REPORT OF THE DIRECTORS AND

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

FOR

NORTHERN POWERGRID (YORKSHIRE) PLC

REGISTERED NUMBER: 04112320

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FOR THE YEAR ENDED 31 DECEMBER 2012

NORTHERN POWERGRID (YORKSHIRE) PLC

COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2012

DIRECTORS:	J P Barnett (appointed 1 April 2012) R Dixon T E Fielden J M France N M Gill P A Jones
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REGISTERED NUMBER:	04112320 (England and Wales)
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REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2012

The directors present the annual report and accounts of Northern Powergrid (Yorkshire) plc (the "Company") for the year ended 31 December 2012, which includes the business review and audited financial statements for that year. Pages 2 to 23 inclusive of this annual report comprise a directors' report, which 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 square kilometres 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. The Company's distribution system of transformers, switchgear, overhead and underground cables and other equipment receives electricity from generators connected to it and from the National Grid's transmission system and distributes that electricity to approximately 2.3 million customers 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, dependability, fair prices and exceptional service.	Improving network resilience and performance, measured by: customer minutes lost; customer interruptions; and customer satisfaction.
Operational excellence	Setting high standards for the Company's operations, system investment and maintenance.	Effective asset management, managing commercial risk and improving network resilience and performance.
Employee commitment	Equipping employees with the resources and support they need to operate successfully and in a safe and rewarding work environment.	Leading safety performance, engaging employees and effective leadership.

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

REVIEW OF BUSINESS

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

During the year, the Company delivered the largest ever capital expenditure programme, investing £235.1 million in its distribution network. This expenditure represented a 43% increase on the £164.8 million recorded in 2011 and was a significant achievement in the context of the outputs the Company intends to deliver by the end of the Distribution Price Control period ("DPCR5").

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

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

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

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

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

The long-term trend in the Company's overall safety performance continued to compare well with that of the industry, with the Company meeting its internal targets in respect of lost time accidents and operational incidents, although preventable vehicle accidents were slightly above target. Fewer lost time accidents occurred in 2012 than in the previous year.

DIVIDENDS

During the year, an interim dividend of £40,000,000 (14p per share) was paid.

RESEARCH AND DEVELOPMENT

In 2012 the Northern Powergrid Group continued working, in partnership with British Gas, Durham University and EA Technology, on a three-year project under Ofgem's Low Carbon Networks Fund, known as the Customer-Led Network Revolution. This was the largest project supported by Ofgem in the first year of the fund and the Northern Powergrid Group will incur expenditure of £31,000,000 over the three-year life of the project. Of that expenditure, 90% is funded by electricity customers in Great Britain. Successful delivery of the project over the three years agreed with Ofgem will enable recovery of the additional 10% from customers and potentially qualify for a further discretionary award. The project is assessing the potential for new network technology and flexible customer response to facilitate speedier and more economical take-up by customers of low-carbon technologies and the connection to the distribution network of increasing amounts of low-carbon or renewable energy generation.

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

The 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, the first device having gone live on the network during 2012. Other work includes the application of network risk methodologies to a range of business processes allowing better planning and execution of a variety of activities to improve efficiency and effectiveness and a continuing programme to develop and improve further condition-based reliability models of the Company's key assets.

During the year, the Company invested £5,610,000 (2011: £4,324,000) (Note 6 to the accounts) in its research and development activities.

FUTURE DEVELOPMENTS

The financial position of the Company, as at 31 December 2012, is shown in the statement of financial position on page 28.

During the year, the Northern Powergrid Group published its view of the future for its electricity distribution business, including that of the Company, in a document entitled "Your Powergrid", which sets out what are considered to be the priorities for the next price control period, which will last for the eight years until March 2023. Those priorities include the Company's plans for investment and where in the asset base that investment is likely to take place. Building on those plans, the directors intend to continue to develop the Company's business in a manner that concentrates on its core activity of electricity distribution by continuing to operate that business with the goal of out-performing the allowances in the distribution price control, while efficiently investing in the electricity distribution network with the aim of improving the quality of supply and service provided to its customers.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2012 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

Changes in directors holding office during the year were as follows:

J P Barnett (Commercial Director) - appointed 1 April 2012

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 2012 was 2 (2011: 11).

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year, charitable donations of £20,964 were made (2011: £32,458), principally to local charities serving the communities in which the Company operates. No contributions were made to political organisations (2011: nil).

STRATEGIC OBJECTIVES

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

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

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.

CORE PRINCIPLES

Financial strength

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

The Company benefits from the stability provided by the arrangements agreed in respect of distribution price control five ("DPCR5") in terms of its income until 31 March 2015 and recognises that it needs to show that it is delivering reliable services at a fair price to its customers, while operating in an efficient and effective manner.

Key aspects of financial performance for the year were as follows:

Revenue
The Company's revenue at £378,942,000 was £21,814,000 higher than the prior year mainly due to additional allowances arising from the DPCR5 settlement.

Operating profit
The Company's operating profit at £197,994,000 was £11,048,000 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 depreciation, amortisation, maintenance costs and research and development costs in the year.

Finance costs and investments
Finance costs net of investment income at £40,499,000 were £493,000 lower than the previous year.

Taxation
The effective tax rate in the current year is 8%. Details are provided in Note 7 to the accounts.

Results and dividends
The Company made a profit after tax for the year of £145,281,000. An interim dividend of £40,000,000 was paid during the year (2011: £40,000,000) and the directors recommend that no final dividend be paid in respect of the year.

Share capital and debt structure
On 5 July 2012, the Company issued £150 million 4.375% bonds due 2032 and repaid an inter-company loan of £54.2 million provided by Yorkshire Electricity Group plc ("YEG"), a company in the Northern Powergrid Group. There were no changes to the Company's share capital during the year.

Cashflow
The Company aims to collect from customers and pay suppliers within contracted terms. Any surplus cash held is remitted to YEG 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 £174,366,000 was £7,292,000 higher than the previous year reflecting higher profitability in the year, partly offset by adverse movements in working capital.

Investing activities: Net cash used in investing activities at £154,035,000 was £34,762,000 higher than the previous year reflecting higher net capital expenditure compared to the prior year.

Financing activities: The net cash from financing activities at £723,000 represents a favourable variance of £48,524,000 compared to the previous year, reflecting the issue of the £150 million 4.375% bonds during the year, partly offset by the repayment of loans from group undertakings.

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 £75 million under a five year committed revolving credit facility provided by Lloyds TSB Bank plc, The Royal Bank of Scotland plc and Abbey National Treasury Services plc. The facility was renewed during the year, such that it now expires on 20 August 2017. 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 £4 million 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 2012, 100% of the Company's borrowings were at fixed rates and the average maturity for these borrowings was 15 years.

Currency risk
No material currency risks are faced by the Company.

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

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

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

The Company also participates in the Northern Powergrid Pension Scheme, which is a defined contribution scheme.

Insurance
As part of its insurance and risk strategy, the Northern Powergrid Group has in place 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 remains focused on delivering a reliable and dependable supply of electricity and a high standard of service to its customers.

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

- monthly connections surgeries to enable new connections customers to discuss their specific projects with representatives of the Company;

- further development of the interactive voice response system in order to deliver the benefits of automatic messaging and to enable the provision of an improved service to customers during power cuts, including text and voice-message updates;

- extending the range of its stakeholder engagement to include groups active in the area of fuel poverty and to increase joint initiatives with other utility companies;

- an online community to facilitate discussion among stakeholders regarding the Company's services and to provide a dedicated web area so that stakeholders can influence the Company's policies and priorities and also maintain contact with the Company;

- developing customer relationship management information technology and social media and website services to provide more accurate information to customers, particularly in respect of estimated times for the restoration of supply during power cuts and to engage more effectively with and receive feedback from customers. In that respect, the Company was the first in the electricity distribution industry to provide the facility for its customers to order certain services online themselves;

- improvements to the reliability of under-performing parts of the distribution network by identifying "hot spots" of particularly poor network performance and taking specific action to address the issues in those areas;

- maintaining and promoting the priority services register so that the Company becomes aware of people with disabilities or special needs who may be affected by power cuts so that it can take appropriate action to assist those people in such circumstances engaging the support of the Red Cross where appropriate; and

- completing a substantial training programme to provide employees from across the Northern Powergrid Group with enhanced customer service awareness and the tools and skills needed to handle power cut calls during periods of peak call demand.

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

Ofgem's incentive scheme for quality of service, by which the DNOs are provided with financial incentives, is based upon targets set by Ofgem with regard to each DNO's performance in terms of the number of power cuts, the duration of those power cuts and customer satisfaction.

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

	Actual	Target
CML:	65.0 (2011: 68.2)	76.0 (2011: 76.0)
CI:	69.3 (2011: 69.9)	75.3 (2011: 75.3)

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

Connections to the Network

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

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

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

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

The Company 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 has in place a small donation programme, which is focused on the Company's key priorities of support for youth, education and the environment and from which grants were made during the year to organisations such as charitable trusts and community groups.

In order to improve its response to emergency situations, 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.

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. Those vehicles are able to distribute hot drinks and to microwave meals and generally assist with the welfare of customers in order to alleviate the impact of the incident. The Company also utilises 'customer ambassadors' and works with the Red Cross in order to pay particular attention to customers on the priority services register so that those customers are kept informed of the situation throughout the event and after the power has been restored.

As safety is its 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.

Operational excellence

The Company's core service continues to be providing and maintaining an efficient distribution network that delivers electricity effectively. During the year, £235.1 million was invested in the improvement of the distribution network, a 43% increase on the £164.8 million recorded in 2011. That investment included the replacement of assets and continued network improvements intended to increase the quality of the electricity supply provided to customers.

Operational activity
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 power cuts that occur. Reducing the average number of customers affected by a power cut and providing a quicker restoration service in the event of a power cut are key elements of the Company's operational strategy.

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

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

- Completion of major asset replacement work in respect of a 132kV open terminal substation with indoor gas insulated switchgear in the Hull area, the replacement of the 66kV and 11kV assets (including transformers) at substations in Frickley and Ferrybridge and completion of the replacement of a 132kV circuit breaker at Bramham substation, the 33kV switchgear at Four Lane Ends and the 33kV transformers at Claywheels Lane;

- Commencement of the replacement of a 132kV transformer at Halifax substation and the replacement of the 132kV circuit breakers at Wold Newton, the 66kV and 11kV assets (including transformers) at Wath, the 33kV and 11kV assets (including transformers) at Blackburn Valley, the 33kV switchgear at Osgodby, the 33kV transformers at Burton Road, Kirk Drive and Horbury and a 66kV transformer at Kirk Sandall;

- Completion of a number of projects across the Company's distribution services area that replaced 9km of 33kV oil filled cables in 2012 and the commencement of work on other projects that will replace over 60km of 33kV cable and 40km of 132kV cable in 2013;

- Completion of refurbishment works on 2.4km of 66kV overhead line, 22.5km of 132kV overhead line and the replacement of 27.4km of Woodhouse Mast lines and the refurbishment or rebuilding of 207km of high voltage overhead line and 151km of low voltage overhead line;

- Replacement of 58 units of high voltage outdoor switchgear, 77 high voltage distribution substations and 428 units of high voltage indoor switchgear;

- The upgrade and reinforcement of 31 sites to address the quality of supply performance issues relating to those circuits; and

- The installation and commissioning of 291 new remote control points on the network.

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

Employee commitment

Health and safety

The focus on health and safety continued to be of paramount importance for the directors, as it is for all employees. There is a continuous drive for improvement in safety performance through the setting of challenging goals and the pursuit of a comprehensive safety and health improvement plan, which reflects the Company's fundamental objective that 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.

During the year, the Company received a President's Award from the Royal Society for the Prevention of Accidents for achieving eight consecutive Gold Awards, which had been presented in recognition of achievements in 2011 and for continued or improving standards of health and safety over a sustained period. 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:

	2012		2011	
	Target	Actual	Target	Actual
Lost time accidents	1	1	1	3
Restricted duty accidents	2	1	2	1
Medical treatment accidents	2	1	2	3
Operational incidents	4	7	4	8
Preventable vehicle accidents	13	20	13	18

The Company continued to implement a safety and health 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. 2012 saw the conclusion of an extensive project to research, design and produce innovative protective work wear clothing, which provides the Company's employees with protection against events such as electrical flashovers. The Company has invested a substantial amount in this new clothing and believes that it is unique in the industry and will be a significant factor in reducing the risk to its employees. The Company also delivered operational seminars and stand down briefings to cascade information on safety trends and to launch a new method of site-specific risk assessment.

The number of lost time accidents experienced by the Company reduced in comparison to 2011, with the Company meeting its internal target, and the long-term trend in the Company's overall safety performance continued to compare well with that of the industry.

Performance in respect of preventable vehicle accidents failed to achieve the target for 2012 and showed a slight decline compared with 2011. The Company continued to implement a robust road risk management plan, which involved electronic driving licence checking, refreshing the Company's expected standards of driving behaviour and using risk reduction tools such as the Institute of Advanced Motorists' online driver assessment and training module followed by an on-road refresher training session if required. The driver training programme provides practical driving training to a targeted population of drivers and is the primary route to improving driver skills in the longer term.

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

Management structure
Operational management of the Company's business and that of its affiliate, Northern Powergrid (Northeast) Limited, is undertaken by a single senior management team, with specific functional responsibilities. Those functional responsibilities are in respect of field operations (including health, safety and environment), asset management (including procurement), commercial (including customer operations and information technology), regulation and strategy, human resources and finance. Certain of those functions also provide services across the Northern Powergrid Group.

Employees
The Company continued to apply appropriate control to its headcount policy and to place significant emphasis on the importance and application of high standards of management and performance in support of the Core Principles. The Company ensures that a level of consistency is adopted in so doing and, in respect of employee relations, continued to work towards building constructive and partnered relationships with the trades unions. During the year, the Company finalised a long-term pay agreement with its professional and administrative staff, which means that consistent terms and conditions are now in place across the Northern Powergrid Group.

Given the demographics of 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 a total of 118 members of staff in 2012 and has a target to recruit an additional 75 in 2013 under its workforce renewal programme. During 2012, the first of the trainees recruited under the Northern Powergrid's workforce renewal project graduated from their training programmes and formally commenced work as part of the Company's operations. Overall, plans are in place to have recruited a total of 275 graduate trainees, technical trainees and craft apprentices by the end of 2015.

The Company is committed to proper business conduct and, in common with MidAmerican Energy Holdings Company ("MidAmerican"), its parent company, has adopted a code of business ethics that emphasises the requirement for all staff to manage their activities to achieve the highest level of ethical conduct. A "speaking up" policy is in place so that members of staff are able to raise any instances of unethical acts, malpractice or impropriety. An additional process is also available to all staff via an international, anonymous help line operated by an independent company.

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

The Company employed 1,148 staff at the end of December 2012 (2011: 1,122).

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

Employee consultation
The Northern Powergrid Group has a constitutional framework for employee consultation 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 developments that may impact on them now or in the future.

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

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 2012. The assessment report drew management attention to only two minor non-conformances to be addressed by agreed proposed actions. The report also noted good processes for identifying environmental aspects and legal requirements and taking them into account in the system. There were no major non-conformances noted and continued certification was recommended and subsequently confirmed.

Improvements in support of the Northern Powergrid Group's environmental policy objectives included replacing selected fluid-filled cable sections with non-fluid polymeric equivalents, replacing oil-filled circuit breakers with vacuum and sulphur hexafluoride gas filled units at outdoor substations to reduce the potential for oil leakage and installing underground cables using trenchless technology as opposed to open-cut excavations, where it was efficient and practicable to do so. In addition, the Company provides environmental awareness training for new personnel and contractors and periodic refresher training for all staff.

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

Sustainability

The 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 United Kingdom energy industry and in terms of its own carbon footprint. The Company is contributing to the target of reducing the carbon emissions of the United Kingdom economy by working with customers to assist in solving issues raised by the introduction of low-carbon generation and technologies and their implications for the planning and operation of the electricity network. The Company is also actively involved in low-carbon interest groups, both regionally and nationally, and has frequent contact on these matters with government and regulators. The Northern Powergrid Group measures and publishes details of its own carbon footprint. Between 2009 and 2012 it reduced its carbon footprint by 12% and has set a target to reduce its carbon footprint further by over 3% in 2013. The Company has a policy of fitting speed limiters wherever feasible to the vehicle fleet and recycles office waste at all major office sites. In line with Ofgem's requirements, the Company has contributed to the sustainability agenda through public reporting on the carbon footprint of its business. The Company also holds certification under CEMARS (the Certified Emissions Measurement and Reduction Scheme) that its measurement of its greenhouse gas emissions was in compliance with ISO 14064.

The number of installations by customers of low-carbon technologies such as photovoltaic solar panels and heat pumps continued to increase during 2012 and the Company continued to work with customers and installers to facilitate the process of connecting this technology to the electricity network. The Company's Customer-Led Network Revolution project continues to consider how novel network technology and changes in customers' energy usage may lead to the speedier and lower cost connection of low-carbon technologies to the Company's network. By the end of 2012, more than 10,000 customers were participating in the trials and much of the network technology had been installed, with the testing phase of the project due to continue throughout 2013.

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 1,700 regulatory obligations contained within the compliance database is currently assigned to around 60 responsible managers. Those responsible managers are required, on a quarterly basis, to review compliance with the relevant obligations that have been assigned to them for certification and report on any perceived risks to the compliance process, which are then addressed. The Regulation Manager reports to 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 2012, the Company continued to engage with Ofgem and other industry participants to resolve the complex issues surrounding the losses incentive arrangements for both the current and previous price control periods. At the time of finalising these accounts, Ofgem has taken a decision to remove the DPCR5 losses incentive and is consulting on a potential resolution to the issues associated with the Distribution Price Control Review 4 period losses incentive. The Company expects to reach a final conclusion to this issue with Ofgem during 2013. In accordance with International Financial Reporting Standards, the Company has not included any recognition of this issue in these Accounts.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

Financial risk

As a holder of an electricity distribution licence, the Company is subject to regulation by 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 years. During the term of the current price control, changes in costs incurred will have a direct impact on the Company's financial results, as will changes in performance under incentive schemes, such as in customer service, which can lead to adjustments to allowed revenues.

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

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

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

Operational risk

There are a number of risks to the Company's operational performance in respect of which mitigating actions have been taken. Appropriate credit cover arrangements are in place with the electricity suppliers, which would allow recovery of defaulted payments through the price control mechanism and a robust major incident management plan is implemented whenever severe weather impacts on the distribution network's performance. Metal theft continued to be 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 in aggregate. In response, the Company maintained the programme of risk-assessed and enhanced security measures at its sites and pursued awareness raising activity at a national and local level, which contributed to a change in the law such that a new criminal offence was created prohibiting scrap metal dealers from paying for scrap metal in cash.

Commercial risk

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

The Company's relationship with its main customers is governed by a distribution connection and use of system agreement ("DCUSA"), which is in place with each of those customers. Those customers are the electricity suppliers who, under the terms of the DCUSA, pay charges for the use of the distribution network, in respect of which it is necessary to ensure that 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.

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

Risk management

The Northern Powergrid Group operates a structured and disciplined approach to the management of risk, as part of 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. The risk management programme includes regular review of the crisis management, disaster recovery and major incident plans, which are periodically tested, the sharing of best practice on disaster preparedness and response, penetration tests against firewall systems and disaster recovery tests of IT servers and priority processes and a peer review of the Northern Powergrid Group's risk management systems by MidAmerican.

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

A key element and requirement of the risk management process is that a written certificate is provided by the President and Chief Executive Officer of the Northern Powergrid Group confirming that the effectiveness of the system of internal controls has been reviewed during the year. A self-certification process is in place, in support of this review, whereby senior managers are required to confirm that the system of internal control in their area of the business is operating effectively.

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

In addition, the 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 United States Sarbanes-Oxley Act, and has centralised treasury operations and established procedures for the planning, approving and monitoring of major capital expenditure.

The Northern Powergrid Group is committed to preventing corruption in all its forms and continues to have a zero-tolerance approach to corruption in its business or by those with whom it does business. The board of Northern Powergrid Holdings Company has addressed the risks introduced by the Bribery Act 2010 through a compliance policy, changes to contractual terms, training and other staff awareness measures. The introduction of annual risk assessments and enhanced due diligence in respect of new business transactions has further assisted in ensuring compliance. The Northern Powergrid Group requires staff, suppliers of services and business partners to comply with the Bribery Act. Its policies encourage an employee who has any suspicion of bribery or other form of corruption within or related to the Northern Powergrid Group to report the suspicion to a manager.

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.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2012

CORPORATE GOVERNANCE STATEMENT

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

The Code includes the "comply or explain" approach and the directors are of the opinion that, in the instances where the Company does not comply with certain provisions of the Code, this approach is justifiable, given that the Company is a wholly-owned subsidiary of MidAmerican and, as mentioned above, the governance framework in place throughout the Northern Powergrid Group is agreed with MidAmerican.

Section A **Leadership**
Principle A1: **The Role of the Board**
The board of directors is responsible for the overall management of the Company and its system of internal controls. The directors have agreed a quarterly schedule of board meetings at which they review performance, strategy and operational and risk-related issues. Regular items on the agenda for consideration at board meetings include general business performance, internal control, key business activities and projects and the regulatory compliance process.

In addition, the President and Chief Executive Officer of the Northern Powergrid Group participates in weekly performance review meetings with the Chairman of MidAmerican and other senior managers of the MidAmerican group, including the Executive Vice President and Chief Financial Officer. At those weekly meetings, the views of the Chairman of MidAmerican and the senior management team regarding the key, current issues facing the 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 Executive Vice President and Chief Financial Officer and Executive Vice President, General Counsel and Corporate Secretary also hold similar weekly review meetings in respect of MidAmerican's financial and legal functions, at which the Company's Finance Director and General Counsel present their respective weekly reports.

The board meets quarterly and as required to consider relevant issues and met on eight occasions in total during the year, with the attendance of those directors, who were directors as at 31 December 2012, being as follows:

J P Barnett	Commercial Director	5
R Dixon	Non-Executive Director	8
T E Fielden	Finance Director	8
J M France	Regulation Director	7
N M Gill	Field Operations Director	6
P A Jones	President and Chief Executive Officer	8

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 United States Sarbanes-Oxley Act.

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

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

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

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

T E Fielden	Finance Director
J M France	Regulation Director
N M Gill	Field Operations Director
P A Jones	President and Chief Executive Officer
A J Maclennan	Managing Director, Integrated Utility Services Limited
G M Earl	Head of 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, 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
M Flint	Corporate Accountant and Secretary to the Committee
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 Tweedie	Head of Service Delivery

Governance and Risk Management Group

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

P Ainsley	Financial Controller
D Anderson	Head of Internal Audit
J P Barnett	Commercial Director
R Dixon	Non-Executive Director
M Drye	Director of Asset Management
G 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 Maclennan	Managing Director, Integrated Utility Services
A Patterson	Director of Human Resources

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

Asset risk continued to be a strong focus through the Asset Risk Management Executive Review Group and comprehensive plans continued to be in place to manage risks affecting all critical property assets and to strengthen the arrangements for crisis management and business continuity planning.

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

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

Main Principle A2: Division of Responsibility

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, the Chairman of MidAmerican.

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, the Chairman of MidAmerican.

Main Principle A4: Non-Executive Directors
Mr Dixon was the Company's sole independent non-executive director during the year and acts under agreed terms of reference.

Section B Effectiveness
Main Principle B1 The Composition of the Board
The board comprises five 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 on-going 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 page 2, the Core Principles behind the Company's strategy and, at page 22, their responsibility for preparing the report and accounts, have reported, at page 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.

Other key features of the internal control system are:

- Comprehensive business planning and financial reporting procedures, including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;

- Regular review of key performance indicators to assess progress towards objectives;

- A range of policies, codes of practice and more detailed instructions that define the processes to be followed;

- A strong internal audit function, which provides independent scrutiny of internal control systems and risk management procedures, including the standards required by the United States Sarbanes-Oxley Act;

- 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.

Main Principle D2 Procedure

As mentioned under main principle D1, the annual remuneration awards for senior management of the Northern Powergrid Group is subject to the performance appraisal and development scheme process and consideration by the Chairman of MidAmerican and the President and Chief Executive Officer. Mr Barnett, 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.

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 15 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 AUDITOR

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

a) so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware; and

b) he has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

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

AUDITOR

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

ON BEHALF OF THE BOARD:

J Elliott
Secretary

7 March 2013

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

Each of the directors as at the date of the Annual Report, whose names and functions are set out on page 4 of the Directors' Report confirms that, to the best of their knowledge:

a) the Company's accounts, prepared in accordance with applicable UK law and in conformity with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

b) the Management Report (which is comprised of the Directors' Report 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.

Thomas Fielden

T E Fielden
Finance Director

7 March 2013

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 2012 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and related notes 1 to 25. 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. In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 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.

Chris Powell

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

Date: 21 March 2013

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £'000	2011 £'000
CONTINUING OPERATIONS			
Revenue	3	**378,942**	357,128
Cost of sales		**(14,022)**	(13,166)
GROSS PROFIT		**364,920**	343,962
Operating expenses	9	**(166,926)**	(157,016)
OPERATING PROFIT		**197,994**	186,946
Other gains		**352**	112
Finance costs	5	**(40,499)**	(40,992)
PROFIT BEFORE INCOME TAX	6	**157,847**	146,066
Income tax	7	**(12,566)**	(23,412)
PROFIT FOR THE YEAR		**145,281**	122,654

The notes on pages 31 to 52 form part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 £'000	2011 £'000
PROFIT FOR THE YEAR	145,281	122,654
OTHER COMPREHENSIVE INCOME	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	145,281	122,654

The notes on pages 31 to 52 form part of these financial statements

STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2012

	Notes	2012 £'000	2011 £'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	11	1,186	2,478
Property, plant and equipment	12	2,383,371	2,221,283
		2,384,557	2,223,761
CURRENT ASSETS			
Inventories	13	231	489
Trade and other receivables	14	66,487	58,603
Cash and cash equivalents	15	21,054	-
		87,772	59,092
TOTAL ASSETS		2,472,329	2,282,853
SHAREHOLDERS' EQUITY			
Called up share capital	16	290,000	290,000
Retained earnings	17	496,047	390,766
TOTAL EQUITY		786,047	680,766
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables	18	653,007	631,845
Borrowings	19	693,617	600,643
Deferred tax	21	168,974	193,090
Provisions	20	722	730
		1,516,320	1,426,308
CURRENT LIABILITIES			
Trade and other payables	18	121,679	80,836
Borrowings	19	30,418	74,161
Tax payable		16,228	19,283
Provisions	20	1,637	1,499
		169,962	175,779
TOTAL LIABILITIES		1,686,282	1,602,087
TOTAL EQUITY AND LIABILITIES		2,472,329	2,282,853

The financial statements were approved by the Board of Directors on 7 March 2013 and were signed on its behalf by:

T E Fielden
Director

The notes on pages 31 to 52 form part of these financial statements

NORTHERN POWERGRID (YORKSHIRE) PLC (REGISTERED NUMBER: 04112320)

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

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2011	290,000	308,112	598,112
Changes in equity			
Dividends	-	(40,000)	(40,000)
Total comprehensive income	-	122,654	122,654
Balance at 31 December 2011	290,000	390,766	680,766
Changes in equity			
Dividends	-	(40,000)	(40,000)
Total comprehensive income	-	145,281	145,281
Balance at 31 December 2012	290,000	496,047	786,047

The notes on pages 31 to 52 form part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £'000	2011 £'000
Cash flows from operating activities			
Cash generated from operations	25	254,906	248,779
Finance costs paid		(40,803)	(40,604)
Group relief paid		(4,568)	(1,513)
Tax paid		(35,169)	(39,588)
Net cash from operating activities		174,366	167,074
Cash flows from investing activities			
Purchase of property, plant & equipment		(208,867)	(164,503)
Proceeds from disposals		467	45
Receipt of customer contributions		54,365	45,185
Net cash used in investing activities		(154,035)	(119,273)
Cash flows from financing activities			
Movement in borrowings in the year		128,222	22,015
Loans from group undertakings		(87,499)	(29,816)
Equity dividends paid		(40,000)	(40,000)
Net cash from/(used in) financing activities		723	(47,801)
Increase in cash and cash equivalents		21,054	-
Cash and cash equivalents at beginning of year		-	-
Cash and cash equivalents at end of year		21,054	-

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

1. GENERAL INFORMATION

Northern Powergrid (Yorkshire) plc (the "Company") 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.

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 to calculate 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, no new or amended standards or interpretations have been adopted in these financial statements.

2. ACCOUNTING POLICIES - continued

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

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

Customer contributions towards distribution system assets are included in deferred revenue. The Company's policy is to credit the customer contribution to revenue 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, finance costs and profits on the sale of property, plant and equipment.

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.

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 4 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. However, 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 judgements 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.

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.

2. ACCOUNTING POLICIES - continued

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.

Pensions
The Company contributes to the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "Northern Powergrid Group of the ESPS"). The Northern Powergrid 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 Powergrid Group of the ESPS as if it were a defined contribution scheme. Contributions to the Northern Powergrid Group of the ESPS are charged to the 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.

2. ACCOUNTING POLICIES - continued

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.

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 Company's 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

	2012 £'000	2011 £'000
Salaries	48,671	46,725
Social security costs	4,761	4,388
Defined benefit pension costs	17,700	17,002
Defined contribution pension costs	944	575
	72,076	68,690
Less charged to property, plant and equipment	(44,799)	(43,050)
	27,277	25,640

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

The average monthly number of employees during the year was:

	2012 No.	2011 No.
Technical	293	276
Industrial	606	613
Administration	108	120
Other	104	97
	1,111	1,106

DIRECTORS' REMUNERATION

	2012 £'000	2011 £'000
Highest Paid:		
Short-term employee benefits	141	148
Post-employment benefits	24	19
Other long-term benefits	242	176
	407	343
Total:		
Short-term employee benefits	420	369
Post-employment benefits	85	82
Other long-term benefits	543	387
	1,048	838
Directors who are members of the defined benefit scheme	4	3
Accrued pension benefit relating to highest paid director	-	-

4. EMPLOYEES AND DIRECTORS - continued

OTHER KEY PERSONNEL REMUNERATION

	2012	2011
Total:	£'000	£'000
Short-term employee benefits	215	260
Post-employment benefits	57	69
Other long-term benefits	104	122
	376	451

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

	2012	2011
	£'000	£'000
Finance costs:		
Interest payable on other loans	38,748	36,412
Interest payable on loans from Group undertakings	1,751	4,580
	40,499	40,992

6. PROFIT BEFORE INCOME TAX

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

	2012	2011
	£'000	£'000
Depreciation - owned assets	75,669	71,138
Profit on disposal of fixed assets	(352)	(112)
Software development costs amortisation	1,292	1,653
Research costs	5,610	4,324
Amortisation of deferred revenue	(18,865)	(17,816)
Impairment of trade and other receivables	56	(8)

Analysis of auditor's remuneration is as follows:

	2012	2011
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	103	95

There were no fees payable in relation to non-audit services in 2012 or 2011.

7. INCOME TAX

Analysis of tax expense

	2012 £'000	2011 £'000
Current tax:		
Tax	36,682	40,028
Deferred tax	(24,116)	(16,616)
Total tax expense in income statement	12,566	23,412

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

	2012 £'000	2011 £'000
Profit on ordinary activities before income tax	157,847	146,066
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24.5% (2011 - 26.5%)	38,673	38,707
Effects of:		
Receipt under service level agreement	-	(15)
Over provision for prior years	(3,891)	296
Change in tax rates	(14,695)	(15,536)
Permanent disallowances	-	(7)
Tax free income net of permanent disallowances	-	(33)
Other	(663)	-
Reversal of deferred tax provisions in relation to temporary differences	(6,858)	-
Tax expense	12,566	23,412

	2012 £'000	2011 £'000
Tax expense comprises:		
Current tax expense:		
Corporation tax charge for the year	40,572	38,515
Payment for use of group losses	-	1,513
Over provision for prior years	(3,890)	-
Total current tax charge	36,682	40,028
Deferred tax:		
Deferred tax expenses relating to the origination and reversal of temporary differences	(9,421)	(1,080)
Effect of changes in tax rates	(14,695)	(15,536)
Total deferred tax charge	(24,116)	(16,616)
Tax on profit before tax	12,566	23,412

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

8. DIVIDENDS

	2012 £'000	2011 £'000
Interim dividend at 14p per share	40,000	40,000

9. OPERATING EXPENSES

Operating expenses comprise:

	2012 £'000	2011 £'000
Distribution costs	118,081	108,892
Administrative expenses	48,845	48,124
	166,926	157,016

10. OPERATING LEASE COMMITMENTS

	2012 £'000	2011 £'000
Minimum lease payments under operating leases recognised in the year	4,465	4,146

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

	2012 £'000	2011 £'000
Within one year	3,213	2,905
In the second to fifth year	7,769	7,176
After five years	825	449
	11,807	10,530

11. INTANGIBLE ASSETS

	Software development costs £'000
COST	
At 1 January 2012 and 31 December 2012	29,497
AMORTISATION	
At 1 January 2012	27,019
Amortisation for year	1,292
At 31 December 2012	28,311
NET BOOK VALUE	
At 31 December 2012	1,186

11. INTANGIBLE ASSETS - continued

	Software development costs £'000
COST	
At 1 January 2011 and 31 December 2011	29,497
AMORTISATION	
At 1 January 2011	25,366
Amortisation for year	1,653
At 31 December 2011	27,019
NET BOOK VALUE	
At 31 December 2011	2,478

12. PROPERTY, PLANT AND EQUIPMENT

	Non - operational land & buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
COST				
At 1 January 2012	4,505	2,691,982	18,734	2,715,221
Additions	-	235,054	2,718	237,772
Disposals	-	(7,245)	(66)	(7,311)
At 31 December 2012	4,505	2,919,791	21,386	2,945,682
DEPRECIATION				
At 1 January 2012	1,526	479,079	13,332	493,937
Charge for year	178	73,386	2,105	75,669
Eliminated on disposal	-	(7,229)	(66)	(7,295)
At 31 December 2012	1,704	545,236	15,371	562,311
NET BOOK VALUE				
At 31 December 2012	2,801	2,374,555	6,015	2,383,371

12. PROPERTY, PLANT AND EQUIPMENT - continued

	Non - operational land & buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Totals £'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	4,505	2,691,981	18,734	2,715,220
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	1,526	479,079	13,332	493,937
NET BOOK VALUE				
At 31 December 2011	2,979	2,212,902	5,402	2,221,283

Assets in the course of construction included above:

	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
At 1 January 2012	**100,377**	**-**	**100,377**
Additions	**235,054**	**2,718**	**237,772**
Available for use	**(196,389)**	**-**	**(196,389)**
At 31 December 2012	**139,042**	**2,718**	**141,760**

The Company has entered into contractual commitments in relation to the future acquisition of property, plant and equipment of £30,722,000 (2011: £24,284,000).

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

	2012 **£'000**	2011 £'000
Freehold	**1,707**	1,805
Long leasehold	**869**	901
Short leasehold	**225**	273
	2,801	2,979

13. INVENTORIES

	2012 **£'000**	2011 £'000
Work in progress	**231**	489

14. TRADE AND OTHER RECEIVABLES

	2012 £'000	2011 £'000
Current:		
Distribution use of system receivables	**59,219**	50,080
Amounts receivable from sale of goods and services	**1,186**	2,552
Prepayments and accrued income	**6,082**	5,971
	66,487	58,603

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 2012 (2011: 29%). 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 £60,000 as at 31 December 2012 (2011: £1,759,000).

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. Consequently, no provision was required at the year-end (2011: £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 £592,000 (2011: £903,000), which are past due at the reporting date and for which the Company has provided an irrecoverable amount of £177,000 (2011: £208,000) based on past experience. The Company does not hold any collateral over these balances. The average age of these receivables is 368 days (2011: 327 days).

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £258,000 (2011: £447,000). 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 57 days (2011: 53 days).

14. TRADE AND OTHER RECEIVABLES - continued

Ageing of past due but not impaired receivables:

	2012 £'000	2011 £'000
30-60 days	207	393
60-120 days	39	37
120-210 days	12	17
Total	258	447

Movement in the allowance for doubtful debts

	2012 £'000	2011 £'000
At 1 January	208	291
Amounts utilised/written off in the year	(87)	(75)
Amounts recognised in income statement	56	(8)
At 31 December	177	208

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 £101,000 (2011: £94,000), which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

Categories of financial assets

	2012 £'000	2011 £'000
Loans and receivables at amortised cost	81,459	52,632
Total financial assets	81,459	52,632
Non-current assets	2,384,557	2,223,761
Inventories	231	489
Prepayments and accrued income	6,082	5,971
Total non-financial assets	2,390,870	2,230,221
Total assets	2,472,329	2,282,853

15. CASH AND CASH EQUIVALENTS

	2012 £'000	2011 £'000
Cash in hand	21,054	-

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

15. CASH AND CASH EQUIVALENTS – continued

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

16. CALLED UP SHARE CAPITAL

	2012 No./£	2011 No./£
Ordinary shares of £1 each		
Allotted, called up and fully paid	**290,000,000**	290,000,000

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

17. RETAINED EARNINGS

	Retained earnings £'000
At 1 January 2012	**390,766**
Profit for the year	**145,281**
Dividends	**(40,000)**
At 31 December 2012	**496,047**

18. TRADE AND OTHER PAYABLES

	2012 £'000	2011 £'000
Current:		
Payments on account	**36,057**	25,102
Trade creditors	**3,585**	3,642
Amounts owed to Group undertakings	**425**	427
Social security and other taxes	**7,379**	9,847
Other creditors	**3,103**	1,480
Deferred revenue	**20,493**	18,890
Accrued expenses	**50,637**	21,448
	121,679	80,836
Non-current:		
Deferred revenue	**653,007**	631,845
Aggregate amounts	**774,686**	712,681

The directors consider that the carrying amount of other financial liabilities approximates their fair value, calculated by discounting future cash flows at market rate at the balance sheet date. Trade creditors and accruals principally comprise amounts outstanding for trade purchases and on-going costs. Invoices are paid at the end of the month following the date of the invoice. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

18. TRADE AND OTHER PAYABLES - continued

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

	Less than 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
2012:					
Non-interest bearing	**65,129**	-	-	-	**65,129**
Variable interest rate liability	**138**	-	-	-	**138**
Fixed interest rate liability	**18,500**	**25,053**	**166,213**	**1,070,642**	**1,280,408**
	83,767	**25,053**	**166,213**	**1,070,642**	**1,345,675**
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
	109,372	18,246	154,003	911,195	1,192,816

Categories of financial liabilities

	2012 £'000	2011 £'000
Loans and payables at amortised cost	**(731,148)**	(680,353)
Total financial liabilities	**(731,148)**	(680,353)
Payments received on account	**(36,057)**	(25,102)
Income tax liabilities	**(185,202)**	(212,373)
Other taxes and social security	**(7,379)**	(9,847)
Accruals	**(50,637)**	(21,448)
Deferred Revenue	**(673,500)**	(650,735)
Provisions	**(2,359)**	(2,229)
Total non-financial liabilities	**(955,134)**	(921,734)
Total liabilities	**(1,686,282)**	(1,602,087)

18. TRADE AND OTHER PAYABLES - continued

Deferred Revenue

	2012 £'000	2011 £'000
At 1 January	**(650,735)**	(630,132)
Additions	**(41,630)**	(38,420)
Amortisation	**18,865**	17,816
At 31 December	**(673,500)**	(650,735)

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.

19. BORROWINGS

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

	Book Value		Fair Value	
	2012 **£'000**	2011 £'000	**2012** **£'000**	2011 £'000
Amounts owed to Group undertakings	**-**	79,167	**-**	88,918
Loans	**724,035**	595,637	**848,250**	698,056
	724,035	674,804	**848,250**	786,974
The borrowings are repayable as follows:				
On demand or within one year	**30,418**	74,161	**30,418**	74,161
After five years	**693,617**	600,643	**817,832**	712,813
	724,035	674,804	**848,250**	786,974
Analysis of borrowings:				
Short-term loan	**140**	22,123	**140**	22,123
Inter-company short-term loan	**-**	24,100	**-**	24,100
Yorkshire Electricity Group plc 2016 6.5%	**-**	55,067	**-**	64,818
Bond 2020 9.25%	**216,635**	216,487	**293,474**	293,238
Bond 2035 5.125%	**203,557**	203,425	**227,044**	214,808
EIB 2022 4.133%	**153,620**	153,602	**173,001**	167,887
Bond 2032 4.375%	**150,083**	-	**154,591**	-
	724,035	674,804	**848,250**	786,974

The fair value of the 2020, 2032 and 2035 bonds is determined with reference to quoted market prices. The directors' estimates of the fair value of the European Investment Bank ("EIB") 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.

19. BORROWINGS - continued

Interest on short-term loans and inter-company short-term loans is charged at a floating rate of LIBOR plus 1.25%, thus exposing the Company to cash flow interest rate risk. A 1% movement in interest rates would subject the Company to an approximate change in interest costs of £0.3m per year. This is considered to be an acceptable level of risk. All other loans are at fixed interest rates and expose the Company to fair value interest rate risk.

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

The Company's Senior Total Net Debt as at 31 December 2012 was £679.2m. Using the RAV as at March 2013, 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 2012 of £1,424.3m. The Senior Total Net Debt to RAV ratio for the Company is, therefore, estimated at 47.7%.

At 31 December 2012, the Company had available £79.0m (2011: £57.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

20. PROVISIONS

	2012	2011
	£'000	£'000
Provisions	**2,359**	2,229
Analysed as follows:		
Current	**1,637**	1,499
Non-current	**722**	730
	2,359	2,229

	Claims	Other	Total
	£'000	£'000	£'000
At 1 January 2012	1,100	1,129	2,229
Utilised/paid in the year	(1,242)	(559)	(1,801)
Charged to income statement	1,313	618	1,931
At 31 December 2012	1,171	1,188	2,359

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.

21. DEFERRED TAX

	Accelerated Tax Depreciation £'000	Other £'000	Total £'000
At 1 January 2012	193,273	(183)	193,090
Charge to income statement	(24,122)	6	(24,116)
At 31 December 2012	169,151	(177)	168,974
	£'000	£'000	£'000
At 1 January 2011	209,887	(181)	209,706
Charge to income statement	(16,614)	(2)	(16,616)
At 31 December 2011	193,273	(183)	193,090

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

22. EMPLOYEE BENEFIT OBLIGATIONS

The Company has three retirement benefit schemes.

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

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

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

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

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 £6.8m 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.

22. EMPLOYEE BENEFIT OBLIGATIONS - continued

The Northern Powergrid 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.

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

The Northern Powergrid Pension Scheme and the Yorkshire Electricity Pension Plan are accounted for as defined contribution schemes.

The Company's pension cost for the year ended 31 December 2012 was £18.6m (2011: £17.6m).

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

Principal assumptions:

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

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

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

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

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

22. EMPLOYEE BENEFIT OBLIGATIONS - continued

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

	2012 £m	2011 £m
Opening fair value of plan assets	**1,128.2**	1,043.7
Expected returns	**67.1**	69.6
Actuarial gains	**26.3**	16.7
Contributions by employer	**50.1**	49.0
Contributions from employees	**1.8**	2.4
Benefit paid	**(50.7)**	(53.2)
	1,222.8	1,128.2

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

	Long-term rates of return expected at		Value	
	2012 %	2011 %	**2012** £m	2011 £m
Equities	**8.50**	8.50	**303.9**	303.6
Bonds	**3.50**	3.70	**750.3**	714.6
Other	**3.00**	3.00	**5.8**	9.8
Reinsurance	**7.00**	n/a	**59.4**	0.0
Property	**7.00**	7.50	**103.4**	100.2
Total fair value of scheme assets			**1,222.8**	1,128.2

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

23. 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 2012 was £1,751,000 (2011: £4,580,000). Included within borrowings is £nil as at 31 December 2012 (2011: £79,167,000) in respect of these loans.

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

23. RELATED PARTY DISCLOSURES – continued

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
2012:			
CE Insurance Services Limited	-	846	-
Integrated Utility Services Limited	73	282	-
Northern Electric plc	-	4,254	-
Northern Powergrid (Northeast) Limited	6,231	12,735	-
Vehicle Lease and Service Limited	-	3,870	425
	6,304	21,987	425
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
	8,824	23,100	427

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.

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

	2012 £'000	2011 £'000
Profit before income tax	157,847	146,066
Depreciation charges	76,959	72,791
Profit on disposal of fixed assets	(352)	-
Amortisation of deferred revenue	(18,865)	(17,816)
Increase in provisions	128	41
Finance costs	40,499	40,992
	256,216	242,074
Decrease in inventories	258	303
(Increase)/decrease in trade and other receivables	(583)	3,007
(Decrease)/increase in trade and other payables	(985)	3,395
Cash generated from operations	254,906	248,779

25. ULTIMATE CONTROLLING PARTY

The immediate parent undertaking of Northern Powergrid (Yorkshire) plc is Yorkshire Electricity Group plc. The ultimate controlling party and ultimate parent undertaking 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.