Registered number: 04112320 (England and Wales)

Northern Powergrid (Yorkshire) plc

Annual Report and Financial Statements

for the Year Ended 31 December 2018

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Company Information

Directors	T E Fielden T H France N M Gill P A Jones A J Maclennan A R Marshall P C Taylor
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Registered number	04112320 (England and Wales)
Auditor	Deloitte LLP Statutory auditor Statutory Auditor Newcastle upon Tyne United Kingdom

Northern Powergrid (Yorkshire) plc
Strategic Report for the Year Ended 31 December 2018

The directors present the annual reports and financial statements for the year ended 31 December 2018 of Northern Powergrid (Yorkshire) plc (the "Company"), which have been drawn up and presented in accordance with the Companies Act 2006.

BUSINESS MODEL

The principal activity of the Company is as an authorised distributor under the Electricity Act 1989 and holds an electricity distribution licence granted by the Secretary of State. As a distribution network operator ("DNO"), the Company 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 21,101 gigawatt-hours of electricity were distributed to those customers during the year.

The Company's distribution network includes over 54,000 kilometres of overhead and underground cables and over 35,000 substations. Electricity is received from National Grid's transmission system and from generators connected directly to the network, and then distributed at voltages of up to 132 kilovolts ("kV").

The majority of revenue generated by the Company is controlled by a distribution price control formula which is set out in the electricity distribution licence. The price control formula does not directly constrain profits from year to year, but is a control on revenue that operates independently of a significant portion of the Company's costs. Allowed revenue is recovered from electricity suppliers via the application of Distribution use of System charges. These charges account for approximately 15% of the electricity end users overall electricity bill.

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.	Operating profit Maintenance of investment grade credit ratings Cash flow measures
Customer service	Delivering exceptional customer service.	Broad measure of customer satisfaction (BMCS) Stakeholder Engagement rank (SECV)
Operational excellence	High-quality, efficient operators running a smart reliable energy system.	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.	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.	Total Oil/Fluid Lost SF6 Gas discharges Environmental Incidents Carbon Footprint
Regulatory integrity	Trustworthy, fair and balanced, creating win-win outcomes.	Quarterly certification process

The Core Principles (which are applied by the Northern Powergrid Group's parent company, Berkshire Hathaway Energy Company ("Berkshire Hathaway Energy")), set out the basis on which the Company generates shareholder value over the longer-term and also define the Northern Powergrid Group's values and vision. Each core principle is defined by a number of strategic objectives which correspond to the Company's 2015 to 2023 regulatory well justified business plan and are measured through financial and non-financial KPIs. The report focuses on each core principle and the performance of each KPI throughout the financial year in order to provide a summary of the success in achieving each strategic objective.

FINANCIAL STRENGTH

Strategic objective: Strong finances that enable improvement and growth.

KPI	**2018**	**2017**
Operating profit	£ 188.6 million	£ 187.6 million
Cash from operating activities	£ 246.0 million	£ 225.9 million
Cash used in investing activities	£ 180.5 million	£ 158.3 million
Credit Rating (Standard & Poor's)	A	A

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 (1 April 2015 to 31 March 2023). 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 £426.7 million was £13.2 million higher than the prior year due to higher distribution use of system revenues, higher amortisation of deferred revenue and implementation of assessment and design fees..

Operating profit and position at the year-end: The Company's operating profit of £188.6 million was £1.0 million more than the previous year, primarily reflecting higher revenues offset by higher depreciation, higher business rates and higher pension deficit payments. The statement of financial position on page 24 shows that, as at 31 December 2018 the Company had total equity of £1,405.1 million (2017: £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, 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 £48.8 million were broadly in line with the prior year.

Taxation: The effective tax rate in the year was 18.7%. Corporation tax for the year was £26.2 million, this was in line with the prior year. Details of the income tax expense are provided in Note 11 to the financial statements.

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

- Cash flow from operating activities at £246.0 million was £20.1 million higher than the previous year due to favourable movements in working capital and lower tax paid.
- The net cash used in investing activities at £180.5 million was £22.2 million higher than the previous year, reflecting higher purchases of plant, property and equipment and lower customer contributions.
- The net cash outflow from financing activities at £66.7 million was £13.4 million lower than the previous year mainly due to movements in short-term loans.

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 24 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 programmes are viewed as extremely important, given the contribution they make to the elimination or reduction of exposure to such risks.

CUSTOMER SERVICE

Strategic objective: Delivering exceptional customer service.

KPI	2018	2017
BMCS	85.8%	85.4%
BMCS Rank (out of 14)	13	12
BMCS Power Cuts	87.1%	87.6%
BMCS General Enquiries	88.4%	87.8%
BMCS Connections	84.1%	83%
SECV rank (out of 6) (combined with Northern Powergrid (Northeast) Limited)	2	3

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 overall satisfaction scores that were comparable to the prior year (2018: 85.8% versus 2017: 85.4%). The BMCS rank achieved of 13 declined marginally in comparison to the prior year (2017: 12). The change was predominantly attributed to a reduction in the BMCS Power Cuts scores which accounted for approximately one quarter of the overall score.

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

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

Connections to the network

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: Reducing end-to-end connections lead times continues to pose a challenge. The Company has invested more time at the start of the quotations process (including offering customers the option of a site visit) to avoid delays later on, and remains confident it will achieve the 30% reduction by the end of the ED1 period. Within connections services (the performance of which is measured by the BMCS connections KPI), work to improve the level of customer service within the small works connections business continued. In support of this, the processes implemented during 2017, which introduced a single point of customer contact for the delivery of small works connections and the online service alteration quotation facility, were further embedded during 2018.

The Company continued to comply with the processes introduced by the Competition in Connections Code of Practice. This included the provision of dual quotations, enabling ICPs to self-determine and approve points of connection to the network and simplifying the authorisation process for ICPs' operational staff.

In relation to the Company's ICE commitments for the 2017/18 regulatory period, the 26 actions included in the service improvement plan were successfully delivered.

Corporate responsibility

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

Performance during the year: The Company continued to work closely with key partners such as local authorities, local enterprise partnerships, Members of Parliament and local resilience forums, particularly during periods of severe weather. Collaboration with stakeholders in the wider energy industry included consultations on the emerging plans for the transition to Distribution System Operator ("DSO").

In April 2018, the Company (with Northern Powergrid (Northeast) Limited) put forward its Stakeholder Engagement and Customer Vulnerability ("SECV") submission to Ofgem in respect of work undertaken during the previous year. The submission provided an overview of activities and case studies, which included a series of roundtable events with key stakeholders to gather feedback on priorities in areas such as safety, environment, customer service, reliability and availability to inform the annual strategic planning process.

Following the submission to Ofgem's panel, the position of Northern Powergrid in the context of the wider DNO group increased from third place to second. The improvement demonstrated the effectiveness of comprehensive, open dialogue with stakeholders on key issues which formed part of the refreshed engagement strategy updated in 2018.

Throughout the year a number of tailored education and safety programmes were also delivered including, 'Look up - It's live', a campaign to promote safety messages to the rural community; 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 whilst developing their mathematical skills; and attendance at The Big Bang Fair, which encourages young people to pursue science, technology, engineering and maths subjects.

The stakeholder summit was successfully launched during the year to broaden the range of stakeholders engaging with the Company and to provide an annual update of the Company's progress in delivering the well justified business plan.

OPERATIONAL EXCELLENCE

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

	2018		**2017**	
KPI	**Actual**	**Target**	**Actual**	**Target**
Customer minutes lost	36.4	<60.2	38	<61.6
Customer interruptions	48.1	<66.4	48.5	<67.5

	2018	**2017**
Network investment	£211.7 million	£213.9 million
High voltage restoration time	54.0 minutes	51.0 minutes

Strategic focus: To enhance 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 KPIs 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. Performance during the year was better than Ofgem's target for both CML and CI.

The Company invested £211.7 million during the year through its approved network investment strategy (2017: £213.9 million), which has been designed to deliver improvements and increase the network's resilience. Various major projects were undertaken to reinforce the primary network, refurbish transformers, rebuild overhead lines, remove and replace oil-filled cables, change deteriorated poles, replace switchgear and install and commission new remote control points.

Enhancements to the network also continued through investment in the use of technology. This included the deployment of over 800 smart fuses to restore supplies in under three minutes to customers affected by intermittent faults, and the roll out of 100 next generation innovative low-voltage technology devices to perform multiple restorations of customers' supplies, again in under three minutes. In addition, the Company continued to further expand the automated power restoration system, designed to restore power to the network in a safe manner in under three minutes. In relation to high-voltage restoration, the Company's high-voltage restoration performance during the calendar year 2018 averaged 54 minutes (2017: 51.0 minutes), after allowing for severe weather incidents and other exemptions.

EMPLOYEE COMMITMENT

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

	2018		2017	
KPI	**Actual**	**Target**	**Actual**	**Target**
Northern Powergrid Group occupational safety and health administration rate	0.26	0.26	0.44	0.26
Preventable vehicle accidents	13	9	17	9
Lost time accidents	2	2	5	2
Restricted duty accidents	-	1	1	1
Medical treatment accidents	1	1	-	1
Operational incidents	4	5	6	6
	2018		**2017**	
Northern Powergrid Group absence rate	3.3%		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 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 ("US") to capture safety incidents down to minor levels of medical treatment. The Northern Powergrid Group achieved its OSHA rate of 0.26 (2017: 0.44) recording a total of six recordable incidents against a target of six or fewer. The Company failed to meet the Preventable Vehicle Accidents target but improved on the prior year's performance. The failure was primarily the result of a series of relatively minor driving incidents. The Company continues to take action to seek to improve driving standards.

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, supervisory oversight, and workplace risk management. These three areas are supported by driver training, operational safety seminars, stand-down briefings and regular safety reports and newsflashes.

The health and wellbeing of staff, is a key priority of the Northern Powergrid Group and forms an integral part of the SHIP. Existing support includes the availability of an independent employee assistance service, which is a confidential, self-referral counselling and information service to assist with personal or work-related problems and access to services including counselling and physiotherapy referrals. A number of new initiatives focused specifically on mental health and wellbeing were launched during the year. These included the recruitment of mental health first aid volunteers, providing mental health awareness training and a series of mental health campaigns in conjunction with the United Kingdom mental health awareness week.

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

Employees

Strategic focus: To emphasise the importance of leadership and high standards of performance by engaging, collaborating and working with employees and their trade union representatives.

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

During the year, 82 new recruits (2017: 68) joined the Company and Northern Powergrid (Northeast) Limited's workforce renewal programme.

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

At 31 December 2018, the Company had 1,148 employees (2017: 1,191).

ENVIRONMENTAL RESPECT

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

	2018		**2017**	
KPI	**Actual**	**Target**	**Actual**	**Target**
Total oil/fluid lost (litres)	20,988	<18,500	18,101	<18,900
SF6 gas discharges (kg)	41.78	<70.00	68.78	<78.00
Environmental incidents	8	<5	8	<5
	2018		**2017**	
Carbon footprint (tonnes)	19,421		21,556	

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

Performance during the year: The Company operates a United Kingdom Accreditation Service scheme for environmental management and is certified to the environmental management systems standard ISO 14001:2015. The ISO 14001 standard is designed to enhance environmental performance, fulfil compliance obligations and achieve environmental objectives, all of which contribute to the achievement of the Company's KPIs. A full recertification assessment was carried out in March 2017 and surveillance audits are carried out twice per year, the last one being conducted in November 2018. Continued certification was confirmed following each audit.

The Company's carbon footprint reporting framework is certified under the Certified Emissions Measurement and Reduction Scheme for compliance with ISO 14064-1:2006. The last full audit was undertaken in November 2018, where continued certification was confirmed. Initiatives including the implementation of telematics in fleet vehicles facilitated a further improvement in reducing the Company's carbon footprint during the year to 19,421 tonnes (2017: 21,556 tonnes).

In support of the target to further reduce oil and fluid loss, the 2018 annual environmental improvement plan included replacing fluid-filled cables and locating cable fluid leaks more quickly which resulted in a total fluid loss of 20,988 litres (2017: 18,101). The total oil and fluid loss target was missed due to a number of leaks from underground cables. The Company continues to take steps and implement innovative solutions to minimise oil and fluid loss across the network. 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.

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

REGULATORY INTEGRITY

Strategic objective: Trustworthy, fair and balanced, creating win-win outcomes.

KPI: 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 a fixed period. The ED1 price control became effective on 1 April 2015 and is due to end on 31 March 2023. The Company's opening base allowed revenue (excluding the effects of incentive schemes and any deferred revenues from the prior price control) has been set to remain constant for each year from 2016/17 through to 31 March 2023. Nominal opening base allowed revenues will increase in line with inflation (as measured by the United Kingdom's Retail Prices Index).

In order to assure compliance with licence and other regulatory obligations, the Company operates a regulatory compliance affirmation process, under which ownership of approximately 2,000 regulatory obligations are assigned to around 80 responsible managers. Those responsible managers are required to review compliance with the relevant obligations on a quarterly basis and report on any identified non-compliances or perceived risks which are then addressed by members of the executive team. To minimise the risk of the Company breaching its licence conditions and other statutory requirements (which could lead to financial penalties), the board of directors review the outcome of each quarter's exercise.

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

PRINCIPAL RISKS AND UNCERTAINTIES

The Northern Powergrid Group operates a structured and disciplined approach to the management of risk as part of its overall risk management policy and in support of its financial reporting practices. A robust system is in place to facilitate the identification of new risks, including those associated with the achievement of the 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 ("GRMG"), which reports to the Audit Committee.

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

Principal Risks

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

Mitigation

- Robust cyber security risk mitigation programme is in place.
- Accreditation under the ISO 27001 Information Security (process security) standard for certain discrete business areas.
- Compliance with the Centre for Internet Security Critical Security Controls.
- Monitored by the Information Security Executive Committee and the board.

Regulatory and policy positioning
Decisions taken resulting in negative impacts to our business model.

Mitigation

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

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

Mitigation

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

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

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

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

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

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

Mitigation
- Robust cyber security risk mitigation programme is in place.
- Accreditation under the ISO 27001 Information Security (process security) standard for certain discrete business areas.
- Compliance with the Centre for Internet Security Critical Security Controls.
- Monitored by the Information Security Executive Committee and the board.

Efficiency and output performance
Failure to maintain cost and output performance competiveness in the industry.

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

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

Mitigation
- Monitored by the Treasury Committee quarterly.
- 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 2018, 100% of the Company's long-term borrowings were at fixed rates and the average maturity for these borrowings was 11 years.
- Financial covenant monitoring is in place.

Resource availability

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

Mitigation

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

Brexit

The Brexit negotiations are not considered a principal risk to the Company.

Internal control

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

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

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

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

Approved by the Board on 15 April 2019 and signed on its behalf by:

P A Jones
Director

Northern Powergrid (Yorkshire) plc
Directors' Report for the Year Ended 31 December 2018

The directors present their report together with the auditor's report and the financial statements for the year ended 31 December 2018.

Dividends

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

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

Directors of the Company

The directors, who held office during the year, were as follows:

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

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

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

Future developments

The financial position of the Company, as at 31 December 2018, is shown in the statement of financial position on page 24. 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.

Future development

The financial position of the Company, as at 31 December 2018, is shown in the consolidated statement of financial position on pages 24. There have been no significant events since the year end and 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.

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. The new projects initiated during the year have been detailed in the 'sustainability' section on page 7.

During the year, the Company invested £3.0 million (2017: £1.5 million) (Note 6 to the financial statements) in its research and development activities.

Financial instruments
Details of financial risks are included in the Principal Risks and Uncertainties on page 10 of the Strategic Report and note to the financial statements on page 28.

As at 31 December 2018 and during the Year it was the Company's policy not to hold any derivative financial instruments.

Employment of disabled persons
The Company is committed to equality at work and, as such, its policy is to provide all protected groups, including disabled people, with equality at work in respect of employment, training, career development and promotion, having regard to their aptitudes and abilities. Should any member of staff become disabled during their employment, the Company will make reasonable adjustments, wherever possible.

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

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

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

During the 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.

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:

- T E Fielden - Finance Director
- M Knowles - Independent member (appointed on 17 July 2018)
- J Reynolds - Non-executive Director (Chairman)

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

Going Concern

A review of the Company's business activities during the year, together with details regarding its future development, performance and position, its objectives, policies and processes for managing its capital, its financial risk management objectives and details of its exposures to trading risk, credit risk and liquidity risk are set out in the Strategic Report, the Report of the Directors and the appropriate notes to the 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;
- The Company is financed by long-term borrowings with an average maturity of 11 years and has access to borrowing facilities provided by Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc;
- The Northern Powergrid Group plans to issue long-term borrowings within the next 12 months and early indications from our relationship banks suggest there is an active market with appetite to invest; and
- The Company has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Company has sufficient resources to settle its liabilities as they fall due. The directors have had discussions with the bank who have indicated that they would continue to provide the short term facilities to the group for the foreseeable future on acceptable terms.

Directors' responsibility statement pursuant to DTR 4

Each of the directors as at the date of the annual reports and financial statements, whose names and functions are set out on page 12 in the Report of the Directors confirms that, to the best of their knowledge:

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

Statement as to disclosure of information to auditor

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

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

Reappointment of auditor

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

Approved by the Board on 15 April 2019 and signed on its behalf by:

P A Jones
Director

Northern Powergrid (Yorkshire) plc
Independent Auditor's Report to the Members of Northern Powergrid (Yorkshire) plc

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

- the statement of profit or loss;
- the statement of other comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows;
- the related accounting policies; and
- the related notes 1 to 30.

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

Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed 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 accounting for capital spend - overhead allocation model.
- 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.
- Scoping - Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
- Significant changes in our approach - There have been no significant changes to our audit scope from the prior year.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

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 to property, plant and equipment in the year in Northern Powergrid (Yorkshire) plc were £214m (2017: £217m) with the majority of the additions to the company's electricity distribution system, as disclosed in note 12 to the financial statements. These additions include capitalised overheads. A portion of overheads are capitalised to the extent that 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 percentage of overheads capitalised, which also creates a potential fraud risk. In particular, the key risk is that management's judgement in the percentage amounts capitalised are not reflective of the capital spend, as disclosed in notes 2 and 3, including the note relating to critical judgements in applying accounting policies.

How the scope of the audit responded to the key audit matter

- We have evaluated the design and implementation of controls surrounding accounting for capital spend.
- We have analysed the capital spend and the overhead allocation percentages in the year and compared these to prior year to identify any unusual fluctuations. We have also analysed current policies in place and assessed their suitability in line with IAS 16, along with reviewing 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 for capitalisation, using these benchmarks to challenge management as to the appropriateness of their judgement.
- We have performed 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.

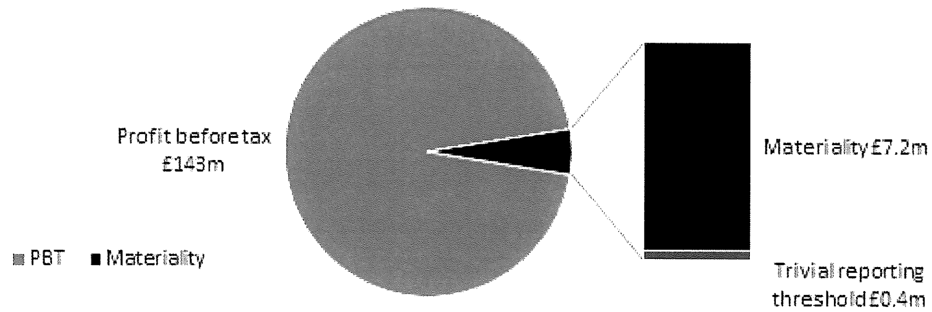
Our application of materiality

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 (2017: £7.2m).
- Basis for determining materiality: 5% (2017: 5%) of profit before tax during the current year.
- Rationale for the benchmark applied: As a trading entity, profit is a key driver of the value of the company.

Northern Powergrid (Yorkshire) plc
Independent Auditor's Report to the Members of Northern Powergrid (Yorkshire) plc (continued)



We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £0.4m (2017: £0.1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The change in reporting threshold has been made following our reassessment of what matters require communicating. 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

Our audit was scoped by obtaining an understanding of the Company and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. There have been no material changes in the scope from prior year.

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 (set out on page 14), 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the Board, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax and IT specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we considered the risk of potential bias due to the level of subjectivity in determining the percentage of overheads capitalised to property, plant and equipment; and
- obtaining an understanding of the legal and regulatory framework that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation. In addition, compliance with Ofgem regulations were fundamental to the company's ability to continue as a going concern.

Northern Powergrid (Yorkshire) plc
Independent Auditor's Report to the Members of Northern Powergrid (Yorkshire) plc (continued)

Audit response to risks identified
As a result of performing the above, we identified accounting for capital spend - overhead allocation model as a key audit matter. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to that key audit matters.

Our additional procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Board and legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and Ofgem; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

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

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

- 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.

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 and we have nothing to report in respect of this matter.

Other matters

Audit tenure
Following the recommendation of the Board of Directors, 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 21 years, covering the years ending 31 December 1998 to 31 December 2018.

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

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.

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

26 April 2019

Northern Powergrid (Yorkshire) plc
Statement of Profit or Loss for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Revenue	4	426,669	413,477
Cost of sales		(18,540)	(16,709)
Gross profit		408,129	396,768
Distribution costs		(151,274)	(147,225)
Administrative expenses		(68,301)	(61,954)
Operating profit	6	188,554	187,589
Other gains	5	62	388
Finance costs	7	(50,034)	(48,853)
Finance income	7	1,230	621
Profit before tax		139,812	139,745
Income tax expense	11	(26,189)	(26,137)
Profit for the year		113,623	113,608

The notes on pages 27 to 64 form an integral part of these financial statements.

Northern Powergrid (Yorkshire) plc
Statement of Comprehensive Income for the Year Ended 31 December 2018

	2018 £ 000	2017 £ 000
Profit for the year	113,623	113,608
Total comprehensive income for the year	113,623	113,608

The notes on pages 27 to 64 form an integral part of these financial statements.

Northern Powergrid (Yorkshire) plc
(Registration number: 04112320)
Statement of Financial Position as at 31 December 2018

	Note	31 December 2018 £ 000	31 December 2017 £ 000
Assets			
Non-current assets			
Property, plant and equipment	12	3,278,080	3,170,616
Intangible assets	13	16	-
		3,278,096	3,170,616
Current assets			
Inventories	14	943	776
Trade and other receivables	15	67,974	72,864
Cash and cash equivalents	16	185,516	186,727
		254,433	260,367
Total assets		3,532,529	3,430,983
Equity and liabilities			
Equity			
Share capital	17	(290,000)	(290,000)
Retained earnings		(1,115,127)	(1,032,704)
Total equity		(1,405,127)	(1,322,704)
Non-current liabilities			
Loans and borrowings	19	(1,024,109)	(1,023,449)
Provisions	21	(675)	(1,129)
Deferred revenue	23	(789,678)	(780,039)
Deferred tax liabilities	11	(127,174)	(127,963)
		(1,941,636)	(1,932,580)
Current liabilities			
Trade and other payables	22	(90,121)	(96,252)
Loans and borrowings	19	(48,339)	(33,346)
Income tax liability		(17,120)	(17,285)
Deferred revenue	23	(29,177)	(27,941)
Provisions	21	(1,009)	(875)
		(185,766)	(175,699)
Total liabilities		(2,127,402)	(2,108,[illegible]
Total equity and liabilities		(3,532,529)	(3,430[illegible]

Approved by the Board of Directors on 15 April 2019 and signed on its behalf by:

P A Jones
Director

The notes on pages 27 to 64 form an integral part of these financial statements.

Northern Powergrid (Yorkshire) plc
Statement of Changes in Equity for the Year Ended 31 December 2018

	Note	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018		290,000	1,032,704	1,322,704
Profit for the year		-	113,623	113,623
Total comprehensive income		-	113,623	113,623
Dividends	25	-	(31,200)	(31,200)
At 31 December 2018		290,000	1,115,127	1,405,127

	Note	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017		290,000	948,896	1,238,896
Profit for the year		-	113,608	113,608
Total comprehensive income		-	113,608	113,608
Dividends	25	-	(29,800)	(29,800)
At 31 December 2017		290,000	1,032,704	1,322,704

Northern Powergrid (Yorkshire) plc
Statement of Cash Flows for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Cash flows from operating activities			
Profit for the year		113,623	113,608
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	6	106,563	101,252
Amortisation of Deferred Revenue		(28,244)	(26,623)
Profit on disposal of property plant and equipment	5	(62)	(388)
Finance income	7	(1,230)	(621)
Finance costs	7	50,034	48,853
Income tax expense	11	26,189	26,137
		266,873	262,218
Increase in inventories	14	(167)	(511)
Decrease/(increase) in trade and other receivables	15	4,616	(4,524)
Increase/(decrease) in trade and other payables	22	2,141	(2,472)
Decrease in provisions	21	(320)	(199)
Cash generated from operations		273,143	254,512
Income taxes paid	11	(27,143)	(28,649)
Net cash flow from operating activities		246,000	225,863
Cash flows used in investing activities			
Acquisitions of property plant and equipment		(217,867)	(214,733)
Proceeds from sale of property plant and equipment		62	388
Acquisition of intangible assets	13	(23)	-
Receipt of Customer Contributions		36,051	55,416
Interest received	7	1,158	567
Dividend income	7	72	54
Net cash flows used in investing activities		(180,547)	(158,308)
Cash flows used in financing activities			
Interest paid	7	(50,464)	(50,326)
Proceeds from short term borrowings		15,000	-
Dividends paid	25	(31,200)	(29,800)
Net cash flows used in financing activities		(66,664)	(80,126)
Net decrease in cash and cash equivalents		(1,211)	(12,571)
Cash and cash equivalents at 1 January		186,727	199,298
Cash and cash equivalents at 31 December		185,516	186,727

Northern Powergrid (Yorkshire) plc
Notes to the Financial Statements for the Year Ended 31 December 2018

1 General information

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

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

2 Accounting policies

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

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

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

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

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

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

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

- The Company is a stable electricity distribution business operating an essential public service and is regulated by GEMA. In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Company is profitable with strong underlying cash flows and holds investment grade credit ratings;
- The Company is financed by long-term borrowings with an average maturity of 11 years and has access to borrowing facilities provided by Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc;
- The Northern Powergrid Group plans to issue long-term borrowings within the next 12 months and early indications from our relationship banks suggest there is an active market with appetite to invest; and
- The Company has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Company has sufficient resources to settle its liabilities as they fall due. The directors have had discussions with the bank who have indicated that they would continue to provide the short term facilities to the group for the foreseeable future on acceptable terms.

2 Accounting policies (continued)

Changes in accounting policy

New standards, interpretations and amendments effective

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

IFRS 9 - Financial Instruments

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

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

(a) Classifications and measurement of financial assets

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

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

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

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

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

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

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

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

2 Accounting policies (continued)

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

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

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

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

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

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

- Trade and other receivables: The Company applies the simplified approach and recognises lifetime ECL for these assets.
- Cash and bank balances: All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable international banking institutions.
- Intercompany loan: the intercompany loan repayable on demand, expected credit losses are based on the assumption that repayment of the loan is demanded at the reporting date and the counterparty has sufficient accessible highly liquid assets in order to repay the loan if demanded at the reporting date, the expected credit loss is likely to be immaterial.

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

The application of the IFRS 9 impairment requirements has not resulted in additional loss allowance to be recognised in the current year (2017: £nil).

2 Accounting policies (continued)

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

This change in accounting policy has not affected the Company.

Profit and other comprehensive income reported for 2018 and 2017 have not been affected as the Company did not have any financial liabilities designated as at FVTPL in the prior year.

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

(e) Disclosures in relation to the initial application of IFRS 9
The below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

- Trade receivables (note 15) - basic loans and receivables where the objective of the entity's business model for realising these assets is collecting contractual cash flows are recognised at amortised cost under both IFRS 9 and as loans and receivables under IAS 39, there was no change in carrying value;
- Cash and bank balances - these were classified as financial assets at amortised cost under IFRS 9 and loans and receivables under IAS 39, there has been no change in carrying value.
- Investments in equity instruments (note) - Investments in equity instruments are designated as at FVTPL under IFRS 9 and IAS 39, there has been no change in carrying value.
- Intercompany treasury account - the objective of the entity's business model for realising these assets is collecting contractual cash flows, as such they are recognised at amortised cost under IFRS 9 and as loans and receivables under IAS 39, there has been no change in carrying value; and
- Trade and other payables (note 22) - were recognised as financial liabilities at amortised cost under both IFRS 9 and IAS 39, there has been no change in carrying value.
- Borrowings (note 19) - were recognised as financial liabilities at amortised cost under both IFRS 9 and IAS 39, there has been no change in carrying value.

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

(f) Financial impact of initial application of IFRS 9
There has been no adjustment to financial statement line items because of the application of IFRS 9 for the current and prior years.

Amendments to IFRS 7

The consequential amendments to IFRS 7 have had no impact to the comparatives and therefore no restatement is required, they have resulted in more extensive disclosures in relation to the Group's exposure to credit risk in the financial risk review note 28.

2 Accounting policies (continued)

IFRS 15 - Revenue from contracts with customers

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

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

New standards, interpretations and amendments not yet effective

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

IFRS 16 - Leases (1 January 2019)

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 distinguishes between leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions between operating leases and finance leases are removed for lessee accounting, and are replaced by a model where right-of-use asset and a corresponding liability have to be recognised for all leases by lessees except for short term leases and leases of low-value assets. As of 31 December 2018, the Company has non-cancellable operating lease commitments of £24.5 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.

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

Effective for periods beginning or after 1 January 2019

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

Effective for periods beginning or after 1 January 2020

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

2 Accounting policies (continued)

Revenue recognition

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

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

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

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

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

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

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

Finance income and costs policy

Finance 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.

Finance 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.

2 Accounting policies (continued)

Tax

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

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

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

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

Property, plant and equipment

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

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

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

Depreciation

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

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

2 Accounting policies (continued)

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

Amortisation

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

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

Derecognition

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

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

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

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

Financial instruments

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

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

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

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

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

2 Accounting policies (continued)

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

Financial assets are classified into one of the following three categories:-
· financial assets at amortised cost;
· financial assets at fair value through other comprehensive income (FVTOCI); or
· financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:-
· financial liabilities at amortised cost; or
· financial liabilities at fair value through the profit or loss (FVTPL).

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

Financial assets at amortised cost
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:-
· the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
· the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Financial assets at fair value through other comprehensive income (FVTOCI)
A financial asset is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVPTL:-
· the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
· the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Financial assets at fair value through the profit or loss (FVTPL)
Financial assets not otherwise classified above are classified and measured as FVTPL.

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

2 Accounting policies (continued)

Financial liabilities at fair value through the profit or loss
Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

Derecognition

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

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

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

Modification of financial assets and financial liabilities

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

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

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

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

2 Accounting policies (continued)

Impairment of financial assets

Measurement of Expected Credit Losses

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

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

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

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

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

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

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

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

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

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

3 Critical accounting judgements and key sources of estimation uncertainty

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:

Split of operating and capital expenditure and the allocation of overheads to property, plant and equipment

The allocation of overheads to capital is derived from a detailed analysis of the costs and their cost drivers which is reviewed on annual basis. The percentage allocation of overheads across the workstream categories are obtained from section managers who are asked to provide reasoning and supporting evidence for the allocation. Finance then undertake a financial impact assessment review and the rationale to ensure it complies with IFRS:
-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 amount of overheads capitalised in the year was £47.9m (2017: £50.9m)

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.

4 Revenue

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

	2018 £ 000	2017 £ 000
Distribution use of system revenue	376,885	364,579
Amortisation of deferred revenue	28,244	26,623
Work for related parties	12,124	13,318
Other revenue	9,416	8,957
	426,669	413,477

Segmental analysis

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) Ltd, 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.

5 Other gains and losses

The analysis of the Company's other gains and losses for the year is as follows:

	2018 £ 000	2017 £ 000
Gain on disposal of property, plant and equipment	62	388

6 Operating profit

Arrived at after charging/(crediting)

	2018 £ 000	2017 £ 000
Depreciation expense	106,556	101,252
Amortisation expense	7	-
Amortisation of deferred revenue	(28,244)	(26,623)
Research and development cost	2,954	1,732
Operating lease expense - other	4,898	4,954
Loss allowance on trade and other receivables	1,207	659

Amortisation expense is included in adminstration costs in the statement of profit or loss on page 22.

7 Finance income and costs

	2018 £ 000	2017 £ 000
Finance income		
Interest income on financial assets measured at amortised cost	3	4
Dividend income from equity investments designated at FVTPL	72	54
Other finance income	1,155	563
Total finance income	1,230	621
Finance costs		
Interest on bank overdrafts and borrowings	(51,268)	(51,129)
Borrowing costs included in cost of qualifying asset	1,234	2,276
Total finance costs	(50,034)	(48,853)
Net finance costs	(48,804)	(48,232)

Borrowing costs included in the costs of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.79% (2017: 4.87%) to expenditure on such assets.

8 Staff costs

	2018 £ 000	2017 £ 000
Salaries	57,384	57,407
Social security costs	6,551	6,513
Defined benefit pension costs	16,450	15,679
Defined contribution pension costs	3,188	2,702
	83,573	82,301
Less charged to plant, property and equipment	(47,846)	(49,179)
	35,727	33,122

A large proportion of the Company's employees are members of the DB Scheme, most of the remaining employees are members of the Northern Powergrid Pension Scheme, details of both are given in the employee benefits note 24.

The average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2018 No.	2017 No.
Technical	387	382
Industrial	561	581
Administration and support	92	90
Other departments	114	115
	1,154	1,168

9 Directors and other key personnel remuneration

The directors' remuneration for the year was as follows:

	2018 £ 000	2017 £ 000
Remuneration	1,452	1,519

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

	2018 No.	2017 No.
Accruing benefits under defined benefit pension scheme	1	1
Accruing benefits under money purchase pension scheme	2	2

In respect of the highest paid director:

	2018 £ 000	2017 £ 000
Short-term employee benefits	364	368
Long-term benefits	475	435
	839	803

9 Directors and other key personnel remuneration (continued)

In respect of other key personnel:

	2018 £ 000	2017 £ 000
Short-term employee benefits	406	439
Post retirement benefits - defined contribution	31	45
Post retirement benefits - defined contribution	40	52
Long-term benefits	206	233
	683	769

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

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

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

10 Auditor's remuneration

	2018 £ 000	2017 £ 000
Audit of the financial statements	121	121
Other audit services	45	45
Non-audit services	31	-
Total fees payable to the Company's auditor	197	166

11 Income tax

Tax charged/(credited) in the income statement

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax	26,908	26,340
UK corporation tax adjustment to prior periods	70	(493)
	26,978	25,847
Deferred taxation		
Arising from origination and reversal of temporary differences	(264)	828
Deferred tax adjustment to prior periods	(328)	(63)
Effect of changes in legislation	(197)	(475)
Total deferred taxation	(789)	290
Tax expense in the income statement	26,189	26,137

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2017 - lower than the standard rate of corporation tax in the UK) of 19% (2017 - 19.25%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
Profit before tax	139,812	139,745
Corporation tax at standard rate	26,564	26,901
Increase/(decrease) in current tax from adjustment for prior periods	70	(493)
Deferred tax credit due to over provision for prior years	(328)	(63)
Effect of income and expenses not deductible for determining taxable profit	54	(100)
Deferred tax credit relating to lower tax rates	72	297
Decrease in deferred tax due to changes in legislation	(197)	(475)
Other	(46)	70
Total tax charge	26,189	26,137

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.

11 Income tax (continued)

Deferred tax
Deferred tax assets and liabilities

Deferred tax movement during the year:

	At 1 January 2018 £ 000	Recognised in income £ 000	At 31 December 2018 £ 000
Accelerated tax depreciation	128,177	(705)	127,472
Other	(214)	(84)	(298)
Net tax liabilities	127,963	(789)	127,174

Deferred tax movement during the prior year:

	At 1 January 2017 £ 000	Recognised in income £ 000	At 31 December 2017 £ 000
Accelerated tax depreciation	127,770	407	128,177
Other	(97)	(117)	(214)
Net tax liabilities	127,673	290	127,963

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

12 Property, plant and equipment

	Land and buildings £ 000	Distribution system £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation				
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	4,505	4,086,849	37,220	4,128,574
At 1 January 2018	4,505	4,086,849	37,220	4,128,574
Additions	-	211,650	2,370	214,020
Disposals	-	(13,330)	(230)	(13,560)
At 31 December 2018	4,505	4,285,169	39,360	4,329,034
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	2,593	928,370	26,995	957,958
At 1 January 2018	2,593	928,370	26,995	957,958
Charge for the year	177	102,736	3,643	106,556
Eliminated on disposal	-	(13,330)	(230)	(13,560)
At 31 December 2018	2,770	1,017,776	30,408	1,050,954
Carrying amount				
At 31 December 2017	1,912	3,158,479	10,225	3,170,616
At 31 December 2018	1,735	3,267,393	8,952	3,278,080

Included within the net book value of land and buildings above is £983,000 (2017 - £1,104,000) in respect of freehold land and buildings and £752,000 (2017 - £808,000) in respect of long leasehold land and buildings.

12 Property, plant and equipment (continued)

Expenditure recognised in the carrying amount of property, plant and equipment in the course of construction:

	31 December 2018 £ 000	31 December 2017 £ 000
Distribution system	163,969	191,670

Contractual commitments for the acquisition of property, plant and equipment:

	31 December 2018 £ 000	31 December 2017 £ 000
Distribution system	32,500	20,000

13 Intangible assets

	Internally generated software development costs £ 000
Cost or valuation	
At 1 January 2017	29,497
At 31 December 2017	29,497
At 1 January 2018	29,497
Additions	23
At 31 December 2018	29,520
Amortisation	
At 1 January 2017	29,497
At 31 December 2017	29,497
At 1 January 2018	29,497
Amortisation charge	7
At 31 December 2018	29,504
Carrying amount	
At 1 January 2017	-
At 31 December 2017	-
At 31 December 2018	16

14 Inventories

	31 December 2018 £ 000	31 December 2017 £ 000
Work in progress	943	776

15 Trade and other receivables

	31 December 2018 £ 000	31 December 2017 £ 000
Distribution use of system receivables	59,546	60,487
Trade receivables	5,862	8,425
Loss allowance	(2,315)	(1,177)
Net trade receivables	63,093	67,735
Accrued income	248	371
Prepayments	4,633	4,758
	67,974	72,864

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

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

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

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

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

Movement in the loss allowance

	31 December 2018 £ 000	31 December 2017 £ 000
At 1 January	1,177	1,465
Amounts utilised/written off in the year	(69)	(947)
Amounts recognised in the statement of profit or loss	1,207	659
At 31 December	2,315	1,177

15 Trade and other receivables (continued)

Distribution use of system receivables

The customers served by the Company's distribution network are supplied predominantly by a small number of electricity supply businesses with RWE NPower plc accounting for approximately 19% of distribution revenues in 2018 (2017: 21%) and British Gas pic accounting for approximately 13% of distribution revenues in 2018 (2017: 16%). Ofgem has determined a framework which sets credit limits for each supply business based on its credit rating or payment history and requires them to provide credit cover if their value at risk (measured as being equivalent to 45 days usage) exceeds the credit limit. Acceptable credit typically is provided in the form of a parent company guarantee, letter of credit or an escrow account.

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

The following table details the age of DUoS receivables:

2018	Not due £ 000	Current £ 000	1-3 months £ 000	3-6 months £ 000
Total balance	34,823	24,179	19	473
Less specific provisions	-	(277)	(14)	(468)
Balance on which ECL made	34,823	23,902	5	5
Expected credit loss	-	-	-	-

2017	Not due £ 000	Current £ 000	1-3 months £ 000	3-6 months £ 000
Total balance	34,366	27,983	1	255
Less specific provisions	-	(1)	(1)	(252)
Balance on which ECL made	34,366	27,982	-	3
Expected credit loss	-	-	-	-

Other trade receivables

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

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £1.2m (2017: £0.5m), 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.

15 Trade and other receivables (continued)

Non-damages

2018	**Not due £ 000**	**Current £ 000**	**1-6 months £ 000**	**6-12 months £ 000**	**Over 1 year £ 000**
Total balance	1,052	978	2,966	771	1,715
Less other balances	(663)	(751)	(2,570)	(685)	(1,350)
Balance on which ECL made	389	227	396	86	365
Lifetime ECL	0%	0%	0%	15%	20%
Expected credit loss	-	-	-	13	73

2017	**Not due £ 000**	**Current £ 000**	**1-6 months £ 000**	**6-12 months £ 000**	**Over 1 year £ 000**
Total balance	1,199	2,295	1,438	789	3,520
Less other balances	(1,155)	(2,115)	(1,245)	(746)	(3,311)
Balance on which ECL made	44	180	193	43	209
Lifetime ECL	0%	0%	0%	15%	20%
Expected credit loss	-	-	-	6	42

Damages

2018	**1-6 months £ 000**	**6-12 months £ 000**	**1-2 years £ 000**	**2-3 years £ 000**	**Over 3 years £ 000**
Total balance	1,189	1,038	936	504	37
Less specific provisions	-	(122)	(162)	(424)	-
Balance on which ECL made	1,189	916	774	80	37
Lifetime ECL	10%	10%	15%	30%	60%
Expected credit loss	119	92	116	24	22

2017	**1-6 months £ 000**	**6-12 months £ 000**	**1-2 years £ 000**	**2-3 years £ 000**	**Over 3 years £ 000**
Total balance	1,556	365	704	90	21
Less specific provisions	(14)	(131)	(461)	(38)	-
Balance on which ECL made	1,542	234	243	52	21
Lifetime ECL	10%	10%	15%	30%	60%
Expected credit loss	154	23	36	16	13

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

15 Trade and other receivables (continued)

Significant increase in credit risk

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

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

16 Cash and cash equivalents

	31 December 2018 £ 000	31 December 2017 £ 000
Other cash and cash equivalents	185,516	186,727

Cash and cash equivalents have a maturity of less than three months, are readily convertible to cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value. Other cash and cash equivalents include intercompany loans that are highly liquid and repayable on demand.

17 Share capital

Allotted, called up and fully paid shares

	31 December 2018		31 December 2017	
	No.	£	No.	£
Ordinary Share Capital of £1 each	200,000,100	200,000,100	200,000,100	200,000,100

18 Reserves

	Retained earnings £ 000
At 1 January 2018	1,032,704
Profit for the year	113,623
Total comprehensive income	113,623
Dividends	(31,200)
At 31 December 2018	1,115,127

	Retained earnings £ 000
At 1 January 2017	948,896
Profit for the year	113,608
Total comprehensive income	113,608
Dividends	(29,800)
At 31 December 2017	1,032,704

19 Loans and borrowings

	31 December 2018 £ 000	31 December 2017 £ 000
Non-current borrowings	1,024,109	1,023,449
Current borrowings	48,339	33,346
	1,072,448	1,056,795

	Book value		Fair value	
	31 December 2018 £ 000	31 December 2017 £ 000	31 December 2018 £ 000	31 December 2017 £ 000
Short-term loan	15,011	10	15,011	10
2020 - 9.25% bonds	217,523	217,377	233,150	250,130
2035 - 5.125% bonds	204,140	204,037	262,853	276,655
2032 - 4.375% bonds	150,783	150,654	179,120	187,384
2022 - European Investment Bank 4.133%	153,728	153,711	168,187	175,056
2025 - 2.5% bonds	151,038	150,781	155,236	159,661
2027 - European Investment Bank 2.564%	130,139	130,139	137,324	140,055
2025 - European Investment Bank 2.073%	50,086	50,086	49,616	50,776
	1,072,448	1,056,795	1,200,497	1,239,727

19 Loans and borrowings (continued)

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

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

20 Obligations under leases and hire purchase contracts

Operating leases

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

The operational land lease are between 10 and 999 years, but in the majority are between 20 and 60 years. As the leases are regarded as a business tenancy, the Company has the option to renew the lease under the 1954 Landlord and Tenant Act unless a landlord is to redevelop or has grounds to recover land as prescribed under the Act, and may acquire the freehold at any time by agreement. The Company also has the ability to compulsory purchase the freehold.

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

	31 December 2018 £ 000	31 December 2017 £ 000
Within one year	3,057	2,664
In two to five years	7,337	5,820
In over five years	700	442
	11,094	8,926

The amount of non-cancellable operating lease payments recognised as an expense during the year was £4,898,000 (2017 - £4,954,000).

21 Other provisions

	Claims £ 000	Other provisions £ 000	Total £ 000
At 1 January 2018	448	1,558	2,006
Additional provisions	1,337	766	2,103
Provisions used	(1,269)	(1,156)	(2,425)
At 31 December 2018	516	1,168	1,684
Non-current liabilities	-	675	675
Current liabilities	516	493	1,009

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.

22 Trade and other payables

	31 December 2018 £ 000	31 December 2017 £ 000
Payments on Account	47,517	50,208
Trade payables	1,200	3,033
Accrued expenses	5,416	5,244
Capital Accruals	22,748	27,829
Amounts due to related parties	-	520
Social security and other taxes	9,698	6,655
Other payables	3,542	2,763
	90,121	96,252

The Company's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in note 28 "Financial risk review".

23 Deferred revenue

	31 December 2018 £ 000	31 December 2017 £ 000
Current	29,177	27,941
Non-current	789,678	780,039
	818,855	807,980

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.

24 Pension and other schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £3.2m (2017 - £2.7m). The pension cost for 2019 is expected to be £3.3m.

Defined benefit pension scheme

The company operates a defined benefit pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £16.5m (2017 - £15.7m). The pension cost for 2019 is expected to be £17.1m.

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

25 Dividends

	31 December 2018 £ 000	31 December 2017 £ 000
Interim dividend of 11.3p (2017 - 10.9p) per ordinary share	31,200	29,800

26 Reconciliation of liabilities arising from financing activities

	At 1 January 2018 £ 000	Financing cash flows £ 000	Other changes £ 000	At 31 December 2018 £ 000
Long-term borrowings	1,056,785	-	652	1,057,437
Short-term borrowings	10	15,000	1	15,011
	1,056,795	15,000	653	1,072,448

	At 1 January 2017 £ 000	Other changes £ 000	At 31 December 2017 £ 000
Long term borrowings	1,056,132	653	1,056,785
Short term borrowings	12	(2)	10
	1,056,144	651	1,056,795

Other changes relate to amortisation of financing fees and discounts.

27 Classification of financial and non-financial assets and financial and non-financial liabilities

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

	Financial assets at amortised cost £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets			
Non-current assets			
Property, plant and equipment	-	-	3,278,080
Intangible assets	-	-	16
	-	-	3,278,096
Current assets			
Inventories	-	-	943
Trade and other receivables	63,493	-	4,481
Cash and cash equivalents	185,516	-	-
	249,009	-	5,424
Total assets	249,009	-	3,283,520
Liabilities			
Non-current liabilities			
Loans and borrowings	-	(1,024,109)	-
Provisions	-	-	(675)
Deferred revenue	-	-	(789,678)
Deferred tax liabilities	-	-	(127,174)
	-	(1,024,109)	(917,527)
Current liabilities			
Trade and other payables	-	(90,121)	-
Loans and borrowings	-	(48,339)	-
Income tax liability	-	(17,120)	-
Deferred revenue	-	-	(29,177)
Provisions	-	-	(1,009)
	-	(155,580)	(30,186)
Total liabilities	-	(1,179,689)	(947,713)

27 Classification of financial and non-financial assets and financial and non-financial liabilities (continued)

The classification of financial assets and financial liabilities by accounting categorisation for the period ending 31 December 2017 was as follows:

	Financial assets at amortised cost £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets			
Non-current assets			
Property, plant and equipment	-	-	3,170,616
Current assets			
Inventories	-	-	776
Trade and other receivables	68,409	-	4,455
Cash and cash equivalents	186,727	-	-
	255,136	-	5,231
Total assets	255,136	-	3,175,847
Liabilities			
Non-current liabilities			
Loans and borrowings	-	(1,023,449)	-
Provisions	-	-	(1,129)
Deferred revenue	-	-	(780,039)
Deferred tax liabilities	-	-	(127,963)
	-	(1,023,449)	(909,131)
Current liabilities			
Trade and other payables	-	(96,252)	-
Loans and borrowings	-	(33,346)	-
Income tax liability	-	(17,285)	-
Deferred revenue	-	-	(27,941)
Provisions	-	-	(875)
	-	(146,883)	(28,816)
Total liabilities	-	(1,170,332)	(937,947)

The fair value of assets classified as fair value through profit or loss are valued using level 3 inputs.

28 Financial risk review

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

The capital structure of the Company consists of net debt (borrowings as detailed in note 19 offset by equity of the Company (comprising issued capital, reserves and retained earnings as detailed in notes 17 and 18).

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 2017.

The covenants associated with the 2035 bonds issued by Northern Electric Finance plc, a wholly-owned subsidiary of 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 2018 totalled £860.5m. Using the RAV value as at March 2019, as outlined by Ofgem in its electricity distribution price control financial model published in November 2018, and adjusting for the effects of movements in the value of the Retail Price Index gives an approximation for the RAV value as at 31 March 2019 of £1,855.8m. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 46.4% (2017: 47.4%).

Credit risk

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

The Company's income is primarily generated from use of system revenue from electricity suppliers; suppliers are credit checked by independent ratings agencies. Impaired income from DUoS will be recovered in future periods through system charges and is therefore of no material risk to the Company. The Company's receivables are subject to expected credit loss calculations disclosed further within the trade receivables (note 15).

2018	Notes	Gross carrying amount £ 000	Loss allowance £ 000	Net carrying amount £ 000
Trade and other receivables	15	70,289	(2,315)	67,974
2017				
Trade and other receivables	15	74,041	(1,177)	72,864

28 Financial risk review (continued)

For trade receivables the Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Note 15 includes further details on the loss allowance for these assets.

The carrying amount of the Company's financial assets at FVTPL as disclosed in note 27 best represents their respective maximum exposure to credit risk. The Company holds no collateral over any of these balances.

Liquidity risk

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

The Company has access to £75 million under a five-year committed revolving credit facility provided by Lloyds Bank plc, The Royal Bank of Scotland plc and Abbey National Treasury Services plc., which expires on 30 April 2020. In addition, the Company has access to further short-term borrowing facilities provided by YEG and to a £19 million overdraft facility provided by Lloyds Bank plc, which is reviewed annually, these borrowings are repayable on demand. At 31 December 2018, the Company had available £79.0m (2017: £94.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Maturity analysis for financial liabilities

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

2018 **Non-derivative liabilities**	**Less than 3 month** **£ 000**	**3 months - 1 year** **£ 000**	**1-5 years** **£ 000**	**More than 5 years** **£ 000**	**Total** **£ 000**
Non-interest bearing	42,604	-	-	-	42,604
Variable interest rate liabilities	15,000	-	-	-	15,000
Fixed interest rate liabilities	18,500	31,173	487,951	884,968	1,422,592
Total	76,104	31,173	487,951	884,968	1,480,196

2017 **Non-derivative liabilities**	**Less than 3 month** **£ 000**	**3 months - 1 year** **£ 000**	**1-5 years** **£ 000**	**More than 5 years** **£ 000**	**Total** **£ 000**
Non-interest bearing	46,044	-	-	-	46,044
Variable interest rate liabilities	10	-	-	-	10
Fixed interest rate liabilities	18,500	31,173	512,692	909,901	1,472,266
Total	64,554	31,173	512,692	909,901	1,518,320

28 Financial risk review (continued)

Market risk

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

29 Related party transactions

Summary of transactions with joint ventures

Vehicle Lease and Service Limited is a joint venture of Northern Electric plc and provides vehicle fleet and servicing for the Northern Powergrid Group. Income constitutes recharges for use of management personnel and purchases are lease and servicing payments for fleet vehicles.

Summary of transactions with other related parties

Other subsidiaries of the Northern Powergrid Group. Included within these amounts are:
- Integrated Utility Services and Integrated Utility Services (Eire) that provide engineering contracting resource;
- Northern Powergrid (Northeast) Ltd that provides and receives mutual support through use of staff and resources which are then recharged;
- Northern Electric plc provides corporate management which are recharged;
- Northern Powergrid Metering that is recharged for the use of staff; and
- Yorkshire Electricity Group plc that operates the group intercompany treasury account.

Income and receivables from related parties

2018	Joint ventures £ 000	Other related parties £ 000
Sale of goods	26	12,131

2017	Joint ventures £ 000	Other related parties £ 000
Sale of goods	62	13,308

Expenditure with and payables to related parties

2018	Joint ventures £ 000	Other related parties £ 000
Purchase of goods	4,704	23,982
Amounts payable to related party	-	261

2017	Joint ventures £ 000	Other related parties £ 000
Purchase of goods	4,147	25,691
Amounts payable to related party	520	804

29 Related party transactions (continued)

Loans to related parties

2018	**Parent £ 000**
At start of period	186,727
Repaid	(1,200)
Interest charged	1,155
Interest received	(1,155)
At end of period	185,527

2017	**Parent £ 000**
At start of period	199,298
Repaid	(12,571)
Interest charged	563
Interest received	(563)
At end of period	186,727

Loans with related parties are repayable on demand.

30 Parent and ultimate parent undertaking

The Company's immediate parent is Yorkshire Electricity Group.

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

Relationship between entity and parents

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

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

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

The address of Northern Powergrid Holdings Company is:
Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.