering equipment included in distribution system assets	up to 5 years
Information technology equipment included in distribution system assets	up to 10 years

Non-operational assets:

Buildings - freehold	up to 60 years
Buildings - leasehold	lower of lease period or 60 years

Fixtures and equipment	up to 10 years
------------------------	----------------

Software development costs	up to 15 years
----------------------------	----------------

Freehold land is not depreciated.

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

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

Internally-generated 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.

Impairment of tangible and intangible assets

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

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

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

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES - continued

Financial instruments

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

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

Inventories

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

Taxation

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

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

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

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

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

Research costs

Expenditure on research activities is written off to the statement of profit or loss in the year in which it is incurred. Other than software development, the Company does not carry out any other development activity that would give rise to an intangible asset.

Leases

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

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

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES - continued

Provisions

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

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

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

Pensions

The Company contributes to the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "Northern Powergrid Group of the ESPS"), a defined benefit scheme. There is no contractual agreement or policy to allow for accounting for the company's share of the defined benefit scheme's liabilities and assets therefore the scheme has been accounted for as a defined contribution scheme.

The company's share of the net defined benefit cost is allocated between employers contribution and deficit payments. The contribution is determined by the number of current employees in the Company in the pension scheme. The deficit payments are agreed by the Group with the Trustees, these deficit payments are allocated by the group according to the liability relating to previous and current employees on the scheme within Northern Electric plc, Northern Powergrid (Yorkshire) plc, and Northern Powergrid (Northeast) Ltd. The estimated amount of contributions expected to be paid to the pension scheme by the company during the next financial year is £18.5m (2016: £15.7m).

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

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

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES - continued

Financial assets

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

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

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

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

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

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

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

Going concern

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

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 2016.

The capital structure of the Company consists of net debt (borrowings as detailed in note 18 offset by cash and cash equivalents (detailed in note 15) and equity of the Company (comprising issued capital, reserves and retained earnings as detailed in notes 16 and 17).

The Company is subject to externally imposed capital requirements as detailed in note 18. Further details on the financial risk management is available on page 11 of the strategic report.

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

3. SEGMENTAL REPORTING

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

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

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

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

4. EMPLOYEES AND DIRECTORS

	2017	2016
	£'000	£'000
Salaries	57,407	58,487
Social security costs	6,513	6,501
Defined benefit pension costs	15,679	15,009
Defined contribution pension costs	<u>2,702</u>	<u>2,351</u>
	82,301	82,348
Less charged to property, plant and equipment	<u>(49,179)</u>	<u>(50,318)</u>
	<u><u>33,122</u></u>	<u><u>32,030</u></u>

A large proportion of the Company's employees are members of the Northern Powergrid Group of the ESPS, most of the remaining employees are members of the Northern Powergrid Pension Scheme, details of both are given in the employee benefits note (note 22).

The average monthly number of employees during the year was:

	2017	2016
	No.	No.
Technical	382	377
Industrial	581	589
Administration	90	98
Other	<u>115</u>	<u>123</u>
	<u><u>1,168</u></u>	<u><u>1,187</u></u>

NORTHERN POWERGRID (YORKSHIRE) PLC

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2017**

4. EMPLOYEES AND DIRECTORS - continued

DIRECTORS' REMUNERATION

	2017 £'000	2016 £'000
Highest Paid:		
Short-term employee benefits	375	319
Post-employment benefits	-	10
Other long-term benefits	<u>435</u>	<u>370</u>
	<u>810</u>	<u>699</u>
	2017 £'000	2016 £'000
Total:		
Short-term employee benefits	805	677
Post-employment benefits	40	52
Other long-term benefits	<u>682</u>	<u>612</u>
	<u>1,527</u>	<u>1,331</u>
Directors who are a member of the defined contribution scheme	2	3
Directors who are a member of the defined benefit scheme	<u>1</u>	<u>1</u>

OTHER KEY PERSONNEL REMUNERATION

	2017 £'000	2016 £'000
Total:		
Short-term employee benefits	439	424
Post-employment benefits	97	81
Other long-term benefits	<u>233</u>	<u>250</u>
	<u>769</u>	<u>755</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.

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued **FOR THE YEAR ENDED 31 DECEMBER 2017**

5. NET FINANCE COSTS

	2017 £'000	2016 £'000
Finance income:		
Dividends received	54	43
Interest on tax refund	-	537
Deposit account interest	4	2
Interest receivable on loans to Group undertakings	<u>563</u>	<u>534</u>
	<u>621</u>	<u>1,116</u>
Finance costs:		
Bank interest	(139)	(105)
Interest payable on other loans	(50,990)	(50,073)
Borrowing costs capitalised	<u>2,276</u>	<u>2,656</u>
	<u>(48,853)</u>	<u>(47,522)</u>
Net finance costs	<u>(48,232)</u>	<u>(46,406)</u>

Borrowing costs were capitalised at a rate of 4.85% per annum (2016: 5.71%) on eligible expenditure.

6. PROFIT BEFORE INCOME TAX

The profit before income tax is stated after charging:

	2017 £'000	2016 £'000
Depreciation - owned assets	101,252	95,569
Research and development costs	1,731	1,562
Amortisation of deferred revenue	(26,623)	(24,864)
Impairment of trade and other receivables	659	841
Profit on disposal of plant, property & equipment	<u>(388)</u>	<u>(483)</u>

Analysis of auditor's remuneration is as follows:

	2017 £'000	2016 £'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	121	130
Other assurance services	<u>45</u>	<u>45</u>
Total fees payable to the Company's auditor	<u>166</u>	<u>175</u>

NORTHERN POWERGRID (YORKSHIRE) PLC

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2017**

7. INCOME TAX

Analysis of tax expense

	2017 £'000	2016 £'000
Current tax	25,847	11,836
Deferred tax	<u>290</u>	<u>(6,520)</u>
Total tax expense in statement of profit or loss	<u>26,137</u>	<u>5,316</u>

Factors affecting the tax expense

The tax assessed for the year is lower (2016 - lower) than the standard rate of corporation tax in the UK. The difference is explained below:

	2017 £'000	2016 £'000
Profit before income tax	<u>139,745</u>	<u>153,445</u>
Profit multiplied by the standard rate of corporation tax in the UK of 19.25% (2016 – 20.00%)	26,901	30,689
Effects of:		
Changes in legislation	(475)	(7,329)
Current tax over provision for prior years	(493)	(18,276)
Tax free income and disallowable costs	(100)	(70)
Profits at deferred tax rate	(63)	
Deferred tax under provision for prior years	297	380
Other	<u>70</u>	<u>(78)</u>
Tax expense	<u>26,137</u>	<u>5,316</u>

	2017 £'000	2016 £'000
Tax expense comprises:		
Current tax expense:		
Corporation tax charge for the year	26,340	30,112
Over provision for prior years	<u>(493)</u>	<u>(18,276)</u>
Total current tax charge	<u>25,847</u>	<u>11,836</u>
Deferred tax:		
Deferred tax expenses relating to the origination and reversal of temporary differences	468	429
Deferred tax under provision for prior years	297	380
Effect of changes in legislation	<u>(475)</u>	<u>(7,329)</u>
Total deferred tax charge/(credit)	<u>290</u>	<u>(6,520)</u>
Tax on profit before tax	<u>26,137</u>	<u>5,316</u>

NORTHERN POWERGRID (YORKSHIRE) PLC

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2017**

7. INCOME TAX - continued

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.

8. DIVIDENDS

	2017 £'000	2016 £'000
Interim dividend at 10.3p per share (2015: 9.9p)	<u>29,800</u>	<u>28,700</u>

9. OPERATING EXPENSES

	2017 £'000	2016 £'000
Operating expenses comprise:		
Distribution costs	147,225	142,139
Administrative expenses	<u>61,954</u>	<u>56,820</u>
	<u>209,179</u>	<u>198,959</u>

10. INTANGIBLE ASSETS

	Software development costs £'000
COST	
At 1 January 2017 and 31 December 2017	<u>29,497</u>
AMORTISATION	
At 1 January 2017 and 31 December 2017	<u>29,497</u>
NET BOOK VALUE	
At 31 December 2017	<u>-</u>

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2017

10. INTANGIBLE ASSETS - continued

	Software development costs £'000
COST	
At 1 January 2016 and 31 December 2016	<u>29,497</u>
AMORTISATION	
At 1 January 2016 and 31 December 2016	<u>29,497</u>
NET BOOK VALUE	
At 31 December 2016	<u>-</u>

11. PROPERTY, PLANT AND EQUIPMENT

	Non operational land & buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
COST				
At 1 January 2017	4,505	3,882,000	34,496	3,921,001
Additions	-	213,868	3,355	217,223
Disposals	-	(9,019)	(631)	(9,650)
At 31 December 2017	<u>4,505</u>	<u>4,086,849</u>	<u>37,220</u>	<u>4,128,574</u>
DEPRECIATION				
At 1 January 2017	2,415	839,837	24,104	866,356
Charge for year	178	97,552	3,522	101,252
Eliminated on disposal	-	(9,019)	(631)	(9,650)
At 31 December 2017	<u>2,593</u>	<u>928,370</u>	<u>26,995</u>	<u>957,958</u>
NET BOOK VALUE				
At 31 December 2017	<u>1,912</u>	<u>3,158,479</u>	<u>10,225</u>	<u>3,170,616</u>

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued **FOR THE YEAR ENDED 31 DECEMBER 2017**

11. PROPERTY, PLANT AND EQUIPMENT

	Non operational land & buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
COST				
At 1 January 2016	4,505	3,665,873	30,701	3,701,079
Additions	-	225,065	4,099	229,164
Disposals	-	(8,938)	(304)	(9,242)
At 31 December 2016	<u>4,505</u>	<u>3,882,000</u>	<u>34,496</u>	<u>3,921,001</u>
DEPRECIATION				
At 1 January 2016	2,237	756,598	21,194	780,029
Charge for year	178	92,177	3,214	95,569
Eliminated on disposal	-	(8,938)	(304)	(9,242)
At 31 December 2016	<u>2,415</u>	<u>839,837</u>	<u>24,104</u>	<u>866,356</u>
NET BOOK VALUE				
At 31 December 2016	<u>2,090</u>	<u>3,042,163</u>	<u>10,392</u>	<u>3,054,645</u>

Assets in the course of construction included above:

	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
At 1 January 2016	192,567	-	192,567
Additions	225,065	4,099	229,164
Available for use	<u>(228,863)</u>	<u>(4,099)</u>	<u>(232,962)</u>
At 31 December 2016	<u>188,768</u>	<u>-</u>	<u>188,768</u>
Additions	213,868	3,355	217,223
Available for use	<u>(210,966)</u>	<u>(3,355)</u>	<u>(214,321)</u>
At 31 December 2017	<u>191,670</u>	<u>-</u>	<u>191,670</u>

The Company has entered into contractual commitments in relation to the future acquisition of property, plant and equipment of £19.7m (2016: £20.0m).

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

	2017 £'000	2016 £'000
Freehold	1,104	1,225
Long leasehold	707	739
Short leasehold	<u>101</u>	<u>126</u>
	<u>1,912</u>	<u>2,090</u>

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

12. INVENTORIES

	2017	2016
	£'000	£'000
Work-in-progress	<u>776</u>	<u>265</u>

13. TRADE AND OTHER RECEIVABLES

	2017	2016
	£'000	£'000
Current:		
Distribution use of system receivables	60,712	61,659
Amounts receivable from sale of goods and services	7,827	3,398
Prepayments and accrued income	5,502	4,907
Amounts receivable provided for in bad debts	<u>(1,177)</u>	<u>(1,465)</u>
	<u>72,864</u>	<u>68,499</u>

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

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 21% of distribution revenues in 2017 (2016: 23%) and British Gas plc accounting for approximately 16% of distribution revenues in 2017 (2016: 17%). Ofgem has determined a framework which sets credit limits for each supply business based on its credit rating or payment history and requires them to provide credit cover if their value at risk (measured as being equivalent to 45 days usage) exceeds the credit limit. Acceptable credit typically is provided in the form of a parent company guarantee, letter of credit or an escrow account. Included within other payables are customer deposits of £0.2 million as at 31 December 2017 (2016: £0.4 million).

Ofgem has indicated that, provided the Company has implemented credit control, billing and collection processes in line with best practice guidelines and can demonstrate compliance with the guidelines or is able to satisfactorily explain departure from the guidelines, any bad debt losses arising from supplier default will be recovered through an increase in future allowed income. Losses incurred to date have not been material. Included in the Company's use of system ("UoS") receivables are debtors with a carrying value of £0.3 million, which have been placed into administration and have therefore been provided in full at the year-end (2016: £0.3 million).

Amounts receivable from sale of goods and services

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

The average credit period on sales of goods and services is 30 days (2016: 30 days). Interest is not generally charged on the trade receivables paid after the due date. An allowance for doubtful debts is made for debts past their due date based on estimated irrecoverable amounts from the sale of goods and services, determined by reference to past default experience.

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued **FOR THE YEAR ENDED 31 DECEMBER 2017**

13. TRADE AND OTHER RECEIVABLES - continued

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £2.3 million (2016: £2.2 million) which are past due at the reporting date and for which the Company has provided an irrecoverable amount of £0.9 million (2016: £1.2 million) based on past experience. The Company does not hold any collateral over these balances. The average age of these receivables is 287 days (2016: 300 days).

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £0.4 million (2016: £0.3 million). These amounts are past due at the reporting date and the Company has not provided for any amounts as not being recoverable, because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances. The average age of these receivables is 90 days (2016: 72 days).

Ageing of past due but not impaired receivables

	2017 £'000	2016 £'000
30-60 days	180	189
60-120 days	84	59
120-210 days	110	45
Total	374	293

Movement in the allowance for doubtful debts

	2017 £'000	2016 £'000
At 1 January	1,465	721
Amounts utilised/written off in the year	(947)	(97)
Amounts recognised in statement of profit or loss	659	841
At 31 December	1,177	1,465

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

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £0.6 million (2016: £1.0 million) which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

13. TRADE AND OTHER RECEIVABLES - continued

Categories of financial assets

	2017 £'000	2016 £'000
Cash and bank balances	186,727	199,298
Loans and receivables at amortised cost	<u>67,642</u>	<u>63,747</u>
Total financial assets	<u><u>254,369</u></u>	<u><u>263,045</u></u>
Non-current assets	3,170,616	3,054,645
Inventories	776	265
Prepayments and accrued income	<u>5,222</u>	<u>4,752</u>
Total non-financial assets	<u><u>3,176,614</u></u>	<u><u>3,059,662</u></u>
Total assets	<u><u>3,430,983</u></u>	<u><u>3,322,707</u></u>

14. CASH AND CASH EQUIVALENTS

	2017 £'000	2016 £'000
Cash in hand	<u><u>186,727</u></u>	<u><u>199,298</u></u>

Cash and cash equivalents represent amounts owed by companies within the Northern Powergrid Group (see related party disclosures note), which have a maturity date of less than three months and which are subject to an insignificant risk of changes in value. The fair value of cash and cash equivalents is equal to their book value.

15. CALLED UP SHARE CAPITAL

Allotted, authorised, issued and fully paid:

Number:	Class:	Nominal value:	2017 £'000	2016 £'000
290,000,000	Ordinary share capital	£1	<u><u>290,000</u></u>	<u><u>290,000</u></u>

There is no right to fixed income.

16. RESERVES

	Retained earnings £'000
At 1 January 2017	948,896
Profit for the year	113,608
Dividends	<u>(29,800)</u>
At 31 December 2017	<u><u>1,032,704</u></u>

NORTHERN POWERGRID (YORKSHIRE) PLC

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2017**

16. RESERVES - continued

	Retained earnings £'000
At 1 January 2016	829,467
Profit for the year	148,129
Dividends	<u>(28,700)</u>
At 31 December 2016	<u>948,896</u>

17. TRADE AND OTHER PAYABLES

	2017 £'000	2016 £'000
Current:		
Payments on account	50,208	40,354
Trade creditors	6,291	5,283
Amounts owed to Group undertakings	1,324	429
Social security and other taxes	6,655	8,959
Other creditors	4,723	5,968
Deferred revenue	27,941	26,743
Accrued expenses	<u>27,051</u>	<u>27,493</u>
	<u>124,193</u>	<u>115,229</u>
Non-current:		
Deferred revenue	<u>780,039</u>	<u>762,475</u>
Aggregate amounts	<u>904,232</u>	<u>877,704</u>

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

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

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2017

17. TRADE AND OTHER PAYABLES - continued

	Less than 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
2017:					
Non-interest bearing	46,044	-	-	-	46,044
Variable interest rate liability	10	-	-	-	10
Fixed interest rate liability	18,500	31,173	512,692	909,901	1,472,266
	<u>64,554</u>	<u>31,173</u>	<u>512,692</u>	<u>909,901</u>	<u>1,518,320</u>
2016:					
Non-interest bearing	48,132	-	-	-	48,132
Variable interest rate liability	12	-	-	-	12
Fixed interest rate liability	18,500	31,173	380,192	1,092,074	1,521,939
	<u>66,644</u>	<u>31,173</u>	<u>380,192</u>	<u>1,092,074</u>	<u>1,570,083</u>

Categories of financial liabilities

	2017 £'000	2016 £'000
Loans and payables at amortised cost	<u>1,069,133</u>	<u>1,067,824</u>
Total financial liabilities	<u>1,069,133</u>	<u>1,067,824</u>
Payments received on account	50,208	40,354
Income tax liabilities	145,248	147,760
Other taxes and social security	6,655	8,959
Accruals	27,051	27,493
Deferred Revenue	807,980	789,218
Provisions	<u>2,004</u>	<u>2,203</u>
Total non financial liabilities	<u>1,039,146</u>	<u>1,015,987</u>
Total liabilities	<u>2,108,279</u>	<u>2,083,811</u>

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued **FOR THE YEAR ENDED 31 DECEMBER 2017**

17. TRADE AND OTHER PAYABLES - continued

Deferred Revenue

	2017 £'000	2016 £'000
At 1 January	789,218	753,737
Additions	45,385	60,345
Amortisation	(26,623)	(24,864)
At 31 December	<u>807,980</u>	<u>789,218</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 over 45 years or 15 years on a straight line basis, in line with the useful economic life of the distribution system assets.

18. BORROWINGS

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

	Book Value		Fair Value	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Loans	<u>1,056,795</u>	<u>1,056,144</u>	<u>1,239,727</u>	<u>1,260,799</u>
	<u>1,056,795</u>	<u>1,056,144</u>	<u>1,239,727</u>	<u>1,260,799</u>
The borrowings are repayable as follows:				
On demand or within one year	33,346	33,340	33,339	33,340
Between one and five years	350,616	199,549	404,717	248,750
After five years	<u>672,833</u>	<u>823,255</u>	<u>801,671</u>	<u>878,709</u>
	<u>1,056,795</u>	<u>1,056,144</u>	<u>1,239,727</u>	<u>1,260,799</u>
Analysis of borrowings:				
Short-term loan	10	12	10	12
2020 - 9.25% bonds	217,377	217,227	250,130	266,428
2035 - 5.125% bonds	204,037	203,933	276,655	276,674
2032 - 4.375% bonds	150,654	150,528	187,384	187,202
2022 - European Investment Bank 4.133%	153,711	153,692	175,056	179,923
2025 - 2.5% bonds	150,781	150,527	159,661	160,420
2022 - European Investment Bank 2.564%	130,139	130,139	140,055	139,487
2022 - European Investment Bank 2.073%	<u>50,086</u>	<u>50,086</u>	<u>50,776</u>	<u>50,653</u>
	<u>1,056,795</u>	<u>1,056,144</u>	<u>1,239,727</u>	<u>1,260,799</u>

Average weighted interest rate: 4.62% (2016: 4.50%).

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

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.

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 not subject the Company to any change in interest costs during the year. All other loans are at fixed interest rates and expose the Company to fair value interest rate risk.

The covenants associated with the 2035 bonds issued by the Company include restrictions on the issuance of new indebtedness and the making of distributions dependent on the scale of the ratio of Senior Total Net Debt to Regulatory Asset Value ("RAV").

The definition of Senior Total Net Debt excludes any subordinated debt and any debt incurred on a non-recourse basis. In addition, it excludes interest payable, any fair value adjustments and unamortised issue costs.

The Company's Senior Total Net Debt as at 31 December 2017 totalled £844.3m. Using the RAV value as at March 2018, as outlined by Ofgem in its electricity distribution price control financial model published in November 2017 and adjusting for the effects of movements in the value of the Retail Price Index gives an approximation for the RAV value as at March 2018 of £1,780.2m. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 47.4% (2016 48.9%).

At 31 December 2017, the Company had available £94.0m (2016: £94.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

19. LEASING AGREEMENTS

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

	2017 £'000	2016 £'000
Within one year	2,664	2,343
Between one and five years	5,820	4,866
In more than five years	442	1,430
	<u>8,926</u>	<u>8,639</u>

	2017 £'000	2016 £'000
Minimum lease payments under operating leases recognised in the year	<u>4,954</u>	<u>4,587</u>

Leases primarily relate to the hire of fleet vehicles with lease terms between 2 and 7 years. The Company does not have the option to purchase the vehicles at the end of the lease term.

NORTHERN POWERGRID (YORKSHIRE) PLC

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2017**

20. PROVISIONS

	2017	2016
	£'000	£'000
Provisions	<u>2,004</u>	<u>2,203</u>
Analysed as follows:		
Current	836	1,033
Non-current	<u>1,168</u>	<u>1,170</u>
	<u>2,004</u>	<u>2,203</u>
	Claims	Other
	£'000	£'000
At 1 January 2017	699	1,504
Utilised/paid in the year	(1,103)	(553)
Charged to statement of profit or loss	<u>851</u>	<u>607</u>
At 31 December 2017	<u>447</u>	<u>1,558</u>
		Total
		£'000
		2,203
		(1,656)
		1,458
		2,005

Claims: Provision has been made to cover costs arising from damages, public liability, and third party motor claims, which are not externally insured. Settlement is expected substantially within 12 months.

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

21. DEFERRED TAX

	Accelerated Tax Depreciation £'000	Other £'000	Total £'000
At 1 January 2017	127,770	(97)	127,673
Charge/(credit) to statement of profit or loss	<u>407</u>	<u>(117)</u>	<u>290</u>
At 31 December 2017	<u>128,177</u>	<u>(214)</u>	<u>127,963</u>
	Accelerated Tax Depreciation £'000	Other £'000	Total £'000
At 1 January 2016	134,423	(230)	134,193
(Credit)/charge to statement of profit or loss	<u>(6,653)</u>	<u>133</u>	<u>(6,520)</u>
At 31 December 2016	<u>127,770</u>	<u>(97)</u>	<u>127,673</u>

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

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

22. EMPLOYEE BENEFIT OBLIGATIONS

Introduction

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

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

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

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

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

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

Role of Trustees

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

Funding requirements

UK legislation requires that pension schemes are funded prudently (i.e. to a level in excess of the current expected cost of providing benefits). The last actuarial valuation of the DB Scheme was carried out by the Trustee's actuarial advisors, Aon Hewitt, as at 31 March 2016. Such valuations are required by law to take place at intervals of no more than three years. Following each valuation, the Trustees and the Northern Powergrid Group must agree the contributions required (if any) to ensure the DB Scheme is fully funded over time on the basis of suitably prudent assumptions. Contributions agreed in this manner constitute a minimum funding requirement. The next funding valuation is due no later than 31 March 2019, at which progress towards full-funding will be reviewed.

Agreement was reached during August 2017 with the Trustees to repair the funding deficit of £194.9m as at 31 March 2016 over the 9 year period to 31 March 2025, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2016 being borne out in practice. The agreement includes payments of £2.3m per month to be made over the remaining 8 years and 3 months of the recovery plan. This amount is in 2017/18 prices and will be updated on 1 April 2018 and on each 1 April thereafter in line with changes in RPI.

The contributions payable by the Northern Powergrid Group to the DB Scheme in respect of future benefits which are accruing increased from 34.2% to 43.6% of pensionable pay from 1 April 2017. These contributions were determined as part of the 31 March 2016 actuarial valuation and are payable in addition to the deficit repair contributions mentioned above. These rates will remain in place until such a time as a new schedule of contributions is agreed between the Trustees and the Company as part of the 31 March 2019 valuation. In addition, the Company pays contributions to cover the expenses of running the DB Scheme which increased from 3.0% to 3.6% of pensionable pay from 1 September 2017.

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

22. EMPLOYEE BENEFIT OBLIGATIONS - continued

In addition, the Company pays contributions to cover the expenses of running the DB Scheme which increased from 3.0% to 3.6% of pensionable pay from 1 September 2017.

The Northern Powergrid Group's total contributions to the DB Scheme for the next financial year are expected to be £45.4M.

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

Pensions' Regulation

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

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

The Pensions Regulator has various powers including the power to:

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

Profile of the DB Scheme

The defined benefit obligation ("DBO") includes benefits for current employees, former employees and current pensioners. The overall duration of the DB Scheme's obligation was assessed to be about 19 years based on the results of the 31 March 2016 funding valuation. This is the weighted-average time over which benefit payments are expected to be made.

Broadly, about 40% of the liabilities are attributable to current employees (duration about 24 years), 10% to former employees (duration about 25 years) and 50% to current pensioners (duration about 14 years).

Risks associated with the DB Scheme

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

Risk	Description	Mitigation
Volatile asset returns	The DBO is calculated using a discount rate set with reference to corporate bond yields. If assets underperform this discount rate, this will create an element of deficit. The DB Scheme aims to hold a significant proportion (44%) of its assets in return-seeking assets (such as equities) which, although expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term.	<p>The allocation to return-seeking assets is monitored to ensure it remains appropriate given the DB Scheme's long-term objectives. The Trustees regularly review the strategy from return-seeking assets and have diversified some return-seeking assets from equities into Reinsurance and Listed Infrastructure to reduce overall risk.</p> <p>To avoid concentration risk, the allocation to UK equity is restricted to 35% of the total equity allocation.</p>

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

22. EMPLOYEE BENEFIT OBLIGATIONS - continued

Risk	Description	Mitigation
Changes in bond yields	A decrease in corporate bond yields will increase the value placed on the DBO for accounting purposes, although this will be partially offset by an increase in the value of the DB Scheme's bond holdings.	The DB Scheme also holds a substantial proportion of its assets (61%) as bonds, which provide a hedge against falling bond yields (falling yields which increase the DBO will also increase the value of the bond assets). There are some differences in the credit quality of bonds held by the DB Scheme and the bonds analysed to decide the DBO discount rate, such that there remains some risk should yields on different quality bond/swap assets diverge.
Inflation risk	A significant proportion of the DBO is indexed in line with price inflation (specifically in line with RPI) and higher inflation will lead to higher liabilities	The DB Scheme invests around 35% in LDI which provides a hedge against higher than expected inflation increases on the DBO (rising inflation will increase both the DBO and the value of the LDI portfolio).
Currency risk	To increase diversification, the DB Scheme invests in overseas assets. This leads to a risk that foreign currency movements negatively impact the value of assets in Sterling terms.	The DB Scheme hedges a proportion of the overseas investments currency risk for those overseas currencies that can be hedged efficiently. The DB Scheme's currency hedging ratio is currently 50% in respect of overseas developed market currencies.
Life expectancy	The majority of the DB Scheme's obligations are to provide benefits for the pensionable lifetime of the member, so increases in life expectancy will result in an increase in the liabilities.	The DB Scheme regularly reviews actual experience of its membership against the actuarial assumptions underlying the future benefit projections and carries out detailed analysis when setting an appropriate scheme specific mortality assumption.

The Company and Trustees have agreed a long-term strategy for reducing investment risk as and when appropriate, this includes the use of Liability Driven Investment (LDI) from October 2016 to more closely match the nature and duration of the DB Scheme's liabilities through the use of derivatives such as swaps and repurchase agreements. The portfolio is designed to hedge a proportion of the interest rate and inflation risk inherent in the Scheme's liabilities. The target hedging level is currently 75% (2016: 60%) of the DB Scheme's liabilities as measured on the basis used for the funding valuation.

The Trustees insure certain benefits payable on death before retirement.

Other risks

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

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

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

22. EMPLOYEE BENEFIT OBLIGATIONS - continued

Reporting at 31 December 2017

For the purposes of this disclosure, the current and future pension costs of the Northern Powergrid Group have been assessed by Aon Hewitt, a qualified independent actuary, using the assumptions set out below, which the actuary has confirmed represent a reasonable best estimate of those costs. The review has been based on the same membership and other data as at 31 March 2016. The directors of Northern Powergrid Holdings Company has accepted the advice of the actuary and formally approved the use of these assumptions for the purpose of calculating the pension cost of the Northern Powergrid Group.

The results of the latest funding valuation at 31 March 2016 have been adjusted to 31 December 2017. Those adjustments take account of experience over the period since 31 March 2016, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the DBO and the related current service cost were measured using the Projected Unit Credit Method.

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

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

Main financial assumptions	2017 % p.a.	2016 % p.a.
RPI	2.95	3.00
Rate of long-term increase in salaries	3.45	3.00
Pension increases	2.85	2.90
Discount rate for scheme liabilities	2.60	2.70

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

Main demographic assumptions	2017	2016
Life expectancy for a male currently aged 60	26.7	27.1
Life expectancy for a female currently aged 60	28.8	28.8
Life expectancy at 60 for a male currently aged 45	28.1	28.6
Life expectancy at 60 for a female currently aged 45	29.9	30.6
Proportion of pension exchanged for additional cash at retirement	10%	10%

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

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

Asset allocation	2017 £m	2016 £m
Developed market equity	187.9	338.6
Emerging market equity	17.4	12.9
Property	164.7	91.4
Reinsurance	83.0	71.3
Listed infrastructure	112.7	99.2
Investment grade corporate bonds	423.5	366.9
Other debt	43.4	30.3
Fixed interest gilts	28.2	52.4
Index-linked gilts	-	3.1
Liability driven investments	644.2	581.2
Cash	51.0	107.1
Total	<u>1,756.0</u>	<u>1,754.4</u>

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued **FOR THE YEAR ENDED 31 DECEMBER 2017**

22. EMPLOYEE BENEFIT OBLIGATIONS – continued

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

As at 31 December 2017, the fair value of the DB Scheme's assets, which related to self-investment, amounted to £nil (2016: less than £nil).

Changes to the present value of the DBO during the year	2017	2016
	£m	£m
Opening DBO	1,722.9	1,453.2
Current service cost	17.9	14.9
Interest expense on defined benefit obligation	45.1	53.0
Contributions by DB Scheme participants	0.9	1.0
Actuarial gains on DB Scheme liabilities arising from changes in demographic assumptions	(33.3)	-
Actuarial losses on DB Scheme liabilities arising from changes in financial assumptions	49.7	311.5
Actuarial gains on DB Scheme liabilities arising from experience	(19.8)	(25.9)
Net benefits paid out	(52.5)	(84.8)
Liabilities extinguished on settlements	(101.8)	-

Closing DBO	<u>1,629.1</u>	<u>1,722.9</u>
-------------	----------------	----------------

Changes in the fair value of DB Scheme assets during the year	2017	2016
	£m	£m
Opening fair value of DB Scheme assets	1754.4	1,541.3
Interest income on DB Scheme assets	46.9	56.7
Re-measurement gains on DB Scheme assets	64.7	200.9
Contributions by the employer	45.0	40.5
Contributions by DB Scheme participants	0.9	1.0
Net benefits paid out	(52.5)	(84.8)
Administration costs incurred	(1.3)	(1.2)
Assets distributed on settlements	(112.1)	-

Closing fair value of DB Scheme assets	<u>1,746.0</u>	<u>1,754.4</u>
--	----------------	----------------

Actual return on DB Scheme assets	2017	2016
	£m	£m
Interest income on DB Scheme assets	46.9	56.7
Re-measurement gain/(loss) on DB Scheme assets	64.7	200.9
Actual return on DB Scheme assets	<u>111.6</u>	<u>257.6</u>

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

22. EMPLOYEE BENEFIT OBLIGATIONS – continued

Sensitivity to key assumptions

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

	Changes in DBO £m	Revised DBO £m
Current Figures	1,629.1	
Following a 10 bps decrease in the discount rate	31.9	1,661.0
Following a 10 bps increase in the discount rate	(31.5)	1,597.6
Following a 10 bps increase in the inflation assumption	27.0	1,656.1
Following a 10 bps decrease in the inflation assumption	(26.7)	1,602.4
Following a 1 year increase in life expectancy	68.5	1,697.6
Following a 1 year decrease in life expectancy	(67.1)	1,562.0

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

23. RELATED PARTY DISCLOSURES

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

	Sales to related parties £'000	Purchases from related parties £'000	Amounts owed to related parties £'000	Finance costs/ (Income) to related parties £'000	Borrowings to/(from related parties) £'000
Related Party					
2017					
Integrated Utility Services Limited	112	2,128	-	-	-
Integrated Utility Services Limited (registered in Eire)	-	304	804	-	-
Northern Electric plc	2	4,197	-	-	-
Northern Powergrid Metering Limited	574	-	-	-	-
Northern Powergrid (Northeast) Limited	12,620	19,061	-	-	-
Vehicle Lease and Service Limited	62	4,147	520	-	-
Yorkshire Electricity Group plc	-	-	-	(563)	186,727
	<u>13,370</u>	<u>29,837</u>	<u>1,324</u>	<u>(563)</u>	<u>186,727</u>

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued **FOR THE YEAR ENDED 31 DECEMBER 2017**

23. RELATED PARTY DISCLOSURES - continued

	Sales to related parties £'000	Purchases from related parties £'000	Amounts owed to related parties £'000	Finance costs/ (Income) to related parties £'000	Borrowings to/(from related parties) £'000
2016					
Integrated Utility Services Limited	112	1,210	-	-	-
Integrated Utility Services Limited (registered in Eire)	-	236	14	-	-
Northern Electric plc	-	4,915	-	-	-
Northern Powergrid Metering Limited	355	-	-	-	-
Northern Powergrid (Northeast) Limited	10,841	17,348	-	55	-
Vehicle Lease and Service Limited	62	4,017	415	-	-
Yorkshire Electricity Group plc	-	-	-	(589)	199,298
	<u>- 9,773</u>	<u>27,993</u>	<u>440</u>	<u>(534)</u>	<u>199,298</u>

Sales and purchases from related parties were made at commercial prices. Interest on loans from Northern Powergrid Group companies is charged at a commercial rate. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

There are no transactions with key management personnel apart from remuneration that is disclosed in note 4.

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

	2017 £'000	2016 £'000
Profit before income tax	139,745	153,445
Depreciation charges	101,252	95,569
Profit on disposal of fixed assets	(388)	(483)
Amortisation of deferred revenue	(26,623)	(24,864)
Increase/(decrease) in provisions	(199)	204
Finance costs	48,853	47,522
Finance income	(621)	(1,116)
	<u>262,019</u>	<u>270,277</u>
(Increase)/decrease in inventories	(511)	200
Increase in trade and other receivables	(4,400)	(2,777)
Decrease in trade and other payables	(3,983)	(890)
Cash generated from operations	<u>253,125</u>	<u>266,810</u>

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

25. ULTIMATE CONTROLLING PARTY

The immediate parent undertaking of Northern Powergrid (Yorkshire) plc is Yorkshire Electricity Group plc (Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF). The ultimate controlling party and ultimate parent undertaking Yorkshire Electricity Group plc is Berkshire Hathaway, Inc., a company incorporated in the United States of America.

Copies of the group financial statements of Berkshire Hathaway, Inc. (3555 Farnam Street, Omaha, Nebraska 68131) (the parent undertaking of the largest group preparing group financial statements) which include Northern Powergrid (Yorkshire) plc and the group financial statements of Northern Powergrid Holdings Company, the smallest parent undertaking to prepare group financial statements in the UK, can both be obtained from the Company Secretary, Northern Powergrid Holdings Company.