

**REPORT OF THE DIRECTORS AND
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
FOR
NORTHERN ELECTRIC PLC**

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FOR THE YEAR ENDED 31 DECEMBER 2012**

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NORTHERN ELECTRIC PLC

**COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2012**

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J M France
P J Goodman
P A Jones

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**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2012**

The directors present the annual report and accounts of Northern Electric plc (the "Company") and its subsidiary companies (together the "Group") for the year ended 31 December 2012, which includes the business review and audited financial statements for that year. Pages 2 to 23 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 part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group") and its principal activity during the year was to act as a holding company.

The activities of the Company's principal subsidiaries during the year were the distribution of electricity by Northern Powergrid (Northeast) Limited ("Northern Powergrid") and the provision of engineering contracting services by Integrated Utility Services Limited ("IUS").

Northern Powergrid serves an area of approximately 14,400 sq km in the northeast of England with a resident population of 3.2 million, which extends from North Northumberland, south to York and west to the Pennines. Northern Powergrid's distribution system receives electricity from generators connected to it and from the National Grid's transmission system and distributes it, at voltages of up to 132kV, to approximately 1.6 million customers connected to its network of transformers, switchgear, overhead and underground cables and other equipment. Northern Powergrid is an authorised distributor under the Electricity Act 1989 and holds an electricity distribution licence granted by the Secretary of State.

IUS operates an engineering contracting business, which is divided into three main streams. UK Contracting provides design, construction and maintenance services to public and private networks throughout the UK, Rail provides a total service from feasibility to design, installation, commissioning and on-going maintenance and Multi-utility provides new electrical, gas and water connections to housing and property developers.

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

<u>Principle</u>	<u>Strategy</u>	<u>Indicator</u>
Financial strength	Effective stewardship of the Group's financial resources, investing in assets and focusing on long-term opportunities, which contribute to the Group'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.

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

Principle	Strategy	Indicator
Operational excellence	Setting high standards for the Group'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 Group'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, effective regulatory engagement and industry influence.

RESEARCH AND DEVELOPMENT

In 2012 the Northern Powergrid Group continued working, in partnership with British Gas, Durham University and EA Technology, on a three-year project under Ofgem's Low Carbon Networks Fund, known as the Customer-Led Network Revolution. This was the largest project supported by Ofgem in the first year of the fund and the Northern Powergrid Group will incur expenditure of £31.0m over the three-year life of the project. Of that expenditure, 90% is funded by electricity customers in Great Britain. Successful delivery of the project over the three years agreed with Ofgem will enable recovery of the additional 10% from customers and potentially qualify for a further discretionary award. The project is assessing the potential for new network technology and flexible customer response to facilitate speedier and more economical take-up by customers of low-carbon technologies and the connection to the distribution network of increasing amounts of low-carbon or renewable energy generation.

The second year of the project has seen the trialling of equipment and operational techniques to allow the efficient application of low carbon technologies to the network. All the key project milestones for the year were met and the project remains on track to deliver learning that is relevant, timely and valuable.

The Group also supports a programme of research that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. That programme includes building on the previously successful field trials of newly developed superconducting fault limiters to provide alternatives to traditional engineering solutions for network constraints, the first device having gone live on the network during 2012. Other work includes the application of network risk methodologies to a range of business processes allowing better planning and execution of a variety of activities to improve efficiency and effectiveness and a continuing programme to develop and improve further condition-based reliability models of Northern Powergrid's key assets.

During the year, the Group invested £8,066,000 (2011: £4,075,000) (Note 6 to the accounts) in its research and development activities. The increase in expenditure in comparison to 2011 was mainly due to additional costs incurred in delivering the Customer-Led Network Revolution project noted above.

FUTURE DEVELOPMENTS

The financial position of the Group, as at 31 December 2012, is shown in the Consolidated Statement of Financial Position on page 31.

During the year, the Northern Powergrid Group published its view of the future for its electricity distribution business in a document entitled "Your Powergrid", which sets out what are considered to be the priorities for the next price control period, which will last for the eight years until March 2023. Those priorities include the Northern Powergrid Group's plans for investment and where in the asset base that investment is likely to take place.

Building on those plans, the directors intend to continue to develop the Group's business in a manner that concentrates on its core activity of electricity distribution by continuing to operate that business with the goal of out-performing the allowances in the distribution price control, while efficiently investing in the electricity distribution network with the aim of improving the quality of supply and service provided to its customers.

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

IUS will continue to develop its business in a manner that concentrates on its core skills of engineering contracting by delivering a high standard of service to its existing clients and pursuing opportunities to increase its portfolio of clients across all regions of the United Kingdom in the sectors within which it operates.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2012 to the date of this report.

G E Abel	Chairman
J A Andreasen	General Counsel
R Dixon	Non-executive Director
T E Fielden	Finance Director
J M France	Regulation Director
P J Goodman	Executive Vice-President and Chief Financial Officer, MidAmerican Energy Holdings Company
P A Jones	President and Chief Executive Officer

GROUP'S POLICY ON PAYMENT OF CREDITORS

The Group complies with the Better Payment Practice Code for the prompt payment of suppliers in accordance with the normal terms of trade. It is Group policy with respect to its suppliers to settle the terms of payment with those suppliers when agreeing the terms of each transaction, to ensure that those suppliers are aware of the terms of payment and to pay in accordance with the Group's contractual and other legal obligations. The number of days' purchases in trade creditors for the Group, as at 31 December 2012, was 18 (2011: 23).

VOTE HOLDER AND ISSUER NOTIFICATION

There have been no disclosures to the Company under Disclosure and Transparency Rule 5 (Vote Holder and Issuer Notification Rules).

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year, charitable donations of £20,964 were made (2011: £19,125), principally to local charities serving the communities in which the Group operates. No contributions were made to political organisations (2011: £nil).

STRATEGIC OBJECTIVES

The Group'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.

As part of its strategy the Group 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.

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

BUSINESS REVIEW

Review of the Year

The Group delivered a satisfactory financial performance for the year, which was mainly attributable to a benefit from higher distribution tariffs, which resulted in an increase in revenue compared to the prior year, continued effective cost control and a further change in the rate of corporation tax.

During the year, Northern Powergrid delivered its largest ever capital expenditure programme, investing £186.1 million in its distribution network. This expenditure represented a 52% increase on the £122.7 million recorded in 2011 and was a significant achievement in the context of the outputs Northern Powergrid intends to deliver by the end of the Distribution Price Control 5 period ("DPCR5").

Northern Powergrid also continued to implement initiatives to improve the quality of service provided to customers, as the new regulatory incentive known as the Customer Service Broader Measure took effect from 1 April 2012. Those improvements included the enhancement of the Northern Powergrid Group's website and the continued development of its internet-based services with Northern Powergrid and its affiliate, Northern Powergrid (Yorkshire) plc, being the first in the electricity distribution industry to provide a web-based facility so that customers are able to order certain services themselves. Northern Powergrid beat Ofgem's targets for the quality of the electricity supply provided to its customers and achieved a significant reduction in the average times taken to restore supplies following a power cut, as compared to 2011. While recognising that improvements still have to be made in the level of customer service provided in order to meet its targets, the upward trend in the Northern Powergrid's performance continued with the best ever performance being recorded in 2012.

As delivery of the capital expenditure programme, the provision of excellent customer service and ensuring a reliable electricity supply are some of the most significant outputs Northern Powergrid is required to deliver during DPCR5, the directors are confident that 2012 provides a strong basis for a successful conclusion to DPCR5 in March 2015.

In the first quarter of 2012 Ofgem began the process for determining the next price control review, which is known as RIIO-ED1 and will set the distribution price control for the period of eight years through to 2023, as opposed to the five year periods previously used. One of Northern Powergrid's most significant projects during the year, therefore, was to begin the activity that will be required to review developments in Ofgem's price control policies and commence drafting the required well-justified business plan for submission to Ofgem during 2013.

2012 produced a higher than usual number of major weather-related incidents and their impact on the distribution network was significant, with more serious flooding incidents being experienced than in any previous year as well as the most significant snow and ice storm for a number of years. Northern Powergrid reacted robustly to those incidents by activating its major incident management plan on a number of occasions to deal with the consequential power cuts.

Environmental performance continued to be strong with Northern Powergrid's response time to environmentally-related network events improving, such that fewer incidents were reportable to the Environment Agency than in 2011. However, more oil was lost to the ground during the year than in any other year in the last five years, with interference with Northern Powergrid's assets by third parties intent on metal theft a significant contributory factor. Northern Powergrid recognises the impact on the environment of such events, is committed to reducing losses from its fluid-filled cables and has a programme in place to increase its expenditure in order to replace those assets on a phased and prioritised basis.

IUS continued to provide engineering contracting services and adapted its business to address the continuing challenging economic conditions, which affected the markets within which it operates.

The long-term trend in the Group's overall safety performance continued to compare well with that of the industry but the internal targets were missed in respect of lost time accidents and operational incidents and preventable vehicle accidents. However, fewer lost time accidents occurred in 2012 than in the previous year, with the number of preventable vehicle accidents being the same.

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

CORE PRINCIPLES

Financial strength

During the year, the Group 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 as a result of the general economic climate.

Northern Powergrid benefits from the stability provided by the arrangements agreed in respect of DPCR5 in terms of its income until 31 March 2015 and recognises that it needs 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 Group's revenue at £331,614,000 was £30,187,000 higher than the prior year mainly due to additional allowances from the DPCR 5 settlement.

Operating profit

The Group's operating profit at £185,963,000 was £14,745,000 higher than the previous year reflecting increased distribution revenues, partly offset by increases in costs such as depreciation and research and development.

Finance costs and investment income

Finance costs net of investment income at £34,970,000 were £719,000 lower than the previous year reflecting lower interest rates on long term borrowings.

Taxation

The effective tax rate in the current year is 10%. Details are provided in Note 7 to the accounts.

Results and dividends

The Group made a profit after tax for the year of £135,407,000. (2011: £116,139,000) An interim dividend of £30,000,000 was paid during the year and the directors recommend that no final dividend be paid in respect of the year.

Share capital and debt structure

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

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 Group 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 £106,354,000 was £18,114,000 lower than the previous year. Increased revenues were offset by increased tax and interest paid and adverse working capital movements.
- Investing activities: Net cash used in investing activities at £130,928,000 was £56,064,000 higher than the previous year reflecting higher net capital expenditure.
- Financing activities: The net cash used in financing activities at £54,987,000 represents a £167,854,000 adverse variance compared to the prior year reflecting the refinancing activity undertaken in 2011.

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

Treasury

The Group'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.

Liquidity risk

Northern Powergrid has access to £75m under a five year committed revolving credit facility provided by Lloyds TSB Bank plc, The Royal Bank of Scotland plc and Abbey National Treasury Services plc. The facility was renewed during the year, such that it now expires on 20 August 2017. Northern Powergrid expects to raise further facilities, as required, at that time.

In addition, the Group has access to further short-term borrowing facilities provided by YEG and a £7m overdraft facility provided by Lloyds TSB Bank plc, which is renewable annually.

The directors do not consider there to be any doubt over the Group'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.

Interest rate risk

The Group 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 2012, 100% of the Group's long-term borrowings were at fixed rates and the average maturity for these borrowings was 16 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 instruments should be undertaken.

Financial derivatives

As at 31 December 2012 and during the year it was the Company's policy not to hold any derivative financial instruments.

Pensions

The Company is the principal 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 24 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 a range of insurance policies, including policies which cover risks associated with damage to property, employer's and third party motor liability 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, Northern Powergrid 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. Northern Powergrid remains focused on delivering a reliable and dependable supply of electricity and a high standard of service to its customers.

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

Northern Powergrid is taking forward various initiatives in order to deliver the overall goal of improving customer satisfaction with the service provided, including:

- monthly connections surgeries to enable new connections customers to discuss their specific projects with Northern Powergrid;
- further development of the interactive voice response system in order to deliver the benefits of automatic messaging and to enable the provision of an improved service to customers during power cuts, including text and voice-message updates;
- extending the range of its stakeholder engagement to include groups active in the area of fuel poverty and to increase joint initiatives with other utility companies;
- an online community to facilitate discussion among stakeholders regarding Northern Powergrid's services and to provide a dedicated web area so that stakeholders can influence Northern Powergrid's policies and priorities and also maintain contact with Northern Powergrid;
- developing customer relationship management information technology and social media and website services to provide more accurate information to customers, particularly in respect of estimated times for the restoration of supply during power cuts and to engage more effectively with and receive feedback from customers. In that respect, Northern Powergrid was the first in the electricity distribution industry to provide the facility for customers to order certain services online themselves;
- improvements to the reliability of under-performing parts of the distribution network by identifying "hot spots" of particularly poor network performance and taking specific action to address the issues in those areas;
- maintaining and promoting the priority services register so that Northern Powergrid becomes aware of people with disabilities or special needs who may be affected by power cuts so that it can take appropriate action to assist those people in such circumstances, engaging the support of the Red Cross where appropriate; and
- completing a substantial training programme to provide employees from across the Northern Powergrid Group with enhanced customer service awareness and the tools and skills needed to handle power cut calls during periods of peak call demand.

The performance of Distribution Network Operators ("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. Performance against these measures forms part of Northern Powergrid's regular reporting to Ofgem.

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 in terms of the number of power cuts, the duration of those power cuts and customer satisfaction.

Customer minutes lost ("CML") and customer interruptions ("CI") are the key performance indicators used by Northern Powergrid to measure the quality of supply and system performance. CML measures the average number of supply minutes lost for every connected customer due to power cuts and planned interruptions to the electricity supply that last for three minutes or longer. CI measures the average number of supply interruptions for every 100 connected customers due to power cuts and planned interruptions to the electricity supply 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. Northern Powergrid's performance for the Regulatory Year to 31 March 2012 (the "Regulatory Year") was as follows:

	Actual	Target
CML:	68.5 (2011: 71.1)	71.1 (2011: 71.3)
CI:	67.9 (2011: 65.2)	68.2 (2011: 68.3)

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

Performance in the Regulatory Year was better than Ofgem's target for both CML and CI. Although there was a slight decline in the CI category in comparison with the prior year, the improvement in CML contributed to Northern Powergrid's improved overall customer service performance in the year. With the introduction of the Customer Service Broader Measure incentive with effect from 1 April 2012, work began on developing the Northern Powergrid's customer service improvement plan and on a range of process and technology initiatives, which will integrate Northern Powergrid's various customer facing processes more effectively in order to improve the service provided.

Connections to the Network

During the year, Northern Powergrid continued to improve the connections services it provides, whilst also actively facilitating the development of competition from independent connections providers ("ICPs"), so providing choice to customers in the region. As part of the DPCR5 final proposals, Ofgem put in place a Competition Test to encourage all of the DNOs to make it easier for ICPs to provide competing offers to customers. In October 2012, Northern Powergrid and its affiliate, Northern Powergrid (Yorkshire) plc, became the first DNO to pass Ofgem's Competition Test in the largest connections market segment that relates mainly to new housing developments and accounts for around 60% of the value of the whole connections marketplace in the region.

Although the economic environment continued to reduce demand for traditional forms of new electricity network connections such as new housing and commercial developments, the proportion of requests for low carbon generation connections continued to strengthen, reflecting the national growth in renewable energy, with onshore wind technology being the most significant feature. The geography of Northern Powergrid's distribution services area is attractive to wind farm developers and has led to a higher number of distributed generation connections than in most of the other DNOs in England.

Northern Powergrid regularly seeks feedback from its customers in order to assist with developing further improvements to its service and, in that respect, its connections customers commented that the initiatives in 2012 were beneficial, including the continuation of the customer surgeries, greater collaboration with customers on a one-to-one basis and engagement with groups of customers through bodies such as the National Farmers Union. The new web-based services introduced in the year were very well received by the full range of Northern Powergrid's connections customers, enabling them to see at a glance the likely costs and timescales for the size of connection they require.

Corporate responsibility

The Group 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 Group'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 Group aims to enhance its relationship with various stakeholders through direct engagement on the actions and investment planned to improve the performance of the network and on the environmental and social implications of its operations. Northern Powergrid has in place a small donation programme, which is focused on Northern Powergrid's key priorities of support for youth, education and the environment and from which grants were made during the year to organisations such as charitable trusts and community groups.

In order to improve its response to emergency situations, Northern Powergrid has developed key partnerships with the Environment Agency, the local authorities and the local resilience forums, via a Civil Contingency Co-ordinator, so that it can respond quickly to significant faults on or threats to the network. In the event that river levels rise and flood warnings are issued, staff can be deployed immediately to erect perimeter flood defences at major substation sites and portable defence barriers at lower risk sites. In addition, Northern Powergrid 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.

As well as redeploying staff from planned works to help restore power as quickly as possible when major incidents occur, Northern Powergrid dispatches customer service vehicles to the heart of areas affected. Those vehicles are able to distribute hot drinks and to microwave meals and generally assist with the welfare of customers in order to alleviate the impact of the incident. Northern Powergrid also utilises 'customer ambassadors' and works with the Red Cross in order to pay particular attention to 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.

**REPORT OF THE DIRECTORS (CONTINUED)
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As safety is its first priority and underpins every aspect of its operations, Northern Powergrid participates 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. This campaign and a school visits programme promoting safety messages are supported through an interactive website and mobile phone game. In addition, the Northern Powergrid Group supports a sports programme in partnership with England Athletics, which is delivered through local schools and combines important safety messages with the promotion of healthy lifestyles.

Operational excellence

Northern Powergrid's core service continues to be providing and maintaining an efficient distribution network that delivers electricity effectively. During the year, £186.1 million was invested in the improvement of the distribution network a 52% increase on the £122.7 million recorded in 2011. That investment included the replacement of assets and continued network improvements intended to increase the quality of the electricity supply provided to customers.

Operational activity

Northern Powergrid's investment strategy is designed to deliver improvements in an efficient and cost-effective manner in order to improve the network's resilience by minimising the number of power cuts that occur. Reducing the average number of customers affected by a power cut and providing a quicker restoration service in the event of a power cut are key elements of Northern Powergrid's operational strategy.

Northern Powergrid's Field Operations structure is designed to provide the best possible foundation for optimum operational performance and is based on seven individual business units. Those business units are Health and Safety, Network Operations, which provides the day-to-day and reactive management of the network, Service Delivery, which has responsibility for the control and management of the direct labour force, Network Repairs, which focuses on core repair activities, Connections Delivery, which undertakes customer-driven work, Programme Delivery, which includes primary engineering projects and technical services, and Operational Services, which includes supply chain management and training services.

Northern Powergrid's priorities during the year included delivery of a significant increase in its capital expenditure on the network in comparison to previous years, a further reduction in the average level of fault repair work in progress, increased focus on the restoration times associated with both high and low voltage power cuts, with the Northern Powergrid Group's high voltage restoration performance seeing on-going improvement through the year and averaging some 61 minutes, and continuation of the robust approach to the control of operations on the low voltage network.

The major projects undertaken in support of those targets and as part of the investment strategy included:

- Continuation of works to reinforce the 33kV network in the Harrogate area, to replace the 20kV switchgear at Fawdon and Hartmoor substations and to replace the 11kV switchgear at Northallerton and Catterick Camp substations;
- Commencement of works to replace the 66/11kV transformers and 20kV switchgear at Sunderland, to replace the 66kV circuit breakers at Cramlington, Grangetown and Coalburns substations, to replace the 66kV transformer at Maddison Street and to replace the 33kV transformers at Mount Road substation;
- Completion of the replacement of 1.8km of 33kV cables and commencement of works on a number of projects across the North East that will replace approximately 40km of 33kV cables, 26km of 66kV cables and 12km of 132kV cable in 2013;
- The completion of refurbishment or rebuilding works on 47km of 66kV overhead line, 20km of 132kV overhead line and the refurbishment or rebuilding of 225km of high voltage overhead line and 158km of low voltage overhead line;
- Replacement of 47 units of high voltage outdoor switchgear, 53 high voltage distribution substations and 213 units of high voltage indoor switchgear;
- The upgrade and reinforcement of 22 sites to address the quality of supply performance issues relating to those circuits; and

REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

- The installation and commissioning of 174 new remote control points on the network.

In order to deliver its investment strategy, Northern Powergrid 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 Group's fundamental objective that none of its staff should go home injured and all employees should commit to behaving safely all of the time. The Group 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.

During the year, Northern Powergrid received a President's Award from the Royal Society for the Prevention of Accidents for achieving 11 consecutive Gold Awards, which had been presented in recognition of achievements in 2011 and for continued or improving standards of health and safety over a sustained period. IUS received its fourth consecutive Gold Medal from the Royal Society for the Prevention of Accidents. Northern Powergrid also continued to maintain its occupational health and safety management system and retained its Occupational Health and Safety Assessment Series ("OHSAS") 18001 certification and environmental management system ISO 14001 certification.

In respect of the main key performance indicators used by the Group to monitor safety performance, the goal is to achieve performance that is below the target number. Those key performance indicators are as follows:

	Year to December 2012		Year to December 2011	
	Target	Actual	Target	Actual
Lost time accidents	2	3	2	5
Restricted duty accidents	1	1	1	0
Medical treatment accidents	3	3	3	1
Operational incidents	4	6	4	5
Preventable vehicle accidents	13	15	13	15

The Group continued to implement a safety and health improvement plan that targets delivery of continuous improvement and, as part of that plan, the Group carried out a cross-business operational assurance audit programme by senior managers during the year in order to reinforce the operational safety values. 2012 saw the conclusion of an extensive project to research, design and produce innovative protective work wear clothing, which provides protection for the Group's employees against the effects of events such as electrical flashovers. The Group has invested a substantial amount in this new clothing and believes that it is unique in the industry and will be a significant factor in reducing the risk to its employees. The Group also delivered operational seminars and stand down briefings to cascade information on safety trends and to launch a new method of site-specific risk assessment.

The number of lost time accidents experienced by the Group reduced in comparison to 2011, although the Group missed its internal target slightly, and the long-term trend in the Group's overall safety performance continued to compare well with that of the industry. While the number of operational incidents exceeded target, none gave rise to any significant safety-related issues.

Performance in respect of preventable vehicle accidents failed to achieve the target for 2012 and was the same as in 2011. The Group continued to implement a robust road risk management plan, which involved electronic driving licence checking, refreshing the Northern Powergrid Group's expected standards of driving behaviour and using risk reduction tools such as the Institute of Advanced Motorists' online driver assessment and training module 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.

The sickness absence rate across the Northern Powergrid Group was 2.55% (2011: 2.82%), which was an improvement on 2011 and does not give rise to any particular cause for concern.

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

Management structure

Operational management of Northern Powergrid's business and that of Northern Powergrid (Yorkshire) plc, an affiliated company in the Northern Powergrid Group, is undertaken by a single senior management team, with specific functional responsibilities. Those functional responsibilities are in respect of field operations (including health, safety and environment), asset management (including procurement), commercial (including customer operations and information technology), regulation and strategy, human resources and finance. Certain of those functions also provide services across the Northern Powergrid Group. IUS has its own dedicated management team.

Employees

The Group 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 Group ensures that a level of consistency is adopted in so doing and, in respect of employee relations, continued to work towards building constructive and partnered relationships with the trades unions. During the year, the Northern Powergrid Group finalised a long-term pay agreement with its professional and administrative staff, which means that consistent terms and conditions are now in place across the Northern Powergrid Group.

Given the demographics of Northern Powergrid's workforce, the increasing investment in the distribution network and in order to encourage investment in a sustainable workforce, Ofgem provided an allowance in its DPCR5 final proposals in order to fund the plans for workforce renewal across the DPCR5 period. Ofgem has stated that the allowance is on a "use it or lose it" basis and Northern Powergrid will need to demonstrate that it has used that allowance appropriately and efficiently to recruit and train new staff or for other means of renewing its workforce and report annually on its progress in that respect. The Northern Powergrid Group recruited a total of 118 members of staff in 2012 and has a target to recruit an additional 75 in 2013 under its workforce renewal programme. During 2012, the first of the trainees recruited under the Northern Powergrid's workforce renewal project graduated from their training programmes and formally commenced work as part of Northern Powergrid's operations. Overall, plans are in place to have recruited a total of 275 graduate trainees, technical trainees and craft apprentices by the end of 2015.

The Group is committed to proper business conduct and, in common with MidAmerican Energy Holdings Company ("MidAmerican"), its parent company, has adopted a code of business ethics that emphasises the requirement for all staff to manage their activities to achieve the highest level of ethical conduct. A "speaking up" policy is 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.

Human resource policies focus on skills, motivation and excellence and the promotion of high standards of probity among staff. In addition, the appropriate organisational structure has been developed to control business units and to delegate authority and accountability, having regard to acceptable levels of risk.

The Group employed 1,224 staff at the end of December 2012 (2011: 1,162).

Disabled employees

The Northern Powergrid Group 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 Group would work to retrain and/or redeploy that member of staff, wherever possible.

Employee consultation

The Northern Powergrid Group has a constitutional framework in place for employee consultation and has agreed that framework with trade union representatives. In addition, the Northern Powergrid Group communicates directly and through the management structure with personal contract holders and keeps them informed of and involved as appropriate in developments that may impact on them now or in the future.

The Northern Powergrid Group is committed to maintaining and improving effective communication with employees, principally through regular staff briefs on current issues, meetings with staff and their representatives and the issue of an employee publication. During the year, the President and Chief Executive Officer of the Northern Powergrid Group delivered quarterly broadcast briefings using telephone conference call facilities in order to provide employees with updates on the Northern Powergrid Group's financial, organisational, safety and customer service performance.

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

Environmental respect

The Northern Powergrid Group'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 MidAmerican. 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 Group's staff and contractors.

Northern Powergrid 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 six-monthly surveillance assessment carried out by Lloyd's Register Quality Assurance in October 2012. The assessment report drew management attention to only two minor non-conformances to be addressed by agreed proposed actions. The report also noted good processes for identifying environmental aspects and legal requirements and taking them into account in the system. There were no major non-conformances noted and continued certification was recommended and subsequently confirmed.

Improvements in support of the Northern Powergrid Group's environmental policy objectives included 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 installing underground cables using trenchless technology as opposed to open-cut excavations, where it was efficient and practicable to do so. In addition, the Group provides environmental awareness training for new personnel and contractors and periodic refresher training for all staff.

The environmental impact on protected structures, features, areas, wildlife and habitat is a central consideration when planning improvements to Northern Powergrid's electricity distribution network. This includes protecting bird life by placing bird-diverters on power lines where they are in proximity to 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.

Sustainability

The Group takes its responsibilities in respect of its contribution to reducing the impact of global warming seriously, both in its capacity as a major participant in the United Kingdom energy industry and in terms of its own carbon footprint. The Group is contributing to the target of reducing the carbon emissions of the United Kingdom economy by working with customers to assist in solving issues raised by the introduction of low-carbon generation and technologies and their implications for the planning and operation of the distribution network. The Group is also actively involved in low-carbon interest groups, both regionally and nationally, and has frequent contact on these matters with government and regulators. The Northern Powergrid Group measures and publishes details of its own carbon footprint. Between 2009 and 2012 it reduced its carbon footprint by 12% and has set a target to reduce its carbon footprint further by over 3% in 2013. The Group has a policy of fitting speed limiters wherever feasible to the vehicle fleet and recycles office waste at all major office sites. In line with Ofgem's requirements, Northern Powergrid has contributed to the sustainability agenda through public reporting on the carbon footprint of its business. Northern Powergrid also holds certification under CEMARS (the Certified Emissions Measurement and Reduction Scheme) that its measurement of its greenhouse gas emissions was in 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 2012 and Northern Powergrid continued to work with customers and installers to facilitate the process of connecting this technology to the electricity network. The Northern Powergrid Group's Customer-Led Network Revolution project continues to consider how novel network technology and changes in customers' energy usage may lead to the speedier and lower cost connection of low-carbon technologies to the distribution network. By the end of 2012, more than 10,000 customers were participating in the trials and much of the network technology had been installed, with the testing phase of the project due to continue throughout 2013.

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

Regulatory integrity

The Group 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") monitored and managed performance in risk-related and compliance areas and met on four occasions during the year.

As has been the case for some years, breaches by a DNO of its licence conditions could lead to financial penalties, which Ofgem has stated "will have a proportionate impact on shareholder returns". In order to assure compliance with its licence and other regulatory obligations, Northern Powergrid operates a regulatory compliance affirmation process, under which ownership of the approximately 1,700 regulatory obligations contained within the compliance database is currently assigned to around 60 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 perceived risks to the compliance process, which are then addressed. The Regulation Manager reports to Northern Powergrid's board of directors on the outcome of each quarter's exercise.

A revenue-related issue arose during 2010 in that the adjustment of settlements data by certain suppliers had the effect of distorting the apparent performance of Northern Powergrid under the losses incentive scheme for the regulatory year ended 31 March 2010. Throughout 2012, Northern Powergrid continued to engage with Ofgem and other industry participants to resolve the complex issues surrounding the losses incentive arrangements for both the current and previous price control periods. At the time of finalising these accounts, Ofgem has taken a decision to remove the DPCR5 losses incentive and is consulting on a potential resolution to the issues associated with the Distribution Price Control Review 4 period losses incentive. Northern Powergrid expects to reach a final conclusion to this issue with Ofgem during 2013. In accordance with International Financial Reporting Standards, the Group has not included any recognition of this issue in these Accounts.

Under the new RIIO (revenue = incentives + innovation + outputs) model for regulation, price controls will be set for eight years (rather than five as at present), with provision for a mid-period review of the outputs that network companies are required to deliver. The first price control review in electricity distribution under the RIIO framework (known as RIIO-ED1) was triggered by Ofgem in the first quarter of 2012. During the course of 2012, Ofgem has been developing its price control policies and the DNOs will submit their detailed business plans during 2013. On conclusion of the process, Northern Powergrid's revenues will be set for the period from 2015 to 2023.

During the year, at Ofgem's request, Northern Powergrid joined with the other DNOs in developing and trialling more formalised arrangements for assuring the accuracy of information returns submitted to Ofgem. This exercise has involved the development of risk-assessment matrices and the preparation and submission to Ofgem of risk-based data-assurance plans, which will be followed by the submission of reports detailing the assurance work actually carried out and the findings of that work. This new regime will continue to be trialled by all DNOs until April 2015 when it is expected to be incorporated into the licences for the next price control period.

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have an impact on the Group, 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, Northern Powergrid is subject to regulation by the Gas and Electricity Markets Authority ("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 a maximum permitted revenue for each regulatory year and is a control on revenue that operates independently of most of the electricity distribution licence holder's costs. Where Northern Powergrid recovers more, or less, than this maximum, the difference is carried forward, with interest, into the entitlement for the following year.

It has been 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. A resetting of the formula can now be made by GEMA without the consent of the electricity distribution licence holder but, if a licensee wishes to appeal such a modification, the licensee may insist that the matter is referred to the Competition Commission for it to determine whether the modification should be made. Certain other interested parties have the same right.

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

The current five-year price control period became effective on 1 April 2010 and has set Northern Powergrid's revenues through to 31 March 2015. However, it is expected that the next price control will be set for eight years. During the term of the current price control, changes in costs incurred will have a direct impact on Northern Powergrid'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, 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).

However, given the stable and regulated nature of the DNOs' businesses, Ofgem took the view that a notional repair period of 15 years was appropriate for the purpose of assessing the DNOs' allowed revenues in respect of pension costs over the DPCR5 period.

The other financial risks facing the Group are outlined in the Treasury section on page 7 of this report.

Operational risk

There are a number of risks to the Group'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. Metal theft continued to be a significant issue for Northern Powergrid during the year with the activities of metal thieves causing power cuts on various occasions, which affected a large number of customers in aggregate. In response, Northern Powergrid maintained the programme of risk-assessed and enhanced security measures at its sites and pursued awareness raising activity at a national and local level, which contributed to a change in the law such that a new criminal offence was created prohibiting scrap metal dealers from paying for scrap metal in cash.

Commercial risk

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

Northern Powergrid'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 the credit cover arrangements in line with Ofgem's guidance remain in place. The principal electricity suppliers that use Northern Powergrid's network are RWE Npower, British Gas, EDF Energy, E.ON, Scottish and Southern Energy and Scottish Power.

The Group operates its business 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 painting and information technology services. The Group 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 the overall risk management approach. 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. Those risks assessed to be significantly high are logged within a risk register that the GRMG reviews regularly and key indicators are used to track and monitor those risks considered to be significant.

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

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 are 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.

The Northern Powergrid Group identifies and assesses risks associated with the achievement of its strategic objectives, including those of an environmental and social nature. Any key 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, penetration tests against firewall systems and disaster recovery tests of IT servers and priority processes and a peer review of the Northern Powergrid Group's risk management systems by MidAmerican.

Risk management continues to be a central theme of senior management priority setting as well as an explicit business process that helps to stimulate the senior leadership's consciousness of lower probability, high consequence threats to business success or continuity. This approach is reinforced by that of the wider MidAmerican group, whose activities have continued to include a structured 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 senior managers are required to confirm that the system of internal control in their area of the business is operating effectively.

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. MidAmerican 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 United States Sarbanes-Oxley Act. A review is undertaken of the company-wide controls in place on a regular basis and, while no significant areas of weakness have been identified, any recommended improvements are implemented.

In addition, the 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 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 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.

Northern Powergrid 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.

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

CORPORATE GOVERNANCE STATEMENT

The Financial Reporting Council issued a revised version of the Combined Code on Corporate Governance (the "Code") in June 2010. The Disclosure and Transparency Rules ("DTR") require an issuer, to which section 7.2 of the DTR applies, to provide, in its annual Directors' Report, a corporate governance statement. That statement sets out how the issuer has applied the main principles in the Code and, to the extent that it departs from the Code, the issuer is required to explain from which parts of the Code it departs and the reasons for doing so.

The Company, therefore, provides the following statement by reference to the principles in the Code.

Compliance statement

Set out below and in the Review of the Year in the Directors' 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 MidAmerican and includes regular reporting to and meetings with the Chairman and senior management of MidAmerican, the presence of an independent non-executive director 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 includes the "comply or explain" approach and the directors are of the opinion that, in the instances where the Company does not comply with certain provisions of the Code, this approach is justifiable, given that the Company is a wholly-owned subsidiary of MidAmerican and, as mentioned above, the governance framework in place throughout the Northern Powergrid Group is agreed with MidAmerican.

Section A: Leadership

Main Principle A1: The Role of the Board

The board of directors is responsible for the overall management of the Company and its system of internal controls. 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, internal control, key business activities and projects and the regulatory compliance process.

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

The Chairman of MidAmerican also receives weekly, monthly and quarterly reports on the Group's performance from the Northern Powergrid Group's President and Chief Executive Officer. MidAmerican's Executive Vice President and Chief Financial Officer and Executive Vice President, General Counsel and Corporate Secretary also hold similar weekly review meetings in respect of MidAmerican's financial and legal functions, at which the Company'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 six occasions in total during the year, with the attendance of those directors, who were directors as at 31 December 2012, being as follows:

G E Abel	Chairman	0
J A Andreasen	General Counsel	1
R Dixon	Non-Executive Director	6
T E Fielden	Finance Director	6
J M France	Regulation Director	6
P J Goodman	Executive Vice President and Chief Financial Officer, MidAmerican	0
P A Jones	President and Chief Executive Officer	6

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

Operational management of the Group's business (and that of its affiliate, Northern Powergrid (Yorkshire) plc) 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 directors' 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, MidAmerican 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 United States Sarbanes-Oxley Act.

A review is undertaken of the company-wide controls in place on a regular basis and, while not identifying any areas of significant weakness, the most recent review resulted in the implementation of various recommended improvements. The key features of the Northern Powergrid Group's internal control system and the issues addressed by the Company and the Northern Powergrid Group during the year can be found in the report of the directors.

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, 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 the approved terms of reference, certain of those committees report regularly to the board on their activities. The committees in place 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 MacLennan	Managing Director, Integrated Utility Services Limited
G M Earl	Head 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 Northern Powergrid Group policy due to changes in appropriate legislation, codes of practice or guidance or due to recommendations arising from significant incidents.

Treasury Committee

The Treasury Committee oversees and implements the treasury policies outlined in the directors' report and comprises:

G E Abel	Chairman
P Ainsley	Financial Controller
D Brady	Treasurer
T E Fielden	Finance Director
P J Goodman	Executive Vice President and Chief Financial Officer, MidAmerican
P A Jones	President and Chief Executive Officer
M Flint	Corporate Accountant and Secretary to the Committee
O Sutherland	Investor Reporting Manager

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

Pensions Committee

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

P Ainsley	Financial Controller
T E Fielden	Finance Director
J M France	Regulation Director
K Mawson	Head of Finance Development and Systems
A Patterson	Director of Human Resources
N Dawson	Pensions Manager
L Tweedie	Head of Service Delivery

Governance and Risk Management Group

The GRMG is the principal management forum in the Northern Powergrid Group with regard to corporate governance. 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 and reports to the Northern Powergrid Group's Audit Committee. The GRMG comprises:

P Ainsley	Financial Controller
D Anderson	Head of Internal Audit
J P Barnett	Commercial Director
R Dixon	Non-Executive Director
M Drye	Director of Asset Management
G Earl	Head of Safety, Health and Environment
J Elliott	Company Secretary
T E Fielden	Finance Director
J M France	Regulation Director
N M Gill	Field Operations Director
A J Maclellan	Managing Director, Integrated Utility Services Limited
A Patterson	Director of Human Resources

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 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.

Further details of the Northern Powergrid Group's approach to corporate governance and the management of internal controls can be found in the directors' 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 MidAmerican, is Chairman of the Company. As President and Chief Executive Officer, Dr Jones is responsible for the operation and management of both the Group and the Northern Powergrid Group and reports directly to Mr Abel.

Main Principle A3: The Chairman

Dr Jones chairs board meetings and is responsible for the operation and management of both the Company and the Northern Powergrid Group and reports directly to Mr Abel.

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

Main Principle A4: Non-executive Directors

Mr Dixon was the Company's sole independent non-executive director during the year and acts under agreed terms of reference.

Section B: Effectiveness

Main Principle B1: The Composition of the Board

The board comprises six executive directors and Mr Dixon, an independent non-executive director, who, collectively, bring a range of skills and experience to the board. Although Mr Dixon is the sole non-executive director, so 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.

Main Principle B2: Appointments to the board

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

Main Principle B3: Commitment

The Company's non-executive director commits sufficient time to preparation for and attendance at board meetings, although his 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 Group due to the robust reporting arrangements in place and have on-going access to the Group's operations and its staff.

Main Principle B5: Information and support

Directors receive monthly reports outlining progress against the Group's goals and targets, enabling financial performance against budget and operational performance against a number of indicators to be reviewed, and are also able to 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 internal and external legal advice should they feel it necessary. Interim briefings are provided to the non-executive director, 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. MidAmerican 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 MidAmerican's goals

Main Principle B7: Re-election

The directors retire by rotation and offer themselves for re-election in accordance with the Company's articles of association.

Section C: Accountability

Main Principle C1: Financial and Business Reporting

The board believes that the directors' report and review of the year provide a balanced and understandable assessment of the Company's position and prospects. The directors explain, at page 2, the Core Principles behind the Company's strategy and, at page 22, their responsibility for preparing the report and accounts, have reported, at page 22 in the directors' report, that the Company is a going concern and included the independent auditor's report to the Company at page 27 of the report 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 14 to 16 of the directors' report.

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;

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

- 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;
- On-going 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;
- Processes and procedures to operate under OHSAS 18001, which is subject to external certification and regular assessment;
- An external obligations register, which assists with compliance 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 Auditors

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, the independence of and the provision of additional services by the auditor.

The Audit Committee 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

The directors confirm that fees of £209,000 were payable by the Company to Deloitte LLP in relation to non-audit services during the year.

The employee section on page 12 of the directors' 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 senior management of the Northern Powergrid Group are subject to the performance appraisal and development scheme process and consideration by the Chairman of MidAmerican 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 mentioned under main principle D1, the annual remuneration awards for senior management of the Northern Powergrid Group is subject to the performance appraisal and development scheme process and consideration by the Chairman of MidAmerican and the President and Chief Executive Officer. Mr Fielden, Dr France, and Dr Jones are subject to the performance appraisal and development scheme process in their capacity as senior managers of the Northern Powergrid Group and not, specifically, in their capacity as board directors. No director is involved in deciding his own remuneration.

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

Section E: Relations with Shareholders

Main Principle E1: Dialogue with Shareholders

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

Main Principle E2: Constructive Use of the Annual General Meeting

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 institutional shareholders.

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 (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- make an assessment of the Company's and the Group'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 and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

GOING CONCERN

The Group's business activities, together with details regarding its future development, performance and position are set out in the Business Review in the Directors' Report. In addition, the Group'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 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 into account a number of factors, including the following:

- a) The Group's main subsidiary, Northern Powergrid, 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;
- b) The Group is profitable with strong underlying cash flows. The Company and Northern Powergrid hold investment grade credit ratings;

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012**

- c) The Group is financed by long-term borrowings with an average maturity of 16 years and has access to borrowing facilities provided by Lloyds TSB Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc; and
- d) No repayments of long term debt are due until 2018.

Consequently, after making enquiries, the directors have a reasonable expectation that the Company and the Group have 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.

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

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

AUDITOR

A resolution to reappoint Deloitte LLP and to authorise the directors to determine their remuneration will be proposed at the Annual General Meeting.

ON BEHALF OF THE BOARD:



J Elliott
Company Secretary

22 March 2013

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 4 of the Directors' Report confirms that, to the best of their knowledge:

- a) the 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 of the Company and the undertakings included in the consolidation taken as a whole; 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 and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 22 March 2013 and signed on its behalf by:

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

T E Fielden
Finance Director

DIRECTORS' BIOGRAPHIES

GREGORY E ABEL

Appointed in January 1997, Mr Abel, 50 is chairman, president and chief executive officer of MidAmerican Energy Holdings Company, based in Des Moines, Iowa. He serves as chairman and chief executive officer of PacifiCorp, which provides electricity services to six Western states and approximately 1.6 million customers, and as chairman of the Northern Powergrid Group, which distributes electricity to approximately 3.8 million customers in England. Mr Abel is also a director of Kern River Gas Transmission Company and Northern Natural Gas Company. Kern River is a 1,700 mile interstate pipeline transporting Rocky Mountain and Canadian natural gas to markets in California, Nevada and Utah. Northern Natural Gas Company operates 16,400 miles of pipeline extending from the Permian Basin in Texas to the Upper Midwest. His responsibilities at MidAmerican are the operation and management of the holdings company, PacifiCorp's and MidAmerican Energy Company's supply and marketing and delivery services businesses, the Northern Powergrid distribution businesses, CalEnergy's operations as an independent power producer and the Kern River Gas Transmission Company and Northern Natural Gas Company pipeline operations.

JON A ANDREASEN

Appointed in March 2010, Mr Andreassen, 49, has been Vice President & General Counsel for the Northern Powergrid Group since 2005. In addition to this appointment, he provides legal counsel to MidAmerican Energy Holdings Company and its other subsidiaries. He is a 1989 graduate of the University of Iowa College of Law and has worked in the electricity utility business since 1989. From 2000-2002 he worked in Newcastle-upon-Tyne for the Northern Powergrid Group and is currently based in Urbandale, Iowa, USA.

RONALD DIXON

Appointed in October 1997, Mr Dixon, 75, worked for North Eastern Electricity Board and Northern Electric plc throughout his career, being appointed Secretary in 1987. He was appointed Managing Director of the Power Division in 1990, responsible for electricity supply and distribution, and Commercial Director in 1991. He retired from the board on 31 July 1997 and was re-appointed in the capacity of a non-executive director on 22 October 1997. Mr Dixon is also a non-executive director of Northern Powergrid Holdings Company, Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc.

JOHN M FRANCE

Appointed in January 2000, Dr France, 55, is Regulation Director for the Northern Powergrid Group. After leaving university he joined the British Gas Corporation where he held a number of posts before becoming a member of the team that handled the privatisation of British Gas in 1986. He joined Northern Electric plc as its Regulation Manager in 1989 and has been involved with all the distribution (and supply) price control reviews that have affected the Company since privatisation. He was a member of the team that negotiated the acquisition of the distribution business of Yorkshire Electricity Group plc and the sale of the Northern Electric plc supply businesses in 2001.

THOMAS E FIELDEN

Mr Fielden joined the Northern Powergrid Group in July 2009, became Finance Director on 12 October 2009 and was appointed as a director of the Company on 16 October 2009. Mr Fielden, 42, is a chartered accountant, having started his career at Coopers & Lybrand and has held a variety of finance appointments in BT, working in BT Group and BT Global Services, before joining Great North East Railway (GNER) as Financial Controller in 2005. He became Finance Director of GNER in 2006, transferring to National Express East Coast in 2007.

PATRICK J GOODMAN

Appointed in May 1999, Mr Goodman, 46, is Senior Vice President and Chief Financial Officer of MidAmerican and is responsible for managing all aspects of MidAmerican's financial operations. Mr Goodman supports the negotiation and closing of MidAmerican's international and domestic project financings along with supporting future acquisitions and project developments. Additionally, Mr Goodman manages all accounting, financial reporting, tax, budgeting and long-range financial planning functions for MidAmerican. Since joining MidAmerican in 1995, Mr Goodman has served in various financial positions including Chief Accounting Officer. Prior to joining MidAmerican, he served as a financial manager for National Indemnity Company and was a senior associate at PricewaterhouseCoopers.

DIRECTORS' BIOGRAPHIES (CONTINUED)

PHILIP A JONES

Appointed in April 2007, Dr Jones, 44, is President and Chief Executive Officer of the Northern Powergrid Group, the UK platform in the global portfolio of MidAmerican. Prior to his appointment as President and Chief Executive Officer, he was Strategy & Investment Director and, as such, was responsible for technical, economic and regulatory strategy within the organisation. Dr Jones is a chartered electrical engineer and has been working in the UK power distribution sector since completing his PhD in Electronic & Electrical Engineering in 1993. He has held a range of technical and managerial roles, mostly in the engineering field. He is also actively involved in a range of other industry bodies. He has been a director of the Institute of Asset Management and of the Energy Networks Association, the trade association that represents the power transmission and distribution companies.

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

We have audited the financial statements of Northern Electric plc (the "Company") for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows and related notes 1 to 28. 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 22, 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 Group's and the parent 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 Report of the Directors 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 Group's and the parent company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulations.

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or

**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF NORTHERN ELECTRIC PLC
(CONTINUED)**

- 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

Date: 10 April 2013

NORTHERN ELECTRIC PLC (REGISTERED NUMBER: 02366942)

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Notes	2012 £'000	2011 £'000
CONTINUING OPERATIONS			
Revenue	3	331,614	301,427
Cost of sales		<u>(30,274)</u>	<u>(24,035)</u>
GROSS PROFIT		301,340	277,392
Administrative expenses		<u>(115,377)</u>	<u>(106,174)</u>
OPERATING PROFIT		185,963	171,218
Other gains		285	358
Finance costs	5	(36,882)	(37,617)
Finance income	5	<u>1,912</u>	<u>1,928</u>
PROFIT BEFORE INCOME TAX	6	151,278	135,887
Income tax	7	<u>(15,871)</u>	<u>(19,748)</u>
PROFIT FOR THE YEAR		<u><u>135,407</u></u>	<u><u>116,139</u></u>

NORTHERN ELECTRIC PLC (REGISTERED NUMBER: 02366942)

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012**

	2012	2011
	£'000	£'000
PROFIT FOR THE YEAR	135,407	116,139
OTHER COMPREHENSIVE INCOME	—	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>135,407</u>	<u>116,139</u>

The notes on pages 37 to 72 form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2012

	Notes	2012 £'000	2011 £'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	12	7,388	4,164
Property, plant and equipment	13	1,646,514	1,515,896
Investments	14	3,325	3,346
Pension asset	24	244,500	201,800
Trade and other receivables	16	4,658	3,780
		<u>1,906,385</u>	<u>1,728,986</u>
CURRENT ASSETS			
Inventories	15	15,354	13,383
Trade and other receivables	16	61,903	54,882
Cash and cash equivalents	17	150,071	229,632
		<u>227,328</u>	<u>297,897</u>
TOTAL ASSETS		<u>2,133,713</u>	<u>2,026,883</u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	18	72,173	72,173
Share premium	19	158,748	158,748
Other reserves	19	6,185	6,185
Retained earnings	19	644,867	539,460
TOTAL EQUITY		<u>881,973</u>	<u>776,566</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables	20	473,421	441,679
Borrowings	21	470,086	468,640
Deferred tax	23	163,210	172,120
Provisions	22	2,196	2,594
		<u>1,108,913</u>	<u>1,085,033</u>
CURRENT LIABILITIES			
Trade and other payables	20	122,800	113,588
Borrowings	21	11,425	37,789
Tax payable		7,218	12,907
Provisions	22	1,384	1,000
		<u>142,827</u>	<u>165,284</u>
TOTAL LIABILITIES		<u>1,251,740</u>	<u>1,250,317</u>
TOTAL EQUITY AND LIABILITIES		<u>2,133,713</u>	<u>2,026,883</u>

The financial statements were approved by the Board of Directors on 22 March 2013 and were signed on its behalf by:



T E Fielden
Director

The notes on pages 37 to 72 form part of these financial statements

COMPANY STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2012

	Notes	2012 £'000	2011 £'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,837	1,802
Investments	14	<u>328,070</u>	<u>328,070</u>
		<u>329,907</u>	<u>329,872</u>
CURRENT ASSETS			
Trade and other receivables	16	566	800
Tax receivable		4,518	78
Cash and cash equivalents	17	<u>46,271</u>	<u>57,357</u>
		<u>51,355</u>	<u>58,235</u>
TOTAL ASSETS		<u><u>381,262</u></u>	<u><u>388,107</u></u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	18	72,173	72,173
Share premium	19	158,748	158,748
Other reserves	19	6,185	6,185
Retained earnings	19	<u>124,872</u>	<u>130,861</u>
TOTAL EQUITY		<u><u>361,978</u></u>	<u><u>367,967</u></u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Borrowings	21	1,117	1,117
Deferred tax	23	7,051	7,680
Provisions	22	<u>1,743</u>	<u>1,600</u>
		<u>9,911</u>	<u>10,397</u>
CURRENT LIABILITIES			
Trade and other payables	20	7,100	7,470
Borrowings	21	<u>2,273</u>	<u>2,273</u>
		<u>9,373</u>	<u>9,743</u>
TOTAL LIABILITIES		<u><u>19,284</u></u>	<u><u>20,140</u></u>
TOTAL EQUITY AND LIABILITIES		<u><u>381,262</u></u>	<u><u>388,107</u></u>

The financial statements were approved by the Board of Directors on 22 March 2013 and were signed on its behalf by:



T E Fielden
Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2011	72,173	453,321	158,748	6,185	690,427
Changes in equity					
Dividends	-	(30,000)	-	-	(30,000)
Total comprehensive income	-	116,139	-	-	116,139
Balance at 31 December 2011	<u>72,173</u>	<u>539,460</u>	<u>158,748</u>	<u>6,185</u>	<u>776,566</u>
Changes in equity					
Dividends	-	(30,000)	-	-	(30,000)
Total comprehensive income	-	135,407	-	-	135,407
Balance at 31 December 2012	<u>72,173</u>	<u>644,867</u>	<u>158,748</u>	<u>6,185</u>	<u>881,973</u>

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2011	72,173	131,229	158,748	6,185	368,335
Changes in equity					
Dividends	-	(30,000)	-	-	(30,000)
Total comprehensive income	-	29,632	-	-	29,632
Balance at 31 December 2011	<u>72,173</u>	<u>130,861</u>	<u>158,748</u>	<u>6,185</u>	<u>367,967</u>
Changes in equity					
Dividends	-	(30,000)	-	-	(30,000)
Total comprehensive income	-	24,011	-	-	24,011
Balance at 31 December 2012	<u>72,173</u>	<u>124,872</u>	<u>158,748</u>	<u>6,185</u>	<u>361,978</u>

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Notes	2012 £'000	2011 £'000
Cash flows from operating activities			
Cash generated from operations	27	171,882	183,032
Finance costs paid		(36,970)	(33,177)
Interest received		1,912	1,536
Group relief paid		(4,568)	(828)
Tax paid		<u>(25,902)</u>	<u>(26,095)</u>
Net cash from operating activities		<u>106,354</u>	<u>124,468</u>
Cash flows from investing activities			
Purchase of intangible fixed assets		(3,960)	(2,654)
Purchase of tangible fixed assets		(169,658)	(131,186)
Sale of tangible fixed assets		285	813
Customer contributions		42,071	57,771
Dividends received		<u>334</u>	<u>392</u>
Net cash used in investing activities		<u>(130,928)</u>	<u>(74,864)</u>
Cash flows from financing activities			
Movement in external loans		(22,000)	141,154
Loans from Group undertakings		(2,987)	1,713
Equity dividends paid		<u>(30,000)</u>	<u>(30,000)</u>
Net cash (used in)/from financing activities		<u>(54,987)</u>	<u>112,867</u>
(Decrease)/increase in cash and cash equivalents		(79,561)	162,471
Cash and cash equivalents at beginning of year		<u>229,632</u>	<u>67,161</u>
Cash and cash equivalents at end of year		<u><u>150,071</u></u>	<u><u>229,632</u></u>

**COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Notes	2012 £'000	2011 £'000
Cash flows from operating activities			
Cash generated from operations	27	520	3,233
Finance costs paid		(9,605)	(9,618)
Interest received		951	1,010
Dividends received		30,351	30,553
Group relief paid		-	(1,256)
Tax paid		<u>(3,247)</u>	<u>1,025</u>
Net cash from operating activities		<u>18,970</u>	<u>24,947</u>
Cash flows from investing activities			
Purchase of tangible fixed assets		<u>(56)</u>	<u>(296)</u>
Net cash used in investing activities		<u>(56)</u>	<u>(296)</u>
Cash flows from financing activities			
Movement in borrowings in year		-	(2,541)
Equity dividends paid		<u>(30,000)</u>	<u>(30,000)</u>
Net cash used in financing activities		<u>(30,000)</u>	<u>(32,541)</u>
Decrease in cash and cash equivalents		(11,086)	(7,890)
Cash and cash equivalents at beginning of year		<u>57,357</u>	<u>65,247</u>
Cash and cash equivalents at end of year		<u><u>46,271</u></u>	<u><u>57,357</u></u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

1. GENERAL INFORMATION

Northern Electric 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 Group's operations and its principal activities are set out in the Business Review in the Directors' Report and in Note 3.

2. ACCOUNTING POLICIES

Accounting convention and basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have also been prepared in accordance with IFRSs as adopted by the European Union and with those parts of the Companies Act 2006 (the "Act") that are applicable to companies reporting under IFRS. The parent company's financial statements have also been prepared in accordance with IFRS, as applied in accordance with the provisions of the Act. The directors have taken advantage of the exemption offered by Section 408 of the Act not to present a separate income statement for the parent company. The financial statements have been prepared under the historical cost convention. A summary of the more important group accounting policies is set out below.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have 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 on page 22.

Judgments in applying accounting policies and key sources of estimation uncertainty

Many of the amounts included in the financial statements involve the use of judgment and/or estimation. These judgments and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ from the amounts included in the financial statements. Information about such judgments and estimates is contained in the accounting policies and/or the notes to the financial statements and the key areas are summarised below.

Areas of judgment and estimation which have the most significant effect on the amounts recognised in the financial statements are:

- the estimation of useful economic lives for property, plant and equipment;
- the split of operating and capital expenditure and the allocation of overheads to capital projects;
- impairment reviews carried out to evaluate the carrying value of assets held at the balance sheet date;
- assumptions used when evaluating long-term pension plan assets and liabilities; and
- assumptions used when evaluating construction contracts.

Critical accounting policies

The critical accounting policies adopted by the directors relate to property, plant and equipment, taxation, pensions, revenue and construction contracts and are described below. These and all other accounting policies adopted by the directors have been applied consistently throughout the year and the preceding year.

Adoption of new or revised standards

Several new or revised Standards and Interpretations, including amendments to IAS 19, have been issued and will apply to the year ending 31 December 2013. Consequently, the Group did not adopt any of those standards in these financial statements. With the exception of the amendments to IAS 19, the adoption of these standards is not expected to have a material impact on the Group's financial statements for the year ended 31 December 2013.

The amendment to IAS 19 will remove the option to defer recognition of actuarial gains and losses and any past service cost via the "corridor method". All actuarial gains and losses will be recognised immediately in Other Comprehensive Income, with the Statement of Financial Position reflecting the full deficit/surplus in the pension scheme.

NORTHERN ELECTRIC PLC (REGISTERED NUMBER: 02366942)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

2. ACCOUNTING POLICIES - continued

The amendment to IAS 19 will also require the recognition of the net interest charge arising on the net defined benefit pension liability to be based on applying the discount rate to the net liability on the Statement of Financial Position. Currently the net interest is calculated by applying the discount rate to the defined benefit obligation and the expected rate of return to the relevant pension assets. The change in the calculated charge would have equated to an increase in finance costs of approximately £3.0m if it had been applied to the 2012 financial statements. If the revised standard had been in place at 31 December 2012, the Statement of Financial Position would show a deficit of £36.5m rather than the surplus of £244.5m.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee company so as to obtain benefits from its activities.

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 represents charges for the use of the Group's distribution network, amortisation of customer contributions, recharge of costs incurred on behalf of companies in the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group") and the invoiced value of other goods sold and services provided, exclusive of value added tax.

Revenues from charges to end customers for the use of the Group's distribution network include estimates of the units distributed. The estimated usage is based on historic data, judgment 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 Group's policy is to credit the customer contribution to revenue over 45 years on a straight-line basis, in line with the useful life of the distribution system assets.

Income from credit sale charges is apportioned in the income statement over the period of the sales agreements.

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

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

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, revenue in respect of that contract is recognised to the extent of the costs incurred where it is probable they will be recovered. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

2. ACCOUNTING POLICIES - continued

Operating profit

Operating profit is stated before profit on disposals, the share of the results of joint ventures, investment income and finance costs.

Software Development Costs

Costs in respect of major developments are capitalised and amortised over the expected life of the software.

Capitalised software costs that are not an integral part of the related hardware are included in intangible assets on the balance sheet and amortised over the expected life of the software of up to 10 years.

Investments

Undertakings, other than subsidiary undertakings, which the Group jointly controls, are treated as joint ventures.

The results and assets and liabilities of joint ventures are incorporated in these financial statements using the equity method of accounting. Investments in joint ventures are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of the joint venture in excess of the Group's interest in those joint ventures are not recognised.

Fixed asset investments are stated at cost less provision for or amounts written off for impairment in value.

Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost. 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.

The charge for depreciation is calculated to write off assets to their residual values over their estimated useful lives using the straight-line basis:

Distribution system assets	45 years
Distributed generation	15 years
Metering equipment included in distribution system assets	up to 4 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 10 years

Freehold land is not depreciated.

Assets in the course of construction are carried at cost. Depreciation on these assets, on the same basis as other assets, commences when the assets are commissioned.

The estimated useful economic lives of property, plant and equipment are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of the Company's investment in property, plant and equipment, variations between actual and estimated useful lives could impact operating results both positively and negatively, although historically, few changes to estimated useful lives have been required.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012**

2. ACCOUNTING POLICIES - continued

In accordance with IFRS, the Group is required to evaluate the carrying values of property, plant and equipment for impairment whenever circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. An impairment review requires management to make judgments concerning the cash flows, growth rates and discount rates for the cash-generating units under review.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group or 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.

For certain categories of financial assets, such as trade receivables and construction contract debt, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables and construction contract debts could include the Group'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 and construction contract debts, where the carrying amount is reduced through the use of an allowance account. When a trade receivable or construction contract debt is considered uncollectable, 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 income statement.

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.

Inventories

Inventories are stated at the lower of cost and net realisable value as follows:

- Raw materials and consumables are valued at purchase cost determined on an average price basis.
- Work in progress in relation to construction contracts is valued based on the cost of direct materials and labour plus attributable overheads based on the normal level of activity less progress payments.
- Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and costs to be incurred in marketing, selling and distribution.

Taxation

The 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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012**

2. ACCOUNTING POLICIES - continued

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group 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.

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 period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Research costs

Expenditure on research activities is written off to the income statement in the year in which it is incurred.

Other than software development costs noted below, the Group and Company do not carry out any other development activity that would give rise to an intangible asset.

Leases

Leases are classified as finance leases whenever 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.

Rental costs under operating leases are charged to the income statement or to property, plant and equipment in equal amounts over the periods of the leases.

Pensions

The Group 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 each December balance sheet date. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of the plan assets or 10% of the defined benefit obligation are spread to income over the employees' expected average remaining working lives.

Past service cost is recognised immediately to the extent that the benefits are already vested and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The asset or liability recognised in the balance sheet represents the present value of the defined benefit obligation less the fair value of the scheme assets on a bid value basis, together with adjustments for unrecognised actuarial gains and losses and past service costs. The asset or liability initially recognised is then assessed against the requirements of IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, and adjustments made when appropriate.

The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the future cash outflows using yields on high quality sterling corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012**

2. ACCOUNTING POLICIES - continued

The key assumptions used for the actuarial valuation are based on the best estimate of the variables that will determine the ultimate cost of providing post-employment benefits and follow discussions with the actuary. The operating results are affected by the actuarial assumptions used. These assumptions include investment returns on the scheme's assets, discount rates, pay growth and increases to pensions and deferred pensions. These assumptions may differ from actual results due to changing market and economic conditions and longer or shorter lives of scheme members. Further detail is provided in Note 24.

The Group also participates in a defined contribution scheme. Contributions payable to the defined contribution scheme are charged to the income statement in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Reasonable estimates involve judgments made by management after considering information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible parties and their ability to contribute and prior experience.

Trade receivables

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

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.

Cash and cash equivalents

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) 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.

3. SEGMENTAL REPORTING

The tables below represent the internal information provided to the President and Chief Executive Officer of the Northern Powergrid Group, for the purposes of resource allocation and segmental performance appraisal.

The Group operates in the principal area of activity of the distribution of electricity in the United Kingdom.

Group revenue, Group profit before tax and Group net assets are analysed below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

3. SEGMENTAL REPORTING - continued

	Distribution 2012 £m	Other 2012 £m	Consolidation Adjustments 2012 £m	Total 2012 £m
REVENUE				
External sales	301.8	29.8	-	331.6
Inter-segment sales	<u>0.5</u>	<u>8.4</u>	<u>(8.9)</u>	<u>-</u>
Total revenue	<u>302.3</u>	<u>38.2</u>	<u>(8.9)</u>	<u>331.6</u>
SEGMENT RESULTS				
Operating profit	<u>147.4</u>	<u>0.5</u>	<u>38.1</u>	186.0
Other gains				0.3
Finance costs				(36.9)
Finance income				<u>1.9</u>
Profit before tax				<u>151.3</u>
OTHER INFORMATION				
Capital additions	188.0	0.1	-	188.1
Depreciation and amortisation	54.2	-	-	54.2
Amortisation of deferred revenue	<u>(15.3)</u>	<u>-</u>	<u>-</u>	<u>(15.3)</u>
BALANCE SHEET				
Segment assets	<u>1,771.7</u>	<u>265.2</u>	<u>(53.3)</u>	1,983.6
Unallocated corporate assets				<u>150.1</u>
Total assets				<u>2,133.7</u>
Segment liabilities	<u>(587.7)</u>	<u>(15.1)</u>	<u>3.0</u>	(599.8)
Unallocated corporate liabilities				<u>(651.9)</u>
Total liabilities				<u>(1,251.7)</u>
Net assets/(liabilities) by segment	<u>1,184.0</u>	<u>250.1</u>	<u>(50.3)</u>	1,383.8
Unallocated net corporate liabilities				<u>(501.8)</u>
Total net assets				<u>882.0</u>

"Other" comprises Engineering Contracting and business support units.

Sales and purchases between the different segments are made at commercial prices.

Segment assets in "Other" include investments in the Distribution and Engineering Contracting activities totalling £203.1m, which are eliminated in Consolidation Adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

3. SEGMENTAL REPORTING - continued

Consolidation Adjustments also include a £44.0m credit to operating profit, the recognition of the £241.2m retirement benefit asset and a £31.4m reduction in cumulative capitalised costs as a consequence of all segments accounting for retirement benefits on a cash accrued basis.

Unallocated corporate assets and liabilities include cash and cash equivalents, borrowings and taxation.

External sales to RWE Npower plc in 2012 of £81.6m are included within the Distribution segment.

	Distribution 2011 £m	Other 2011 £m	Consolidation Adjustments 2011 £m	Total 2011 £m
REVENUE				
External sales	277.1	24.3	-	301.4
Inter-segment sales	0.5	6.6	(7.1)	-
Total revenue	<u>277.6</u>	<u>30.9</u>	<u>(7.1)</u>	<u>301.4</u>
SEGMENT RESULTS				
Operating profit	<u>129.0</u>	<u>4.2</u>	<u>38.0</u>	171.2
Other gains				0.4
Finance costs				(37.6)
Finance income				<u>1.9</u>
Profit before tax				<u>135.9</u>
OTHER INFORMATION				
Capital additions	128.2	0.2	-	128.4
Depreciation and amortisation	51.5	0.2	-	51.7
Amortisation of deferred revenue	<u>(13.3)</u>	<u>-</u>	<u>-</u>	<u>(13.3)</u>
BALANCE SHEET				
Segment assets	<u>1,623.7</u>	<u>224.8</u>	<u>(51.2)</u>	1,797.3
Unallocated corporate assets				<u>229.6</u>
Total assets				<u>2,026.9</u>
Segment liabilities	<u>(546.2)</u>	<u>(8.4)</u>	<u>(4.3)</u>	(558.9)
Unallocated corporate liabilities				<u>(691.5)</u>
Total liabilities				<u>(1,250.3)</u>
Net assets/(liabilities) by segment	<u>1,077.5</u>	<u>216.4</u>	<u>(55.5)</u>	1,238.4
Unallocated net corporate liabilities				<u>(461.8)</u>
Total net assets				<u>776.6</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

3. SEGMENTAL REPORTING - continued

"Other" comprises Engineering Contracting and business support units.

Sales and purchases between the different segments are made at commercial prices.

Segment assets in "Other" include investments in the Distribution and Engineering Contracting activities totalling £203.1m, which are eliminated in Consolidation Adjustments. Consolidation Adjustments also include a £41.6m credit to operating profit, the recognition of the £201.8m retirement benefit asset and a £25.8m reduction in cumulative capitalised costs as a consequence of all segments accounting for retirement benefits on a cash accrued basis.

Unallocated corporate assets and liabilities include cash and cash equivalents, borrowings and taxation.

External sales to RWE Npower plc in 2011 of £77.6m are included within the Distribution segment.

4. EMPLOYEES AND DIRECTORS

	2012	2011
	£'000	£'000
Salaries	52,182	48,065
Social security costs	5,356	4,728
Defined benefit pension costs	(11,263)	(11,852)
Defined contribution pension costs	575	352
	<u>46,850</u>	<u>41,293</u>
Less charged as capital expenditure	(32,995)	(28,676)
	<u>13,855</u>	<u>12,617</u>

The majority of the Company's employees are members of the Northern Powergrid Group of the ESPS, details of which are given in the pension note.

The average monthly number of employees during the year was:

	2012	2011
	No.	No.
Distribution	994	967
Engineering Contracting	155	130
Other	56	60
	<u>1,205</u>	<u>1,157</u>

DIRECTORS' REMUNERATION

	2012	2011
	£'000	£'000
Highest Paid:		
Short-term employee benefits	144	152
Post-employment benefits	24	19
Other long-term benefits	248	180
	<u>416</u>	<u>351</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

4. EMPLOYEES AND DIRECTORS - continued

	2012 £'000	2011 £'000
Total:		
Short-term employee benefits	329	335
Post-employment benefits	47	59
Other long-term benefits	<u>439</u>	<u>325</u>
	<u>815</u>	<u>719</u>
Directors who are members of the defined benefit scheme	<u>3</u>	<u>3</u>
Accrued pension benefit relating to highest paid director	<u>-</u>	<u>-</u>

OTHER KEY PERSONNEL REMUNERATION

	2012 £'000	2011 £'000
Total:		
Short-term employee benefits	343	341
Post-employment benefits	99	96
Other long-term benefits	<u>234</u>	<u>193</u>
	<u>676</u>	<u>630</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 and the Group.

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.

5. NET FINANCE COSTS

	2012 £'000	2011 £'000
Finance income:		
Interest in joint venture	334	392
Interest receivable on loans to Group undertakings	<u>1,578</u>	<u>1,536</u>
	<u>1,912</u>	<u>1,928</u>
Finance costs:		
Interest payable on other loans	22,595	22,230
Interest payable on loans from Group undertakings	5,286	6,386
Preference dividends payable	<u>9,001</u>	<u>9,001</u>
	<u>36,882</u>	<u>37,617</u>
Net finance costs	<u>34,970</u>	<u>35,689</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

6. PROFIT BEFORE INCOME TAX

The profit before income tax is stated after charging/(crediting):

	2012 £'000	2011 £'000
Depreciation - owned assets	53,548	49,167
Profit on disposal of fixed assets	(285)	(358)
Software development costs amortisation	736	2,501
Research costs	8,066	4,075
Amortisation of deferred revenue	(15,324)	(13,282)
Impairment loss on trade and other receivables	<u>233</u>	<u>193</u>

Analysis of auditor's remuneration is as follows:

	2012 £'000	2011 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	25	25
Fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation	<u>161</u>	<u>161</u>
Total audit fees	<u>186</u>	<u>186</u>
Other assurance services	<u>209</u>	<u>74</u>
Total auditor's remuneration	<u>395</u>	<u>260</u>

	2012 £'000	2011 £'000
Fees payable to the Company's auditor and their associates in respect of the audit of associated pension schemes	<u>5</u>	<u>5</u>

7. INCOME TAX

Analysis of tax expense

	2012 £'000	2011 £'000
Current tax: Tax	24,781	25,561
Deferred tax	<u>(8,910)</u>	<u>(5,813)</u>
Total tax expense in consolidated income statement	<u>15,871</u>	<u>19,748</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

7. INCOME TAX – continued

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:

	2012 £'000	2011 £'000
Profit on ordinary activities before income tax	<u>151,278</u>	<u>135,877</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24.5% (2011 - 26.5%)	37,063	36,007
Effects of:		
Dividends on non-equity preference shares	2,205	2,520
Tax effect of result of joint venture	(82)	(104)
Adjustment to prior years	(9,002)	(1,088)
Change in tax rates	(14,166)	(13,607)
Settlement of prior period capital gains claims	-	(3,361)
Tax free income	(147)	(6)
Permanent disallowances	<u>-</u>	<u>(613)</u>
Tax expense	<u>15,871</u>	<u>19,748</u>
	2012 £'000	2011 £'000
Tax expense comprises:		
Current tax expense:		
Corporation tax charge for the year	24,054	23,649
Payment for use of group losses	4,568	1,799
Under provision for prior years	<u>(3,841)</u>	<u>113</u>
Total current tax charge	24,781	25,561
Deferred tax:		
Deferred tax expenses relating to the origination and reversal of temporary differences	5,256	6,042
Effect of changes in tax rates	<u>(14,166)</u>	<u>(11,855)</u>
Total deferred tax charge	<u>(8,910)</u>	<u>(5,813)</u>
Tax on profit before tax	<u>15,871</u>	<u>19,748</u>

The Finance Act 2012 included a provision that the standard rate of corporation tax in the United Kingdom would reduce from 24% to 23% from April 2013. Accordingly, this rate has been applied when calculating deferred tax assets and liabilities throughout the Northern Powergrid Group as at 31 December 2012. The Government has announced that the standard rate of corporation tax will reduce further to 21% from April 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

8. PROFIT OF PARENT COMPANY

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year was £24,011,000 (2011 - £29,632,000).

9. DIVIDENDS

	2012 £'000	2011 £'000
Interim dividend at 24p per share (2011: 24p)	<u>30,000</u>	<u>30,000</u>

10. ADMINISTRATIVE EXPENSES

Administrative expenses comprise:

	2012 £'000	2011 £'000
Distribution costs	84,056	77,553
Administrative expenses	<u>31,321</u>	<u>28,621</u>
	<u>115,377</u>	<u>106,174</u>

11. OPERATING LEASE COMMITMENTS

Group	2012 £'000	2011 £'000
Minimum lease payments under operating leases recognised in the year	<u>6,209</u>	<u>6,194</u>

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2012 £'000	2011 £'000
Within one year	4,987	4,673
In the second to fifth year	15,473	14,495
After five years	<u>8,807</u>	<u>9,236</u>
	<u>29,267</u>	<u>28,404</u>

Company	2012 £'000	2011 £'000
Minimum lease payments under operating leases recognised in the year	<u>172</u>	<u>172</u>

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

	2012 £'000	2011 £'000
Within one year	172	172
In the second to fifth year	688	688
After five years	<u>344</u>	<u>516</u>
	<u>1,204</u>	<u>1,376</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

12. INTANGIBLE ASSETS

Group

	Software development costs £'000
COST	
At 1 January 2012	31,221
Additions	<u>3,960</u>
At 31 December 2012	<u>35,181</u>
AMORTISATION	
At 1 January 2012	27,057
Amortisation for year	<u>736</u>
At 31 December 2012	<u>27,793</u>
NET BOOK VALUE	
At 31 December 2012	<u><u>7,388</u></u>

	Software development costs £'000
COST	
At 1 January 2011	28,567
Additions	<u>2,654</u>
At 31 December 2011	<u>31,221</u>
AMORTISATION	
At 1 January 2011	24,556
Amortisation for year	<u>2,501</u>
At 31 December 2011	<u>27,057</u>
NET BOOK VALUE	
At 31 December 2011	<u><u>4,164</u></u>

The Company had no intangible assets at 31 December 2012 (2011: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

13. PROPERTY, PLANT AND EQUIPMENT

Group	Non- operational land and buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
COST				
At 1 January 2012	6,404	2,190,620	55,110	2,252,134
Additions	-	182,867	1,299	184,166
Disposals	-	(6,655)	(239)	(6,894)
At 31 December 2012	<u>6,404</u>	<u>2,366,832</u>	<u>56,170</u>	<u>2,429,406</u>
DEPRECIATION				
At 1 January 2012	4,540	681,640	50,058	736,238
Charge for year	140	51,480	1,928	53,548
Eliminated on disposal	-	(6,655)	(239)	(6,894)
At 31 December 2012	<u>4,680</u>	<u>726,465</u>	<u>51,747</u>	<u>782,892</u>
NET BOOK VALUE				
At 31 December 2012	<u>1,724</u>	<u>1,640,367</u>	<u>4,423</u>	<u>1,646,514</u>
	Non- operational land and buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
COST				
At 1 January 2011	6,736	2,073,492	52,698	2,132,926
Additions	208	122,710	2,747	125,665
Disposals	(540)	(5,582)	(335)	(6,457)
At 31 December 2011	<u>6,404</u>	<u>2,190,620</u>	<u>55,110</u>	<u>2,252,134</u>
DEPRECIATION				
At 1 January 2011	4,526	639,690	48,857	693,073
Charge for year	120	47,511	1,536	49,167
Eliminated on disposal	(106)	(5,561)	(335)	(6,002)
At 31 December 2011	<u>4,540</u>	<u>681,640</u>	<u>50,058</u>	<u>736,238</u>
NET BOOK VALUE				
At 31 December 2011	<u>1,864</u>	<u>1,508,980</u>	<u>5,052</u>	<u>1,515,896</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

13. PROPERTY, PLANT AND EQUIPMENT - continued

Group

Assets in the course of construction included above:

	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
At 1 January 2012	75,547	-	75,547
Additions	190,276	1,557	191,832
Available for use	<u>(127,728)</u>	<u>(1,557)</u>	<u>(129,284)</u>
At 31 December 2012	<u>138,095</u>	<u>-</u>	<u>138,095</u>

The Group has entered into contractual commitments in relation to the future acquisition of property, plant and equipment of £29,100,000 (2011: £19,790,000).

The net book value of the Group's non-operational land and buildings comprises:

	2012 £'000	2011 £'000
Freehold	1,256	1,396
Long leasehold	368	368
Short leasehold	<u>100</u>	<u>100</u>
	<u>1,724</u>	<u>1,864</u>

Company

	Non- Operational Land & Buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
COST				
At 1 January 2012	296	1,259	3,558	5,113
Additions	<u>-</u>	<u>-</u>	<u>73</u>	<u>73</u>
At 31 December 2012	<u>296</u>	<u>1,259</u>	<u>3,631</u>	<u>5,186</u>
DEPRECIATION				
At 1 January 2012	-	-	3,311	3,311
Charge for year	<u>9</u>	<u>-</u>	<u>29</u>	<u>38</u>
At 31 December 2012	<u>9</u>	<u>-</u>	<u>3,340</u>	<u>3,349</u>
NET BOOK VALUE				
At 31 December 2012	<u>287</u>	<u>1,259</u>	<u>291</u>	<u>1,837</u>
At 31 December 2011	<u>296</u>	<u>1,259</u>	<u>247</u>	<u>1,802</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

13. PROPERTY, PLANT AND EQUIPMENT - continued

Company

	Non- Operational Land & Buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
COST				
At 1 January 2011	-	1,259	3,558	4,817
Additions	296	-	-	296
At 31 December 2011	296	1,259	3,558	5,113
DEPRECIATION				
At 1 January 2011	-	-	3,282	3,282
Charge for year	-	-	29	29
At 31 December 2011	-	-	3,311	3,311
NET BOOK VALUE				
At 31 December 2011	296	1,259	247	1,802

14. INVESTMENTS

	Share of joint venture's net assets £'000	Group Shares in other undertakings £'000	Total £'000	Shares in subsidiary undertakings £'000	Company Shares in other undertakings £'000	Total £'000
At 31 December 2011	3,325	21	3,346	327,099	971	328,070
Movement	(21)	-	(21)	-	-	-
At 31 December 2012	3,304	21	3,325	327,099	971	328,070

Details of the principal investments of the Group at 31 December 2012 are listed below:

Name of company	Holding of shares	Proportion of voting rights and shares held	Nature of business
Principal subsidiary undertakings Held by Company:			
Integrated Utility Services Limited	3,103,000 at £1	100%	Engineering contracting services
Northern Powergrid (Northeast) Limited	200,000,100 at £1	100%	Distribution of electricity
Northern Electric Properties Limited	32,207,100 at £1	100%	Property holding and management company
Northern Transport Finance Limited	7,00,000 at £1	100%	Car finance company

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

14. INVESTMENTS - continued

Name of company	Holding of shares	Proportion of voting rights and shares held	Nature of business
Held by the Company's subsidiaries: Northern Electric Finance plc	50,000 at £1	100%	Finance company
Joint venture held by the Company: Vehicle Lease and Service Limited	950,000 at £1	50%	Transport services

All the above companies are registered in England and Wales.

Interest in Joint venture

Summarised financial information in respect of the Group's joint venture is set out below:

	2012 £'000	2011 £'000
Long-term assets	18,067	16,842
Current assets	14,562	16,547
Long-term liabilities	(9,917)	(14,640)
Current liabilities	<u>(16,104)</u>	<u>(12,099)</u>
Net assets	<u>6,608</u>	<u>6,650</u>
Group's share of joint venture's net assets	<u>3,304</u>	<u>3,325</u>
Revenue	<u>15,219</u>	<u>14,807</u>
Profit for the year	<u>668</u>	<u>784</u>
Group's share of joint venture's profit for the year	<u>334</u>	<u>392</u>

15. INVENTORIES

	Group	
	2012 £'000	2011 £'000
Stocks	10,456	9,418
Work-in-progress	4,442	3,545
Assets held for sale	<u>456</u>	<u>420</u>
	<u>15,354</u>	<u>13,383</u>

The Company had no inventories at 31 December 2012 (2011: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

15. INVENTORIES - continued

Group construction contracts

Contracts in progress at balance sheet date:

	2012 £'000	2011 £'000
Amounts due from customers included in inventories	<u>4,442</u>	<u>3,545</u>
Contract costs incurred plus recognised profits less recognised losses to date	30,100	23,800
Less: progress billings	<u>(25,658)</u>	<u>(20,255)</u>
	<u>4,442</u>	<u>3,545</u>

At 31 December 2012, retentions held by customers for contract work amounted to £365,000 (2011: £359,000).

Advances received from customers for contract work amounted to £nil (2011: £nil)

The Company had no construction contracts at 31 December 2012 (2011: £nil).

16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Current:				
Distribution use of system receivables	47,396	38,037	-	-
Construction contract customers	4,467	3,441	-	-
Amounts receivable in respect of finance leases	3,544	3,766	-	-
Other debtors	270	584	330	584
Amounts receivable for sale of goods and services	1,819	4,459	-	-
Prepayments and accrued income	<u>4,407</u>	<u>4,595</u>	<u>236</u>	<u>216</u>
	<u>61,903</u>	<u>54,882</u>	<u>566</u>	<u>800</u>
Non-current:				
Amounts receivable in respect of finance leases	<u>4,658</u>	<u>3,780</u>	<u>-</u>	<u>-</u>
Aggregate amounts	<u>66,561</u>	<u>58,662</u>	<u>566</u>	<u>800</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

16. 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 balance sheet date. The maximum exposure to risk to the Group is the book value of these receivables less any provisions for impairment.

Finance lease receivables

	Minimum lease payments		Present value	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Amounts receivable under finance leases:				
Within one year	3,918	3,757	3,544	3,766
In the second to fifth years inclusive	<u>4,949</u>	<u>4,368</u>	<u>4,658</u>	<u>3,780</u>
	8,867	8,125	8,202	7,546
Less: unearned finance income	<u>(665)</u>	<u>(579)</u>	<u>-</u>	<u>-</u>
	<u><u>8,202</u></u>	<u><u>7,546</u></u>	<u><u>8,202</u></u>	<u><u>7,546</u></u>

Northern Transport Finance Limited ("NTFL"), a wholly owned subsidiary, enters into credit finance arrangements for motor vehicles with employees in the Northern Powergrid Group. All agreements are denominated in sterling. The term of the finance agreements is predominantly three years.

The interest rate inherent in the agreements is fixed at the contract date for all of the term of the agreement. The average effective interest rate contracted is approximately 6.5% (2011: 6.5%) per annum. None of these debts are past due and there are no indicators of impairment. The directors consider the carrying value of finance lease receivables approximates their fair value. The maximum risk exposure is the book value of these receivables, less the residual value of the leased vehicles.

Distribution use of system receivables

The customers served by the Group's distribution network are supplied predominantly by a small number of electricity supply businesses with RWE NPower plc accounting for approximately 27% of distribution revenues in 2012 (2011: 28%). 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 £32,000 as at 31 December 2012 (2011: £1,532,000).

Ofgem has indicated that, provided the Group 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 Group's use of system ("UoS") receivables are debtors with a carrying value of £nil, which have been placed into administration. Consequently, no provision was required at the year-end (2011: £nil).

NORTHERN ELECTRIC PLC (REGISTERED NUMBER: 02366942)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

16. TRADE AND OTHER RECEIVABLES - continued

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/disconnections and recovery of amounts for damage caused by third parties to the distribution system.

The average credit period on sales of goods and services is 30 days. Interest is not generally charged on the trade receivables paid after the due date. 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 Group's amounts receivable for goods and services balance are debtors with a carrying amount of £753,000 (2011: £779,000) which are past due at the reporting date and for which the Group has provided an irrecoverable amount of £469,000 (2011: £320,000) based on past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 554 days (2011: 344 days).

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £510,000 (2011: £695,000). These amounts are past due at the reporting date and the Group 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 Group does not hold any collateral over these balances. The average age of these receivables is 61 days (2011: 56 days).

Ageing of past due but not impaired receivables:

	2012 £'000	2011 £'000
30-60 days	374	569
60-120 days	108	102
120-210 days	<u>28</u>	<u>24</u>
Total	<u>510</u>	<u>695</u>

Construction contract customers

The average credit period on construction contracts is 30 days. Interest is not generally charged on construction contracts paid after the due date. The Group has provided fully for all receivables over one year for UK Contracting debts and all receivables over six months for Multi-Utility debts. Trade receivables between 30 days and these predetermined provision dates are provided for based on estimated irrecoverable amounts, determined by reference to past default experience.

Included in the Group's construction contracts balance are debtors with a carrying amount of £1,486,000 (2011: £1,358,000), which are past due at the reporting date for which the Group has provided for an irrecoverable amount of £27,000 (2011: £104,000) based on past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 227 days (2011: 126 days).

Included in the Group's construction contracts balance are debtors with a carrying amount of £nil (2011: £49,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables in the prior year was 45 days.

Ageing of past due but not impaired receivables:

	2012 £'000	2011 £'000
30-90 days	<u>-</u>	<u>49</u>
Total	<u>-</u>	<u>49</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

16. TRADE AND OTHER RECEIVABLES - continued

Movement in the allowance for doubtful debts

	2012 £'000	2011 £'000
At 1 January	424	550
Amounts utilised/written off in the year	(160)	(345)
Amounts recognised in income statement	<u>233</u>	<u>219</u>
At 31 December	<u>497</u>	<u>424</u>

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 £312,000 (2011: £205,000) 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

	2012 £'000	2011 £'000
Group:		
Cash and bank balances	150,071	229,632
Loans and receivables at amortised cost	<u>57,496</u>	<u>50,287</u>
Total financial assets	<u>207,567</u>	<u>279,919</u>
Non-current assets	1,906,385	1,728,986
Inventories	15,354	13,383
Prepayments and accrued income	<u>4,407</u>	<u>4,595</u>
Total non-financial assets	<u>1,926,146</u>	<u>1,746,964</u>
Total assets	<u>2,133,713</u>	<u>2,026,883</u>
Company:		
Cash and bank balances	46,271	57,357
Loans and receivables at amortised cost	<u>330</u>	<u>584</u>
Total financial assets	<u>46,601</u>	<u>57,941</u>
Non-current assets	329,907	329,872
Income tax receivables	4,518	78
Prepayments and accrued income	<u>236</u>	<u>216</u>
Total non-financial assets	<u>334,661</u>	<u>330,166</u>
Total assets	<u>381,262</u>	<u>388,107</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Amounts owed by Group undertakings	<u>150,071</u>	<u>229,632</u>	<u>46,271</u>	<u>57,357</u>
	<u>150,071</u>	<u>229,632</u>	<u>46,271</u>	<u>57,357</u>

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

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

18. CALLED UP SHARE CAPITAL

	2012 No.	2011 No.
Ordinary shares at 56 12/23p each Allotted, called up and fully paid	<u>127,689,809</u>	<u>127,689,809</u>
	2012 £'000	2011 £'000
Ordinary shares at 56 12/13p each Allotted, called up and fully paid	<u>72,173</u>	<u>72,173</u>

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

Details of the cumulative non-equity preference shares are contained in the borrowings note.

19. RESERVES

Group	Retained earnings £'000	Share premium £'000	Other reserves £'000	Totals £'000
At 1 January 2012	539,460	158,748	6,185	704,393
Profit for the year	135,407	-	-	135,407
Dividends	(30,000)	-	-	(30,000)
	<u>644,867</u>	<u>158,748</u>	<u>6,185</u>	<u>809,800</u>
At 31 December 2012	<u>644,867</u>	<u>158,748</u>	<u>6,185</u>	<u>809,800</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

19. RESERVES – continued

Group - continued

	Retained earnings £'000	Share premium £'000	Other reserves £'000	Totals £'000
At 1 January 2011	453,321	158,748	6,185	618,254
Profit for the year	116,139	-	-	116,139
Dividends	(30,000)	-	-	(30,000)
At 31 December 2011	<u>539,460</u>	<u>158,748</u>	<u>6,185</u>	<u>704,393</u>

Company

	Retained earnings £'000	Share premium £'000	Other reserves £'000	Totals £'000
At 1 January 2012	130,861	158,748	6,185	295,794
Profit for the year	24,011	-	-	24,011
Dividends	(30,000)	-	-	(30,000)
At 31 December 2012	<u>124,872</u>	<u>158,748</u>	<u>6,185</u>	<u>289,805</u>

	Retained earnings £'000	Share premium £'000	Other reserves £'000	Totals £'000
At 1 January 2011	131,229	158,748	6,185	296,162
Profit for the year	29,632	-	-	29,632
Dividends	(30,000)	-	-	(30,000)
At 31 December 2011	<u>130,861</u>	<u>158,748</u>	<u>6,185</u>	<u>295,794</u>

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Current:				
Payments on account	32,249	43,166	-	-
Trade creditors	5,348	5,575	578	1,295
Amounts owed to related parties	603	490	-	-
Social security and other taxes	7,232	11,048	4,913	5,126
Other creditors	14,818	13,090	1,071	663
Deferred revenue	18,933	15,755	-	-
Accrued expenses	43,617	24,464	538	386
	<u>122,800</u>	<u>113,588</u>	<u>7,100</u>	<u>7,470</u>
Non-current:				
Deferred revenue	473,421	441,679	-	-
	<u>473,421</u>	<u>441,679</u>	<u>-</u>	<u>-</u>
Aggregate amounts	<u>596,221</u>	<u>555,267</u>	<u>7,100</u>	<u>7,470</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

20. TRADE AND OTHER PAYABLES - continued

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 balance sheet date. Trade creditors and accruals principally comprise amounts outstanding for trade purchases and on-going costs. Invoices are paid at the end of the month following the date of the invoice. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The following tables detail the remaining contractual maturities for 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 Group can be required to pay. The tables include both interest and principal cash flows.

Group

	Less than 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
2012:					
Non-interest bearing	71,618	-	-	-	71,618
Variable interest rate liability	-	-	-	-	-
Fixed interest rate liability	5,031	22,463	109,975	862,295	999,764
	<u>76,649</u>	<u>22,463</u>	<u>109,975</u>	<u>862,295</u>	<u>1,071,382</u>
2011:					
Non-interest bearing	54,667	-	-	-	54,667
Variable interest rate liability	22,022	-	-	-	22,022
Fixed interest rate liability	5,031	22,463	109,975	889,789	1,027,258
	<u>81,720</u>	<u>22,463</u>	<u>109,975</u>	<u>889,789</u>	<u>1,103,947</u>

Company

	Less than 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
2012:					
Non-interest bearing	7,100	-	-	-	7,100
Fixed interest rate liability	-	9,000	36,000	108,553	153,553
	<u>7,100</u>	<u>9,000</u>	<u>36,000</u>	<u>108,553</u>	<u>160,653</u>
2011:					
Non-interest bearing	7,470	-	-	-	7,470
Fixed interest rate liability	-	9,000	36,000	98,224	143,224
	<u>7,470</u>	<u>9,000</u>	<u>36,000</u>	<u>98,224</u>	<u>150,694</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

20. TRADE AND OTHER PAYABLES - continued

Categories of financial liabilities

	2012 £'000	2011 £'000
Group:		
Loans and payables at amortised cost	<u>(502,280)</u>	<u>(525,584)</u>
Total financial liabilities	<u>(502,280)</u>	<u>(525,584)</u>
Payments received on account	(32,249)	(43,166)
Income tax liabilities	(170,428)	(185,027)
Other taxes and social security	(7,232)	(11,048)
Accruals	(43,617)	(24,464)
Deferred Revenue	(492,354)	(457,434)
Provisions	<u>(3,580)</u>	<u>(3,594)</u>
Total non-financial liabilities	<u>(749,460)</u>	<u>(724,733)</u>
Total liabilities	<u>(1,251,740)</u>	<u>(1,250,317)</u>

	2012 £'000	2011 £'000
Company:		
Loans and payables at amortised cost	<u>(5,039)</u>	<u>(5,348)</u>
Total financial liabilities	<u>(5,039)</u>	<u>(5,348)</u>
Income tax liabilities	(7,051)	(7,680)
Other taxes and social security	(4,913)	(5,126)
Accruals	(538)	(386)
Provisions	<u>(1,743)</u>	<u>(1,600)</u>
Total non-financial liabilities	<u>(14,245)</u>	<u>(14,792)</u>
Total liabilities	<u>(19,284)</u>	<u>(20,140)</u>

Deferred Revenue

	2012 £'000	2011 £'000
At 1 January	(457,434)	(430,935)
Additions	(50,244)	(39,781)
Amortisation	<u>15,324</u>	<u>13,282</u>
At 31 December	<u>(492,354)</u>	<u>(457,434)</u>

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

The Company had no deferred revenue at 31 December 2012 (2011: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

21. FINANCIAL LIABILITIES - BORROWINGS

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

Group	Book Value		Fair Value	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Loans	376,838	389,785	448,558	460,450
Cumulative preference shares	3,368	3,368	153,553	143,224
Amounts owed to Group undertakings	<u>101,305</u>	<u>104,276</u>	<u>122,400</u>	<u>119,592</u>
	<u>481,511</u>	<u>506,429</u>	<u>724,511</u>	<u>723,266</u>
The borrowings are repayable as follows:				
On demand or within one year	11,425	37,789	11,425	37,789
After five years	<u>470,086</u>	<u>468,640</u>	<u>713,086</u>	<u>685,477</u>
	<u>481,511</u>	<u>506,429</u>	<u>724,511</u>	<u>723,266</u>
Analysis of borrowings:				
Short-term treasury loans	138	22,022	138	22,022
Short-term loans from Group undertakings	1,289	4,276	1,289	4,276
2020 - 8.875%	100,697	100,598	141,327	140,817
2035 - 5.125%	152,679	152,856	170,085	161,544
2037 - 5.9% loan from Group undertakings	100,016	100,000	121,111	115,316
Cumulative preference shares	3,368	3,368	153,553	143,224
European Investment Bank 2018 - 4.065%*	41,395	41,390	45,035	44,896
European Investment Bank 2019 - 4.241%*	41,457	41,453	46,159	45,975
European Investment Bank 2020 - 4.386%*	<u>40,472</u>	<u>40,466</u>	<u>45,814</u>	<u>45,096</u>
	<u>481,511</u>	<u>506,429</u>	<u>724,511</u>	<u>723,266</u>

* The borrowings from the European Investment Bank were drawn down in twelve tranches, repayable in 2018, 2019 and 2020. The interest rates shown are average rates for those repayment dates. The spread of interest rates is as follows:

2018: 3.901% - 4.283%
2019: 4.077% - 4.455%
2020: 4.227% - 4.586%

Company

	£'000	£'000	£'000	£'000
The borrowings are repayable as follows:				
On demand or within one year	2,273	2,273	2,273	2,273
After five years	<u>1,117</u>	<u>1,117</u>	<u>151,302</u>	<u>140,973</u>
	<u>3,390</u>	<u>3,390</u>	<u>153,575</u>	<u>143,246</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

21. FINANCIAL LIABILITIES – BORROWINGS - continued

Analysis of borrowings:

	£'000	£'000	£'000	£'000
Short-term loans from Group undertakings	22	22	22	22
Cumulative preference shares	<u>3,368</u>	<u>3,368</u>	<u>153,553</u>	<u>143,224</u>
	<u>3,390</u>	<u>3,390</u>	<u>153,575</u>	<u>143,246</u>

The fair value of quoted external borrowings is determined with reference to quoted market prices. The directors' estimates of the fair value of 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.

Interest on short-term loans from Group undertakings is charged at a floating rate of interest at Base Rate minus 0.25%, thus exposing the Group to cash flow interest rate risk. A 1% movement in interest rates would not subject the Group to any material change in interest costs. All other loans are at fixed interest rates and expose the Group to fair value interest rate risk.

As at 31 December 2012 and 2011 111,662,378 of the Company's non-equity cumulative preference shares of 1p each were allotted, called up and fully paid.

The terms of the cumulative preference shares:

- i) entitle holders, in priority to holders of all other classes of shares, to a fixed cumulative preferential dividend of 8.061p (net) per share per annum payable half-yearly in equal amounts on 31 March and 30 September;
- ii) on a return of capital on a winding up, or otherwise, will carry the right to repayment of capital together with a premium of 99p per share and a sum equal to any arrears or accruals of dividend; this right is in priority to the rights of ordinary shareholders;
- iii) carry the right to attend a general meeting of the Company, and vote if, at the date of the notice convening the meeting, payment of the dividend to which they are entitled is six months or more in arrears, or if a resolution is to be considered at the meeting for winding-up the Company or abrogating, varying or modifying any of the special rights attaching to them; and
- iv) are redeemable in the event of the revocation by the Secretary of State of the Company's Public Electricity Supply Licence at the value given in (ii) above.

During the year ended 31 December 2001, under the terms of the Company's transfer scheme, as approved by the Secretary of State in accordance with the provisions of the Utilities Act 2000, the Company's Public Electricity Supply Licence was converted into an Electricity Distribution Licence and an Electricity Supply Licence.

At 31 December 2012, the Group had available £82m (2011: £60m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

No material market risks in relation to currency or interest rates are faced by the Company. As at 31 December 2012, 100% (2011: 99%) of the Group's long-term borrowings were at fixed rates and the average maturity for these borrowings was 16 years (2011: 17 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

22. PROVISIONS

	Group		Company	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Other provisions	<u>3,580</u>	<u>3,594</u>	<u>1,743</u>	<u>1,600</u>
Analysed as follows:				
Current	1,384	1,000	-	-
Non-current	<u>2,196</u>	<u>2,594</u>	<u>1,743</u>	<u>1,600</u>
	<u>3,580</u>	<u>3,594</u>	<u>1,743</u>	<u>1,600</u>
		Claims	Other	Total
		£'000	£'000	£'000
At 1 January 2012		1,070	2,524	3,594
Utilised/paid in the year		(1,040)	(366)	(1,406)
Charged to income statement		<u>866</u>	<u>526</u>	<u>1,392</u>
At 31 December 2012		<u>896</u>	<u>2,684</u>	<u>3,580</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 20 years.

Also included in 'other' is a provision to cover the actuarial assessment of the costs of unfunded pension arrangements in respect of former employees. Further details can be found in the pension note.

23. DEFERRED TAX

	Accelerated tax depreciation	Rollover/ holdover relief	Retirement benefit (obligations)/ assets	Other	Total
	£'000	£'000	£'000	£'000	£'000
Group:					
At 1 January 2012	112,901	9,253	50,056	(90)	172,120
Charge to income statement	<u>(13,207)</u>	<u>(708)</u>	<u>5,027</u>	<u>(22)</u>	<u>(8,910)</u>
At 31 December 2012	<u>99,694</u>	<u>8,545</u>	<u>55,083</u>	<u>(112)</u>	<u>163,210</u>
			Retirement benefit (obligations)/ assets	Other	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2011	121,834	13,794	42,355	(50)	177,933
Charge to income statement	<u>(8,933)</u>	<u>(4,541)</u>	<u>7,701</u>	<u>(40)</u>	<u>(5,813)</u>
At 31 December 2011	<u>112,901</u>	<u>9,253</u>	<u>50,056</u>	<u>(90)</u>	<u>172,120</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

23. DEFERRED TAX - continued

	Accelerated tax depreciation	Rollover/ holdover relief	Retirement benefit (obligations)/ assets	Total
Company:	£'000	£'000	£'000	£'000
At 1 January 2012	(30)	8,104	(394)	7,680
Charge to income statement	8	(633)	(4)	(625)
At 31 December 2012	(22)	7,471	(398)	7,051

	Accelerated tax depreciation	Rollover/ holdover relief	Retirement benefit (obligations)/ assets	Total
	£'000	£'000	£'000	£'000
At 1 January 2011	(41)	12,559	(398)	12,120
Charge to income statement	11	(4,455)	4	(4,440)
At 31 December 2011	(30)	8,104	(394)	7,680

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

24. EMPLOYEE BENEFIT OBLIGATIONS

The Group has two retirement benefit schemes.

The Northern Powergrid Group of the ESPS is a defined benefit scheme for directors and employees, which provides pension and other related benefits based on final pensionable pay. The assets of the Northern Powergrid Group of the ESPS, which was closed to staff commencing employment on or after 23 July 1997, are held in a separate trustee-administered fund. The Northern Powergrid Pension Scheme was made available to new employees from that date.

The Northern Powergrid Group of the ESPS and the Northern Powergrid Pension Scheme are operated by the Company on behalf of the participating companies within the Northern Powergrid Group.

The last triennial actuarial valuation of the Northern Powergrid Group of the ESPS was carried out by the Group Trustees' actuarial advisors, Aon Hewitt, as at 31 March 2010. The projected unit method was used for the 2010 valuation. The principal actuarial assumptions were that pre-retirement investment returns would exceed salary increases by 1.8% per annum (inclusive of merit awards) and post-retirement returns would exceed future pension increases by 2.8% per annum.

The total market value of the assets of the Northern Powergrid Group of the ESPS, at the date of the actuarial valuation, was £983m.

For the Northern Powergrid Group of the ESPS, the actuarial valuation showed that the value of the assets represented 78% of the actuarial value of the accrued benefits. This represents a shortfall of assets compared to the value of accrued benefits of £276m. The accrued benefits include all benefits for pensioners and other members, as well as benefits based on service completed to date for active members, and allows for an estimate of future salary increases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

Agreement was reached during June 2011 with the Group Trustees to repair this deficit over the 15 year period to 31 March 2025, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2010 being borne out in practice. The agreement includes cash payments of £29.9m per annum, made on a monthly basis, for the first five years of the recovery plan followed by an agreed profile of payments to be made over the remaining ten years of the recovery plan.

At the Group's request the actuary has carried out a separate formal review of the Group's future pension costs using the assumptions set out below, which the actuary has confirmed facilitate a reasonable best estimate of those costs. This review has been based on the same membership and other data as at 31 March 2010. The board has accepted the advice of the actuary and formally approved the use of these assumptions for the purpose of calculating the Group's pension cost.

The contribution rates to the Northern Powergrid Group of the ESPS, in addition to the deficit repair contributions mentioned above, for 2011 were 41.9% for certain senior management and 23.5% for other employees up to 30 June 2011 and 47.0% and 29.4% respectively from 1 July 2011. These rates will remain in place until a time as a new schedule of contributions is agreed between the trustees of the Northern Powergrid Group of the ESPS and the Company as part of the triennial valuation process.

The Northern Powergrid Pension Scheme is a money purchase scheme and is accounted for as a defined contribution scheme.

Principal assumptions:

	2012 Projected unit	2011 Projected unit
Valuation method		
Discount rate	4.40%	4.80%
Inflation rate	2.80%	2.80%
Increase to pensions	2.80%	2.80%
Increase to deferred benefits	2.80%	2.80%
Salary increase	2.80%	2.80%

The mortality assumptions are based on the recent actual mortality experience of members within the Northern Powergrid Group and the assumptions also allow for future mortality improvements. The assumption is that a member currently aged 60 will live for a further 30 years, if he is male, and for a further 30 years, if she is female. Life expectancy at age 60 for non-pensioners (currently aged 45) is assumed to be 30 years, if they are male, and 30 years, if they are female.

For closed schemes, such as the Northern Powergrid Group of the ESPS, under the projected unit method the current service cost will increase as the members of the scheme approach retirement.

The amount recognised in the balance sheet in respect of the Group's defined benefit scheme is as follows:

	2012 £m	2011 £m
Present value of funded defined benefit obligations	(1,259.3)	(1,141.8)
Fair value of plan assets	<u>1,222.8</u>	<u>1,128.2</u>
	(36.5)	(13.6)
Unrecognised actuarial losses	<u>281.0</u>	<u>215.4</u>
Net surplus recognised on the balance sheet	<u>244.5</u>	<u>201.8</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

Amounts recognised in the income statement or in property, plant and equipment in respect of the defined benefit plan are as follows:

	2012 £m	2011 £m
Current service cost	12.2	11.0
Interest cost on obligations	53.9	57.5
Expected return on plan assets	(67.1)	(69.6)
Amortisation of actuarial loss	8.4	7.2
	<u>7.4</u>	<u>6.1</u>
Charged to other Northern Powergrid Group undertakings	<u>(18.7)</u>	<u>(18.0)</u>
	<u>(11.3)</u>	<u>(11.9)</u>
Allocated to income statement	<u>(7.3)</u>	<u>(7.1)</u>
Allocated to property, plant and equipment	<u>(4.0)</u>	<u>(4.4)</u>

The pension costs incurred are allocated between active members and pensioner/deferred members. Of the total amount allocated to the active members, 65% is capitalised in line with the work carried out by those members (2011: 65%). All of the amounts allocated to pensioner/deferred members are expensed.

The amount that relates to the active members is calculated as the total current service cost plus a proportion of the other elements, which is based on the allocation of liabilities to the active members and is proportionate to the total liabilities of the Northern Powergrid Group of the ESPS. That allocation is currently assumed to be 33.6% and is as agreed for the deficit repair payments (2011: 33.6%).

The amounts recovered from Group undertakings are credited to the income statement.

The actual return on plan assets was £93.4m (2011: £86.3m)

Changes in present value of the defined benefit obligation are as follows:

	2012 £m	2011 £m
Opening defined benefit obligation	1,141.8	1,061.1
Current service costs	12.2	11.0
Interest cost	53.9	57.5
Contributions from employees	1.8	2.4
Actuarial losses	100.3	63.0
Benefits paid	<u>(50.7)</u>	<u>(53.2)</u>
Closing defined benefit obligation	<u>1,259.3</u>	<u>1,141.8</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

	2012 £m	2011 £m
Changes in the fair value of the plan assets are as follows:		
Opening fair value of plan assets	1,128.2	1,043.7
Expected returns	67.1	69.6
Actuarial gains	26.3	16.7
Contributions by employer	50.1	49.0
Contributions from employees	1.8	2.4
Benefit paid	(50.7)	(53.2)
Closing fair value of plan assets	<u>1,222.8</u>	<u>1,128.2</u>

The fair value of the plan assets at the balance sheet date is analysed below:

	Long term rates of return expected at		Value	
	2012 %	2011 %	2012 £m	2011 £m
Equities	8.00	8.50	303.9	303.6
Gilts	3.50	3.70	750.3	714.6
Cash	3.00	3.00	5.8	9.8
Reinsurance	7.00	n/a	59.4	-
Property	<u>7.00</u>	<u>7.50</u>	<u>103.4</u>	<u>100.2</u>
Total fair value of scheme assets			<u>1,222.8</u>	<u>1,128.2</u>

The Northern Powergrid Group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rates of return on each asset class are set out within these disclosures. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Northern Powergrid Group of the ESPS. The history of the plan for the current and prior years is as follows:

	2012	2011	2010	2009	2008
Present value of defined benefit obligation	(1,259.3)	(1,141.8)	(1,061.1)	(1,021.9)	(855.3)
Fair value of plan assets	<u>1,222.8</u>	<u>1,128.2</u>	<u>1,043.7</u>	<u>938.4</u>	<u>801.4</u>
(Deficit)/surplus	<u>(36.5)</u>	<u>(13.6)</u>	<u>(17.4)</u>	<u>(83.5)</u>	<u>(53.9)</u>
Experienced (losses)/gains on plan liabilities:					
Amount (£m)	(100.0)	(63.0)	(12.5)	(145.7)	87.3
percentage of scheme liabilities (%)	<u>(7.9)</u>	<u>(5.5)</u>	<u>(11.8)</u>	<u>(14.3)</u>	<u>10.2</u>
Experience of gains/(losses) on plan assets:					
Amount (£m)	26.3	16.7	41.6	78.6	(231.4)
Percentage of scheme assets (%)	<u>2.1</u>	<u>1.5</u>	<u>3.9</u>	<u>8.4</u>	<u>(28.9)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

A provision to cover the actuarial assessment of the costs of unfunded pension arrangements in respect of former employees has been made by the Group and Company as follows:

	£m
At 1 January 2012	1.6
Utilised/paid in the year	-
Transferred from income statement	0.1
	<hr/>
At 31 December 2012	1.7
	<hr/>

25. RELATED PARTY DISCLOSURES

Group

Details of transactions between the Group and other related parties are disclosed below.

Loans

The Group has made loans repayable on demand to companies in the Northern Powergrid Group. The total interest included in investment income in the income statement for the year ended 31 December 2012 was £1,578,000 (2011: £1,536,000). Included within cash and cash equivalents is £150,071,000 as at 31 December 2012 (2011: £229,632,000) in respect of these loans.

The Group 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 2012 was £5,286,000 (2011: £6,386,000). Included within borrowings is £101,305,000 as at 31 December 2012 (2011: £104,276,000).

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

Trading transactions

The Group 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:

Related Party	Sales to related parties £'000	Purchases from related parties £'000	Amounts owed to related parties £'000
2012:			
CE Insurance Services Limited	-	476	-
Integrated Utility Services Limited (registered in Eire)	-	1,155	247
CE UK Gas Holdings Limited	37	-	-
Northern Powergrid (Yorkshire) plc	16,880	6,121	-
Vehicle Lease and Service Limited	-	3,890	356
	<hr/>	<hr/>	<hr/>
2011:			
CE Insurance Service Limited	-	471	-
Integrated Utility Services Limited (registered in Eire)	-	907	78
CE UK Gas Holdings Limited	156	-	-
Northern Powergrid (Yorkshire) plc	18,532	8,775	-
Vehicle Lease and Service Limited	-	3,620	412
	<hr/>	<hr/>	<hr/>

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

25. RELATED PARTY DISCLOSURES - continued

During 2012, 3 directors (2011: 3) and 8 key personnel (2011: 8) utilised the services provided by NTFL. The amounts included in finance lease receivables owed by these directors and key personnel total £112,000 (2011: £146,000) in respect of non-current and £35,000 (2011: £32,000) in respect of current receivables.

Company

Details of transactions between the Company and other related parties are disclosed below.

Loans

The Company has made loans repayable on demand to companies in the Northern Powergrid Group. The total interest included in investment income in the income statement for the year ended 31 December 2012 was £951,000 (2011: £1,010,000). Included within cash and cash equivalents is £46,271,000 as at 31 December 2012 (2011: £57,357,000) in respect of these loans.

The Company has received loans from companies in the Northern Powergrid Group. The total interest included in finance costs in the income statement for the year ended 31 December 2012 was £604,000 (2011: £617,000). Included within borrowings is £22,000 as at 31 December 2012 (2011: £22,000) in respect of these loans.

Interest on loans to/from Group companies is charged at a commercial rate of interest.

Trading transactions

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:

Related Party	Sales to related parties £'000	Purchases from related parties £'000	Dividends received from related parties £'000
2012:			
CE UK Gas Holdings Limited	37	-	-
Integrated Utility Services Limited	423	-	-
Northern Powergrid (Northeast) Limited	4,768	162	30,000
Northern Powergrid (Yorkshire) plc	4,254	-	-
Vehicle Lease and Service Limited	-	-	334
	<u>-</u>	<u>-</u>	<u>334</u>
2011:			
CE UK Gas Holdings Limited	157	-	-
Integrated Utility Services Limited	544	-	-
Northern Powergrid (Northeast) Limited	3,742	162	30,000
Northern Powergrid (Yorkshire) plc	3,193	-	-
Vehicle Lease and Service Limited	-	-	392
	<u>-</u>	<u>-</u>	<u>392</u>

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

There are no amounts outstanding to other members of the Northern Powergrid Group.

An interim ordinary dividend of £30 million was paid during the year (2011: £30 million).

The Company has received £4,568,000 (2011: £828,000) of group relief from other companies in the Northern Powergrid Group. Payment at the UK statutory rate of 24% (2011: 26%) will be made for the use of these tax losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2012

26. ULTIMATE CONTROLLING PARTY

The immediate parent undertaking of Northern Electric plc is Northern Powergrid Limited. The ultimate controlling party and ultimate parent undertaking of Northern Powergrid 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 plc and the group accounts of Northern Powergrid Holdings Company, the largest 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.

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

Group

	2012 £'000	2011 £'000
Profit before income tax	151,278	135,887
Depreciation charges	54,284	51,668
Profit on disposal of fixed assets	(285)	(358)
Amortisation of deferred revenue	(15,324)	(13,282)
Retirement benefit obligations	(35,471)	(39,211)
Movement in provisions	(14)	(1,260)
Finance costs	36,882	37,617
Finance income	(1,912)	(1,928)
	<u>189,438</u>	<u>169,133</u>
Increase in inventories	(1,971)	(3,042)
Increase in trade and other receivables	(10,671)	87
(Decrease)/increase in trade and other payables	<u>(4,914)</u>	<u>16,854</u>
Cash generated from operations	<u>171,882</u>	<u>183,032</u>

Company

	2012 £'000	2011 £'000
Profit before income tax	22,189	24,086
Depreciation charges	38	29
Finance costs	9,605	9,618
Finance income	<u>(31,302)</u>	<u>(31,563)</u>
	<u>530</u>	<u>2,170</u>
Decrease/(increase) in trade and other receivables	234	(119)
(Decrease)/increase in trade and other payables	<u>(244)</u>	<u>1,182</u>
Cash generated from operations	<u>520</u>	<u>3,233</u>

28. OTHER RESERVES

At the Company's Annual General Meeting in August 1994, the shareholders gave approval to on-market purchases of up to 10% of its shares and this was given effect on 21 September 1994 when 12,370,400 shares were purchased. This transaction resulted in the creation of a capital redemption reserve of £6.2m. Under section 831(4) of the Companies Act 2006 this reserve is treated as an undistributable reserve.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Northern Electric plc will be held at Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF on 19 June 2013 at 10.00 am for the following purposes:

Resolutions 1 to 7 and 9 will be proposed as ordinary resolutions. Resolution 8 will be proposed as a special resolution.

Resolution 1

To receive and consider the directors' and auditor's reports and the Group accounts for the year ended 31 December 2012.

Resolution 2

To declare that no final dividend be paid for the year ended 31 December 2012.

Resolution 3

To re-elect Mr J A Andreasen as a director.

Resolution 4

To re-elect Mr R Dixon as a director.

Resolution 5

To re-elect Mr P J Goodman as a director.

Resolution 6

To re-elect Dr P A Jones as a director.

Resolution 7

- (a) That the directors be and are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company, and to grant rights to subscribe for, or to convert any security into, shares in the Company:
 - (i) up to an aggregate nominal value of £27,827,000;
 - (ii) this authority shall expire on 19 June 2018 or, if earlier, on the conclusion of the Company's annual general meeting in 2018, unless previously revoked or varied by the Company;
 - (iii) the Company may before such expiry make an offer or agreement which would or might require shares to be allotted or rights to subscribe for, or convert securities into, shares to be granted after the expiry of this authority and the directors may allot shares or grant rights to subscribe for, or convert securities into, shares under any such offer or agreement as if the authority conferred hereby had not expired;
- (b) That, subject to paragraph (c), all existing authorities given to the directors pursuant to section 80 of the Companies Act 1985 or section 551 of the Act be revoked by this resolution; and
- (c) That paragraph (b) shall be without prejudice to the continuing authority of the directors to allot shares, or grant rights to subscribe for or convert any security into shares, pursuant to an offer or agreement made by the Company before the expiry of the authority pursuant to which such offer or agreement was made.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTICE OF ANNUAL GENERAL MEETING

Resolution 8

That, subject to the passing of and pursuant to the general authority conferred by resolution 7 in the notice convening this meeting and in place of all existing powers, the directors are generally empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) for cash, pursuant to the authority so conferred as if section 561 of the Act did not apply to any such allotment. This power shall expire (unless previously renewed, varied or revoked by the Company in general meeting) on 19 June 2018 or, if earlier, on the conclusion of the Company's annual general meeting in 2018, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this power and the directors may allot equity securities in pursuance of that offer or agreement as if this power had not expired.

Resolution 9

To re-appoint Deloitte LLP as auditor and to authorise the directors to determine their remuneration.

By order of the board
John Elliott
Secretary
22 March 2013

Registered office:
Lloyds Court, 78 Grey Street,
Newcastle upon Tyne, NE1 6AF
Registered in England No 2366942

Note:

1. All the issued ordinary shares in the Company are held by or on behalf of Northern Powergrid Limited.
2. Holders of preference shares have the right to receive notice of, attend and speak at the Annual General Meeting but are only entitled to vote if, at the date of the notice of the meeting, payment of the dividend to which they are entitled is six months or more in arrears or if a resolution is to be considered at the meeting for the winding up of the Company or abrogating, varying or modifying any of the special rights attaching to the preference shares. As none of these circumstances apply to this Annual General Meeting, preference shareholders should note that they do not have the right to vote on any of the business to be considered.
3. Members are entitled to appoint a proxy to exercise all or any of their rights on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the shareholder. A proxy need not be a shareholder of the Company.
4. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a nominated person does not have such a right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
5. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
6. The current price of the Company's preference shares can be obtained from the web site of the London Stock Exchange at www.londonstockexchange.com.

Explanatory Notes

Resolution 7

The Companies Act 2006 provides that directors may only allot shares if authorised to do so by the Company's articles of association or by the shareholders in general meeting. This resolution replaces the resolution passed by the shareholders on 9 July 2008.

Special Resolution 8

This special resolution empowers the directors for the duration of the authority conferred by Resolution 7 to allot equity shares for cash without regard to the pre-emption provisions to which the ordinary shareholders would otherwise be entitled under section 561 of the Companies Act 2006.