

**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011
FOR
NORTHERN POWERGRID (YORKSHIRE) PLC
(FORMERLY YORKSHIRE ELECTRICITY DISTRIBUTION PLC)**

REGISTERED NUMBER: 4112320

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FOR THE YEAR ENDED 31 DECEMBER 2011**

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NORTHERN POWERGRID (YORKSHIRE) PLC

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

DIRECTORS:

R Dixon
T E Fielden
J M France
N M Gill
P A Jones

SECRETARY:

J Elliott

REGISTERED OFFICE:

Lloyds Court
78 Grey Street
Newcastle upon Tyne
NE1 6AF

REGISTERED NUMBER:

4112320 (England and Wales)

AUDITOR:

Deloitte LLP
Newcastle upon Tyne

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2011

The directors present the annual report and accounts of Northern Powergrid (Yorkshire) plc (the "Company") for the year ended 31 December 2011, which includes the business review and audited financial statements for that year. Pages 2 to 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 distribute electricity to customers connected to its electricity distribution network.

The Company serves an area of approximately 10,700 sq. km encompassing the counties of West Yorkshire, East Yorkshire and almost all of South Yorkshire, together with parts of North Yorkshire, Derbyshire, Nottinghamshire, Lincolnshire and Lancashire and receives electricity from the National Grid's transmission system and distributes it to approximately 2.3 million customers connected to its electricity distribution network of transformers, switchgear and overhead and underground cables, at voltages of up to 132kV. The Company is an authorised distributor under the Electricity Act 1989 and holds an electricity distribution licence granted by the Secretary of State.

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

Principle	Strategy	Indicator
Financial strength	Effective stewardship of the Company's financial resources, investing in assets and focusing on long-term opportunities, which contribute to the Company's future strength.	Profitability, cash flow and maintenance of investment grade credit ratings.
Customer service	Delivering reliability, fair prices and exceptional service.	Improving network resilience and performance, measured by: customer minutes lost; customer interruptions; and customer satisfaction.
Operational excellence	Setting high standards for the Company's operations and system investment, operation and maintenance.	Effective asset management, managing commercial risk and improving network resilience and performance.
Employee commitment	Equipping employees with the resources and skills they need to operate successfully and in a safe and rewarding environment.	Leading safety performance, engaging employees and effective leadership.

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

Environmental respect	Using natural resources wisely and protecting the environment, where it is impacted by the Company's operations.	Reducing environmental impact and promoting and pursuing long-term sustainability.
Regulatory integrity	Adhering to a policy of strict compliance with appropriate standards, policies and legislation.	Strong internal controls, regulatory engagement and industry influence.

REVIEW OF BUSINESS

The Company changed its name from Yorkshire Electricity Distribution plc to Northern Powergrid (Yorkshire) plc with effect from 31 October 2011.

Although there continued to be only limited evidence of any improvement in the general economic environment, the Company delivered a satisfactory financial performance for the year, which was mainly attributable to a benefit from the change to the rate of corporation tax and higher tariffs introduced during the year, which resulted in an increase in revenue compared to the prior year.

During the year, the Company completed a review of the efficiency of its capital expenditure in order to maintain consistent delivery of its unit costs under the Distribution Price Control 5 ("DPCR5") arrangements and continued its drive to improve customer service with action being taken to consolidate the operations and extend the opening hours of the customer relations centre, the creation of geographically-located customer response teams and the introduction of certain internet-based services in order to improve the efficiency of those services.

There were some disappointing aspects to the Company's health and safety performance for the year, with the Company missing its internal targets in respect of lost time accidents, operational incidents and preventable vehicle accidents. However, environmental performance improved with the amount of fluid loss to ground and carbon emissions reducing in comparison to the prior year.

DIVIDENDS

During the year, an interim dividend of 14p per share was paid.

RESEARCH AND DEVELOPMENT

In 2011 the Northern Powergrid Group began working, in partnership with British Gas, Durham University and EA Technology, on a three-year project, the Customer-Led Network Revolution under Ofgem's Low Carbon Networks Fund. This was the largest project supported by Ofgem in the first year of the fund and the Northern Powergrid Group will incur expenditure of £31m over the three-year life of the project. Of that expenditure, 90% is funded by electricity customers in Great Britain and 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 first year of the project comprised the project initiation and detailed specification phases. All key milestones for the year were met and the project remains on track to deliver learning that is relevant, timely and valuable.

The Company 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, investigating demand side management impacts on network risk to support the low carbon network activities and developing a warning device to detect when vehicles and other equipment are in contact with live conductors, so allowing operators to take mitigating action safely and at decreased risk of injury to themselves and others.

During the year, the Company invested £4,324,000 (Note 6 to the accounts) in its research and development activities.

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

FUTURE DEVELOPMENTS

The financial position of the Company, as at 31 December 2011, is shown in the statement of financial position on page 28.

The directors intend to continue to develop the Company's business in a manner that concentrates on its core skills 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.

DIRECTORS

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

R Dixon	Non-Executive Director
T E Fielden	Finance Director
J M France	Regulation Director
N M Gill	Field Operations Director
P A Jones	President and Chief Executive Officer

COMPANY'S POLICY ON PAYMENT OF CREDITORS

The Company complies with the Better Payment Practice Code for the prompt payment of suppliers in accordance with the normal terms of trade. It is Company 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 Company's contractual and other legal obligations. The number of days purchases in trade creditors for the Company at 31 December 2011 was 11 (2010: 11).

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year, charitable donations of £32,458 were made (2010: £31,385), principally to local charities serving the communities in which the Company operates. No contributions were made to political organisations (2010: nil).

STRATEGIC OBJECTIVES

The Company's strategic objectives remain based on the Core Principles 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 terms of shaping the future direction of the electricity distribution network sector in the United Kingdom.

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

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

CORE PRINCIPLES

Financial strength

During the year, the Company continued to maintain good control in respect of both its capital and non-operational expenditure and the Northern Powergrid Group secured an acceptable settlement in the triennial valuation of the defined benefit pension scheme. The Company continued to closely monitor and manage the various financial issues that may impact on its business as a result of the effect of the general economic climate on its customers, including lower activity in terms of new connections required to the network and the potential for higher debt write-off.

Although it benefits from the stability provided by DPCR5 in terms of its income until 31 March 2015, the Company 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 Company's revenue at £357,128,000 was £31,416,000 higher than the prior year mainly due to additional allowances arising from the DPCR 5 settlement.

Operating profit

The Company's operating profit at £186,946,000 was £14,459,000 higher than the previous year reflecting the increase in revenues in the year, partly offset by increased operating costs, predominantly as a result of an increase in research and development costs and depreciation in the year.

Finance costs and investments

Finance costs net of investment income at £40,992,000 were £3,287,000 higher reflecting the full year impact of interest due on the loan received from the European Investment Bank in 2010.

Taxation

The effective tax rate in the current year is 16%. Details are provided in Note 7 to the accounts.

Results and dividends

The Company made a profit after tax for the year of £122,654,000. An interim dividend of £40,000,000 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.

Cashflow

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

Movements in cash flows were as follows:

Operating activities: Cash flow from operating activities at £167,074,000 was £18,249,000 higher than the previous year reflecting higher profitability in the year and a favourable working capital movement, partly offset by higher tax payments.

Investing activities: Net cash used in investing activities at £119,273,000 was £16,975,000 lower than the previous year reflecting lower net capital expenditure compared to the prior year.

Financing activities: The net cash used in financing activities at £47,801,000 was £35,224,000 greater than the previous year, reflecting higher net loan repayments.

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

Treasury

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

The main risks are liquidity and interest rate risk.

Liquidity risk

The Company has access to £75m under a three year committed revolving credit facility provided by Lloyds TSB Bank plc, The Royal Bank of Scotland plc and Abbey National Treasury Services plc, which expires on 26 March 2013. The Company expects to raise further facilities as required, at that time.

In addition, the Company has access to further short-term borrowing facilities provided by YEG and a £4m overdraft facility provided by Lloyds TSB Bank plc, which is renewable annually.

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

Interest rate risk

The Company is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 December 2011, 93% of the Company's borrowings were at fixed rates and the average maturity for these borrowings was 13 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 2011 and during the year it was the Company's policy not to hold any derivative financial instruments.

Pensions

The Company is a participating employer in the Northern Electric 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 21 to the accounts.

During the year, Northern Electric plc, an associated company in the Northern Powergrid Group and the Principal Employer of the Scheme, was engaged with the Group Trustees in the triennial actuarial valuation process, as at 31 March 2010, in order to determine the funding position of the Scheme and the associated deficit repair arrangements. The actuarial valuation concluded that there was a shortfall of assets in the Scheme compared to the value of accrued benefits of £276m.

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 (of which £7.6m is borne by the Company), 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.

The Company also participates in the Northern Powergrid Pension Scheme and the Yorkshire Electricity Pension Plan, which are defined contribution schemes.

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

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, the Company distributed electricity to customers in its distribution services area and continued to improve the overall performance of the distribution network through an investment strategy targeted at delivering improvements in an efficient and cost-effective manner. The Company is focused on delivering a reliable and dependable supply of electricity and a high standard of service to its customers. The Company made a major commitment to improving customer service, with the introduction of a programme focussed on the development of the customer experience and actions being taken aimed at improving performance in its contact centre services, web services, stakeholder engagement and customer service competencies and complaints handling processes. A significant number of improvements have already been identified and delivered as part of the overall goal to improve customer satisfaction with the service provided.

Those improvements included:

- the introduction of monthly connections surgeries to enable new connections customers to discuss their specific projects with representatives of the Company;
- building on the introduction of the interactive voice response system in the customer relations centre in order to take advantage of the latest developments in automatic messaging and to enable the provision of an improved service to customers during power cuts including text and voice-message updates;
- launching a new website offering so that customers can self-serve on several service lines and obtain information on power cuts via a smart phone application;
- improving the accuracy of the times estimated for the restoration of supply during power cuts that are provided to customers;
- continuing to improve under-performing parts of the distribution network by identifying "hot spots" and taking specific action to address the issues in those areas;
- maintaining the priority services register so that the Company is aware of people with disabilities or special needs, who may be affected by power cuts and can take appropriate action to assist those people in such circumstances;
- undertaking a programme to reduce the number of instances in which the Company fails to meet an electricity guaranteed standard of performance;
- undertaking a training programme to provide employees from other parts of the Northern Powergrid Group with the tools and skill sets to handle calls regarding power cuts during periods of peak call demand and supporting that process with the implementation of new voice-over-internet-protocol technology; and
- undertaking a major customer service training programme for employees in all areas of the business to provide a service personal to each customer.

The Company achieved a customer satisfaction score of 87.4% for the regulatory year to 31 March 2011 and, by building on the telephony system and actions mentioned above, intends to more effectively integrate its other customer facing processes in order to improve the service provided. Continued development of the Company's customer service improvement plan will include increasing focus on excellence in customer service in order to achieve a customer satisfaction score of greater than 90%.

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

The Company's performance in respect of the new electricity connections guaranteed standards of performance introduced in October 2010 has continued to be positive, with the recorded performance for the first calendar year of operation being 99.93%.

The performance of Distribution Network Operators ("DNOs") against guaranteed standards, set for activities such as restoring supplies after unplanned interruptions, provides a measure of the level of customer service. Performance against these measures forms part of the Company's regular reporting to Ofgem.

Ofgem has established an incentive scheme for quality of service, by which the DNOs are provided with financial incentives based upon targets set by Ofgem with regard to their performance in the following areas:

- The number of interruptions to supply;
- The duration of interruptions to supply; and
- Customer satisfaction.

Customer minutes lost ("CML") and customer interruptions ("CI") are the key performance indicators used by the Company to measure the quality of supply and system performance. CML measure the average number of supply minutes lost for every connected customer due to faults and planned outages that last for three minutes or longer. CI measure the average number of supply interruptions for every 100 connected customers due to faults and planned outages 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 the target number in respect of CML and CI and more than the target number in respect of customer satisfaction. The Company's reported performance for the regulatory year to 31 March 2011, against the targets determined by Ofgem, was as follows:

	Actual	Target
CML:	68.2 (2010: 63.5)	76.0 (2010: 65.1)
CI:	69.9 (2010: 71.4)	75.3 (2010: 68.5)
Customer Satisfaction	87.4% (2010: 89.8%)	90% (2010: 90%)

Performance in the regulatory year to 31 March 2011 was better than Ofgem's target for both CML and CI. Customer satisfaction was below target and was affected by the introduction into the target, in April 2010, of an element relating to the unsuccessful call rate. Measured without the unsuccessful call element and on a like-for-like basis with the prior year, customer satisfaction performance would have been 89.8%. In this respect, the Company is continuing to develop its telephony system to address the unsuccessful call rates and anticipates that the actions mentioned above, together with the various improvement actions in respect of the network's resilience, will continue to support improvements in customer service performance.

Operational excellence

The Company's core service continues to be providing and maintaining an efficient distribution network that delivers electricity effectively. During the year, £164,830,000 was invested in the improvement of the distribution network, including the replacement of assets and continuing network improvements intended to increase the quality of the electricity supply provided to customers.

Operational activity

The Company'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 faults that occur, reducing the average number of customers affected by a fault and providing a quicker restoration service in the event of a fault.

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

The Company's Field Operations structure is designed to provide the best possible foundation for optimum operational performance and is based on seven individual business units for the operation of the network. 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.

The Company's priorities during the year included a reduction in the average level of fault repair work in progress, the introduction of improvements in field response and supply restoration times and in the management of intermittent faults, the implementation of enhanced controls for outage risk management and a more 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 a major project to replace a 132kV open terminal substation with indoor gas insulated switchgear in the Hull area, the replacement of 66kV assets at Ferrybridge A substation and the replacement of the 66kV and 11kV assets at a substation in Frickley;
- Completion of work to replace the 66kV and 11kV assets at a substation in the Rotherham area, the construction of a new 33/11kV substation to provide increased capacity to the Snaith area, the replacement of 4km of 33kV oil-filled cables in the Leeds area and replacement of 15km of 33kV Woodhouse steel mast overhead line;
- Commencement of works on a number of projects across the Company's distribution services area that will replace over 11km of 33kV oil filled cables in 2012 and almost 40km of 132kV oil-filled cable in the next two years and of work to replace 10km of 33kV Woodhouse steel mast overhead line;
- Refurbishment of 30km of 132kV overhead line in the Bradford and Keighley area and refurbishment or rebuilding of 64km of high voltage overhead line and 18km of low voltage overhead line;
- Replacement of 172 units of high voltage outdoor switchgear, 55 high voltage distribution substations and 163 units of high voltage indoor switchgear;
- The upgrade and reinforcement of 16 sites to address the quality of supply performance issues relating to those circuits; and
- The installation and commissioning of 172 new remote control sites.

In order to deliver its investment strategy the Company used a mix of its own staff and contractors, including Integrated Utility Services Limited, an affiliated company registered in the Republic of Ireland.

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

Employee commitment

Health and safety

During the year, the focus on health and safety continued to be of paramount importance for the directors, as it is for all employees. Providing and maintaining a safe working environment is the first objective of the Company. There is a continuous drive for improvement in safety performance through the setting of challenging goals and the pursuit of a programme of on-site safety audits, which reflect the Company's fundamental objectives that none of its staff should go home injured and all employees should commit to behaving safely all of the time. The Company makes no compromise in respect of its health and safety obligations and centres its safety plans and systems on the principles found in companies with world class safety performance.

In 2011 the Company received a Gold Medal from the Royal Society for the Prevention of Accidents for achieving seven successive Gold Awards, which have been presented in recognition of achievements in 2010 and continued or improving standards of health and safety over a sustained period. The Company 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 Company to monitor safety performance, the goal is to achieve performance that is below the target number. Those key performance indicators are as follows:

	2011		2010	
	Target	Actual	Target	Actual
Lost time accidents	1	3	1	4
Restricted duty accidents	2	1	2	2
Medical treatment accidents	2	3	3	1
Operational incidents	4	8	4	6
Preventable vehicle accidents	13	18	13	23

The Company measures its safety performance in calendar years and, although performance continued to be better than the industry average, it fell short of the Northern Powergrid Group's goals in certain areas during 2011. The Company continues to implement a health and safety improvement plan that targets delivery of continuous improvement and, as part of that plan, the Company carried out a cross-business operational assurance audit programme by senior managers during the year in order to reinforce the operational safety values. The Company has 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.

Performance in respect of preventable vehicle accidents failed to achieve the target for 2011 but was better than 2010. The Company continued to implement a robust road risk management plan, which involved a significant number of staff undertaking 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.

In terms of the health of employees, the sickness absence rate across the Northern Powergrid Group was 2.82% and, in support of the drive for continuous improvement, the Company introduced a new health surveillance policy during 2011 and conducted a stress survey, which led to action plans being implemented to address those areas which were identified for development.

Management structure

The Company has a clearly defined leadership team, in which specific roles are identified, so allowing effective management of the Company's business and response to any control weaknesses that may become apparent, with single units being in place for field operations, customer operations, asset management, and health, safety and environment. The business systems, human resources, procurement and finance functions are centralised in order to provide those services across the Northern Powergrid Group.

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

Employees

The challenging external economic environment continued throughout the year and the Company continued to implement its programme of cost mitigation, which included the control of headcount.

The Company continues to place significant emphasis on the importance and application of high standards of management and performance in pursuit of the Core Principles and ensures that a level of consistency is adopted in so doing. In respect of employee relations, the Company and the trades unions continue to work towards building constructive and partnered relationships.

Given the demographics of the Company'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 the Company 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 64 members of staff in 2011 and has a target to recruit an additional 75 in 2012 under its workforce renewal programme. 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 Northern Powergrid Group is committed to proper business conduct and, in common with MidAmerican Energy Holdings Company ("MidAmerican"), a parent company of the 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 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 Company employed 1,122 staff at the end of December 2011 (2010: 1,106).

Disabled employees

The Northern Powergrid Group is committed to equality at work and as such is committed to the criteria underpinning the Employment Service disability symbol. It is the Northern Powergrid Group's policy to provide all protected groups including disabled people with equality at work in respect of employment, training, career development and promotion, having regard to their aptitudes and abilities. Should any member of staff become disabled during their employment, the Company would work to retrain and/or redeploy that member of staff, wherever possible.

Employee consultation

The Northern Powergrid Group has a constitutional framework in place 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 any 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 regular broadcast briefings using telephone conference call facilities in order to provide employees with updates such as on the performance of the Northern Powergrid Group, financial, organisational and safety issues and customer service performance.

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

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 Company's staff and contractors.

The Company has operated a United Kingdom Accreditation Service scheme for environmental management since the late 1990s, certified to the environmental management systems standard ISO 14001:2004. It is subject to regular six-monthly assessment visits and a three-yearly certificate renewal assessment by an accredited external certification body in order to retain that status. The most recent visit was a six-monthly surveillance assessment carried out by Lloyd's Register Quality Assurance in October 2011. The assessment report drew management attention to some 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.

Having met its key improvement target in the reduction of cable fluid leakages for the year, strong performance on all environmental targets continued to provide a crucial contribution to the control of the Northern Powergrid Group's environmental impact to ground and the associated risk to the business. Future improvements are supported by the Company's continued asset investment plan.

Improvements in support of the Northern Powergrid Group's environmental policy objectives during the year 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 is efficient and practicable to do so. In addition the Company provides environmental awareness training for new personnel and contractors and periodic refresher training for all staff.

Environmental impact on protected structures, features, areas, wildlife and habitat is a central consideration when planning improvements to the Company's electricity distribution network. This includes protecting bird life by placing bird-diverters on power lines in reserves or in locations where rare species of bird are known to live or breed and in response to information from incident trends and the proximity of wetlands and flight paths.

Sustainability

The Company 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 UK energy industry and in terms of its own carbon footprint. Through its involvement in industry groups and its interactions with government and regulators, the Company is contributing to the target of reducing the carbon emissions of the UK economy and it also works 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 electricity network.

The Northern Powergrid Group measures and publishes details of its own carbon footprint. It set and achieved a target of reducing that footprint by 5% in 2011 and has set a target to reduce its carbon footprint by a further 3.5% in 2012. The Company has fitted speed limiters to the vehicle fleet and extended the recycling of office waste to all major office sites. In line with Ofgem's requirements, the Company has contributed to the sustainability agenda through public reporting on the carbon footprint of its business and, during 2011, achieved 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 significant increase in the number of installations by customers of low-carbon technologies such as photovoltaic solar panels and heat pumps continued during 2011 and the Company worked with customers and installers to facilitate the process of connecting this technology to the electricity network. In June 2011, the Company hosted a well attended and well received micro-generation conference, in conjunction with CO2 Sense, to provide information to and obtain feedback from installers and social-housing providers about this process.

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

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 Company's staff and contractors.

The Company has operated a United Kingdom Accreditation Service scheme for environmental management since the late 1990s, certified to the environmental management systems standard ISO 14001:2004. It is subject to regular six-monthly assessment visits and a three-yearly certificate renewal assessment by an accredited external certification body in order to retain that status. The most recent visit was a six-monthly surveillance assessment carried out by Lloyd's Register Quality Assurance in October 2011. The assessment report drew management attention to some 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.

Having met its key improvement target in the reduction of cable fluid leakages for the year, strong performance on all environmental targets continued to provide a crucial contribution to the control of the Northern Powergrid Group's environmental impact to ground and the associated risk to the business. Future improvements are supported by the Company's continued asset investment plan.

Improvements in support of the Northern Powergrid Group's environmental policy objectives during the year 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 is efficient and practicable to do so. In addition the Company provides environmental awareness training for new personnel and contractors and periodic refresher training for all staff.

Environmental impact on protected structures, features, areas, wildlife and habitat is a central consideration when planning improvements to the Company's electricity distribution network. This includes protecting bird life by placing bird-diverters on power lines in reserves or in locations where rare species of bird are known to live or breed and in response to information from incident trends and the proximity of wetlands and flight paths.

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

Regulatory integrity

The Company manages its business to the highest behavioural standards and adheres to a policy of strict compliance with all relevant standards, legislation and regulatory conditions. The Governance and Risk Management Group ("GRMG") 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, the Company operates a regulatory compliance affirmation process, under which ownership of the approximately 1,550 regulatory obligations contained within the compliance database is currently assigned to 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 the 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 the Company under the losses incentive scheme for the regulatory year ended 31 March 2010. Throughout 2011 the Company was engaged with Ofgem, to resolve the complex issues of the Distribution Price Control Review 4 losses incentive arrangements and the impact of electricity supplier data-management programmes. Ofgem's decision to approve the Northern Powergrid Group's application to use a revised methodology for the calculation of 2009/10 annual reported losses was sustained throughout 2011 and the Company expects to reach a final conclusion to this issue with Ofgem during 2012. In accordance with International Financial Reporting Standards, the Company has not included any recognition of this issue in the accounts.

Under the new RIIO (revenue = incentives + innovation + outputs) model for regulation that emerged in 2010 from Ofgem's review of energy-network regulatory arrangements, price controls will be set for eight or nine years (rather than five as at present), with provision for a mid-period review of the outputs that network companies are required to deliver and there will be increased involvement for stakeholders. As part of the move to RIIO, Ofgem determined in the first quarter of 2011 that it intends to retain a 20-year depreciation profile for existing assets while moving new assets to a 45-year profile. The first price control review in electricity distribution under the RIIO framework (known as RIIO-ED1) is expected to be triggered by Ofgem in the first quarter of 2012 and, on conclusion of the process, will set revenues for the period from 2015 to either 2023 or 2024.

Corporate social responsibility

The Company values its relationship with its customers and 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, respect the Company's customers, their time and property, to do a really good job, to be there when needed and to care for the local environment.

The Company 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. The Company seeks to engage disadvantaged groups in projects that bring about benefits for participants and communities, which is supported by a small donation programme focused on the Company's key priorities of support for youth, education and the environment.

In order to improve its response to emergency situations, the Company 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, the Company has well-established emergency procedures that are triggered in times of weather-related incidents or long-duration power cuts when people are without power for some time.

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

As well as redeploying staff from planned works to help restore power as quickly as possible when major incidents occur, the Company dispatches customer service vehicles to the heart of areas affected, which are able to distribute hot drinks and microwave meals and generally assist with the welfare of customers in order to alleviate the impact of the incident. The Company also utilises 'customer ambassadors' who are able to pay particular attention to customers who have registered on the Priority Services Register. Working in conjunction with the customer relations centre, the ambassadors ensure that these high-priority customers are comfortable and are kept informed of the situation both throughout the event and after the power is restored.

As safety is the first priority and underpins every aspect of its operations, the Northern Powergrid Group 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 Company 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.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Financial strength

As a holder of an electricity distribution licence, the Company 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 the Company 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. The current five-year price control period became effective on 1 April 2010 and has set the Company's revenues through to 31 March 2015. However, it is expected that the next price control will be set for eight or nine years. During the term of the price control, changes in costs incurred will have a direct impact on the Company's financial results.

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 full value of the deficits attributable to a licensee's distribution business in existence as at 31 March 2010 (after an adjustment to reflect the residual of unfunded early retirement deficiency costs as at 31 March 2010), via its regulated revenues.

However, given the regulated nature of the DNOs' businesses, Ofgem took the view that there is not the same risk or urgency as in other sectors of the economy to ensure that those deficits are repaired as soon as possible and therefore set a notional repair period of 15 years for the purpose of assessing the DNOs' allowed revenues in respect of pension costs over the DPCR5 period.

The other financial risks facing the Company are outlined in the Treasury section on page 6 of this report.

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

Operational risk

There are a number of risks to the Company's operational performance in respect of which mitigating actions have been taken. Appropriate credit cover arrangements are in place with the electricity suppliers, which would allow recovery of defaulted payments through the price control mechanism and a robust major incident management plan is implemented whenever severe weather impacts on the distribution network's performance. Metal theft was a significant issue for the Company during the year with the activities of metal thieves causing power cuts on various occasions, which affected a large number of customers including those in the Doncaster, Hull and Cleckheaton areas in particular. In response, the Company continued to put in place a programme of enhanced security measures at its sites and pursued awareness raising activity at a national and local level.

Commercial risk

Managing commercial risk in the context of the difficult economic and financial trading conditions, which continued throughout the year, was, and will continue to be, of key importance to the Company's operations. In that respect the Company focused on ensuring that its policies for credit checking, payment terms, payment performance tracking and debt management were strictly adhered to.

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

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.

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.

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.

The risk management programme includes regular review of crisis management and disaster recovery plans, which are periodically tested. During the year, activities included a review of the Northern Powergrid Group's major incident plan for operational systems, participation in a national exercise to review the planned response to a major flood event, a seminar with other regional utilities to share best practice on disaster preparedness and response, a peer review of the Northern Powergrid Group's risk management systems by MidAmerican, a review of business continuity plans in the event of the loss of a key office building, penetration tests against firewall systems and disaster recovery tests of IT servers and priority processes.

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.

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

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 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 Company 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 Company has risk management procedures in place, including the standards required by the Sarbanes-Oxley Act, operates under OHSAS 18001, which is subject to external certification and regular assessment, 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. During 2011, the board of Northern Powergrid Holdings Company addressed the risks introduced by the Bribery Act 2010 through a new compliance policy, changes to contractual terms, training and other staff awareness measures. The introduction of annual risk assessments and enhanced due diligence in respect of new business transactions has further assisted in ensuring compliance. The Northern Powergrid Group requires staff, suppliers of services and business partners to comply with Bribery Act. Its policies encourage an employee who has any suspicion of bribery or other form of corruption within or related to the Northern Powergrid Group to report the suspicion to a manager.

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

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 Combined Code it departs and the reasons for doing so.

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

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

Section A

Leadership

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 Senior 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 Company are discussed.

The Chairman of MidAmerican also receives weekly, monthly and quarterly reports on the Company's performance from the Northern Powergrid Group's President and Chief Executive Officer. MidAmerican's Senior Vice President and Chief Financial Officer and General Counsel 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 2011, being as follows:

R Dixon	Non-Executive Director	5
T E Fielden	Finance Director	5
J M France	Regulation Director	5
N M Gill	Field Operations Director	6
P A Jones	President and Chief Executive Officer	6

Operational management of the Company's business (and that of its affiliate, Northern Powergrid (Northeast)) Limited 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 Sarbanes-Oxley Act.

A review is undertaken of the company-wide controls in place on an annual basis and the review carried out in 2011, while not identifying any areas of significant weakness, 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 review of business 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.

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

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, those committees report regularly to the board on their activities and were 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 Operating Officer
A J MacLennan	Managing Director, Integrated Utility Services Limited
G M Earl	Head of Safety, Health 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, establish goals and targets, 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, which are outlined in the directors' report and comprises:

G E Abel	Chairman, MidAmerican
P Ainsley	Financial Controller
D Brady	Treasurer
T E Fielden	Finance Director
P J Goodman	Senior Vice President and Chief Financial Officer, MidAmerican
P A Jones	President and Chief Executive Officer
R D McHaddan	Assistant Treasurer
O Sutherland	Investor Reporting Manager

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 Taylor	Director of Business Systems
L Tweedie	Head of Service Delivery

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

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:

D Anderson	Head of Internal Audit
J P Barnett	Director of Customer Operations
R Dixon	Non-Executive Director
M Drye	Director of Asset Management
G M 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
A Patterson	Director of Human Resources
L Taylor	Director of Business System

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, was formally appointed as Chairman of Northern Powergrid Holdings Company with effect from 1 August 2011 and Dr Jones was appointed as President and Chief Executive Officer of the Company with effect from the same date. As President and Chief Executive Officer, Dr Jones is responsible for the operation and management of both the Company and the Northern Powergrid Group and reports directly to Mr Abel.

Main Principle A3: The Chairman

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.

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.

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

Section B Effectiveness

Main Principle B1 The Composition of the Board

The board comprises four 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 Company due to the robust reporting arrangements in place and have ongoing access to the Company's operations and its staff.

Main Principle B5 Information and Support

Directors receive monthly reports outlining progress against the Company's goals and targets, enabling financial performance against budget and operational performance against a number of indicators to be reviewed, and 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 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 Company's articles of association do not require periodic retirement and re-election of directors.

Section C Accountability

Main Principle C1 Financial and Business Reporting

The board 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 pages 2 and 3, the Core Principles behind the Company's strategy and, at page 22, their responsibility for preparing the report and accounts, have reported, at page 23 in the directors' report, that the Company is a going concern and included the independent auditor's report to the Company at page 25 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.

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

Other key features of the internal control system are:

- Comprehensive business planning and financial reporting procedures, including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- Regular review of key performance indicators to assess progress towards objectives;
- A range of policies, codes of practice and more detailed instructions that define the processes to be followed;
- A strong internal audit function to provide independent scrutiny of internal control systems and risk management procedures, including the standards required by the 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 no fees were payable by the Company to Deloitte LLP in relation to non-audit services during the year.

The employee section on page 11 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.

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

Main Principle D2 Procedure

As mentioned under main principle D1, the 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. Mr Fielden, Dr France, Mr Gill 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.

Section E Relations with Shareholders

Main Principle E1 Dialogue with Shareholders

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

Main Principle E2 Constructive Use of the AGM

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 ("IFRS") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires the directors to:

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

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

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

GOING CONCERN

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

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

- The Company is a stable electricity distribution business operating an essential public service and is regulated by GEMA. In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Company is profitable with strong underlying cash flows and holds investment grade credit ratings; and
- The Company is financed by long-term borrowings with an average maturity of 13 years and has access to borrowing facilities provided by Lloyds TSB Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc.

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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

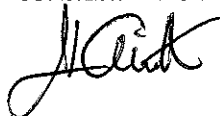
- a) so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- b) he has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that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

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

AUDITORS

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

ON BEHALF OF THE BOARD:



J Elliott
Secretary
2 March 2012

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORTS 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 Report of the Directors confirms that, to the best of their knowledge:

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

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

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

P A Jones
President and Chief Executive Officer

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

We have audited the financial statements of Northern Powergrid (Yorkshire) plc (the "Company") for the year ended 31 December 2011 which comprises the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 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 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.


Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



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

a March 2012

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

	Notes	2011 £'000	2010 £'000
CONTINUING OPERATIONS			
Revenue	3	357,128	325,712
Cost of sales		<u>(13,166)</u>	<u>(12,035)</u>
GROSS PROFIT		343,962	313,677
Operating expenses	9	<u>(157,016)</u>	<u>(141,190)</u>
OPERATING PROFIT		186,946	172,487
Other gains		112	209
Finance costs	5	<u>(40,992)</u>	<u>(37,705)</u>
PROFIT BEFORE INCOME TAX	6	146,066	134,991
Income tax	7	<u>(23,412)</u>	<u>(29,956)</u>
PROFIT FOR THE YEAR		<u>122,654</u>	<u>105,035</u>

The notes form part of these financial statements

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

	2011	2010
	£'000	£'000
PROFIT FOR THE YEAR	122,654	105,035
OTHER COMPREHENSIVE INCOME	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>122,654</u>	<u>105,035</u>

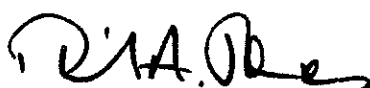
The notes form part of these financial statements

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

**STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2011**

	Notes	2011 £'000	2010 £'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	11	2,478	4,131
Property, plant and equipment	12	<u>2,221,283</u>	<u>2,121,931</u>
		<u>2,223,761</u>	<u>2,126,062</u>
CURRENT ASSETS			
Inventories	13	489	792
Trade and other receivables	14	<u>58,603</u>	<u>63,864</u>
		<u>59,092</u>	<u>64,656</u>
TOTAL ASSETS		<u><u>2,282,853</u></u>	<u><u>2,190,718</u></u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	15	290,000	290,000
Retained earnings	16	<u>390,766</u>	<u>308,112</u>
TOTAL EQUITY		<u>680,766</u>	<u>598,112</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables	17	631,845	612,028
Borrowings	18	600,643	546,267
Deferred tax	20	193,090	209,706
Provisions	19	<u>730</u>	<u>736</u>
		<u>1,426,308</u>	<u>1,368,737</u>
CURRENT LIABILITIES			
Trade and other payables	17	80,836	66,914
Borrowings	18	74,161	135,193
Tax payable		19,283	20,310
Provisions	19	<u>1,499</u>	<u>1,452</u>
		<u>175,779</u>	<u>223,869</u>
TOTAL LIABILITIES		<u>1,602,087</u>	<u>1,592,606</u>
TOTAL EQUITY AND LIABILITIES		<u><u>2,282,853</u></u>	<u><u>2,190,718</u></u>

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



P A Jones
Director

The notes form part of these financial statements

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2010	290,000	243,077	533,077
Changes in equity			
Dividends	-	(40,000)	(40,000)
Total comprehensive income	-	105,035	105,035
Balance at 31 December 2010	<u>290,000</u>	<u>308,112</u>	<u>598,112</u>
Changes in equity			
Dividends	-	(40,000)	(40,000)
Total comprehensive income	-	122,654	122,654
Balance at 31 December 2011	<u>290,000</u>	<u>390,766</u>	<u>680,766</u>

The notes form part of these financial statements

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

	Notes	2011 £'000	2010 £'000
Cash flows from operating activities			
Cash generated from operations	24	248,779	214,946
Finance costs paid		(40,604)	(34,484)
Group relief paid		(1,513)	(365)
Tax paid		<u>(39,588)</u>	<u>(31,272)</u>
Net cash from operating activities		<u>167,074</u>	<u>148,825</u>
 Cash flows from investing activities			
Purchase of property, plant & equipment		(164,503)	(177,724)
Proceeds from disposal of property, plant & equipment		45	727
Receipt of customer contributions		<u>45,185</u>	<u>40,749</u>
Net cash used in investing activities		<u>(119,273)</u>	<u>(136,248)</u>
 Cash flows from financing activities			
Movement in borrowings in the year		22,015	104,500
Loans from group undertakings		(29,816)	(77,077)
Equity dividends paid		<u>(40,000)</u>	<u>(40,000)</u>
Net cash used in financing activities		<u>(47,801)</u>	<u>(12,577)</u>
 Increase in cash and cash equivalents		<u>-</u>	<u>-</u>
Cash and cash equivalents at beginning of year		<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year		<u><u>-</u></u>	<u><u>-</u></u>

The notes form part of these financial statements

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

1. GENERAL INFORMATION

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

The nature of the Company's operations and its principal activities are set out in the Report of the Directors and in Note 3.

2. ACCOUNTING POLICIES

Accounting convention and basis of preparation

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

The accounts have been prepared under the historical cost convention. The Company has relied upon Section 400 of the Act and has presented the accounts for the Company as an individual undertaking only and not as a Group undertaking.

Going concern

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

Judgements in applying accounting policies and key sources of estimation uncertainty

Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements 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 judgements 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 judgement 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 assumptions used in calculating the defined benefit obligation;
- The split of operating and capital expenditure and the allocation of overheads to capital projects; and
- Impairment reviews carried out to evaluate the carrying value of assets held at the balance sheet date.

Critical accounting policies

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

Adoption of new or revised standards

In the current year, the following new and revised Standards and Interpretations have been adopted with these financial statements.

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

2. ACCOUNTING POLICIES - continued

Standards affecting presentation and disclosure;

IFRS 7 Financial Instruments: Disclosure

The amendments to IFRS 7 clarify the required level of disclosure around credit risk and encourage qualitative disclosures to help users to form an overall picture of the nature and extent of risks arising from financial instruments. This change has not led to any change in the disclosures contained within these financial statements.

IAS 1 Presentation of Financial Statements

The amendments to IAS 1 clarify that an entity may present the analysis of other comprehensive income by item either in the statement of changes in equity or in the notes to the financial statements. This amendment has not impacted these financial statements.

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

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

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

Customer contributions towards distribution system assets are included in deferred revenue. The Company's policy is to credit the customer contribution to revenue over 45 years on a straight-line basis, in line with the useful life of the distribution system assets.

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.

Operating profit

Operating profit is stated before 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 15 years.

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

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

2. ACCOUNTING POLICIES - continued

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 5 years
Information technology equipment included in distribution system assets	up to 10 years
Non-operational assets:	
Buildings - freehold	up to 60 years
Buildings - leasehold	lower of lease period or 60 years
Fixtures and equipment	up to 10 years

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.

The Company is required to evaluate the carrying values of property, plant and equipment for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable. An impairment review requires management to make judgement 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 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, 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 could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

2. ACCOUNTING POLICIES - continued

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered 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

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

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

Research costs

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

Leases

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

Operating lease rentals are charged to the income statement in equal annual amounts over the lease term.

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

2. ACCOUNTING POLICIES - continued

Pensions

The Company contributes to the Northern Electric Group of the Electricity Supply Pension Scheme (the "Northern Electric Group of the ESPS"). The Northern Electric Group of the ESPS is a defined benefit plan that shares risk between various entities under common control. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities and accordingly the Company accounts for the Northern Electric Group of the ESPS as if it were a defined contribution scheme. Contributions to the Northern Electric Group of the ESPS are charged to the income statement or capitalised as appropriate. The capital costs of ex-gratia and supplementary pensions are normally charged to the income statement in the period in which they are granted.

The Company also participates in two defined contribution schemes. Contributions payable to the defined contribution schemes 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 Company has a present obligation as a result of a past event and it is probable that the Company 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 judgement 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.

Where the effect is significant, provisions in respect of material future liabilities are stated at their net present value and arrived at by discounting the anticipated future costs, at the market rate at the balance sheet date.

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.

3. SEGMENTAL REPORTING

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

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

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

3. SEGMENTAL REPORTING – continued

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

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

4. EMPLOYEES AND DIRECTORS

	2011	2010
	£'000	£'000
Salaries	46,725	45,282
Social security costs	4,388	4,043
Defined benefit pension costs	17,002	13,056
Defined contribution pension costs	<u>575</u>	<u>244</u>
	68,690	62,625
Less charged to property, plant and equipment	<u>(43,050)</u>	<u>(41,579)</u>
	<u>25,640</u>	<u>21,046</u>

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

The average monthly number of employees during the year was:

	2011	2010
	No.	No.
Technical	276	273
Industrial	613	618
Administration	120	121
Other	<u>97</u>	<u>94</u>
	<u>1,106</u>	<u>1,106</u>

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

4. EMPLOYEES AND DIRECTORS - continued

DIRECTORS' REMUNERATION

	2011	2010
	£'000	£'000
Highest Paid:		
Short-term employee benefits	148	125
Post employment benefits	19	9
Other long-term benefits	176	146
	<u>343</u>	<u>280</u>
Total:		
Short-term employee benefits	369	336
Post employment benefits	82	73
Other long-term benefits	387	275
	<u>838</u>	<u>684</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

	2011	2010
	£'000	£'000
Total:		
Short-term employee benefits	260	311
Post employment benefits	69	72
Other long-term benefits	122	106
	<u>451</u>	<u>489</u>

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

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

5. FINANCE COSTS

	2011	2010
	£'000	£'000
Finance costs:		
Interest payable on other loans	36,412	32,957
Interest payable on loans from Group undertakings	4,580	4,748
	<u>40,992</u>	<u>37,705</u>

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

6. PROFIT BEFORE INCOME TAX

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

	2011	2010
	£'000	£'000
Depreciation - owned assets	71,138	67,245
Profit on disposal of fixed assets	(112)	(209)
Software development costs amortisation	1,653	1,987
Research costs	4,324	586
Amortisation of deferred revenue	(17,816)	(17,097)
Impairment of trade and other receivables	<u>(8)</u>	<u>327</u>

Analysis of auditors' remuneration is as follows:

	2011	2010
	£'000	£'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	<u>95</u>	<u>105</u>

There were no fees payable in relation to non-audit services in 2011 or 2010.

7. INCOME TAX

Analysis of the tax charge

	2011	2010
	£'000	£'000
Current tax:		
Tax	40,028	38,793
Deferred tax	<u>(16,616)</u>	<u>(8,837)</u>
Total tax charge in income statement	<u>23,412</u>	<u>29,956</u>

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

7. INCOME TAX - continued

Factors affecting the tax charge

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

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	<u>146,066</u>	<u>134,991</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.5% (2010 - 28%)	38,707	37,797
Effects of:		
Receipt under service level agreement	(15)	(15)
Over/(under) provision for prior years	296	(90)
Change in tax rates	(15,536)	(7,767)
Permanent disallowances	(7)	31
Tax free income net of permanent disallowances	<u>(33)</u>	<u>-</u>
Total income tax	<u>23,412</u>	<u>29,956</u>
	2011 £'000	2010 £'000
Tax expense comprises:		
Current tax expense:		
Corporation tax charge for the year	38,515	38,703
Payment for use of group losses	1,513	-
Under provision for prior years	<u>-</u>	<u>90</u>
Total current tax charge	40,028	38,793
Deferred tax:		
Deferred tax expenses relating to the origination and reversal of temporary differences	(1,080)	(1,070)
Effect of changes in tax rates	<u>(15,536)</u>	<u>(7,767)</u>
Total deferred tax charge	<u>(16,616)</u>	<u>(8,837)</u>
Tax on profit before tax	<u>23,412</u>	<u>29,956</u>

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

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

8. DIVIDENDS

	2011 £'000	2010 £'000
Interim dividend at 14p per share	<u>40,000</u>	<u>40,000</u>

9. OPERATING EXPENSES

Operating expenses comprise:

	2011 £'000	2010 £'000
Distribution costs	108,982	102,297
Administrative expenses	<u>48,034</u>	<u>38,893</u>
	<u>157,016</u>	<u>141,190</u>

10. OPERATING LEASE COMMITMENTS

	2011 £'000	2010 £'000
Minimum lease payments under operating leases recognised in the year	<u>4,146</u>	<u>2,867</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:

	2011 £'000	2010 £'000
Within one year	2,905	2,800
In the second to fifth year	7,176	6,816
After five years	<u>449</u>	<u>1,327</u>
	<u>10,530</u>	<u>11,013</u>

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

11. INTANGIBLE ASSETS

	Software development costs £'000
COST	
At 1 January 2011 and 31 December 2011	<u>29,497</u>
AMORTISATION	
At 1 January 2011	25,366
Amortisation for year	<u>1,653</u>
At 31 December 2011	<u>27,019</u>
NET BOOK VALUE	
At 31 December 2011	<u>2,478</u>
	Software development costs £'000
COST	
At 1 January 2010 and 31 December 2010	<u>29,497</u>
AMORTISATION	
At 1 January 2010	23,379
Amortisation for year	<u>1,987</u>
At 31 December 2010	<u>25,366</u>
NET BOOK VALUE	
At 31 December 2010	<u>4,131</u>

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

12. PROPERTY, PLANT AND EQUIPMENT

	Non operational land & buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Total £'000
COST				
At 1 January 2011	3,904	2,533,646	14,656	2,552,206
Additions	601	164,830	5,059	170,490
Disposals	-	(6,495)	(981)	(7,476)
At 31 December 2011	<u>4,505</u>	<u>2,691,981</u>	<u>18,734</u>	<u>2,715,220</u>
DEPRECIATION				
At 1 January 2011	1,363	416,464	12,448	430,275
Charge for year	163	69,110	1,865	71,138
Eliminated on disposal	-	(6,495)	(981)	(7,476)
At 31 December 2011	<u>1,526</u>	<u>479,079</u>	<u>13,332</u>	<u>493,937</u>
NET BOOK VALUE				
At 31 December 2011	<u>2,979</u>	<u>2,212,902</u>	<u>5,402</u>	<u>2,221,283</u>
	Non operational land & buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Total £'000
COST				
At 1 January 2010	3,588	2,357,710	14,552	2,375,850
Additions	368	181,021	842	182,231
Disposals	(52)	(5,085)	(738)	(5,875)
At 31 December 2010	<u>3,904</u>	<u>2,533,646</u>	<u>14,656</u>	<u>2,552,206</u>
DEPRECIATION				
At 1 January 2010	1,153	355,926	11,826	368,905
Charge for year	262	65,623	1,360	67,245
Eliminated on disposal	(52)	(5,085)	(738)	(5,875)
At 31 December 2010	<u>1,363</u>	<u>416,464</u>	<u>12,448</u>	<u>430,275</u>
NET BOOK VALUE				
At 31 December 2010	<u>2,541</u>	<u>2,117,182</u>	<u>2,208</u>	<u>2,121,931</u>

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

12. PROPERTY, PLANT AND EQUIPMENT - continued

Assets in the course of construction included above:

	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
At 1 January 2011	79,168	-	79,168
Additions	164,830	2,408	167,238
Available for use	<u>(143,621)</u>	<u>(2,408)</u>	<u>(146,029)</u>
At 31 December 2011	<u>100,377</u>	<u>-</u>	<u>100,377</u>

The Company has entered into contractual commitments in relation to the future acquisition of property, plant and equipment of £24,284,000 (2010: £10,477,000).

Net book value of non-operational land and buildings comprise:

	2011 £'000	2010 £'000
Freehold	1,805	1,359
Long leasehold	901	934
Short leasehold	<u>273</u>	<u>248</u>
	<u>2,979</u>	<u>2,541</u>

13. INVENTORIES

	2011 £'000	2010 £'000
Work in progress	<u>489</u>	<u>792</u>

14. TRADE AND OTHER RECEIVABLES

	2011 £'000	2010 £'000
Current:		
Distribution use of system receivables	50,080	53,141
Amounts receivable from sale of goods and services	2,552	3,894
Prepayments and accrued income	<u>5,971</u>	<u>6,829</u>
	<u>58,603</u>	<u>63,864</u>

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

14. TRADE AND OTHER RECEIVABLES - continued

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

Distribution use of system receivables

The customers served by the Company's distribution network are supplied predominantly by a small number of electricity supply businesses with RWE NPower plc accounting for approximately 29% of distribution revenues in 2011 (2010: 31%). 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 £1,759,000 as at 31 December 2011 (2010: £1,755,000).

Ofgem has indicated that, provided the Company has implemented credit control, billing and collection processes in line with best practice guidelines and can demonstrate compliance with the guidelines or is able to satisfactorily explain departure from the guidelines, any bad debt losses arising from supplier default will be recovered through an increase in future allowed income. Losses incurred to date have not been material. Included in the Company's use of system ("UoS") receivables are debtors with a carrying value of £nil, which have been placed into administration and have therefore been provided in full at the year end (2010: £nil).

Amounts receivable from sale of goods and services

Sales of goods and services comprise all income streams which are not classified as UoS income. Examples of non-UoS income streams would be service alterations/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 Company's amounts receivable for goods and services balance are debtors with a carrying amount of £903,000 (2010: £1,173,000) which are past due at the reporting date and for which the Company has provided an irrecoverable amount of £320,000 (2010: £291,000) based on past experience. The Company does not hold any collateral over these balances. The average age of these receivables is 327 days (2010: 261 days).

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £447,000 (2010: £743,000). These amounts are past due at the reporting date and the Company has not provided for any amounts as not being recoverable because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances. The average age of these receivables is 53 days (2010: 61 days).

Ageing of past due but not impaired receivables

	2011 £'000	2010 £'000
30-60 days	393	531
60-120 days	37	178
120-210 days	17	34
Total	<u>447</u>	<u>743</u>

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

14. TRADE AND OTHER RECEIVABLES - continued

Movement in the allowance for doubtful debts

	2011 £'000	2010 £'000
At 1 January	291	232
Amounts utilised/written off in the year	(75)	(268)
Amounts recognised in income statement	<u>(8)</u>	<u>327</u>
At 31 December	<u><u>208</u></u>	<u><u>291</u></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 £94,000 (2010: £134,000) 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

	2011 £'000	2010 £'000
Loans and receivables at amortised cost	<u>52,632</u>	<u>57,035</u>
Total financial assets	<u><u>52,632</u></u>	<u><u>57,035</u></u>
Non-current assets	2,223,761	2,126,062
Inventories	489	792
Prepayments and accrued income	<u>5,971</u>	<u>6,829</u>
Total non-financial assets	<u><u>2,230,221</u></u>	<u><u>2,133,683</u></u>
Total assets	<u><u>2,282,853</u></u>	<u><u>2,190,718</u></u>

15. CALLED UP SHARE CAPITAL

	2011 No./£	2010 No./£
Ordinary shares of £1 each		
Authorised	400,000,000	400,000,000
Allotted, called up and fully paid	<u><u>290,000,000</u></u>	<u><u>290,000,000</u></u>

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

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

16. RETAINED EARNINGS

	£'000
At 1 January 2011	308,112
Profit for the year	122,654
Dividends	<u>(40,000)</u>
At 31 December 2011	<u>390,766</u>

17. TRADE AND OTHER PAYABLES

	2011 £'000	2010 £'000
Current:		
Payments on account	25,102	17,893
Trade creditors	3,642	4,648
Amounts owed to Group undertakings	427	398
Social security and other taxes	9,847	6,872
Other creditors	1,480	2,030
Deferred revenue	18,890	18,104
Accrued expenses	<u>21,448</u>	<u>16,969</u>
	<u>80,836</u>	<u>66,914</u>
Non-current:		
Deferred revenue	<u>631,845</u>	<u>612,028</u>

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

17. 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 ongoing costs. Invoices are paid at the end of the month following the date of the invoice. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

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

	Less than 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
2011:					
Non-interest bearing	36,844	-	-	-	36,844
Variable interest rate liability	52,273	-	-	-	52,273
Fixed interest rate liability	20,255	18,246	154,003	911,195	1,103,699
	<u>109,372</u>	<u>18,246</u>	<u>154,003</u>	<u>911,195</u>	<u>1,192,816</u>
2010:					
Non-interest bearing	30,917	-	-	-	30,917
Variable interest rate liability	52,983	-	-	-	52,983
Fixed interest rate liability	18,500	20,001	154,003	949,696	1,142,200
	<u>102,400</u>	<u>20,001</u>	<u>154,003</u>	<u>949,696</u>	<u>1,226,100</u>

Categories of financial liabilities

	2011 £'000	2010 £'000
Loans and payables at amortised cost	<u>(680,353)</u>	<u>(688,536)</u>
Total financial liabilities	<u>(680,353)</u>	<u>(688,536)</u>
Payments received on account	(25,102)	(17,893)
Income tax liabilities	(212,373)	(230,016)
Other taxes and social security	(9,847)	(6,872)
Accruals	(21,448)	(16,969)
Deferred Revenue	(650,735)	(630,132)
Provisions	<u>(2,229)</u>	<u>(2,188)</u>
Total non-financial liabilities	<u>(921,734)</u>	<u>(904,070)</u>
Total liabilities	<u>(1,602,087)</u>	<u>(1,592,606)</u>

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

17. TRADE AND OTHER PAYABLES - continued

Deferred Revenue

	2011 £'000	2010 £'000
At 1 January	(630,132)	(611,953)
Additions	(38,420)	(35,276)
Amortisation	17,816	17,097
At 31 December	(650,735)	(630,132)

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.

18. BORROWINGS

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

	Book Value		Fair Value	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Amounts owed to Group undertakings	79,167	108,042	88,918	116,675
Loans	<u>595,637</u>	<u>573,418</u>	<u>698,056</u>	<u>628,320</u>
	<u>674,804</u>	<u>681,460</u>	<u>786,974</u>	<u>744,995</u>
The borrowings are repayable as follows:				
On demand or within one year	74,161	135,193	74,161	135,193
After five years	<u>600,643</u>	<u>546,267</u>	<u>712,813</u>	<u>609,802</u>
	<u>674,804</u>	<u>681,460</u>	<u>786,974</u>	<u>744,995</u>
Analysis of borrowings:				
Short-term loan	22,123	-	22,123	-
Inter-company short term loan	24,100	52,983	24,100	52,979
Yorkshire Electricity Group plc 2016 6.5%	55,067	55,059	64,818	63,696
Eurobond 2020 9.25%	216,487	216,287	293,238	282,417
Bond 2035 5.125%	203,425	203,536	214,808	195,728
European Investment Bank 2022 4.133%	<u>153,602</u>	<u>153,595</u>	<u>167,887</u>	<u>150,175</u>
	<u>674,804</u>	<u>681,460</u>	<u>786,974</u>	<u>744,995</u>

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

18. BORROWINGS - continued

The fair value of the 2020 and 2035 bonds is determined with reference to quoted market prices. The directors' estimates of the fair value of the European Investment Bank and internal borrowings are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments. The fair value of short-term borrowings is equal to their book value. All loans are non-secured and are denominated in sterling.

Interest on the inter-company short-term loans is charged at base rate and interest on short-term loans is charged at a floating rate of LIBOR plus 1.5%, thus exposing the Company to cash flow interest rate risk. A 1% movement in interest rates would subject the Company to an approximate change in interest costs of £0.2m per year. This is considered to be an acceptable level of risk. All other loans are at fixed interest rates and expose the Company to fair value interest rate risk.

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

The Company's Senior Total Net Debt as at 31 December 2011 was £651.3m. Using the RAV as at March 2012, as outlined by Ofgem in its Final Proposals for Distribution Prices published in December 2009, and up rating for the effects of movements in the value of the Retail Price Index gives an approximation for the RAV as at December 2011 of £1,332.5m. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 48.9%.

At 31 December 2011, the Company had available £57.0m (2010: £78.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

19. PROVISIONS

	2011	2010
	£'000	£'000
Provisions	<u>2,229</u>	<u>2,188</u>
Analysed as follows:		
Current	1,499	1,452
Non-current	<u>730</u>	<u>736</u>
	<u>2,229</u>	<u>2,188</u>
	Claims	Other
	£'000	£'000
At 1 January 2011	1,090	1,098
Utilised/paid in the year	(1,066)	(762)
Charged to income statement	<u>1,076</u>	<u>793</u>
	<u>1,100</u>	<u>1,129</u>
At 31 December 2011	<u>1,100</u>	<u>1,129</u>
	Total	Total
	£'000	£'000
At 1 January 2011	1,090	1,098
Utilised/paid in the year	(1,066)	(762)
Charged to income statement	<u>1,076</u>	<u>793</u>
	<u>1,100</u>	<u>1,129</u>
At 31 December 2011	<u>1,100</u>	<u>1,129</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.

20. DEFERRED TAX

	Accelerated Tax Depreciation	Other	Total
	£'000	£'000	£'000
At 1 January 2011	209,887	(181)	209,706
Charge to income statement	<u>(16,614)</u>	<u>(2)</u>	<u>(16,616)</u>
At 31 December 2011	<u>193,273</u>	<u>(183)</u>	<u>193,090</u>
	£'000	£'000	£'000
At 1 January 2010	218,712	(168)	218,544
Charge to income statement	<u>(8,825)</u>	<u>(13)</u>	<u>(8,837)</u>
At 31 December 2010	<u>209,887</u>	<u>(181)</u>	<u>209,706</u>

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

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

21. EMPLOYEE BENEFIT OBLIGATIONS

The Company has three retirement benefit schemes.

The Northern Electric 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 Electric 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 and the Yorkshire Electricity Pension Plan were made available to new employees from that date.

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

The last triennial actuarial valuation of the Northern Electric 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 Electric Group of the ESPS, at the date of the actuarial valuation, was £983m.

For the Northern Electric 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.

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 (of which £7.6m is borne by the Company), 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.

The Northern Electric Group of the ESPS is a defined benefit plan that shares the risk between various entities under common control. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities and accordingly the Company accounts for the scheme as if it were a defined contribution scheme, as permitted by IAS 19, Employee Benefits.

The contribution rates to the Northern Electric 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 Electric Group of the ESPS and Northern Electric plc as part of the triennial valuation process.

The money purchase pension schemes are accounted for as defined contribution schemes.

The Company's pension cost for the year ended 31 December 2011 was £17.6m (2010: £13.3m).

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

21. EMPLOYEE BENEFIT OBLIGATIONS - continued

Disclosures in relation to the Northern Electric Group of the ESPS are:

Principal assumptions:

	2011 Projected unit	2010 Projected unit
Valuation method		
Discount rate	4.80%	5.50%
Inflation rate	2.80%	3.20%
Increase to pensions	2.80%	3.20%
Increase to deferred benefits	2.80%	3.20%
Salary increase	2.80%	3.20%

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 31 years, if they are female.

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

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

	2011 £m	2010 £m
Opening defined benefit obligation	1,061.1	1,021.9
Current service costs	11.0	10.0
Interest cost	57.5	57.4
Contributions from employees	2.4	3.0
Actuarial losses	63.0	12.5
Benefits paid	(53.2)	(43.7)
Closing defined benefit obligation	<u>1,141.8</u>	<u>1,061.1</u>

Changes in the fair value of the plan assets are as follows:

	2011	2010
Opening fair value of plan assets	1,043.7	938.4
Expected returns	69.6	60.4
Actuarial gains	16.7	41.9
Contributions by employer	49.0	43.7
Contributions from employees	2.4	3.0
Benefit paid	(53.2)	(43.7)
Closing fair value of plan assets	<u>1,128.2</u>	<u>1,043.7</u>

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

21. EMPLOYEE BENEFIT OBLIGATIONS - continued

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

	Long-term rates of return expected at		Value	
	2011 %	2010 %	2011 £m	2010 £m
Equities	8.50	8.50	303.6	346.9
Bonds	3.70	4.60	714.6	602.0
Other	3.00	4.20	9.8	0.8
Property	7.50	8.40	100.2	94.0
Total fair value of scheme assets			<u>1,128.2</u>	<u>1,043.7</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 Electric Group of the ESPS.

22. RELATED PARTY DISCLOSURES

The Company has received loans from other companies in the Northern Powergrid Group. The total interest included in finance costs in the income statement for the year ended 31 December 2011 was £4,580,000 (2010: £4,748,000). Included within borrowings is £79,167,000 as at 31 December 2011 (2010: £108,042,000) in respect of these loans.

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

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	Amounts owed to related parties £'000
2011:			
CE Insurance Services Limited	-	837	-
Integrated Utility Services Limited	49	22	-
Northern Electric plc	-	3,193	-
Northern Powergrid (Northeast) Limited	8,775	15,339	-
Vehicle Lease and Service Limited	-	3,709	427
	<u>8,824</u>	<u>23,100</u>	<u>427</u>

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 4112320)

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

22. RELATED PARTY DISCLOSURES - continued

Related Party	Sales to related parties £'000	Purchases from related parties £'000	Amounts owed to related parties £'000
2010:			
CE Insurance Services Limited	-	819	-
Integrated Utility Services Limited	132	48	-
Northern Electric plc	-	3,012	-
Northern Powergrid (Northeast) Limited	7,563	13,558	-
Vehicle Lease and Service Limited	-	3,807	398
	<u>7,695</u>	<u>21,244</u>	<u>398</u>

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

23. ULTIMATE CONTROLLING PARTY

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

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

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

	2011 £'000	2010 £'000
Profit before income tax	146,066	134,991
Depreciation charges	72,791	69,232
Amortisation of deferred revenue	(17,816)	(17,097)
Increase in provisions	41	261
Finance costs	<u>40,992</u>	<u>37,705</u>
	242,074	225,092
Decrease/(Increase) in inventories	303	(257)
Increase in trade and other receivables	3,007	(11,660)
Increase in trade and other payables	<u>3,395</u>	<u>1,771</u>
Cash generated from operations	<u>248,779</u>	<u>214,946</u>