

**STRATEGIC REPORT, REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015
FOR
NORTHERN POWERGRID (YORKSHIRE) PLC**

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FOR THE YEAR ENDED 31 DECEMBER 2015**

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NORTHERN POWERGRID (YORKSHIRE) PLC

**COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2015**

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N M Gill
P A Jones
A J MacLennan
A R Marshall
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**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

The directors present the annual reports and accounts for the year ended 31 December 2015 of Northern Powergrid (Yorkshire) plc (the "Company"), which include the Strategic Report, the Report of the Directors and the audited financial statements for that year. Pages 2 to 22 inclusive comprise the Strategic Report and pages 23 to 32 comprise the Report of the Directors, which have been drawn up and are presented in accordance with the Companies Act 2006.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

BUSINESS MODEL

The Company is an authorised distributor under the Electricity Act 1989, holds an electricity distribution licence granted by the Secretary of State and is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group"). As a distribution network operator ("DNO"), the Company distributes electricity to approximately 2.3 million customers connected to its electricity distribution network within its distribution services area, which encompasses the counties of West Yorkshire, East Yorkshire and almost all of South Yorkshire, together with parts of North Yorkshire, Derbyshire, Nottinghamshire, Lincolnshire and Lancashire, and some 21,628 GWh of electricity was distributed to those customers during the year. The Company's distribution network includes over 53,000km of overhead and underground cables and over 35,000 substations of all types and receives electricity from generators connected directly to it and from the National Grid's transmission system and distributes that electricity at voltages of up to 132kV.

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

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

STRATEGIC OBJECTIVES

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

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

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

STRATEGIC OBJECTIVES - continued

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

REVIEW OF THE YEAR

The Company delivered a satisfactory financial performance for the year, which benefited from a further change to the rate of taxation and continued effective cost control, with revenue at £420.2 million being £14.6 million less than in 2014. The decrease in revenue was mainly due to the five-year profile of allowed revenues inherent in the price control formula under the Distribution Price Control period to 31 March 2015 ("DPCR5") and the and the reduction in tariffs introduced with effect from the start of the current regulatory period, which runs from 1 April 2015 to 31 March 2023 and is known as ED1.

One of the main priorities for the Company in the year was responding to Ofgem's final determination in respect of ED1, which set the Company's income for that period. Having considered Ofgem's final determination, the Company sought permission from the Competition and Markets Authority (the "CMA") to appeal against the licence modifications that gave effect to the ED1 price control. The appeal related to three specific areas:

- (i) Ofgem's decision to demand further cost savings in relation to smart grid technology over and above the ones proposed by the Company and captured in Ofgem's original cost benchmarking exercise;
- (ii) Ofgem's assessment of the variation in wage rates across the country; and
- (iii) Ofgem's projections for labour cost increases.

On 30 March 2015, the CMA granted the Company permission to appeal and the appeal progressed to its conclusion in accordance with the timetable required of the CMA. British Gas Trading Limited ("British Gas") was also granted permission to appeal the price control, with the same review timetable.

On 29 September 2015, the CMA published its final determination in respect of the Company's appeal and upheld one ground of the appeal in respect of the adjustments made by Ofgem to reflect potential savings available from the introduction of smart grids and other technological innovations, because Ofgem's decision was not based on robust evidence. The CMA's determination will increase the Company's cost allowances over ED1 by approximately £16 million, in 2012/2013 prices, which affects the Company's projected regulatory asset value at the end of ED1 as well as its allowed revenues within ED1. The CMA did not uphold the Company's other two grounds of appeal, deciding that Ofgem's decision fell within the margin of discretion that is available to it in respect of such matters and the Company's case fell short of demonstrating that Ofgem's decision was wrong.

British Gas appealed on six grounds. The CMA agreed with British Gas in part on one of those grounds only, resulting in an adjustment to part of the price control that adjusts the overall level of revenue a DNO can earn by providing a reward in proportion to the extent to which Ofgem agrees with the DNO's cost forecasts. The outcome of British Gas' appeal was a reduction of approximately £8 million in the Company's allowed additional income in ED1 in 2012/2013 prices. The net effect of the two appeals on the Company's allowed revenues in ED1, excluding the uplift on the Company's projected regulatory asset value at the end of ED1, is a reduction of approximately £5 million in 2012/2013 prices.

Having delivered its largest ever capital expenditure programme of £253.5 million in the year ended 31 December 2014, the Company continued with its policy of investing efficiently in its electricity distribution network during 2015. During the year, the Company invested £281.5 million in its distribution network, such that it exceeded its investment in the year ended 31 December 2014 and completed all outputs committed within the DPCR5 price control period by the end of DPCR5 on 31 March 2015.

Improving customer satisfaction remained a management priority for long-term improvement and, during the year, the Company introduced the new Customer Relationship Management ("CRM") system, which will provide quicker and more accurate information to customers and improve the effectiveness of the customer complaints process. The Company continues to be one of the industry leaders in terms of social obligations and stakeholder engagement, and was again ranked second among the DNOs in respect of its annual stakeholder engagement submission to Ofgem.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

REVIEW OF THE YEAR - continued

The Company beat Ofgem's targets for the quality of the electricity supply provided to its customers and continued to focus on reducing the average times taken to restore supplies following a power cut. In that respect, the Company's adoption of an Operations model based on a number of locally-focussed industrial, rural and urban zones has begun to deliver improvements in the Company's response to unplanned power cuts following the introduction of a new guaranteed standard for the restoration of supply within 12 hours of a power cut occurring from 1 April 2015 onwards.

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

The Company's safety performance continued to be strong, with an Occupational Safety and Health Administration ("OSHA") rate of 0.27 being recorded (2014: 0.45), such that it made an effective contribution to the Northern Powergrid Group equalling its best ever safety performance, and the long-term overall trend continued to compare well with that of the industry. The Company beat its internal targets in respect of restricted duty and medical treatment accidents but missed its targets in respect of lost time accidents, operational incidents and preventable vehicle accidents.

CORE PRINCIPLES

Financial strength

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

The Company continued to benefit from the stability provided by the arrangements agreed in respect of DPCR5 in terms of its income until 31 March 2015. The ED1 price control, as amended following the outcomes of the appeals to the CMA, provides similar stability and has been set for eight years with provision for a mid-period review of the outputs that the Company is required to deliver. In that respect, the Company recognises that it needs to continue to show that it is delivering reliable services at a fair price to its customers, while operating in an efficient and effective manner. Key aspects of financial performance for the year were as follows:

Revenue

The Company's revenue at £420.2 million was £14.6 million lower than the prior year mainly due to the five-year profile of allowed revenues inherent in the DPCR5 price control formula and the reduction in tariffs introduced with effect from the start of ED1.

Operating profit and position at the year end

The Company's operating profit at £204.9 million was £27.0 million lower than the previous year, primarily reflecting decreased revenues and higher depreciation charges. The statement of financial position on page 37 shows that, as at 31 December 2015, the Company had total equity of £1,119.5 million. The directors consider the Company to have a strong statement of financial position which, when coupled with the preference of its parent company, Berkshire Hathaway Energy Company ("Berkshire Hathaway Energy"), for operating with lower levels of debt than equivalent companies in the sector, creates a stable base for continued strong performance during ED1.

Finance costs and investments

Finance costs net of investment income at £42.7 million were higher than the prior year, due to the bond issuance on 1 April 2015 and a new credit facility with the European Investment Bank (the "EIB") from 16 December 2015 (see page 6).

Taxation

The effective tax rate in the year was 9.8%. The effective tax rate before adjusting for the impact of the changes in tax rates by the Finance Act 2015 would be 18.3%. Details of the income tax expense are provided in Note 7 to the accounts.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORE PRINCIPLES - continued

Financial strength

Results and dividends

The Company made a profit after tax for the year of £146.7 million (2014: £150.6 million). An interim dividend of £27.6 million was paid during the year (2014: £40.0 million) and the directors recommend that no final dividend be paid in respect of the year to 31 December 2015.

Share capital and debt structure

There were no changes to the Company's share capital during the year. On 1 April 2015, the Company issued £150 million 2.5% bonds due 2025 and, on 2 December 2015, the Company entered into an agreement with the EIB, which provided the Company with a credit facility of £130 million. The financial obligations of the Company under this agreement are guaranteed by Northern Powergrid Holdings Company. On 16 December 2015, the Company drew on the credit facility in its entirety at a fixed rate of 2.564% for a period of 12 years.

On 1 March 2016, the Company entered into a Deed of Amendment and Consent which increased the facility provided by the EIB under the agreement entered into on 2 December 2015 from £130 million to £180 million. The additional committed facility of £50 million is undrawn as at the date of this Strategic Report.

Dividend policy

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

Cash flow

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

Movements in cash flows were as follows:

Operating activities: Cash flow from operating activities at £196.8 million was £4.8 million lower than the previous year mainly due to lower operating profits partly offset by favourable movements in working capital.

Investing activities: Net cash used in investing activities at £208.2 million was £3.6 million higher than the previous year, reflecting higher net capital expenditure.

Financing activities: The net cash from financing activities at £157.1 million was £154.0 million higher than the previous year, reflecting net movements in borrowings to fund business operations and lower dividends paid.

Liquidity risk

As at 31 December 2015, the Company had 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. The revolving credit facility was due to expire on 20 August 2017 but, on 30 April 2015, the facility was restated and amended and is now due to expire on 30 April 2020. The Company expects to raise further facilities, as required, at that time.

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

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

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORE PRINCIPLES

Financial strength

Interest rate risk

The Company is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 December 2015, 100% of the Company's long-term borrowings were at fixed rates and the average maturity for these borrowings was 11 years.

Currency risk

No material currency risks are faced by the Company.

Pensions

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

Insurance

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

Customer service

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

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

Customer satisfaction with the Company's response to unplanned power cuts showed some improvement in 2015 and the focus remains on improving restoration times and proactively communicating more timely and accurate information to customers. Enhancements were made to the interactive voice response telephony system throughout the year to make it easier for customers to talk to a customer service advisor if they so wished. Customer satisfaction with planned power cuts also showed some encouraging improvement with the Company improving the design of written customer communications and providing a text and email service to remind customers three days ahead of the power cut taking place.

The Company has invested in improving the reliability of under-performing parts of the distribution network by continuing to identify "hot spots" of particularly poor network performance and taking specific action to address the issues in those areas. In the customer service support areas, further investment has been directed towards information technology with the introduction of the new CRM system to improve the self-service offering and provide quicker and more accurate information to customers with workflows automatically routed within both the Company and its contractors. This technology will enable customers to communicate with the Company in a range of accessible and easy ways across several channels.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORE PRINCIPLES - continued

Customer service - continued

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

The Company recognised that the evolving nature of the environment and the level of customer service provided in respect of new connections to the network required additional focus and, as such, initiated a review of this area of the business. Further details regarding the connections activity in the year are provided under "Connections to the network" below.

In common with other DNOs, the Company is actively engaged in the national project, which has created a single national three-digit emergency number for power cut calls, and is leading three of the four sub-groups within the project. Following a consultation, Ofcom agreed that there was a strong case for that three-digit number to be introduced and announced in June 2015 that the number was to be 105. The number is scheduled to go live in 2016.

The performance of the DNOs against guaranteed standards, which are set for activities such as restoring supplies after power cuts, provides a measure of the level of customer service and Ofgem's incentive scheme for quality of service, by which the DNOs are provided with financial incentives, is based upon targets set by Ofgem with regard to each DNO's performance.

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

In respect of these key customer service performance indicators, the goal is to achieve performance that is below Ofgem's target number in respect of CML and CI. The Company's reported performance for the regulatory year ended 31 March 2015 (the "Regulatory Year") was as follows:

	Year to 31 March 2015		Year to 31 March 2014	
	Actual	Target	Actual	Target
CML	50.4	76.0	58.9	76.0
CI	60.9	75.3	64.5	75.3

Performance in the Regulatory Year was better than Ofgem's target for both CML and CI and contributed to the Company's improved customer service performance in that year. In June 2015, Ofgem issued its view on the impact of certain events that occurred in the regulatory year to 31 March 2014 on the Company's CML and CI performance for that year, which is reflected in the above table.

In May 2015, the Company put forward its stakeholder engagement submission to Ofgem in respect of its work during the Regulatory Year. This included initiatives such as expanding the role of digital solutions in providing customer services and the enhancement of the Company's relationship with some voluntary sector organisations, with which it works closely in developing and delivering certain services. The Company presented its submission to Ofgem's panel on 8 July 2015 and maintained its position from the previous year as the second placed DNO group. A reward of £0.92 million was secured, which will be received during the regulatory year ended 31 March 2017 and the Company intends to reinvest its reward in initiatives that will continue to build on this strong stakeholder engagement performance.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORE PRINCIPLES - continued

Customer service - continued

Under the Broad Measure of Customer Satisfaction, an independent market research company carried out telephone surveys with the Company's customers to find out how satisfied they were with the services provided. During the year, surveys were carried out of a number of customers who had contacted the Company regarding an unplanned or a planned power cut, had requested a price quotation and a subsequent connection, or had a general enquiry where a service had been provided or a job completed. The Company recorded an overall satisfaction score of 82.6% for the Regulatory Year and expects that the customer service improvement plan, including the range of initiatives noted on pages 7 and 8, will improve the services provided to customers and so increase the satisfaction ratings year-on-year.

While recognising that its customer service performance can be improved, the Company continued to make steady progress during the year with customer satisfaction scores continuing to improve, performance to reduce service failures meeting target, the connections customer service improvement project being delivered and its social obligations and stakeholder engagement activity continuing to be among the leading in the industry.

Connections to the network

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

There were three main areas of development in the Company's connections business over the last year with the introduction of the new Competition in Connections Code of Practice, compliance with which became a licence condition with effect from the end of October 2015, introduction of the full Incentive on Connections Engagement ("ICE") regime in April 2015 and introduction of a customer service improvement programme to deliver improvements in customer satisfaction for small works customers in pursuit of the Company's goal to be the leading provider of customer service within the electricity distribution sector.

The Company participated with other DNOs in the development of the new Competition in Connections Code of Practice, and implemented the required new processes, including 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.

The start of ED1 saw the introduction of ICE in respect of customers requiring larger connections to the network, so that the needs of those customers can be met more effectively. Under ICE, the Company is required to submit a customer service improvement work plan for the forthcoming regulatory year at the end of April, followed by a comprehensive 'looking back and forward' report commenting on the actions delivered in the previous year and future actions proposed in the service improvement plan. The Company proposed a comprehensive improvement plan based on direct customer feedback, worked throughout the year to deliver those actions and continued to engage actively with customers through both informal and formal stakeholder events.

Corporate responsibility

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

The Company maintained its key partnerships with the Environment Agency, the local authorities and the local resilience forums, via its Civil Contingency Co-ordinator, so that it can respond quickly to significant faults on, or threats to, the network. The Company has well-established emergency procedures that are triggered in times of weather-related incidents or long-duration power cuts when people are without power for some time and, as such, the Company responded well to the weather-related incidents, including Storms Desmond and Eva, which impacted on its assets during the year.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORE PRINCIPLES - continued

Customer service - continued

Corporate responsibility - continued

The Company utilises its 'customer ambassadors' and customer liaison officers, who are allocated to each of its operating zones, to address customers' concerns and resolve their complaints, and works with the British Red Cross in order to pay particular attention to the welfare of customers on the priority services register so that those customers are kept informed of the situation throughout the event and after the power has been restored.

The Company continued to focus on some of its more vulnerable customers and works closely with them and the organisations that represent them to improve how it communicates and provides support. The Northern Powergrid Group's social issues expert group focussed on that area and also on how service improvements can be identified and prioritised. As a result, the Company continued to improve the quality of the information held on the priority services register, promoted the benefits of being on that register more widely, including via a radio advertising campaign, and enhanced the support provided to priority services customers.

The Company has in place a small donation programme, which is focused on its key priorities of support for youth, education and the environment and from which grants were made during the year. The Northern Powergrid Group also makes donations to charities nominated by the top three teams in its "Safety Champions" initiative, which is aimed at supporting improvements in safety performance in the operational zones.

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

During the year, the Company introduced 'Make the Grade in Energy'. This specially designed programme is delivered in conjunction with the Ahead Partnership, a local organisation focussed on creating links between schools and business, and involves volunteers from across the Company working with schools on employability and associated skills. The Company also embarked on a programme of support for Community Energy groups in its distribution services area, providing them with networking and educational opportunities to help develop their activities.

Operational excellence

The Company's core service continues to be providing and maintaining an efficient distribution network that delivers electricity effectively. During the year, £281.5 million was invested in the improvement of the distribution network, an increase on the record amount of £253.5 million in the previous year. The Company's continued and substantial investment in its distribution network has seen reliability increase over a sustained period and the Company has generally outperformed the targets set by Ofgem in respect of CI and CML. The Company's inspection and maintenance regimes have ensured that the underlying health of the network assets has been sustained and none of the leading indicators used by the Company suggest any diminishing performance in this respect in the future.

Operational activity

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

The Company's Operations structure is designed to respond effectively to the needs of customers and local communities by delivering improved performance standards in the restoration of power following power cuts and in new connection activities for small works. That structure is organised into operating zones around the main conurbations of West Yorkshire and South Yorkshire, the industrialised area around the Humber and the rural areas of the Yorkshire Dales, the east coast of Yorkshire and North Lincolnshire.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORE PRINCIPLES - continued

Operational excellence - continued

Operational activity

The zonal structure is supported by several functional areas within Operations, which are Network Operations, which provides the day-to-day and real time management of the network, Programme Delivery, which is responsible for primary engineering projects, and bespoke connections and for the inspection, maintenance and replacement of operational assets, and Operational Services, which includes supply chain management and support services.

As a new guaranteed standard for the restoration of supply within 12 hours of a power cut occurring came into effect from 1 April 2015, the Company's new operational structure will provide a more localised focus and, therefore, improved response times in the event of a power cut. During the year, the Company invested in technology to support its drive to improve response times, including the automated power restoration system ("APRS") which operates within the existing network management system. In the event of a high-voltage fault, APRS analyses the information presented by intelligent assets installed on the network and, from that information, determines where the fault is located and executes switching to restore power to the 'healthy' network in a safe manner in under three minutes. APRS was operated initially in advisory mode, allowing intervention in the process to verify the outcome, and was successfully transitioned to live mode in a controlled manner, such that it is planned to enable APRS at some 306 primary substations across the Northern Powergrid Group by the end of ED1. The Company expects, therefore, that APRS will significantly improve the service to customers due to the speed with which it can understand the information presented and then complete the switching required to restore power.

The Company responded well to the major weather events that impacted its network during the year, the most significant being the flooding that occurred as a result of Storm Eva on 26 and 27 December, which resulted in the Company invoking its major incident management plan.

The flooding caused by Storm Eva impacted properties in Calderdale, the West Yorkshire Dales and Leeds City Centre, with approximately 37,000 customers being affected by power cuts. The power to over 90% of those customers was restored within 12 hours and, although Kirkstall C grid supply point in Leeds was flooded, power was restored to the 27,000 customers affected within three hours as switching to interconnected sections of the network was achieved. Following Storm Eva, the Company instigated a programme of work to inspect flooded homes and businesses, to replace service cables and equipment, where required, and to inspect equipment located in the affected areas including substations, link boxes and feeder pillars.

The Company's priorities during the year included delivering a significant level of capital expenditure on the network as in the previous year, a further reduction in the average level of fault repair work in progress, a robust approach to the control of operations on the low-voltage network and continued focus on the restoration times associated with both high and low-voltage power cuts, with high-voltage restoration performance averaging some 55.5 minutes (2014: 60.5 minutes), after allowing for severe weather incidents and other exemptions. During the year, the Company completed all outputs committed within the DPCR5 price control period by the price control end date of 31 March 2015.

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

- Completion of replacement of three EHV circuit breakers at South Kirkby, replacement of primary switchgear at Harspwell, Park Hill and Binbrook and commencement of replacement work at West End Lane;
- Continuation of reinforcement of the primary network in the Doncaster area with excavation and duct installation for the 132kV cables to connect West Melton to the new 132/33kV substation at Potteric Carr and commencement of civil works at Potteric Carr;
- Remediation of the fault-level issue at Station Road by replacing both transformers with high impedance units and commencement of work to replace the 6kV network in the King George docks area of Hull;
- Replacement of 13km of 132kV oil filled cable with 9km from Ferrybridge to Osbaldwick and 4km from Scunthorpe North to Scunthorpe South and of almost 17km of 33kV underground cable, including 1km of oil-filled cable, 10km of gas insulated cable and 5.5km of solid cable to improve performance;

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORE PRINCIPLES - continued

Operational excellence - continued

Operational activity- continued

- Extensive ongoing works in the Sheffield area including the replacement of 18km of oil-filled cable and 2km of gas insulated cable;
- 59 overhead line towers were refurbished and over 200 EHV poles were replaced;
- 172km of high voltage overhead line and 61km of low-voltage overhead line were refurbished or rebuilt;
- 38 units of high voltage outdoor switchgear, 99 high-voltage distribution substations and 280 units of high-voltage indoor switchgear were replaced; and
- 217 new remote control points were installed and commissioned.

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

Employee commitment

Health and safety

The focus on health and safety continued to be of paramount importance for the directors, as it is for all employees. There is a continuous drive for improvement in safety performance through the setting of challenging goals and the pursuit of a comprehensive safety and health improvement plan, which reflects the Company's fundamental objective that every employee and contractor should go home at the end of each shift uninjured and in good health after a productive day's work. The Company makes no compromise in respect of its health and safety obligations and centres its safety plans and systems on the principles found in companies with world class safety performance.

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

Operational incident performance was disappointing with the number of switching issues experienced on the high voltage network resulting in eight such incidents occurring in the year against a target of six. As one of the key deliverables in the Company's safety and health improvement plan is to raise awareness and improve the concentration skills of its operational engineers and other employees, the Company increased its operational audit rate of senior authorised persons such that the operational practices of all the senior authorised persons were verified during the year. The Company also delivered operational seminars, stand down briefings and regular safety newsflashes to staff in order to cascade information on safety trends, issues and incidents.

The Company's safety and health improvement plan targets continuous improvement and delivery of the various initiatives contained in that plan contributed to the Company recording an OSHA rate for the year of 0.27 (2014: 0.45) against a target of 0.36.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORE PRINCIPLES - continued

Employee commitment - continued

Health and safety - continued

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

	2015		2014	
	Target	Actual	Target	Actual
Lost time accidents	1	2	1	4
Restricted duty accidents	1	0	2	1
Medical treatment accidents	2	1	2	0
Operational incidents	6	8	6	7
Preventable vehicle accidents	13	15	13	16

The Company experienced two lost time accidents in the year as opposed to four in 2014 and recorded one medical treatment case as opposed to none in 2014. In addition, although performance in respect of preventable vehicle accidents was two accidents above the target for the year, performance improved by one accident compared with 2014. Consequently, the Company made a strong contribution to the Northern Powergrid Group delivering its best ever safety performance and the long-term overall trend continued to compare well with that of the industry. None of those incidents gave rise to any significant safety-related risks.

In common with the Berkshire Hathaway Energy group, the Northern Powergrid Group measures its safety performance in terms of the OSHA rate, which is a measure used in the United States to capture safety incidents down to minor levels of medical treatment, such as a stitch or the use of prescription pain killers. As part of its plan to reduce the OSHA rate across the group, Berkshire Hathaway Energy issues daily e-mail updates in respect of performance against its overall OSHA rate and preventable vehicle accident targets, which include information on incidents that have occurred. The Company's Director of Safety, Health and Environment also delivered updates using conference call facilities, which were available to the entire workforce, regarding performance and other safety-related issues.

Delivery of the various initiatives in the safety and health improvement plan also contributed to the Northern Powergrid Group achieving an OSHA rate of 0.26 against a target of 0.35, which equated to only six recordable incidents and equalled the best ever performance recorded in 2014.

As part of the safety and health improvement plan and in order to reinforce the operational safety values, the Company continued to implement its cross-business operational assurance audit programme and its senior management field engagement programme in order to improve two-way communication on safety and other key business issues. The Company continued to implement a robust road risk management plan, which involved electronic driving licence checking, delivering road risk awareness workshops to new employees and using risk reduction tools such as online driver assessment and training followed by an on-road refresher training session if required. The driver training programme provides practical driving training to a targeted population of drivers and is the primary route to improving driver skills in the longer term. Recognising that driving is one of most hazardous activities undertaken on a daily basis, the programme was expanded further throughout 2015 via an interactive, web-based system designed to assess skills and then provide individual training plans to improve hazard perception and reinforce specific aspects of driving-related skills. The Company also commenced a programme to install a telematics system in all of its fleet vehicles in order to support driver and vehicle safety by encouraging responsible and safe driving styles, assist with the completion and management of vehicle safety checks, and expedite investigation of vehicle accidents and incidents.

During the year, the Company was awarded a President's Award from the Royal Society for the Prevention of Accidents for achieving 11 consecutive Gold Awards in recognition of achievements in 2014 and for continued or improving standards of health and safety over a sustained period. The Company's health and safety management systems were subject to the regular bi-annual external surveillances and, on conclusion of those assessments, the auditor recommended that the Company maintained its OHSAS 18001 accreditation.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORE PRINCIPLES - continued

Employee commitment - continued

Health and safety - continued

The sickness absence rate across the Northern Powergrid Group for the year ended 31 December 2015 was 2.71% (2014: 2.32%), which was an increase on that experienced in 2014 but does not give rise to any particular cause for concern.

Management structure

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

Employees

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

In addition, the Northern Powergrid Group expects to recruit approximately 100 trainees a year under its workforce renewal programme during ED1 and recruited a total of 174 members of staff in 2015, of which 101 were part of the workforce renewal programme. In addition, 70 trainees who were recruited under the workforce renewal programme in previous years graduated from their training programmes and commenced work as part of the Northern Powergrid Group's operations.

As a member of the Berkshire Hathaway, Inc. group of companies, Berkshire Hathaway Energy sets high expectations for honesty and integrity in the conduct of all business activity. Consequently, the Company is committed to proper business conduct and 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. All employees must complete annual training on the code of business conduct. A "speaking up" policy is also in place so that members of staff are able to raise any instances of unethical acts, malpractice or impropriety. An additional process is also available to all staff via an international, anonymous help line operated by an independent company.

In order to support the welfare of its employees, the Northern Powergrid Group provides an employee assistance service to its staff via an independent company that supports over 350 organisations in the UK. The programme is a confidential, self-referral counselling and information service to assist with personal or work-related problems that may be affecting health, wellbeing or performance and is available 24 hours a day, 365 days a year. The services available include health, wellbeing and family-care information, financial information and debt counselling, and legal guidance. Working in partnership with its occupational health provider, the Northern Powergrid Group is delivering a long-term strategic programme aimed at improving the health of its staff and, in that respect, the Northern Powergrid Group won the Chartered Institute of Personnel and Development's North of England Award for Health and Wellbeing for its commitment and delivery of an improved health and well-being programme.

Progress continued to be made during 2015 on the key priorities in the human resources and organisation development functions, including recruitment, employee engagement and performance management and development in order to put in place the foundations for a more agile and responsive workforce to meet customer requirements. Throughout the year, the Company continued to set and uphold the promotion of high standards of probity among all staff. In addition, the Company's organisational structure has been developed to control business units and to delegate authority and accountability, having regard to acceptable levels of risk.

As at 31 December 2015, the Company employed 1,213 staff (2014: 1,198).

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORE PRINCIPLES - continued

Environmental respect

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

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

The most recent visit was a surveillance assessment carried out by Lloyd's Register Quality Assurance in September 2015. The assessment report drew management attention to two minor non-conformances to be addressed by agreed proposed actions and also noted that continued improvements had been made to the environmental management system over the past three years. There were no major non-conformances noted and, after a rigorous three-day surveillance audit, continued certification was recommended and subsequently confirmed.

Procedures and processes were reviewed and developed to improve the effectiveness of the environmental management system during 2015. Operational controls at depots have also significantly improved over the past three years which has supported the reduced number of minor non-conformances raised at recent surveillance visits. In the event that fluid leakages do occur, the Company has in place an emergency incident response support contract with a specialist service provider, under which 24-hour environmental incident assistance is provided, including contamination mitigation, remediation and incident-validation reporting.

Improvements in support of the Company's environmental policy objectives continued to focus on replacing selected fluid-filled cable sections with non-fluid polymeric equivalents, replacing oil-filled circuit breakers with vacuum and sulphur hexafluoride gas-filled units at outdoor substations to reduce the potential for oil leakage and using gas tracer technology to locate cable fluid leaks quicker, where it was practicable to do so. The Company also provided environmental awareness training for staff via an online system to avoid the need for travelling to central training locations. These improvements support the Company in delivering sustained environmental performance and, in 2015, only five incidents were reportable to the Environment Agency, which was better than the target of 19. Oil spills and leaks from the Company's assets were 53% better than the target of 39,745 litres and SF₆ gas discharges from electrical plant were 1% better than the target of 89 kilogrammes. In addition, the Company recycled more of its waste than before and maintained its positive performance with regard to street works. Work continued with many of the Company's key stakeholders, including the Environment Agency, to enhance the advanced environmental management processes already in place and, in 2016, the Company plans to maintain this progress so that the impact on the environment in which it works is reduced and the most effective ways of doing so are utilised. The Company's business plan contains a commitment to reduce its business carbon footprint by 10% by the end of ED1 and performance remains on course to achieve that target.

The Company's commitment to the Environmental RESPECT policy and its improved overall performance contributes towards minimising its impact on the environment. As part of its annual environmental improvement plan, the Company has mobilised significant programmes to replace fluid-filled cables and place overhead lines underground in National Parks and Areas of Outstanding Natural Beauty, reduce electrical losses and implement further improvements to the network that take account of protected structures, features, areas, wildlife and habitat. Bird life is being protected by placing bird-diverters on power lines where they are in proximity to nature reserves, wetlands, flight paths or in locations where rare species of bird are known to live or breed and also in response to information obtained from incident trends. In addition, during the year general waste collected from the Company by a waste disposal firm was used as feedstock for a multi-fuel power station in Yorkshire, which generates low-carbon heat and electricity.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORE PRINCIPLES - continued

Environmental respect - continued

Sustainability

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

The Company measures and publishes details of its business carbon footprint. Figures are reported per calendar year and relate solely to the regulated electricity distribution business. A monthly reporting process is in place to calculate the amount, based on an inventory of the various carbon emissions sources, identified with reference to the methodology described in the Greenhouse Gas Protocol and quantification of emissions is achieved through compilation of various operational data sources. In line with Ofgem's requirements, the Company has contributed to the sustainability agenda through public reporting on its carbon footprint and its reporting framework is certified under CEMARS (the Certified Emissions Measurement and Reduction Scheme) for compliance with ISO 14064.

The number of installations by customers of low-carbon technologies such as photovoltaic solar panels and heat pumps continued to increase during the year and are reported via the regulatory reporting process. The greater range of load and generation technologies being placed on the network arising from the decarbonisation of energy means that the Company needs to develop smart solutions that reduce the need for expensive reinforcement of the network. In that respect, the Northern Powergrid Group disseminated the learning from its Customer-Led Network Revolution project during 2015, which was aimed at understanding how novel network technology and changes in customers' energy usage habits may lead to the speedier and lower cost connection of low-carbon technologies to the network.

The Company believes that the project delivered significant learning and a comprehensive legacy, as it developed practical guidance as well as policy recommendations and equipment specifications, made recommendations to update the United Kingdom electricity industry's technical network planning standards and delivered insight into potential future commercial arrangements and the practicalities of delivering end solutions that are compatible with customers' needs.

The Company's plans for ED1 include further development of the learning delivered by the project to support the evolution of a sustainable network, which will include enabling technology, reinforcement of the network to alleviate the constraints associated with low carbon technologies and supporting the roll-out of smart meters. The Company is investing, via its innovation strategy, in order to facilitate knowledge transfer and absorption of learning through the up-skilling of its workforce, the redefinition of its technical standards and the improvement of its processes. Consequently, the Company continues to believe that its plans will not only create some immediate benefits for customers during ED1, but also pave the way for much greater benefits after 2023.

In July 2015, the Company submitted its second Adaptation to Climate Change report to the Department for Environment, Food and Rural Affairs, which builds on the actions identified in the first report and provides details of progress made against those actions. It also brings the report up to date to reflect the Northern Powergrid Group's structure and approach to risk management as well as discussing emerging research and its influence on the Northern Powergrid Group's approach to adaptation.

Updates from the first report include detail on the approach to surface water flooding, a review of industry practice for vegetation management and research carried out by Newcastle University into the effects of wind on electricity networks. The Company intends to continue to refine and adjust its plans and processes in the future, as more accurate climate projection data becomes available to take account of the potential impact that future climate change predictions may bring and to ensure that it continues to maintain the levels of network performance its customers deserve.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORE PRINCIPLES - continued

Environmental respect - continued

Regulatory integrity

The Company manages its business to the highest behavioural standards and adheres to a policy of strict compliance with all relevant standards, legislation and regulatory conditions. The Governance and Risk Management Group ("GRMG") is the principal risk management forum in the Northern Powergrid Group, and monitors and manages performance in risk-related and compliance areas. The GRMG met on three occasions during the year in order to review the mechanisms for meeting external obligations, to strengthen the business-control-improvement environment, and to consider and advise on key strategic risks facing the Company.

As has been the case for some years, breaches by a DNO of its licence conditions and certain other statutory requirements could lead to financial penalties, which Ofgem has stated "will have a proportionate impact on shareholder returns". In order to assure compliance with licence and other regulatory obligations, the Company operates a regulatory compliance affirmation process, under which ownership of approximately 1,748 regulatory obligations contained within the compliance database is currently assigned to around 75 responsible managers. Those responsible managers are required, on a quarterly basis, to review compliance with the relevant obligations that have been assigned to them for certification and report on any identified non-compliances or perceived risks to the compliance process, which are then addressed. The Regulation Manager reports to the board of directors on the outcome of each quarter's exercise.

Under the RIIO (revenue = incentives + innovation + outputs) model for regulation, price controls are set for eight years (rather than five as has previously been the case), with provision for a mid-period review of the outputs that network companies are required to deliver. The ED1 price control became effective on 1 April 2015, is due to end on 31 March 2023.

The final determination in respect of ED1, as amended by the CMA, sets out the Company's allowed revenues and rules by which Ofgem expects to adjust these revenues in certain circumstances during ED1. Relative to Ofgem's original proposals, the CMA's determination resulted in the Company's base allowed revenue decreasing by approximately 0.2% in the regulatory year ended 31 March 2017 and in all subsequent years within ED1, before the addition of inflation (as measured by the Retail Prices Index ("RPI")). Base allowed revenue in the regulatory year ended 31 March 2016 remains unchanged from Ofgem's original final determination and nominal base allowed revenues will increase in line with RPI.

The ED1 price control is the first to be set for electricity distribution in Great Britain since Ofgem completed its review of network regulation (known as the RPI-X @ 20 project). The key changes to the price control calculations, compared to those used in previous price controls are that:

- the period over which new regulatory assets are depreciated is being gradually lengthened, from 20 years to 45 years, with the change being phased over eight years;
- allowed revenues will be adjusted during the price control period, rather than at the next price control review, to partially reflect cost variances relative to cost allowances;
- the allowed cost of debt will be updated within the price control period by reference to a long-run trailing average based on external benchmarks of public debt costs;
- allowed revenues will be adjusted in relation to some new service standard incentives, principally relating to speed and service standards for new connections to the network; and
- there is scope for a mid-period review and adjustment to revenues in the latter half of the period for any changes in the outputs required of licensees for certain specified reasons.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORE PRINCIPLES - continued

Regulatory integrity - continued

Many other aspects of the previous price control remain in place (either in their DPCR5 or similar form), including adjustments to revenues in relation to the number and duration of service interruptions and customer service standards.

In addition, network tariffs, from which actual revenues are derived, are now set further in advance than was previously the case.

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

With effect from 1 April 2015, the more formalised arrangements for assuring the accuracy of the information returns submitted to Ofgem, that had been trialled by network operators in the latter part of DPCR5, entered into formal operation under the terms of the Company's licence. These arrangements involve the preparation and submission to Ofgem of a risk-based data-assurance plan for the regulatory year ahead, together with a report detailing the assurance work actually carried out in the regulatory year just ended and the findings of that work.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Financial risk

As a holder of an electricity distribution licence, the Company is subject to regulation by GEMA, which acts through Ofgem. Most of the revenue of the electricity distribution licence holders is controlled by the distribution price control formula set out in the electricity distribution licence. The price control formula does not constrain profits from year to year but sets the maximum permitted revenue for each regulatory year, taking into account base allowed revenues and movements in RPI, as well as factors such as performance against certain regulatory incentives. Where the Company recovers more, or less, than this maximum the difference is carried forward, with interest. For amounts relating to the regulatory year ended 31 March 2016, the carry forward will be into the entitlement for the regulatory year ended 31 March 2018.

Prior to and including DPCR5, it was the practice of Ofgem to review and reset the formula at five-year intervals, although the formula has been, and may be, reviewed at other times at the discretion of Ofgem. The price control for ED1 has been set for the eight-year period commencing on 1 April 2015 and it is Ofgem's intention to use eight-year price control periods in the future. A resetting of the formula is now made by GEMA without the consent of the electricity distribution licence holder, but a licensee can appeal to the CMA against a decision by GEMA to proceed with such a modification. Certain other interested parties have the same right. Details of the Company's appeal to the CMA can be found on page 4 of this Strategic Report.

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

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

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Financial risk - continued

However, given the stable and regulated nature of the DNOs' businesses, Ofgem took the view that a notional repair period of 15 years from 1 April 2010 was appropriate for the purpose of assessing the DNOs' allowed revenues in respect of pension costs. Moreover, Ofgem reviews the reasonableness of the triennial actuarial valuations of DNOs' pension schemes and calculates new deficit funding allowances, including any adjustments that may be necessary to account for differences between allowances received and payments actually made to the relevant pension scheme.

The other financial risks facing the Company are outlined on pages 6 and 7 of this Strategic Report.

Operational risk

There are a number of risks to the Company's operational performance in respect of which mitigating actions have been taken. Appropriate credit cover arrangements are in place with the electricity suppliers, which would allow recovery of defaulted payments through the price control mechanism, and a robust major incident management plan is implemented whenever severe weather impacts on the distribution network's performance. Given the regular instances of metal theft experienced in previous years, the Company maintained its programme of risk-assessed and enhanced security measures at its sites and pursued awareness raising activity at a national and local level.

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

Commercial risk

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

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

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

Risk Management

The Northern Powergrid Group operates a structured and disciplined approach to the management of risk as part of its overall risk management policy and, in DPCR5 and previous price control periods, accepted and successfully managed substantial cost and delivery risks by developing a culture of cost and risk management over that period of time. Risks are divided into a number of risk sectors which, in turn, align to the Northern Powergrid Group's Core Principles, as detailed on page 3 of this Strategic Report. A report regarding the effectiveness of each risk sector in terms of risk management, control activity, key success factors, and supporting measures is presented at meetings of the GRMG. The risk environment is reviewed continually in order that new or emerging potential risks are identified.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Risk Management - continued

The Northern Powergrid Group identifies and assesses risks associated with the achievement of its strategic objectives so that any actions needed to further enhance the control environment are identified, along with the person responsible for the management of the specific risk. A regular review of the key risks, controls and action plans is undertaken. The risk management programme includes regular review of the crisis management, disaster recovery and major incident plans, which are periodically tested, the sharing of best practice on disaster preparedness and response, disaster recovery tests of IT servers and priority processes, penetration tests against firewall systems, and a peer review of the Northern Powergrid Group's risk management systems by Berkshire Hathaway Energy.

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

A key element and requirement of the risk management process is that a written certificate is provided by the President and Chief Executive Officer of the Northern Powergrid Group confirming that the effectiveness of the system of internal controls has been reviewed during the year. A self-certification process is in place, in support of this review, whereby 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.

Internal Control

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

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

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

The Company does not have a specific human rights policy but, as noted in this Strategic Report, it bases its operations on the Core Principles in order to deliver its long-term objectives. Accordingly, the Company remains fully committed to operating ethically and responsibly and with fairness and integrity through the policies and procedures it has in place which set the approach to its employees, their health, safety and welfare, its dealings with customers, particularly those who are vulnerable and on the priority services register, its impact on the environment and its contribution to the sustainability agenda within the energy industry. The Core Principles are a key factor in the responsible way in which the Company operates its electricity distribution business, examples of which are described throughout this Strategic Report.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Internal Control - continued

The Northern Powergrid Group is also committed to preventing corruption in all its forms and continues to have a zero-tolerance approach to corruption in its business or by those with whom it does business. The board of Northern Powergrid Holdings Company has addressed the risks introduced by the Bribery Act 2010 through a compliance policy, changes to contractual terms, training and other staff awareness measures. The introduction of annual risk assessments and enhanced due diligence in respect of new business transactions has further assisted in ensuring compliance.

The Northern Powergrid Group requires staff, suppliers of services and business partners to comply with the Bribery Act. Its policies encourage an employee who has any suspicion of bribery or other form of corruption within or related to the Northern Powergrid Group to report the suspicion to a manager or via the international, anonymous help line mentioned in the Employee commitment section.

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

In preparing these annual reports and accounts, the directors have assessed the viability of the Company for the purposes of making the statement below and do so on an ongoing basis as part of the preparation and approval of the Company's ten-year business plan.

The directors have chosen the eight-year period from 1 April 2015 for the purposes of making this statement because it equates to the ED1 regulatory period, though longer periods may be appropriate given the 45-year life ascribed to the Company's new assets, the enduring nature of the Company's business and the fact that the notice period for revocation of the Company's electricity distribution licence is 25 years. The Company's income has been set for the ED1 regulatory period, although there is scope for a mid-period review and Ofgem may adjust revenues in the latter half of the period for any changes in the outputs required of the Company for certain specified reasons. Consequently and given the general stability associated with the regulatory environment in which the Company operates, the directors have been able to prepare sufficiently robust forecasts as part of the Company's annual business planning process, taking account of the principal risks and uncertainties which might have an impact on those forecasts. The Company's forecasts look forward for a 10-year period and anticipate the Company's continued stable operations beyond the ED1 price control.

Details of the principal risks and uncertainties, which could have an impact on the Company, are provided on pages 18 and 19 of the Strategic Report and details of how those principal risks are assessed and managed are provided in the Risk Management section of the Strategic Report.

The directors' ongoing assessment of the principal risks and uncertainties facing the Company also includes meeting the obligations in the Company's electricity distribution licence to provide Ofgem with annual certificates, approved by the board, confirming that the directors have a reasonable expectation that the Company will have sufficient financial resources, financial facilities and operational resources available to it so that the Company is able to carry on its Distribution Business for a period of 12 months from the dates of those certificates. Assumptions taken into account when approving those certificates include (i) the potential for significant adverse financial impact from the various incentive schemes that can lead to variations in the Company's allowed income under its price control arrangements; (ii) the occurrence of catastrophic natural or other events, which could have a significant impact on the operating performance of the distribution network or involve significant expenditure; (iii) whether significant customer payment defaults may be experienced; and (iv) the continued availability to the Company of suitably qualified and experienced staff. Given the regulatory environment in which the Company operates, it is currently considered unlikely that there will be material variances to the assumptions used in providing those certificates during ED1.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Internal Control - continued

The stable nature of the Company's business is evidenced by the fact that the commitments made by the Company in its well-justified business plan, which was originally submitted to Ofgem as part of the ED1 price control review process, have not changed fundamentally. Consequently, assuming that the principal risks and uncertainties facing the Company continue to be managed effectively, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the ED1 period.

ON BEHALF OF THE BOARD:

A handwritten signature in black ink, appearing to read 'T E Fielden', with a stylized flourish at the end.

T E Fielden
Director

5 April 2016

NORTHERN POWERGRID (YORKSHIRE) PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present their report with the financial statements of the Company for the year ended 31 December 2015.

DIVIDENDS

During the year, an interim dividend of £27.6 million (9.5p per ordinary share) was paid (2014: £40.0 million, 13.79p per ordinary share). The directors recommend that no final dividend be paid in respect of the year.

RESEARCH AND DEVELOPMENT

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 Company worked with NPg Northeast to complete the major project under Ofgem's Low Carbon Networks Fund, known as the Customer-Led Network Revolution and the draft project findings were issued to Ofgem for consideration. Those findings were then disseminated more widely during 2015 as part of a three-month consultation period with the other DNOs in order to explore and refine the conclusions. The Northern Powergrid Group incurred expenditure of £31.0 million over the life of the project. Of that expenditure, 90% has been funded by electricity customers in Great Britain and Ofgem agreed that £2.7 million of the additional 10% could be recovered from customers. There is also the opportunity to apply in the future for a further discretionary award and Ofgem will consider additional rewards for those projects providing the best outcomes for customers. Further details of the Customer-Led Network Revolution project are provided in the Sustainability section on page 16 of the Strategic Report. New activities initiated in 2015 included projects regarding enhanced load reduction opportunities from customer participation, the accessing of disbursed domestic demand-side response and, alongside other utilities, how to determine optimum energy system technology approaches appropriate to local socio-economic factors. Other new activities during the year included alternative technology options for overhead line support and the use of unmanned aerial vehicles for remote asset inspection and management. Work completed during the year included the development of an improved decision support tool for optimum selection amongst complex asset investment options.

During the year, the Company invested £2.7 million (2014: £3.3 million) (Note 6 to the accounts) in its research and development activities.

FUTURE DEVELOPMENTS

The financial position of the Company, as at 31 December 2015, is shown in the statement of financial position on page 37.

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 that was revised as part of the ED1 price control review process and will develop its business by operating with the goal of efficiently investing in the network and improving the quality of supply and service provided to customers.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2015 to the date of this report, except as noted.

R Dixon	Non-executive Director
T E Fielden	Finance Director
J M France	Regulation Director
N M Gill	Operations Director
P A Jones	President and Chief Executive Officer
A J Maclellan	Business Development Director (appointed 17 July 2015)
A R Marshall	Non-executive Director
P C Taylor	Non-executive Director

J P Barnett resigned as a director with effect from 13 August 2015.

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

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2015**

DIRECTORS - continued

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

FINANCIAL RISK MANAGEMENT

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

Trading risk

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

Financial derivatives

As at 31 December 2015 and during the year, it was the Company's policy not to hold any derivative financial instruments.

Further details of the financial risks facing the Company are provided in the Financial strength and Principal Risks and Uncertainties sections on pages 6 and 7 and 18 and 19 respectively of the Strategic Report.

POLITICAL DONATIONS

During the year, no contributions were made to political organisations (2014: £nil).

EMPLOYEES

Employee consultation

The Company has a constitutional framework in place for employee consultation and has agreed that framework with trade union representatives. In addition, the Company communicates directly and through the management structure with non-collectively bargained staff, who are primarily of management grade, and keeps them informed of and involved as appropriate in developments that may impact on them now or in the future.

The Company is committed to maintaining and improving effective engagement and communication with employees. Following an employee engagement survey undertaken in 2014, senior and local engagement champions were identified during the year to work collaboratively with their teams in order to deliver agreed improvement plans. This approach is augmented by routine communication channels including regular staff briefs on current issues, meetings with staff and their representatives, and increased use of the Northern Powergrid Group's intranet to improve communication and engagement with the workforce.

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 postings and weekly blogs on the Northern Powergrid Group's intranet on key elements of performance during the preceding week.

Disabled employees

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

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORPORATE GOVERNANCE STATEMENT

The Company provides the following statement setting out how it has applied the main principles in the version of the UK Corporate Governance Code made available on the Financial Reporting Council's website in September 2014 (the "Code"). To the extent that it departs from the Code, the Company explains from which parts of the Code it departs and the reasons for so doing.

Compliance statement

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

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

Section A: Leadership

Main Principle A1: The Role of the Board

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

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

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

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

R Dixon	Non-Executive Director	8	
T E Fielden	Finance Director	9	
J M France	Regulation Director	8	
N M Gill	Operations Director	8	
P A Jones	President and Chief Executive Officer	7	
A J Maclellan	Business Development Director	4	(of 4 following appointment)
A R Marshall	Non-Executive Director	9	
P C Taylor	Non-Executive Director	7	

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORPORATE GOVERNANCE STATEMENT - continued

Section A: Leadership - continued

Main Principle A1: The Role of the Board - continued

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

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

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

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

Health and Safety Management Committee

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

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

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

Treasury Committee

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

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

NORTHERN POWERGRID (YORKSHIRE) PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2015

CORPORATE GOVERNANCE STATEMENT - continued

Section A: Leadership - continued

Main Principle A1: The Role of the Board - continued

Pensions Committee

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

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

Governance and Risk Management Group

The GRMG is the principal risk management forum in the Northern Powergrid Group and monitors and manages performance in risk-related and compliance areas. The GRMG monitors and reviews the strategic risk environment, ensuring the continued suitability, adequacy and effectiveness of risk management arrangements and reports to the Northern Powergrid Group's Audit Committee. The GRMG comprises:

The GRMG comprises:

D Anderson	Head of Internal Audit
N Applebee	Head of Shared Services
J Cardwell	Head of Trading and Innovation
R Dixon	Non-Executive Director
M Drye	Director of Asset Management
G Earl	Director of Safety, Health and Environment
J Elliott	Company Secretary
T E Fielden	Finance Director
J M France	Regulation Director
T France	General Counsel
N M Gill	Operations Director
A Jones	Head of Strategic Planning and Delivery
A J Maclellan	Business Development Director
K Weatherburn	Director of Human Resources

The GRMG implemented a new process during Quarter 1 of 2015, which is designed to improve the effectiveness of the risk management and control activities, better define the risk environment within the Northern Powergrid Group, rationalise the reporting procedures to focus attention on key risk movements and identify accountabilities for each risk sector.

The risk management framework was monitored regularly during the year to ensure that all strategic risks were being addressed. Risk management policies and procedures were reviewed and updated to ensure a robust and clear approach was maintained. Mr Dixon attended meetings of the GRMG to provide an independent view in respect of the matters discussed.

Asset risk continued to be a strong focus through the Asset Risk Management Executive Review Group and comprehensive plans continued to be in place to manage risks affecting all critical property assets and to strengthen the arrangements for crisis management and business continuity planning. In that respect, the Emergency Planning and Co-ordination Group (the "EPCG") has a remit to develop and maintain the Northern Powergrid Group's approach to emergency planning and to provide strategic leadership and guidance in respect of such matters.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORPORATE GOVERNANCE STATEMENT - continued

Section A: Leadership - continued

Main Principle A1: The Role of the Board - continued

The EPCG also ensures appropriate coordination between the various emergency planning disciplines, which include operational management of network incidents, property and the physical environment, non-operational management and resources and the support areas of human resources, information technology, health and safety, communications and legal services.

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

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

Main Principle A2: Division of Responsibility

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

Main Principle A3: The Chairman

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

Main Principle A4: Non-Executive Directors

Three non-executive directors served on the board during the year, each of whom acts under the terms of their individual service contracts or terms of reference. Mrs A R Marshall and Professor P C Taylor were appointed to the board as non-executive directors in accordance with the requirement in condition 43A of the Company's electricity distribution licence for the board to include two sufficiently independent directors, as defined in the Company's licence.

Section B: Effectiveness

Main Principle B1: The composition of the board

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

Main Principle B2: Appointments to the board

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

Main Principle B3: Commitment

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

Main Principle B4: Development

The directors continually update their knowledge of and familiarity with the operations of the Company due to the robust reporting arrangements in place and have ongoing access to the Company's operations and its staff.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORPORATE GOVERNANCE STATEMENT - continued

Section B: Effectiveness - continued

Main Principle B5: Information and support

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

Main Principle B6: Evaluation

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

Main Principle B7: Re-election

The Company's articles of association do not require periodic retirement and re-election of directors.

Section C: Accountability

Main Principle C1: Financial and business reporting

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

The directors explain, at page 3, the Core Principles behind the Company's strategy and, at page 31, their responsibility for preparing the Strategic Report, the Report of the Directors and the annual accounts, have reported, at pages 31 and 32 in the Report of the Directors that the Company is a going concern and have included the Report of the Independent Auditor to the Company at page 34 of these annual reports and accounts.

Main Principle C2: Risk management and internal control

Details of the principal risks and uncertainties facing the Company and its internal control system, together with details of the issues addressed by the Company during the year, can be found at pages 18 to 22 of the Strategic Report. Also included at pages 21 and 22 of the Strategic Report is an explanation of how the prospects of the Company have been assessed, the period to which that assessment relates and the reasons as to why that period is considered to be appropriate.

Other key features of the internal control system are:

- Comprehensive business planning and financial reporting procedures, including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- Regular review of key performance indicators to assess progress towards objectives;
- A range of policies, codes of practice and more detailed instructions that define the processes to be followed;
- A strong internal audit function, which provides independent scrutiny of internal control systems and risk management procedures, including the standards required by the United States Sarbanes-Oxley Act;
- Ongoing health and safety performance reviews carried out by in-house safety professionals in addition to the regime of routine health and safety risk assessment and management processes carried out within each of the operating units;

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORPORATE GOVERNANCE STATEMENT - continued

Section C: Accountability - continued

Main Principle C2: Risk management and internal control - continued

- Processes and procedures to operate under OHSAS 18001, which is subject to external certification and regular assessment;
- An external obligations register, which assists with complying with financial, legal and regulatory obligations;
- Centralised treasury operations that operate within defined limits and are subject to regular reporting requirements and audit reviews; and
- Established procedures for planning, approving and monitoring major capital expenditure, major projects and the development of new business which includes short and long-term budgets, risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews.

Main Principle C3: Audit committee and auditor

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

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

R Dixon	Non-Executive Director
T E Fielden	Finance Director

Details of the fees paid by the Company to Deloitte LLP in relation to non-audit services during the year are provided in Note 6 to the accounts.

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

Section D: Remuneration

Main Principle D1: The level and components of remuneration

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

Main Principle D2: Procedure

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

Section E: Relations with shareholders

Main Principle E1: Dialogue with Shareholders

As a wholly-owned subsidiary of a privately held group of companies, the board is in continuing dialogue with Berkshire Hathaway Energy.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2015**

CORPORATE GOVERNANCE STATEMENT - continued

Section E: Relations with shareholders - continued

Main Principle E2: Constructive use of General Meetings

This section of the Code is not applicable to the Company, as it is a wholly-owned subsidiary of a privately held group of companies and, therefore, has no individual or institutional shareholders.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, 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 any corporate and financial information relating to the Company, which is included on the Northern Powergrid Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

GOING CONCERN

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

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

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

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2015**

GOING CONCERN - continued

- The Company is profitable with strong underlying cash flows and holds investment grade credit ratings; and
- The Company is financed by long-term borrowings with an average maturity of 11 years and has access to borrowing facilities provided by Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc.

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

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

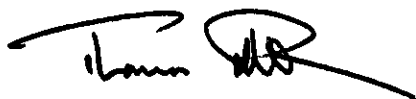
- a) so far as he or she is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- b) he or she has taken all the steps he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that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

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

AUDITOR

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

ON BEHALF OF THE BOARD:



T E Fielden
Director

5 April 2016

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORTS AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

- a) the Company's accounts, prepared in accordance with applicable UK law and in conformity with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- b) the Management Report (which is comprised of the Strategic Report and the Report of the Directors) includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties it faces.

This responsibility statement was approved by the Board of Directors on 5 April 2016 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'T E Fielden', with a stylized flourish at the end.

T E Fielden
Director

5 April 2016

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

We have audited the financial statements of Northern Powergrid (Yorkshire) plc ("the Company") for the year ended 31 December 2015, which comprise the Statement of Profit or Loss, the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 31, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



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

Date: 14 April 2016

NORTHERN POWERGRID (YORKSHIRE) PLC

**STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Notes	2015 £'000	2014 £'000
CONTINUING OPERATIONS			
Revenue	3	420,220	434,772
Cost of sales		<u>(16,834)</u>	<u>(17,109)</u>
GROSS PROFIT		403,386	417,663
Operating expenses	9	<u>(198,455)</u>	<u>(185,758)</u>
OPERATING PROFIT		204,931	231,905
Other gains		264	185
Finance costs	5	<u>(43,574)</u>	<u>(40,783)</u>
Finance income	5	<u>890</u>	<u>280</u>
PROFIT BEFORE INCOME TAX	6	162,511	191,587
Income tax	7	<u>(15,852)</u>	<u>(40,958)</u>
PROFIT FOR THE YEAR		<u><u>146,659</u></u>	<u><u>150,629</u></u>

The notes on pages 40 to 68 form part of these financial statements

NORTHERN POWERGRID (YORKSHIRE) PLC

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015**

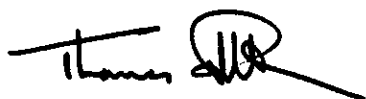
	2015 £'000	2014 £'000
PROFIT FOR THE YEAR	146,659	150,629
OTHER COMPREHENSIVE INCOME	_____ -	_____ -
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>146,659</u>	<u>150,629</u>

The notes on pages 40 to 68 form part of these financial statements

STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2015

	Notes	2015 £'000	2014 £'000
ASSETS			
NON-CURRENT ASSETS			
Intangible Assets	10	-	-
Property, plant and equipment	11	<u>2,921,050</u>	<u>2,723,286</u>
CURRENT ASSETS			
Inventories	12	465	281
Trade and other receivables	14	63,820	71,191
Cash and cash equivalents	13	<u>145,668</u>	<u>-</u>
		<u>209,953</u>	<u>71,472</u>
TOTAL ASSETS		<u>3,131,003</u>	<u>2,794,758</u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	15	290,000	290,000
Retained earnings	16	<u>829,467</u>	<u>710,408</u>
TOTAL EQUITY		<u>1,119,467</u>	<u>1,000,408</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables	17	728,901	698,817
Interest bearing loans and borrowings	18	972,174	694,343
Deferred tax	21	134,193	147,560
Provisions	20	<u>886</u>	<u>912</u>
		<u>1,836,154</u>	<u>1,541,632</u>
CURRENT LIABILITIES			
Trade and other payables	17	129,760	110,767
Interest bearing loans and borrowings	18	33,294	122,721
Tax payable		11,215	17,943
Provisions	20	<u>1,113</u>	<u>1,287</u>
		<u>175,382</u>	<u>252,718</u>
TOTAL LIABILITIES		<u>2,011,536</u>	<u>1,794,350</u>
TOTAL EQUITY AND LIABILITIES		<u>3,131,003</u>	<u>2,794,758</u>

The financial statements were approved and authorised for issue by the Board of Directors on 5 April 2016 and were signed on its behalf by:



T E Fielden
Director

The notes on pages 40 to 68 form part of these financial statements

NORTHERN POWERGRID (YORKSHIRE) PLC

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2014	290,000	599,779	889,779
Changes in equity			
Dividends	-	(40,000)	(40,000)
Total comprehensive income	-	150,629	150,629
Balance at 31 December 2014	<u>290,000</u>	<u>710,408</u>	<u>1,000,408</u>
Changes in equity			
Dividends	-	(27,600)	(27,600)
Total comprehensive income	-	146,659	146,659
Balance at 31 December 2015	<u>290,000</u>	<u>829,467</u>	<u>1,119,467</u>

The notes on pages 40 to 68 form part of these financial statements

NORTHERN POWERGRID (YORKSHIRE) PLC

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015**

		2015	2014
		£'000	£'000
Cash flows from operating activities			
Cash generated from operations	24	275,312	283,769
Finance costs paid		(43,453)	(42,967)
Dividends received		41	39
Interest received		849	240
Tax paid		<u>(35,947)</u>	<u>(39,507)</u>
Net cash from operating activities		<u>196,802</u>	<u>201,574</u>
Cash flows used in investing activities			
Purchase of tangible fixed assets		(279,004)	(253,897)
Sale of tangible fixed assets		336	190
Receipt of customer contributions		<u>70,419</u>	<u>49,019</u>
Net cash used in investing activities		<u>(208,249)</u>	<u>(204,688)</u>
Cash flows from financing activities			
Movements in borrowings in the year		208,114	38,049
Movement in loans from group undertaking		(23,399)	5,065
Equity dividends paid		<u>(27,600)</u>	<u>(40,000)</u>
Net cash from financing activities		<u>157,115</u>	<u>3,114</u>
Increase in cash and cash equivalents		145,668	-
Cash and cash equivalents at beginning of year		<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year		<u>145,668</u>	<u>-</u>

The notes on pages 40 to 68 form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

1. GENERAL INFORMATION

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

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

2. ACCOUNTING POLICIES

Accounting convention and basis of preparation

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

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

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

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

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

The principal accounting policies are set out below.

Application of new and revised IFRS

In the current year, the Company has applied a number of amendments to IFRS issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2015:

- | | |
|---|---|
| <ul style="list-style-type: none">- Amendments to IAS 19 - Defined Benefit Plans: Employee Contributions. | <p>The amendments to IAS 19, Defined Benefit Plans: Employee Contributions, clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee. The application of these amendments to IAS 19 has not had an impact on the Company's financial statements.</p> |
|---|---|

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

2. ACCOUNTING POLICIES- continued

Application of new and revised IFRS - continued

- Annual Improvements to IFRS 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle. The Annual Improvements to IFRS 2010-2012 Cycle and IFRS 2011-2013 Cycle include a number of amendments to various IFRS. The application of these amendments has not had a significant impact on the Company's financial statements.

New and revised standards in issue but not yet effective

The Company has not applied the following new and revised IFRS that have been issued but are not yet effective for the year ended 31 December 2015:

- IFRS 9 - Financial Instruments (1 January 2018). A revised version of IFRS 9, Financial Instruments, was issued in July 2014 mainly to include: a) impairment requirements for financial assets; and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments. The directors anticipate that the application of IFRS 9 in the future is unlikely to have an impact on amounts reported in respect of the Company's financial assets and financial liabilities.
- IFRS 15 - Revenue from Contracts with Customers (1 January 2018). In May 2014, IFRS 15, Revenue from Contracts with Customers, was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 11 Construction Contracts, IAS 18 Revenue and the related Interpretations. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The directors anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company's financial statements. However, it is not practicable to provide a reasonable estimate of the effect until the Company undertakes a detailed review.
- IAS 1 – Disclosure Initiative (1 January 2016). The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. The directors do not anticipate that the application of these changes will have a material impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

2. ACCOUNTING POLICIES- continued

New and revised standards in issue but not yet effective - continued

- Amendments to IAS 16 and IAS 38 - The amendments to IAS 16 and IAS 38, Clarification of Acceptable Clarification of Acceptable Methods of Methods of Depreciation and Amortisation, prohibit entities from Depreciation and Amortisation (1 using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for the amortisation of an intangible asset. Currently the Company uses the straight-line method for depreciation and amortisation of property, plant and equipment, and intangible assets. The directors believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and, accordingly, the directors do not anticipate that the application of these amendments will have a material impact on the Company's financial statements.
- Annual Improvements to IFRS 2012- The Annual Improvements to IFRS 2012-2014 include a number of 2014 Cycle. amendments to various IFRS. The directors do not anticipate that the application of these amendments will have a significant impact on the Company's financial statements.

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

Critical judgements in applying accounting policies

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

- Revenue recognition.

Key sources of estimation uncertainty

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

- Useful economic lives for property, plant and equipment;
- The split of operating and capital expenditure and the allocation of overheads to property, plant and equipment;
- Impairment reviews carried out to evaluate the carrying value of assets held at the end of the reporting period; and
- Fair valuation measurements and valuation processes.

Revenue

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015**

2. ACCOUNTING POLICIES - continued

Revenue - continued

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

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

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

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

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

Software development costs

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

Property, plant and equipment

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

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

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

Freehold land is not depreciated.

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

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

2. ACCOUNTING POLICIES - continued

Property, plant and equipment - continued

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

Financial instruments

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

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

Inventories

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

Taxation

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

2. ACCOUNTING POLICIES - continued

Research costs

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

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

Foreign currencies

Transactions in foreign currencies are recognised at the rate of exchange prevailing at the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at that date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Leases

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

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

Provisions

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

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

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

Pensions

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015**

2. ACCOUNTING POLICIES - continued

Pensions - continued

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

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

Financial assets

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

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

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

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

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

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

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

Going concern

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

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SEGMENTAL REPORTING

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

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

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

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

4. EMPLOYEES AND DIRECTORS

	2015	2014
	£'000	£'000
Salaries	57,233	56,441
Social security costs	5,860	5,601
Defined benefit pension costs	17,866	17,577
Defined contribution pension costs	<u>2,039</u>	<u>1,949</u>
	82,998	81,568
Less charged to property, plant and equipment	<u>(49,562)</u>	<u>(48,386)</u>
	<u><u>33,436</u></u>	<u><u>33,181</u></u>

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

The average monthly number of employees during the year was:

	2015 No.	2014 No.
Technical	370	362
Industrial	591	611
Administration	99	101
Other	<u>120</u>	<u>120</u>
	<u><u>1,180</u></u>	<u><u>1,194</u></u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

4. EMPLOYEES AND DIRECTORS - continued

DIRECTORS' REMUNERATION

	2015 £'000	2014 £'000
Highest Paid:		
Short-term employee benefits	255	192
Post-employment benefits	20	24
Other long-term benefits	<u>322</u>	<u>301</u>
	<u>597</u>	<u>517</u>
	2015 £'000	2014 £'000
Total:		
Short-term employee benefits	627	544
Post-employment benefits	82	85
Other long-term benefits	<u>496</u>	<u>567</u>
	<u>1,205</u>	<u>1,196</u>
Directors who are a member of the defined benefit scheme	<u>3</u>	<u>4</u>

OTHER KEY PERSONNEL REMUNERATION

	2015 £'000	2014 £'000
Total:		
Short-term employee benefits	306	206
Post-employment benefits	74	49
Other long-term benefits	<u>227</u>	<u>106</u>
	<u>607</u>	<u>361</u>

Other key personnel includes a number of senior functional managers who, whilst not board directors, have authority and responsibility for planning, directing and controlling the activities of the Company. During the year ending 31 December 2015, the senior management team was reorganised which resulted in additional senior functional managers being classified as key personnel.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

5. NET FINANCE COSTS

	2015	2014
	£'000	£'000
Finance income:		
Dividends received	41	39
Deposit account interest	2	1
Interest receivable on loans to Group undertakings	<u>847</u>	<u>240</u>
	<u>890</u>	<u>280</u>
Finance costs:		
Bank interest	1,000	1,024
Interest payable on other loans	45,900	42,619
Borrowing costs capitalised	<u>(3,326)</u>	<u>(2,860)</u>
	<u>43,574</u>	<u>40,783</u>
Net finance costs	<u>42,684</u>	<u>40,503</u>

6. PROFIT BEFORE INCOME TAX

The profit before income tax is stated after charging:

	2015	2014
	£'000	£'000
Depreciation - owned assets	89,262	80,897
Profit on disposal of fixed assets	(264)	(185)
Software development costs amortisation	-	417
Research and development costs	2,727	3,269
Amortisation of deferred revenue	(23,044)	(21,653)
Impairment of trade and other receivables	<u>390</u>	<u>515</u>

Analysis of auditor's remuneration is as follows:

	2015	2014
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	122	96
Other assurance services	<u>48</u>	<u>14</u>
Total fees payable to the Company's auditor	<u>170</u>	<u>110</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

7. INCOME TAX**Analysis of tax expense**

	2015 £'000	2014 £'000
Current tax	29,219	39,218
Deferred tax	<u>(13,367)</u>	<u>1,740</u>
Total tax expense in statement of profit or loss	<u><u>15,852</u></u>	<u><u>40,958</u></u>

Factors affecting the tax expense

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

	2015 £'000	2014 £'000
Profit on ordinary activities before income tax	<u>162,511</u>	<u>191,587</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.25% (2014: 21.50%)	32,908	41,191
Effects of:		
Changes in legislation	(13,871)	-
Over provision for prior years' corporation tax	(3,329)	(1,780)
Permanent disallowances	39	29
Tax free capital receipts	(194)	-
Under provision for prior years' deferred tax	124	1,539
Other	<u>175</u>	<u>(21)</u>
Tax expense	<u><u>15,852</u></u>	<u><u>40,958</u></u>
	2015 £'000	2014 £'000
Tax expense comprises:		
Current tax expense:		
Corporation tax charge for the year	32,548	40,998
Over provision for prior years	<u>(3,329)</u>	<u>(1,780)</u>
Total current tax charge	29,219	39,218
Deferred tax:		
Deferred tax expenses relating to the origination and reversal of temporary differences	504	1,740
Effect of changes in legislation	<u>(13,871)</u>	<u>-</u>
Total deferred tax charge	<u><u>(13,367)</u></u>	<u><u>1,740</u></u>
Tax on profit before tax	<u><u>15,852</u></u>	<u><u>40,958</u></u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

7. INCOME TAX - continued

The Finance Act 2015 included a provision that the standard rate of corporation tax in the United Kingdom was to reduce from 20% to 19% from April 2017 and to 18% from April 2020. Accordingly, 18% has been applied when calculating deferred tax assets and liabilities throughout the Northern Powergrid Group as at 31 December 2015.

8. DIVIDENDS

	2015	2014
	£'000	£'000
Interim dividend at 9.5p (2014; 14p) per share	<u>27,600</u>	<u>40,000</u>

9. OPERATING EXPENSES

	2015	2014
	£'000	£'000
Operating expenses comprise		
Distribution costs	137,482	128,164
Administrative expenses	<u>60,973</u>	<u>57,594</u>
	<u>198,455</u>	<u>185,758</u>

10. INTANGIBLE ASSETS

	Software development Costs £'000
COST	
At 1 January 2015 and 31 December 2015	<u>29,497</u>
AMORTISATION	
At 1 January 2015 and 31 December 2015	<u>29,497</u>
NET BOOK VALUE	
At 31 December 2015	<u>-</u>
	Software development Costs £'000
COST	
At 1 January 2014 and 31 December 2014	<u>29,497</u>
AMORTISATION	
At 1 January 2014	29,080
Amortisation of year	<u>417</u>
At 31 December 2014	<u>29,497</u>
NET BOOK VALUE	
At 31 December 2015	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

11. PROPERTY, PLANT AND EQUIPMENT

	Non operational land & buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
COST				
At 1 January 2015	4,505	3,395,089	25,531	3,425,125
Additions	-	281,523	5,583	287,106
Disposals	-	(10,739)	(413)	(11,152)
At 31 December 2015	<u>4,505</u>	<u>3,665,873</u>	<u>30,701</u>	<u>3,701,079</u>
DEPRECIATION				
At 1 January 2015	2,059	680,827	18,953	701,839
Charge for year	178	86,430	2,654	89,262
Eliminated on disposal	-	(10,659)	(413)	(11,072)
At 31 December 2015	<u>2,237</u>	<u>756,598</u>	<u>21,194</u>	<u>780,029</u>
NET BOOK VALUE				
At 31 December 2015	<u>2,268</u>	<u>2,909,275</u>	<u>9,507</u>	<u>2,921,050</u>
	Non operational land & buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
COST				
At 1 January 2014	4,505	3,150,099	22,851	3,177,455
Additions	-	253,474	2,890	256,364
Disposals	-	(8,484)	(210)	(8,694)
At 31 December 2014	<u>4,505</u>	<u>3,395,089</u>	<u>25,531</u>	<u>3,425,125</u>
DEPRECIATION				
At 1 January 2014	1,882	610,597	17,152	629,631
Charge for year	177	78,709	2,011	80,897
Eliminated on disposal	-	(8,479)	(210)	(8,689)
At 31 December 2014	<u>2,059</u>	<u>680,827</u>	<u>18,953</u>	<u>701,839</u>
NET BOOK VALUE				
At 31 December 2014	<u>2,446</u>	<u>2,714,262</u>	<u>6,578</u>	<u>2,723,286</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

11. PROPERTY, PLANT AND EQUIPMENT - continued

Assets in the course of construction included above:

	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
At 1 January 2015	191,219	-	191,219
Additions	281,523	5,583	287,106
Available for use	<u>(280,175)</u>	<u>(5,583)</u>	<u>(285,758)</u>
At 31 December 2015	<u>192,567</u>	<u>-</u>	<u>192,567</u>

The Company has entered into contractual commitments in relation to the future acquisition of property, plant and equipment of £32.6m (2014: £54.2m).

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

	2015 £'000	2014 £'000
Freehold	1,346	1,467
Long leasehold	772	804
Short leasehold	<u>150</u>	<u>175</u>
	<u>2,268</u>	<u>2,446</u>

12. INVENTORIES

	2015 £'000	2014 £'000
Work-in-progress	<u>465</u>	<u>281</u>

13. CASH AND CASH EQUIVALENTS

	2015 £'000	2014 £'000
Due from group undertaking	<u>145,668</u>	<u>-</u>

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

14. TRADE AND OTHER RECEIVABLES

	2015 £'000	2014 £'000
Current:		
Distribution use of system receivables	57,282	67,006
Other receivables	4,166	1,780
Prepayments and accrued income	<u>2,372</u>	<u>2,405</u>
	<u>63,820</u>	<u>71,191</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

14. TRADE AND OTHER RECEIVABLES - continued

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

Distribution use of system receivables

The customers served by the Company's distribution network are supplied predominantly by a small number of electricity supply businesses with RWE NPower plc accounting for approximately 24% of distribution revenues in 2015 (2014: 26%). Ofgem has determined a framework which sets credit limits for each supply business based on its credit rating or payment history and requires them to provide credit cover if their value at risk (measured as being equivalent to 45 days usage) exceeds the credit limit. Acceptable credit typically is provided in the form of a parent company guarantee, letter of credit or an escrow account. Included within other payables are customer deposits of £414,000 as at 31 December 2015 (2014: £141,000).

Ofgem has indicated that, provided the Company has implemented credit control, billing and collection processes in line with best practice guidelines and can demonstrate compliance with the guidelines or is able to satisfactorily explain departure from the guidelines, any bad debt losses arising from supplier default will be recovered through an increase in future allowed income. Losses incurred to date have not been material. Included in the Company's use of system ("UoS") receivables are debtors with a carrying value of £nil, which have been placed into administration and have, therefore, been provided in full at the year-end (2014: £nil)

Amounts receivable from sale of goods and services

Sales of goods and services comprise all income streams which are not classified as UoS income. Examples of non-UoS income streams would be service alterations 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 (2014: 30 days). Interest is not generally charged on the trade receivables paid after the due date. An allowance for doubtful debts is made for debts past their due date based on estimated irrecoverable amounts from the sale of goods and services, determined by reference to past default experience.

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £2.2 million (2014: £1.5 million) which are past due at the reporting date and for which the Company has provided an irrecoverable amount of £0.7 million (2014: £0.6 million) based on past experience. The Company does not hold any collateral over these balances. The average age of these receivables is 297 days (2014: 307 days).

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £0.4 million (2014: £0.5 million). These amounts are past due at the reporting date and the Company has not provided for any amounts as not being recoverable, because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances. The average age of these receivables is 96 days (2014: 76 days).

Ageing of past due but not impaired receivables

	2015	2014
	£'000	£'000
30-60 days	167	276
60-120 days	82	94
120-210 days	<u>129</u>	<u>81</u>
Total	<u><u>378</u></u>	<u><u>451</u></u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

14. TRADE AND OTHER RECEIVABLES – continued**Movement in the allowance for doubtful debts**

	2015	2014
	£'000	£'000
At 1 January	618	240
Amounts utilised/written off in the year	(287)	(137)
Amounts recognised in statement of profit or loss	390	515
At 31 December	721	618

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

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £0.4 million (2014: £0.4 million) which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

Categories of financial assets

	2015	2014
	£'000	£'000
Cash and bank balances	145,668	-
Loans and receivables at amortised cost	61,448	68,786
Total financial assets	207,116	68,786
Non-current assets	2,921,050	2,723,286
Inventories	465	281
Prepayments and accrued income	2,372	2,405
Total non-financial assets	2,923,887	2,725,972
Total assets	3,131,003	2,794,758

15. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2015	2014
			£'000	£'000
290,000,000	Ordinary share capital	£1	290,000	290,000

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

16. RESERVES

	Retained earnings £'000
At 1 January 2015	710,408
Profit for the year	146,659
Dividends paid	<u>(27,600)</u>
At 31 December 2015	<u>829,467</u>
	Retained earnings £'000
At 1 January 2014	599,779
Profit for the year	150,629
Dividends paid	<u>(40,000)</u>
At 31 December 2014	<u>710,408</u>

17. TRADE AND OTHER PAYABLES

	2015 £'000	2014 £'000
Current:		
Payments on account	49,465	33,792
Trade creditors	6,023	4,633
Amounts owed to Group undertakings	440	456
Social security and other taxes	11,085	12,447
Other creditors	5,944	6,200
Deferred revenue	24,836	23,043
Accrued expenses	<u>31,967</u>	<u>30,196</u>
	<u>129,760</u>	<u>110,767</u>
Non-current:		
Deferred revenue	<u>728,901</u>	<u>698,817</u>
Aggregate amounts	<u>858,661</u>	<u>809,584</u>

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

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

17. TRADE AND OTHER PAYABLES - continued

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

	Less than 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
2015:					
Non-interest bearing	55,459	-	-	-	55,459
Variable interest rate					
liability	53	-	-	-	53
Fixed interest rate					
liability	18,500	30,137	394,546	1,068,064	1,511,247
	<u>74,012</u>	<u>30,137</u>	<u>394,546</u>	<u>1,068,064</u>	<u>1,566,759</u>
2014:					
Non-interest bearing	53,932	-	-	-	53,932
Variable interest rate					
liability	92,400	-	-	-	92,400
Fixed interest rate liability	18,500	23,053	166,213	987,535	1,195,301
	<u>164,832</u>	<u>23,053</u>	<u>166,213</u>	<u>987,535</u>	<u>1,341,633</u>

Categories of financial liabilities

	2015 £'000	2014 £'000
Loans and payables at amortised cost	<u>1,017,875</u>	<u>828,353</u>
Total financial liabilities	<u>1,017,875</u>	<u>828,353</u>
Payments received on account	49,465	33,792
Income tax liabilities	145,408	165,503
Other taxes and social security	11,085	12,447
Accruals	31,967	30,196
Deferred Revenue	753,737	721,860
Provisions	<u>1,999</u>	<u>2,199</u>
Total non-financial liabilities	<u>993,661</u>	<u>965,997</u>
Total liabilities	<u>2,011,536</u>	<u>1,794,350</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

17. TRADE AND OTHER PAYABLES - continued**Deferred Revenue**

	2015 £'000	2014 £'000
At 1 January	721,860	698,048
Additions	54,921	45,465
Amortisation	<u>(23,044)</u>	<u>(21,653)</u>
At 31 December	<u>753,737</u>	<u>721,860</u>

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

18. BORROWINGS

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

	Book Value		Fair Value	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Loans	1,005,468	793,664	1,121,056	938,828
Amounts owed to Group undertakings	<u>-</u>	<u>23,400</u>	<u>-</u>	<u>23,400</u>
	<u>1,005,468</u>	<u>817,064</u>	<u>1,121,056</u>	<u>962,228</u>
The borrowings are repayable as follows:				
On demand or within one year	33,294	122,721	33,294	122,721
After one year	<u>972,174</u>	<u>694,343</u>	<u>1,087,762</u>	<u>839,507</u>
	<u>1,005,468</u>	<u>817,064</u>	<u>1,121,056</u>	<u>962,228</u>
Analysis of borrowings:				
Short-term loan	53	69,058	53	69,058
Inter-company short-term loan	-	23,400	-	23,400
2020 - 9.25% bonds	217,079	216,931	269,764	280,130
2035 - 5.125% bonds	203,834	203,724	240,312	246,345
2032 - 4.375% bonds	150,409	153,656	164,512	174,591
2022 - European Investment Bank 4.133%	153,674	150,295	172,953	168,704
2025 - 2.5% bonds	150,280	-	146,585	-
2027 - European Investment Bank 2.564%	<u>130,139</u>	<u>-</u>	<u>126,877</u>	<u>-</u>
	<u>1,005,468</u>	<u>817,064</u>	<u>1,121,056</u>	<u>962,228</u>

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

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

18. BORROWINGS -continued

Interest on short-term loans and on inter-company short-term loans is charged at a floating rate of interest at 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 £0.3m per year. This is considered to be an acceptable level of risk. All other loans are at fixed interest rates and expose the Company to fair value interest rate risk.

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

The Company's Senior Total Net Debt as at 31 December 2015 totalled £835.2 million. Using the RAV value as at March 2016, as outlined by Ofgem in its electricity distribution price control financial model published in November 2015, and adjusting for the effects of movements in the value of the Retail Prices Index ("RPI") gives an approximation for the RAV value as at December 2015 of £1,640.0 million. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 50.9% (2014: 50.4%).

At 31 December 2015, the Company had available £94.0 million (2014: £63.0 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

19. LEASING AGREEMENTS

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

	2015	2014
	£'000	£'000
Within one year	2,590	3,124
Between one and five years	5,098	5,737
In more than five years	<u>545</u>	<u>284</u>
	<u>8,233</u>	<u>9,145</u>
	2015	2014
	£'000	£'000
Minimum lease payments under operating leases recognised in the year	<u>4,514</u>	<u>4,658</u>

20. PROVISIONS

	2015	2014
	£'000	£'000
Provisions	<u>1,999</u>	<u>2,199</u>
Analysed as follows:		
Current	1,113	1,287
Non-current	<u>886</u>	<u>912</u>
	<u>1,999</u>	<u>2,199</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

20. PROVISIONS - continued

	Claims	Other	Total
	£'000	£'000	£'000
At 1 January 2015	857	1,342	2,199
Utilised/paid in the year	(895)	(733)	(1,628)
Charged to statement of profit or loss	<u>776</u>	<u>652</u>	<u>1,428</u>
At 31 December 2015	<u>738</u>	<u>1,261</u>	<u>1,999</u>

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

Other: Primarily consists of a provision for future safe disposal of transformers which contain oil contaminated with Polychlorinated Biphenyls (PCBs) and for an amount to cover claims made under section 74 of the New Road and Street Works Act 1991. Costs are expected to be incurred over the next 15 years.

21. DEFERRED TAX

	Accelerated Tax Depreciation	Other	Total
	£'000	£'000	£'000
At 1 January 2015	147,820	(260)	147,560
(Credit)/charge to statement of profit or loss	<u>(13,397)</u>	<u>30</u>	<u>(13,367)</u>
At 31 December 2015	<u>134,423</u>	<u>(230)</u>	<u>134,193</u>

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

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

22. EMPLOYEE BENEFIT OBLIGATIONS

Introduction

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015**

22. EMPLOYEE BENEFIT OBLIGATIONS – continued

Introduction - continued

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

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

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

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

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

Role of Trustees

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

Funding requirements

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

Agreement was reached during October 2014 with the Trustees to repair the funding deficit of £286.4m as at 31 March 2013 over the 12 year period to 31 March 2025, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2013 being borne out in practice. The agreement includes cash payments of £34.9m per annum (of which £8.0m is borne by the Company) over the period to 31 March 2015, made on a monthly basis, followed by an agreed profile of payments to be made over the remaining ten years of the recovery plan, as set out below:

1 April 2015 to 31 March 2016	£28.6m p.a.
1 April 2016 to 31 March 2025	£18.4m p.a.

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015**

22. EMPLOYEE BENEFIT OBLIGATIONS - continued

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

The contributions payable by the Northern Powergrid Group to the DB Scheme in respect of future benefits, which are accruing, are 34.2% of pensionable pay. These contributions were determined as part of the 31 March 2013 actuarial valuation and are payable in addition to the deficit repair contributions mentioned above. These rates will remain in place until such a time as a new schedule of contributions is agreed between the Trustees and Northern Electric plc as part of the 31 March 2016 valuation. In addition, the Company pays 3.0% of pensionable pay to the DB Scheme in respect of the expenses of running the DB Scheme.

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

Pensions' Regulation

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

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

The Pensions Regulator has various powers including the power to:

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

Profile of the DB Scheme

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

22. EMPLOYEE BENEFIT OBLIGATIONS - continued

Risks associated with the DB Scheme

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

Risk	Description	Mitigation
Volatile asset returns	The DBO is calculated using a discount rate set with reference to corporate bond yields. If assets underperform this discount rate, this will create an element of deficit. The DB Scheme aims to hold a significant proportion (48%) of its assets in growth assets (such as equities) which, although expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term.	The allocation to growth assets is monitored to ensure it remains appropriate given the DB Scheme's long-term objectives. The Trustees regularly review the strategy from growth seeking assets and have diversified some return-seeking assets from equities into Reinsurance and Listed Infrastructure to reduce overall risk. To avoid concentration risk, the allocation to UK equity is restricted to 35% of the total equity allocation.
Changes in bond yields	A decrease in corporate bond yields will increase the value placed on the DBO for accounting purposes, although this will be partially offset by an increase in the value of the DB Scheme's bond holdings.	The DB Scheme also holds a substantial proportion of its assets (52%) as bonds, which provide a hedge against falling bond yields (falling yields which increase the DBO will also increase the value of the bond assets). There are some differences in the credit quality of bonds held by the DB Scheme and the bonds analysed to decide the DBO discount rate, such that there remains some risk should yields on different quality bond/swap assets diverge.
Inflation risk	A significant proportion of the DBO is indexed in line with price inflation (specifically in line with RPI) and higher inflation will lead to higher liabilities.	The DB Scheme holds around 30% in UK government index-linked bonds which provide a hedge against higher than expected inflation increases of the DBO (rising inflation will increase both the DBO and the value of the index-linked bond portfolio).
Currency risk	To increase diversification, the DB Scheme invests in overseas assets. This leads to a risk that foreign currency movements negatively impact the value of assets in Sterling terms.	The DB Scheme hedges a proportion of the overseas investments currency risk for those overseas currencies that can be hedged efficiently. The DB Scheme's currency hedging ratio is currently 50% in respect of overseas developed market currencies.
Life expectancy	The majority of the DB Scheme's obligations are to provide benefits for the pensionable lifetime of the member, so increases in life expectancy will result in an increase in the liabilities.	The DB Scheme regularly reviews actual experience of its membership against the actuarial assumptions underlying the future benefit projections and carries out detailed analysis when setting an appropriate scheme specific mortality assumption.

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

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

22. EMPLOYEE BENEFIT OBLIGATIONS - continued

Other risks

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

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

Reporting at 31 December 2015

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

The results of the latest funding valuation at 31 March 2013 have been adjusted to 31 December 2015. Those adjustments take account of experience over the period since 31 March 2013, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the DBO and the related current service cost were measured using the Projected Unit Credit Method.

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

The Company's total pension cost for the year ended 31 December 2015 was £19.9m (2014: £19.5m).

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

Main financial assumptions	2015 % p.a.	2014 % p.a.
RPI Inflation	2.90	2.80
Rate of long-term increase in salaries	2.90	2.80
Pension increases	2.80	2.70
Discount rate for scheme liabilities	3.70	3.60

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

Main demographic assumptions	2015	2014
Life expectancy for a male currently aged 60	27.0	27.1
Life expectancy for a female currently aged 60	28.7	28.9
Life expectancy at 60 for a male currently aged 45	28.5	28.7
Life expectancy at 60 for a female currently aged 45	30.4	30.6
Proportion of pension exchanged for additional cash at retirement	10%	10%

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

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

22. EMPLOYEE BENEFIT OBLIGATIONS - continued

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

Asset allocation	2015	2014
	£m	£m
Developed market equity	311.0	306.2
Emerging market equity	11.2	12.6
Property	146.0	130.3
Reinsurance	68.2	64.5
Listed infrastructure	90.1	84.7
Investment grade corporate bonds	375.5	343.1
Other debt	38.7	57.4
Fixed interest gilts	24.9	28.5
Index-linked gilts	453.7	452.7
Cash	22.0	36.0
Total	1,541.3	1,516.1

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

As at 31 December 2015, the fair value of the DB Scheme's assets, which related to self-investment, amounted to Nil% (2014: Nil%).

Changes to the present value of the DBO during the year	2015	2014
	£m	£m
Opening DBO	1,463.2	1,321.3
Current service cost	15.9	14.5
Interest expense on defined benefit obligation	52.0	57.3
Contributions by DB Scheme participants	1.5	1.5
Actuarial gains on DB Scheme liabilities arising from changes in demographic assumptions	(12.4)	(19.2)
Actuarial losses on DB Scheme liabilities arising from changes in financial assumptions	(1.9)	110.4
Actuarial losses on DB Scheme liabilities arising from experience	(5.6)	33.3
Net benefits paid out	(59.5)	(55.9)
Closing DBO	1,453.2	1,463.2

Changes in the fair value of DB Scheme assets of the Northern Powergrid Group during the year	2015	2014
	£m	£m
Opening fair value of DB Scheme assets	1,516.1	1,310.7
Interest income on DB Scheme assets	54.5	57.6
Re-measurement gains on DB Scheme assets	(20.3)	149.6
Contributions by the employer	50.2	54.1
Contributions by DB Scheme participants	1.5	1.5
Net benefits paid out	(59.5)	(55.9)
Administration costs incurred	(1.2)	(1.5)
Closing fair value of DB Scheme assets	1,541.3	1,516.1

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2015

22. EMPLOYEE BENEFIT OBLIGATIONS - continued

	2015	2014
	£m	£m
Interest income on DB Scheme assets	54.5	57.6
Re-measurement gain on DB Scheme assets	(20.3)	149.6
Actual return on DB Scheme assets	34.2	207.2

Sensitivity to key assumptions

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

	Changes in DBO £'000	Revised DBO £'000
Current figures	1,453.2	
Following a 10 bps decrease in the discount rate	25.9	1,479.1
Following a 10 bps increase in the discount rate	(25.6)	1,427.6
Following a 10 bps increase in the inflation assumption	23.1	1,476.3
Following a 10 bps decrease in the inflation assumption	(21.3)	1,431.9
Following a 1 year increase in life expectancy	49.5	1,502.7
Following a 1 year decrease in life expectancy	(50.1)	1,403.1

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

23. RELATED PARTY DISCLOSURES

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

	Sales to related parties £'000	Purchases from related parties £'000	Amounts owed to related parties (Note 17) £'000	Finance income to related parties (Note 5) £'000	Borrowings to/(from) related parties (Notes 13 & 18) £'000
Related Party 2015					
Integrated Utility Services Limited	112	1,370	-	-	-
Integrated Utility Services Limited (registered in Eire)	-	212	25	-	-
Northern Electric plc	-	3,962	-	-	-
Northern Powergrid Insurance Services Limited	-	633	-	-	-
Northern Powergrid Metering Limited	305	-	-	-	-
Northern Powergrid (Northeast) Limited	9,294	17,887	-	-	-
Vehicle Lease and Service Limited	62	3,929	415	-	-
Yorkshire Electricity Group plc	-	-	-	847	145,668
	<u>9,773</u>	<u>27,993</u>	<u>440</u>	<u>847</u>	<u>145,668</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2015

23. RELATED PARTY DISCLOSURES - continued

	Sales to related parties	Purchases from related parties	Amounts owed to related parties Note 17	Finance income to related parties Note 5	Borrowings to/(from) related parties Notes 13/18
Related Party					
2014					
Integrated Utility Services Limited	400	1,663	-	-	-
Integrated Utility Services Limited (registered in Eire)	-	197	15	-	-
Northern Electric plc	-	4,663	-	-	-
Northern Powergrid Insurance Services Limited	-	846	-	-	-
Northern Powergrid Metering Limited	117	-	-	-	-
Northern Powergrid (Northeast) Limited	9,354	15,466	-	-	-
Vehicle Lease and Service Limited	62	4,019	441	-	-
Yorkshire Electricity Group plc	-	-	-	240	(23,400)
	<u>9,933</u>	<u>26,854</u>	<u>456</u>	<u>240</u>	<u>(23,400)</u>

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

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

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

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

	2015 £'000	2014 £'000
Profit before income tax	162,511	191,587
Depreciation charges	89,262	81,314
Profit on disposal of fixed assets	(264)	(185)
Amortisation of deferred revenue	(23,044)	(21,653)
(Decrease)/increase in provisions	(199)	218
Finance costs	43,574	40,783
Finance income	(890)	(280)
	<u>270,950</u>	<u>291,784</u>
Increase in inventories	(184)	(32)
Decrease/(increase) in trade and other receivables	7,566	(16,387)
(Decrease)/increase in trade and other payables	(3,020)	8,404
Cash generated from operations	<u>275,312</u>	<u>283,769</u>

NORTHERN POWERGRID (YORKSHIRE) PLC

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2015

25. ULTIMATE CONTROLLING PARTY

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

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