

**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011
FOR
NORTHERN ELECTRIC FINANCE PLC**

**CONTENTS OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Page
Company Information	1
Report of the Directors	2
Report of the Independent Auditor	8
Income Statement	9
Statement of Comprehensive Income	10
Statement of Financial Position	11
Statement of Changes in Equity	12
Statement of Cash Flows	13
Notes to the Financial Statements	14

NORTHERN ELECTRIC FINANCE PLC

**COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2011**

DIRECTORS:

G E Abel
P Ainsley
P A Jones
T E Fielden

SECRETARY:

J Elliott

REGISTERED OFFICE:

Lloyds Court
78 Grey Street
Newcastle Upon Tyne
NE1 6AF

REGISTERED NUMBER:

3070482 (England and Wales)

AUDITORS:

Deloitte LLP
Newcastle upon Tyne

NORTHERN ELECTRIC FINANCE PLC (REGISTERED NUMBER: 3070482)

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2011

The directors present the annual report and accounts of Northern Electric Finance plc (the "Company") for the year ended 31 December 2011, which includes the business review and audited financial statements for that year. Pages 2 to 6 inclusive of this annual report comprise a directors' report that has been drawn up and presented in accordance with the Companies Act 2006.

Cautionary statement regarding forward-looking statements

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

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

PRINCIPAL ACTIVITY

The Company is a subsidiary of Northern Powergrid (Northeast) Limited ("Northern Powergrid"), which was previously called Northern Electric Distribution Limited, is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group"), and was established in August 1995 to raise finance, including the issue of long-term bonds, on behalf of the Northern Electric group of companies, which is also part of the Northern Powergrid Group. During the year, the Company continued to be the issuer of long-term bonds.

Given that the sole purpose of the Company is to raise finance on behalf of Northern Powergrid, its immediate parent company, the objective of the Company is to ensure that it has sufficient funds to cover its interest charges as they fall due. Details of key performance indicators used in the Northern Powergrid Group can be found in the Business Review in the Northern Powergrid Holdings Company directors' report.

Details of the key risks faced by the Company in respect of its borrowings can be found on page 4 of this directors' report and in Note 10 to the accounts.

REVIEW OF BUSINESS

FINANCIAL REVIEW

Results and dividends

The Company made a loss after tax for the year of £83,000 (2010: loss £33,000). No dividends were paid during the year and the directors recommend that no final dividend be paid in respect of the year.

Share capital

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

Taxation

Full details of the Company's taxation charge are provided in Note 5 to the accounts.

Net cash inflow from operating activities

The net cash outflow from operating activities was £46,000 (2010: £7,000) reflecting a reduction in interest received and an increase in interest paid compared to the prior year.

DIVIDENDS

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.

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2011**

RESEARCH AND DEVELOPMENT

Given that the sole purpose of the Company is to raise finance on behalf of Northern Powergrid, the Company does not undertake research and development.

FUTURE DEVELOPMENTS

The financial position of the Company, as at the year end, is shown in the statement of financial position on page 11. There have been no significant events since the year end and it is the intention of the directors that the Company will continue to raise finance on behalf of the Northern Powergrid Group, if required, in the future.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2011 to the date of this report.

G E Abel	Chairman
P Ainsley	Financial Controller
T E Fielden	Finance Director
P A Jones	President and Chief Executive Officer

GOING CONCERN

The Company's business activities, together with details regarding its future development, performance and position are set out in the Review of Business in the Directors' Report. In addition, the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk are included in the Principal Risks and Uncertainties section of the Directors' Report and the appropriate notes to the accounts.

When considering continuing to adopt the going concern basis in preparing the annual report and accounts, the directors have taken account of a number of factors that arise due to the Company being a wholly-owned subsidiary of Northern Powergrid, including the following:

- a) Northern Powergrid is a stable electricity distribution business operating an essential public service and is regulated by the Gas and Electricity Markets Authority ("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 their 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;
- b) Northern Powergrid is profitable with strong underlying cash flows resulting in low gearing and holds investment grade credit ratings; and
- c) Northern Powergrid has access to considerable financial resources, in the form of short-term borrowings made available by Yorkshire Electricity Group plc, a fellow company in the Northern Powergrid Group, and also has committed revolving credit facilities in place from Lloyds TSB Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc until 31 March 2013.

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

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2011**

PRINCIPAL RISKS AND UNCERTAINTIES

Liquidity risk

The principal risk facing the Company is not having sufficient liquidity to enable the Company to meet its liabilities as they fall due and to provide adequately for contingencies. In this respect, borrowing facilities are made available to the Company by other companies in the Northern Powergrid Group, if required. The Company continues to maintain its investment grade issuer credit rating.

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 2011, 100 % of the Company's borrowings were at fixed rates and the average maturity of these borrowing was 18 years.

Currency risk

No material currency risks are faced by the Company.

Trading risk

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

Financial derivatives

As at 31 December 2011 and during the year it was the Company's policy not to hold any derivative financial instruments.

CORPORATE GOVERNANCE STATEMENT

Section 1B.1.5R of the Disclosure and Transparency Rules ("DTR") requires an issuer, whose transferable securities are admitted to trading, to provide, in its annual directors' report, a corporate governance statement. However, DTR 1B.1.6R provides that the rules in DTR 7.2.2R, 7.2.3R and 7.2.7R do not apply to an issuer, which has not issued shares, which are admitted to trading. Accordingly, as the Company has no shares admitted to trading, it is eligible for the exemption provided by DTR 1B.1.6R.

Main features of the internal control risk and management systems

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

The risk management framework was monitored regularly during the year to ensure that all strategic risks, including those relating to environmental and social issues, were being addressed. Risk management policies and procedures were reviewed and updated to ensure a robust and clear approach was maintained. Mr R Dixon, an independent non-executive director of both Northern Powergrid Holdings Company and Northern Powergrid, attends meetings of the GRMG to provide an independent view in respect of the matters discussed.

The Northern Powergrid Group is 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. During 2011, the board of Northern Powergrid Holdings Company addressed the risks introduced by the Bribery Act 2010 through a new 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.

The Northern Powergrid Group operates a structured and disciplined approach to the management of risk, as part of the overall risk management approach. Those risks assessed to be significantly high are logged within a risk register that is reviewed regularly by the GRMG and key indicators track the number of significant risks actively monitored by the GRMG at any one time.

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2011**

Risks are assessed with due regard to probability and impact and the risk environment is reviewed continually in order that new or emerging potential risks are identified. Risk mitigation and loss control plans are prepared in response to strategic risks in order that the directors can be assured that appropriate mitigating actions are in place and being implemented. These plans are monitored through to implementation and reviewed to determine whether the level of residual, mitigated risk is within an acceptable level of tolerance.

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. MidAmerican Energy Holdings Company, a parent company of the Company, requires a quarterly control risk self-assessment to be undertaken by all senior managers as part of its programme for compliance with the requirements of the Sarbanes-Oxley Act. During the year, the Northern Powergrid Group completed the annual, extensive programme to review its company-wide controls and opportunities to enhance control arrangements, identified by that review, have been implemented.

Other key features of the Northern Powergrid Group's 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 to provide independent scrutiny of internal control systems and risk management procedures, including the standards required by the Sarbanes-Oxley Act;
- 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.

Details of other financial risks faced by the Company can be found on page 4 of the Directors' Report.

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 statutory auditor. DTR 7 requires an audit committee to have at least one independent member and a member with competence in accounting and/or auditing, although these requirements could be satisfied by one and the same person. Given that Mr Dixon is an independent non-executive director of Northern Powergrid Holdings Company and Northern Powergrid, the Audit Committee comprises:

R Dixon
T E Fielden

Non-Executive Director
Finance Director

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2011**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing 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 in 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 its profit or loss for that period. In preparing these financial statements, International Accounting Standard 1 requires the directors to:

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

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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

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

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

AUDITORS

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

ON BEHALF OF THE BOARD:



J Elliott
Secretary
2 March 2012

NORTHERN ELECTRIC FINANCE PLC (REGISTERED NUMBER: 3070482)

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

Each of the directors as at the date of the Annual Report, whose names and functions are set out on page 3 of the Report of the Directors confirms that, to the best of their knowledge:

- a) the Company 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 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.

The responsibility statement was approved by the Board of Directors on 2 March 2012 and signed by:

A handwritten signature in black ink, appearing to read 'P A Jones', with a stylized flourish at the end.

P A Jones
President and Chief Executive Officer

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF NORTHERN ELECTRIC FINANCE PLC

We have audited the financial statements of Northern Electric Finance plc (the "Company") for the year ended 31 December 2011 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in a Report of the Auditors 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 six, 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 annual report to identify material inconsistencies with the audited financial statements. 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 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the 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.



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

 March 2012

NORTHERN ELECTRIC FINANCE PLC (REGISTERED NUMBER: 3070482)

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Notes	2011 £'000	2010 £'000
CONTINUING OPERATIONS			
Administrative expenses		<u>(6)</u>	<u>(6)</u>
OPERATING LOSS		(6)	(6)
Finance costs	4	(17,173)	(17,101)
Finance income	4	<u>17,031</u>	<u>17,043</u>
LOSS BEFORE INCOME TAX		(148)	(64)
Income tax	5	<u>65</u>	<u>31</u>
LOSS FOR THE YEAR		<u><u>(83)</u></u>	<u><u>(33)</u></u>

The notes form part of these financial statements

NORTHERN ELECTRIC FINANCE PLC (REGISTERED NUMBER: 3070482)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011**

	2011 £'000	2010 £'000
LOSS FOR THE YEAR	(83)	(33)
OTHER COMPREHENSIVE INCOME	—	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>(83)</u>	<u>(33)</u>

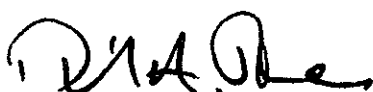
The notes form part of these financial statements

NORTHERN ELECTRIC FINANCE PLC (REGISTERED NUMBER: 3070482)

**STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2011**

	Notes	2011 £'000	2010 £'000
ASSETS			
NON-CURRENT ASSETS			
Trade and other receivables	6	<u>247,686</u>	<u>247,619</u>
CURRENT ASSETS			
Trade and other receivables	6	3,550	3,538
Tax receivable		3	-
Cash and cash equivalents	7	<u>1,674</u>	<u>1,720</u>
		<u>5,227</u>	<u>5,258</u>
TOTAL ASSETS		<u><u>252,913</u></u>	<u><u>252,877</u></u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	8	50	50
Retained earnings	9	<u>(792)</u>	<u>(709)</u>
TOTAL EQUITY		<u>(742)</u>	<u>(659)</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Borrowings	10	246,433	246,280
Deferred tax	11	<u>313</u>	<u>362</u>
		<u>246,746</u>	<u>246,642</u>
CURRENT LIABILITIES			
Borrowings	10	6,909	6,886
Tax payable		-	8
		<u>6,909</u>	<u>6,894</u>
TOTAL LIABILITIES		<u>253,655</u>	<u>253,536</u>
TOTAL EQUITY AND LIABILITIES		<u><u>252,913</u></u>	<u><u>252,877</u></u>

The financial statements were approved by the Board of Directors on 2 March 2012 and were signed on its behalf by:



P A Jones
Director

The notes form part of these financial statements

NORTHERN ELECTRIC FINANCE PLC (REGISTERED NUMBER: 3070482)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2010	50	(676)	(626)
Changes in equity			
Total comprehensive income	-	(33)	(33)
Balance at 31 December 2010	50	(709)	(659)
Changes in equity			
Total comprehensive income	-	(83)	(83)
Balance at 31 December 2011	50	(792)	(742)

The notes form part of these financial statements

NORTHERN ELECTRIC FINANCE PLC (REGISTERED NUMBER: 3070482)

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	2011 £'000	2010 £'000
Cash flows from operating activities			
Cash generated from operations	14	80	79
Interest paid		(17,158)	(17,140)
Interest received		17,019	17,059
Tax credit/(paid)		<u>13</u>	<u>(5)</u>
Net cash from operating activities		<u>(46)</u>	<u>(7)</u>
		<u> </u>	<u> </u>
Decrease in cash and cash equivalents		(46)	(7)
Cash and cash equivalents at beginning of year		<u>1,720</u>	<u>1,727</u>
Cash and cash equivalents at end of year		<u><u>1,674</u></u>	<u><u>1,720</u></u>

The notes form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

1. GENERAL INFORMATION

Northern Electric Finance plc is a company originally incorporated in England and Wales under the Companies Act 1985. The address of the registered office is Lloyds Court, 78 Grey Street, Newcastle-upon-Tyne, NE1 6AF.

The nature of the Company's operations and its principal activities are set out in the Business Review, in the Director's Report on page 2.

2. ACCOUNTING POLICIES

Accounting convention and basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 (the "Act") that are applicable to companies reporting under IFRS.

The accounts have been prepared under the historical cost convention.

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 Directors Report.

Critical accounting policies

The particular policies adopted by the directors are described below. The accounting policies have been applied consistently throughout the year and the preceding year.

Adoption of new or revised standards

In the current year, the directors are not aware of any new or revised Standards or Interpretations which have impacted these financial statements.

Finance Income

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions on the instrument.

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are 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 impacted.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Cash and cash equivalents

Loans advanced to the parent company are included within cash and cash equivalents, having a maturity of less than three months on the basis that they are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2011**

2. ACCOUNTING POLICIES - continued

Taxation

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 as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised on 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 and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or asset realised, based on tax rates and tax legislation enacted or substantively enacted at the balance sheet date.

Borrowings

Borrowings are classified as other financial liabilities at amortised cost. They are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement for redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest rate method. They are added to the carrying amount of the instruments to the extent that they are not settled in the period in which they arise.

3. EMPLOYEES', DIRECTORS' AND AUDITOR'S REMUNERATION

No directors' or key personnel remuneration was charged for the year (2010: £nil). There are no directors' emoluments that are required to be disclosed under the Act (2010: £nil). There were no employees of the Company during the year (2010: nil).

Auditor's remuneration of £6,000 was charged to the Company for the year (2010: £6,000) in relation to the audit of the Company. There was no fees payable in relation to non-audit services in 2011 or 2010.

4. NET FINANCE COSTS

	2011 £'000	2010 £'000
Finance income:		
Interest receivable on loans to Group undertakings	<u>17,031</u>	<u>17,043</u>

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2011**

4. NET FINANCE COSTS - continued

	2011	2010
	£'000	£'000
Finance costs:		
Interest payable on other borrowings	17,130	17,064
Interest payable on loans from Group undertakings	<u>43</u>	<u>37</u>
	<u>17,173</u>	<u>17,101</u>
Net finance costs	<u>142</u>	<u>58</u>

5. INCOME TAX

Analysis of the tax credit

	2011	2010
	£'000	£'000
Current tax:		
Tax	(16)	6
Deferred tax	<u>(49)</u>	<u>(37)</u>
Total tax credit in income statement	<u>(65)</u>	<u>(31)</u>

Factors affecting the tax charge

The credit for the year can be reconciled to the loss per the income statement as follows:

	2011	2010
	£'000	£'000
Loss on ordinary activities before tax	<u>(148)</u>	<u>(64)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.5% (2010 - 28%)	(39)	(18)
Effects of: change in legislation	<u>(26)</u>	<u>(13)</u>
Total income tax	<u>(65)</u>	<u>(31)</u>

NORTHERN ELECTRIC FINANCE PLC (REGISTERED NUMBER: 3070482)

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2011**

5. INCOME TAX - continued

	2011 £'000	2010 £'000
Tax expense comprises:		
Current tax expense:		
Payment for use of group losses	<u>16</u>	<u>6</u>
Total current tax charge	16	6
Deferred tax:		
Deferred tax expenses relating to the origination and reversal of temporary differences	(23)	(24)
Effect of changes in tax rate	<u>(26)</u>	<u>(13)</u>
Total deferred tax charge	<u>(49)</u>	<u>(37)</u>
Tax on profit before tax	<u>(31)</u>	<u>(31)</u>

The Finance Act 2011 includes a provision that the standard rate of corporation tax in the United Kingdom will reduce from 26% to 25% from April 2012. Accordingly, this rate has been applied when calculating deferred tax assets and liabilities throughout the Northern Powergrid Group as at 31 December 2011. The Government has announced that the standard rate of corporation tax will reduce further to 24% from April 2013 and to 23% from April 2014.

6. TRADE AND OTHER RECEIVABLES

	2011 £'000	2010 £'000
Current:		
Amounts owed by Group undertakings	<u>3,550</u>	<u>3,538</u>
Non-current:		
Amounts owed by Group undertakings	<u>247,686</u>	<u>247,619</u>

The fair value of the Trade and Other Receivables as at 31 December 2011 is estimated to be £299m (2010: £276m), 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.

Loans to Group undertakings are made to Northern Powergrid (Northeast) Limited, the Company's immediate parent, and are at fixed rates of interest. The maximum exposure to risk to the Company is the book value of these loans.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent amounts owed from Yorkshire Electricity Group plc, a company within the Northern Powergrid Group, 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.

NORTHERN ELECTRIC FINANCE PLC (REGISTERED NUMBER: 3070482)

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2011**

8. CALLED UP SHARE CAPITAL

	2011	2010
	No./£	No./£
Ordinary shares of £1 each;		
Authorised	50,000	50,000
Allotted, called up and fully paid	<u>50,000</u>	<u>50,000</u>

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

9. RESERVES

	Retained earnings £'000
At 1 January 2011	(709)
Deficit for the year	<u>(83)</u>
At 31 December 2011	<u>(792)</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2011

10. **BORROWINGS**

The Directors' consideration of liquidity, interest rate and foreign currency risk is described in detail in the Directors' Report.

	Book Value		Fair Value	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
The borrowings are repayable as follows:				
On demand or within one year	6,797	6,886	6,797	6,886
After five years	<u>246,545</u>	<u>246,280</u>	<u>295,564</u>	<u>274,014</u>
	<u>253,342</u>	<u>253,166</u>	<u>302,361</u>	<u>280,900</u>
Analysis of borrowings:				
2035 - 5.125%	152,744	152,683	161,544	147,651
2020 - 8.875%	<u>100,598</u>	<u>100,483</u>	<u>140,817</u>	<u>133,249</u>
	<u>253,342</u>	<u>253,166</u>	<u>302,361</u>	<u>280,900</u>

The fair value of the Company's borrowings is determined with reference to quoted market prices.

All loans are at fixed interest rates and expose the Company to fair value interest rate risk.

The Company's loans are guaranteed by Northern Powergrid (Northeast) Limited, its parent company.

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") of Northern Powergrid (Northeast) Limited. 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.

All borrowings are denominated in sterling. The Company has no undrawn committed borrowing facilities.

The following tables detail the remaining contractual maturities for 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
2011:					
Fixed interest rate liability	-	<u>16,563</u>	<u>66,250</u>	<u>431,563</u>	<u>514,375</u>
	-	<u>16,563</u>	<u>66,250</u>	<u>431,563</u>	<u>514,375</u>
2010:					
Fixed interest rate liability	-	16,563	66,250	458,375	541,188
	-	<u>16,563</u>	<u>66,250</u>	<u>458,375</u>	<u>541,188</u>

NORTHERN ELECTRIC FINANCE PLC (REGISTERED NUMBER: 3070482)

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2011**

11. DEFERRED TAX

	£'000
At 1 January 2011	362
Credit to income statement	<u>(49)</u>
At 31 December 2011	<u>313</u>

The balance represents deferred tax on unamortised issue costs.

12. RELATED PARTY DISCLOSURES

The Company has advanced loans to Northern Powergrid (Northeast) Limited, its immediate parent company. The total interest included in investment income for the year ended 31 December 2011 was £17,031,000 (2010: £17,043,000). Included within trade and other receivables is £251,236,000 as at 31 December 2011 (2010: £251,157,000) in respect of these loans. Included within cash and cash equivalents is £1,674,000 (2010: £1,720,000) in respect of these loans.

The Company has received loans from other companies in the Northern Powergrid Group. The total interest included in finance costs in the income statement for the year ended 31 December 2011 was £43,000 (2010: £37,000). Included within borrowings is £nil as at 31 December 2011 (2010: £nil) in respect of these loans.

Interest on loans to/from group companies is charged at a commercial rate.

13. ULTIMATE CONTROLLING PARTY

The immediate parent undertaking of Northern Electric Finance plc is Northern Powergrid (Northeast) Limited. The ultimate controlling party and ultimate parent undertaking of Northern Powergrid (Northeast) Limited 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 Electric Finance plc and the group accounts of Northern Electric plc, 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.

14. RECONCILIATION OF LOSS BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

	2011 £'000	2010 £'000
Loss before income tax	(148)	(64)
Finance costs	17,173	17,101
Finance income	<u>(17,031)</u>	<u>(17,043)</u>
	(6)	(6)
Increase in trade and other receivables	(67)	(60)
Increase in trade and other payables	<u>153</u>	<u>145</u>
Cash generated from operations	<u>80</u>	<u>79</u>