REPORT OF THE DIRECTORS AND

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

FOR

NORTHERN POWERGRID HOLDINGS COMPANY

(FORMERLY CE ELECTRIC UK FUNDING COMPANY)

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 3476201)

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NORTHERN POWERGRID HOLDINGS COMPANY

COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2011

DIRECTORS:	G E Abel D L Anderson R Dixon J M France P J Goodman P A Jones J N Reynolds (appointed 1 January 2011)
SECRETARY:	J Elliott
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REGISTERED NUMBER:	3476201 (England and Wales)
AUDITOR:	Deloitte LLP Newcastle upon Tyne

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 3476201)

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2011

The directors present the annual report and accounts of Northern Powergrid Holdings Company (the "Company") and its subsidiary companies (together the "Group") for the year ended 31 December 2011, which includes the review of business and audited financial statements for that year. Pages 2 to 26 inclusive of this annual report comprise a report of the directors that has been drawn up and presented in accordance with the Companies Act 2006.

Cautionary statement regarding forward-looking statements

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

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

PRINCIPAL ACTIVITY

The Company is the ultimate parent undertaking for the Group, is incorporated in the United Kingdom and has prepared group accounts for the year ended 31 December 2011. The Group includes Northern Powergrid Limited, CE UK Gas Holdings Limited and its subsidiaries ("CE Gas"), Northern Electric plc ("NE") and its subsidiaries, Yorkshire Power Group Limited and its subsidiaries and Integrated Utility Services Limited, a company registered in the Republic of Ireland ("IUS Ireland"). The Company, Northern Powergrid Limited, NE and Yorkshire Power Group Limited act as holding and investment companies within the Group, with the Group's main businesses being as follows:

- Northern Powergrid (Northeast) Limited ("Northeast"), which was previously known as Northern Electric Distribution Limited, and Northern Powergrid (Yorkshire) plc ("Yorkshire"), which was previously known as Yorkshire Electricity Distribution plc, (together the "Distribution Business") are authorised distributors under the Electricity Act 1989. Each company is a distribution network operator ("DNO") and holds an electricity distribution licence granted by the Secretary of State. Northeast serves an area of approximately 14,400 sq km in the northeast of England and Yorkshire serves an area of approximately 10,700 sq km encompassing the counties of West Yorkshire, East Yorkshire and almost all of South Yorkshire, together with parts of North Yorkshire, Derbyshire, Nottinghamshire, Lincolnshire and Lancashire. The Distribution Business receives electricity from the National Grid's transmission system and distributes it to approximately 3.8 million customers connected to its electricity distribution networks of transformers, switchgear and overhead and underground cables, at voltages of up to 132kV;

- Integrated Utility Services Limited ("IUS") operates an engineering contracting business, which is divided into three main streams of UK Contracting, Rail and Multi-utility and also provides connections consultancy and system study services. UK Contracting provides design, construction and maintenance services to public and private networks throughout the UK. Rail focuses on providing a total service from feasibility to design, installation, commissioning and on-going maintenance. Multi-utility provides new electrical, gas and water connections to housing and property developers; and

- CE Gas includes CalEnergy Resources (Australia) Limited, CalEnergy Resources Poland Sp. z o.o. and CalEnergy Gas Limited, which hold interests in hydrocarbon permits in Australia, Poland and the United Kingdom respectively.

The Group operates a business model and strategy based on its six core principles (the "Core Principles"), which remain consistent and are:

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

REVIEW OF BUSINESS

The Company changed its name from CE Electric UK Funding Company to Northern Powergrid Holdings Company with effect from 28 October 2011.

The Distribution Business

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

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

The Distribution Business' health and safety performance continued to compare well with the industry average but the internal targets were missed in respect of lost time accidents, operational incidents and preventable vehicle accidents. However, environmental performance improved with the amount of fluid loss to ground and carbon emissions reducing in comparison to the prior year.

IUS

The difficult trading conditions in the engineering contracting market continued in 2011 and had an adverse impact on IUS' earnings due to lower volumes of work being awarded and delivered, with activity levels in the UK Contracting and Rail areas of IUS' business reducing in comparison to 2010. However during the year, new long-term framework contracts were competitively secured with companies in the Group to carry out switchgear replacement and maintenance works and overhead line refurbishment work. Multi-utility activity was in line with that achieved in 2010, as no significant improvement was experienced in that segment of the market. IUS continued to make a positive contribution to the performance of the Group.

CE Gas

CE Gas has developed a portfolio of hydrocarbon exploration, construction and producing assets in Australia, Poland and the United Kingdom. During the year, the Platypus exploration well in the United Kingdom sector of the North Sea, in which CE Gas holds an interest of 15%, resulted in a gas discovery which is the subject of ongoing evaluation. The Dunnart exploration well in Western Australia was declared dry in January 2011, as was the follow-on Dibblers exploration well. Both of these conclusions have been recognised in the Group's consolidated financial statements.

On 3 February 2011 CalEnergy Gas (Holdings) Limited, a company in the Group, completed the purchase of the minority interests in CalEnergy Resources Limited such that CalEnergy Resources Limited became a wholly-owned subsidiary of CalEnergy Gas (Holdings) Limited.

RESEARCH AND DEVELOPMENT

In 2011 the Distribution Business began working, in partnership with British Gas, Durham University and EA Technology, on a three-year project, the Customer-Led Network Revolution, under Ofgem's Low Carbon Networks Fund. This was the largest project supported by Ofgem in the first year of the fund and the Distribution Business will incur expenditure of £31m over the three-year life of the project. Of that expenditure, 90% is funded by electricity customers in Great Britain and successful delivery of the project over the three years agreed with Ofgem will enable recovery of the additional 10% from customers and potentially qualify for a further discretionary award. The project is assessing the potential for new network technology and flexible customer response to facilitate speedier and more economical take-up by customers of low-carbon technologies and the connection to the distribution network of increasing amounts of low-carbon or renewable energy generation.

The first year of the project comprised the project initiation and detailed specification phases. All key milestones for the year were met and the project remains on track to deliver learning that is relevant, timely and valuable.

The Distribution Business also supports a programme of research that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. That programme includes building on the previously successful field trials of newly developed superconducting fault limiters to provide alternatives to traditional engineering solutions for network constraints, investigating demand side management impacts on network risk to support the low carbon network activities and developing a warning device to detect when vehicles and other equipment are in contact with live conductors, so allowing operators to take mitigating action safely and at decreased risk of injury to themselves and others.

During the year, the Group invested £8,399,000 (Note 6 to the accounts) in its research and development activities.

FUTURE DEVELOPMENTS

The financial position of the Group, as at the year end, is shown in the statement of financial position on pages 31 and 32.

The Company intends to continue to act as a holding and investment company. The directors intend to develop the Group's business in a manner that concentrates on its core skills of electricity distribution, engineering contracting and the hydrocarbon exploration activities of CE Gas.

Northeast and Yorkshire will continue to operate their businesses with the goal of out-performing the allowances in the distribution price control, while efficiently investing in the electricity distribution systems with the aim of improving the quality of supply provided to customers.

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

CE Gas will continue to look to build value through the management of a portfolio of hydrocarbon projects in Australia, Poland and the United Kingdom. Selective new projects in these areas may be considered.

EVENTS SINCE THE END OF THE YEAR

There have been no significant events since the year end.

DIRECTORS

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

G E Abel	Chairman
D L Anderson	Executive Vice President, General Counsel and Corporate Secretary, MidAmerican Energy Holdings Company
R Dixon	Non-executive Director
J M France	Regulation Director
P J Goodman	Executive Vice President and Chief Financial Officer, MidAmerican Energy Holdings Company
P A Jones	President and Chief Executive Officer
J N Reynolds	Non-executive Director (appointed 1 January 2011)

GROUP'S POLICY ON PAYMENT OF CREDITORS

The Group complies with the Better Payment Practice Code for the prompt payment of suppliers in accordance with the normal terms of trade. It is Group policy with respect to its suppliers to settle the terms of payment with those suppliers when agreeing the terms of each transaction, to ensure that those suppliers are aware of the terms of payment and to pay in accordance with the Group's contractual and other legal obligations. The Group had trade payables of £9,435,000 as at 31 December 2011 (2010: £13,788,000). The Company had no trade payables as at 31 December 2011 (2010: nil). The number of days' purchases in trade creditors for the Group at 31 December 2011 was 32 (2010: 15).

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year, charitable donations of £51,658 were made (2010: £56,837), principally to local charities serving the communities in which the Group operates. No contributions were made to political organisations (2010: nil).

STRATEGIC OBJECTIVES

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

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

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

CORE PRINCIPLES

Financial strength

During the year, the Group continued to maintain good control in respect of both its capital and non-operational expenditure and completed the Distribution Business' financing arrangements with the European Investment Bank ("EIB"), which commenced in 2010. The Group secured an acceptable settlement in the triennial valuation of the defined benefit pension scheme and continued to closely monitor and manage the various financial issues that may impact on its business as a result of the effect of the general economic climate on its customers, including lower activity in terms of new connections required to the network, the potential for higher debt write-off and the adverse impact on IUS' earnings due to lower volumes of work being awarded and delivered.

The Group benefits from the stability provided by DPCR5 in terms of its income until 31 March 2015 and recognises that it needs to show that it is delivering reliable services at a fair price to its customers, while operating in an efficient and effective manner.

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

Revenue
The Group's revenue at £642,356,000 was £36,682,000 higher than the prior year mainly due to additional allowances arising from the DPCR 5 settlement.

Operating profit
The Group's operating profit at £350,278,000 was £32,280,000 higher than the previous year reflecting increased revenue partially offset by increases in operating costs such as depreciation and research and development costs.

Finance costs and investment income
Finance costs net of investment income at £95,574,000 were broadly in line with the prior year.

Taxation
The effective tax rate in the current year is 13%. Details are provided in Note 7 to the accounts.

Results and dividends
The Group made a profit after tax for the year of £221,730,000. The directors recommend that no final dividend be paid in respect of the year. An interim dividend was not paid during the year.

Share capital and debt structures
There were no changes to the Company's share capital during the year.

Between 31 January 2011 and 28 February 2011, Northeast drew down the entire credit facility provided by the EIB of £119m at an average fixed rate of 4.228%.

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

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

Movements in cash flows were as follows:

- Operating activities: Net cash flows from operating activities at £222,258,000 were £30,340,000 higher than the previous year. Increased distribution income was partly offset by higher interest payments during the year.
- Investing activities: Net cash used in investing activities at £203,359,000 was £74,536,000 higher than the previous year mainly as a result of the inflow of proceeds from the disposal of CalEnergy Gas (Australia) Limited and Yolla assets in the prior year.
- Financing activities: The net cash used in financing activities at £11,049,000 represents a favourable variance of £52,329,000 compared to the previous year, due to new loans in the year.

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

The main risks are liquidity and interest rate risk.

Liquidity risk
The Group has access to £150m under a three year committed revolving credit facility provided by Lloyds TSB Bank plc, The Royal Bank of Scotland plc and Abbey National Treasury Services plc, which expires on 31 March 2013. The Group expects to raise further facilities as required, at that time.

In addition, companies in the Group have access to further short-term borrowing facilities provided by YEG and a £12m overdraft facility provided by Lloyds TSB Bank plc, which is renewable annually.

The directors do not consider there to be any doubt over the Group's ability to raise finance in the future, given the investment grade issuer credit rating held by several of the Group's subsidiary companies and the fundamental financial strength and nature of its business.

Interest rate risk
The Group is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 December 2011, 100% of the Group's borrowings were at fixed rates and the average maturity for those borrowings was 14 years.

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

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

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

Pensions
NE is the Principal Employer in the Northern Electric Group of the Electricity Supply Pension Scheme (the "Scheme"), a defined benefit scheme. Full details of the Group's commitments to the Scheme and the associated deficit repair payments are provided in Note 26 to the accounts.

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

Agreement was reached during June 2011 with the Group Trustees to repair this deficit over the 15 year period to 31 March 2025, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2010 being borne out in practice. The agreement includes cash payments of £29.9m per annum, 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.

Companies in the Group also participate in the Northern Powergrid Pension Scheme and the Yorkshire Electricity Pension Plan, which are defined contribution schemes.

Insurance
As part of its insurance and risk strategy, the Group has in place a range of insurance policies, including damage to property, employer's and third party motor liability and public liability, which cover it against those risks. The 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, Northeast and Yorkshire distributed electricity to customers in their distribution services areas and continued to improve the overall performance of the distribution networks through an investment strategy targeted at delivering improvements in an efficient and cost-effective manner. The Distribution Business is focused on delivering a reliable and dependable supply of electricity and a high standard of service to its customers. The Distribution Business made a major commitment to improving customer service, with the introduction of a programme focused on the development of the customer experience and actions being taken aimed at improving performance in its contact centre services, web services, stakeholder engagement and customer service competencies and complaints handling processes. A significant number of improvements have already been identified and delivered as part of the overall goal to improve customer satisfaction with the service provided.

Those improvements included:

- the introduction of monthly connections surgeries to enable new connections customers to discuss their specific projects with representatives of the Distribution Business;
- building on the introduction of the interactive voice response system in the customer relations centre in order to take advantage of the latest developments in automatic messaging and to enable the provision of an improved service to customers during power cuts, including text and voice-message updates;
- launching a new website offering so that customers can self-serve on several service lines and obtain information on power cuts via a smart phone application;
- improving the accuracy of the times estimated for the restoration of supply during power cuts that are provided to customers;
- continuing to improve under-performing parts of the distribution network by identifying "hot spots" and taking specific action to address the issues in those areas;

- maintaining the priority services register so that the Distribution Business is aware of people with disabilities or special needs, who may be affected by power cuts and can take appropriate action to assist those people in such circumstances;

- undertaking a programme to reduce the number of instances in which the Distribution Business fails to meet an electricity guaranteed standard of performance;

- undertaking a training programme to provide employees from the Distribution Business and other parts of the Group with the tools and skill sets to handle calls regarding power cuts during periods of peak call demand and supporting that process with the implementation of new voice-over-internet-protocol technology; and

- undertaking a major customer service training programme for employees in all areas of the business to provide a service personal to each customer.

Northeast achieved a customer satisfaction score of 86.6% and Yorkshire a score of 87.4% for the regulatory year to 31 March 2011 and, by building on the telephony system and actions mentioned above, intend to more effectively integrate the other customer facing processes in order to improve the service provided. Continued development of the customer service improvement plan will include increasing focus on excellence in customer service in order to achieve customer satisfaction scores of greater than 90%.

The Distribution Business' performance in respect of the new electricity connections guaranteed standards of performance introduced in October 2010 has continued to be positive, with Northeast's recorded performance for the first calendar year of operation being 99.87% and Yorkshire's being 99.93%.

The performance of DNOs against guaranteed standards, set for activities such as restoring supplies after unplanned interruptions, provides a measure of the level of customer service. Performance against these measures forms part of the Distribution Business' 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 DNOs' performance in the following areas:

- The number of interruptions to supply;

- The duration of interruptions to supply; and

- Customer satisfaction.

Customer minutes lost ("CML") and customer interruptions ("CI") are the key performance indicators used by the Distribution Business to measure the quality of supply and system performance. CML measure the average number of supply minutes lost for every connected customer due to faults and planned outages that last for three minutes or longer. CI measure the average number of supply interruptions for every 100 connected customers due to faults and planned outages that last for three minutes or longer.

In respect of these key customer service performance indicators, the goal is to achieve performance that is below the target number in respect of CML and CI and more than the target number in respect of customer satisfaction. The performance of Northeast and Yorkshire for the regulatory year ended 31 March 2011, against targets determined by Ofgem, was as follows:

	Northeast Actual	Northeast Target	Yorkshire Actual	Yorkshire Target
CML:	71.1 (2010: 68.8)	71.3 (2010: 67.4)	68.2 (2010: 63.5)	76.0 (2010: 65.1)
CI:	65.2 (2010: 62.3)	68.3 (2010: 74.5)	69.9 (2010: 71.4)	75.3(2010: 68.5)
Customer Satisfaction:	86.6% (2010: 90.0%)	90% (2010: 90%)	87.4% (2010: 89.8%)	90% (2010: 90%)

The Distribution Business' performance in the regulatory year to 31 March 2011 was better than Ofgem's target for both CML and CI. Customer satisfaction was below target and was affected by the introduction into the target, in April 2010, of an element relating to the unsuccessful call rate. Measured without the unsuccessful call element and on a like-for-like basis with the prior year, customer satisfaction performance would have been 90% in Northeast and 89.8% in Yorkshire. In this respect, the Distribution Business is continuing to develop its telephony system to address the unsuccessful call rates and anticipates that the actions mentioned above, together with the various improvement actions in respect of the network's resilience, will continue to support improvements in customer service performance.

Operational excellence

The Group's core service continues to be providing and maintaining efficient distribution networks that deliver electricity effectively. During the year, £287.8m was invested in the improvement of the distribution networks, including the replacement of assets and continuing network improvements intended to increase the quality of the electricity supply provided to customers.

Operational activity

The Group's investment strategy is designed to deliver improvements in an efficient and cost-effective manner in order to improve the networks' resilience by minimising the number of faults that occur, reducing the average number of customers affected by a fault and providing a quicker restoration service in the event of a fault.

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

The Distribution Business' priorities during the year included a reduction in the average level of fault repair work in progress, the introduction of improvements in field response and supply restoration times and in the management of intermittent faults, the implementation of enhanced controls for outage risk management and a more robust approach to the control of operations on the low voltage network.

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

- Completion of major asset replacement works for the 132kV switchgear at Tynemouth in North Tyneside, a new 33/20kV substation to provide improved voltage regulation in the Wensleydale area of North Yorkshire, the replacement of 3.5km of 33kV oil-filled cables over the River Tyne, refurbishment of over 8km of 66kV overhead line and the refurbishment or rebuilding of 44km of high voltage and 31km of low voltage overhead line;

- Commencement of works to reinforce the 33kV network in the Harrogate area, to replace the 20kV switchgear at Fawdon and Hartmoor substations and the 11kV switchgear at Northallerton and Catterick Camp substations, to refurbish almost 20km of 66kV overhead line and almost 50km of 132kV overhead line and on a number of projects that will conclude with the replacement of approximately 20km of 33kV oil filled cables in 2012;

- Replacement of 111 units of high voltage outdoor switchgear, 42 high voltage distribution substations and 339 units of high voltage indoor switchgear;

- The upgrade and reinforcement of 21 sites to address the quality of supply performance issues relating to those circuits; and

- The installation and commissioning of 10 new remote control sites.

The major projects undertaken by Yorkshire included:

- Continuation of work to replace a 132kV open terminal substation with indoor gas insulated switchgear in the Hull area, the replacement of 66kV assets at Ferrybridge A substation and the replacement of the 66kV and 11kV assets at a substation in Frickley;

- Completion of work to replace the 66kV and 11kV assets at a substation in the Rotherham area, the construction of a new 33/11kV substation to provide increased capacity to the Snaith area, the replacement of 4km of 33kV oil-filled cables in the Leeds area and replacement of 15km of 33kV Woodhouse steel mast overhead line;

- Commencement of works on a number of projects across its distribution services area that will replace over 11km of 33kV oil filled cables in 2012 and almost 40km of 132kV oil-filled cable in the next two years and of work to replace 10km of 33kV Woodhouse steel mast overhead line;

- Refurbishment of 30km of 132kV overhead line in the Bradford and Keighley area and refurbishment or rebuilding of 64km of high voltage overhead line and 18km of low voltage overhead line;

- Replacement of 172 units of high voltage outdoor switchgear, 55 high voltage distribution substations and 163 units of high voltage indoor switchgear;

- The upgrade and reinforcement of 16 sites to address the quality of supply performance issues relating to those circuits; and

- The installation and commissioning of 172 new remote control sites.

In order to deliver its investment strategy the Distribution Business used a mix of its own staff and contractors, including IUS and IUS Ireland, to undertake its activities.

Employee commitment

Health and safety

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

In 2011 Northeast received a President's Award from the Royal Society for the Prevention of Accidents for achieving ten consecutive Gold Awards and Yorkshire and IUS each received a further Gold Medal for achieving seven and four successive Gold Awards respectively. These awards were presented in recognition of achievements in 2010 and continued or improving standards of health and safety over a sustained period. The Group continued to maintain its Occupational Health and Safety Assessment Series OHSAS 18001 certifications.

The main key performance indicators used by the Group to monitor safety performance are as follows:

	2011		2010	
	Target	Actual	Target	Actual
Lost time accidents	3	8	1	8
Restricted duty accidents	3	1	3	3
Medical treatment accidents	5	5	7	3
Operational incidents	8	13	8	12
Preventable vehicle accidents	26	34	26	32

The Group measures its safety performance in calendar years and, although performance continued to be better than the industry average, it fell short of the Group's goals in certain areas during 2011. The Group continues to implement a health and safety improvement plan that targets delivery of continuous improvement and, as part of that plan, the Group carried out a cross-business operational assurance audit programme by senior managers during the year in order to reinforce the operational safety values. The Group has also delivered operational seminars and stand down briefings to cascade information on safety trends and to launch a new method of site specific risk assessment.

Performance in respect of preventable vehicle accidents failed to achieve the target for 2011 and showed a downturn in performance compared with 2010. The Group continued to implement a robust road risk management plan, which involved a significant number of staff undertaking the Institute of Advanced Motorists online driver assessment and training module followed by an on-road refresher training session if required. The driver training programme provides practical driving training to a targeted population of drivers and is the primary route to improving driver skills in the longer term.

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

Management structure
The Group has a clearly defined leadership team in which specific roles are identified so allowing more effective management of the Group's business and response to any control weaknesses that may become apparent, with single units being in place for field operations, customer operations, asset management, and health, safety and environment. The business systems, human resources, procurement and finance functions are centralised in order to provide those services across the Group. IUS and CE Gas have their own, dedicated management teams, with relevant expertise in the different and specific markets of these business units.

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

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

Given the demographics of the Distribution Business' 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 Distribution Business 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 Distribution Business recruited 64 members of staff in 2011 and has a target to recruit an additional 75 in 2012 under its workforce renewal programme. Overall, plans are in place to have recruited a total of 275 graduate trainees, technical trainees and craft apprentices by the end of 2015.

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

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

The Group employed 2,324 staff at the end of December 2011 at various locations in the United Kingdom, the Republic of Ireland, Poland and Australia (2010: 2,289).

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

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

The 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 delivered regular broadcast briefings using telephone conference call facilities in order to provide employees with updates such as on the performance of the Group, financial, organisational and safety issues and customer service performance.

Environmental respect

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

The Group has operated a United Kingdom Accreditation Service scheme for environmental management since the late 1990s, which is 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 to the Distribution Business was a six-monthly surveillance assessment carried out by Lloyd's Register Quality Assurance in October 2011. The assessment report drew management attention to some minor non-conformances to be addressed by agreed proposed actions. The report also noted good processes for identifying environmental aspects and legal requirements and taking them into account in the system. There were no major non-conformances noted and continued certification was recommended and subsequently confirmed.

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

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

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

Sustainability

The Group takes its responsibilities in respect of its contribution to reducing the impact of global warming seriously, both in its capacity as a major participant in the UK energy industry and in terms of its own carbon footprint. Through its involvement in industry groups and its interactions with government and regulators, the Group is contributing to the target of reducing the carbon emissions of the UK economy and it also works with customers to assist in solving issues raised by the introduction of low-carbon generation and technologies and their implications for the planning and operation of the electricity networks.

The Group measures and publishes details of its own carbon footprint. It set and achieved a target of reducing that footprint by 5% in 2011 and has set a target to reduce its carbon footprint by a further 3.5% in 2012. The Group has fitted speed limiters to the vehicle fleet, trialled the use of an electric car for six months and extended the recycling of office waste to all major office sites. In line with Ofgem's requirements, the Distribution Business has contributed to the sustainability agenda through public reporting on its carbon footprint and, during 2011, achieved certification under CEMARS (the Certified Emissions Measurement and Reduction Scheme) that its measurement of its greenhouse gas emissions was in compliance with ISO 14064.

The significant increase in the number of installations by customers of low-carbon technologies such as photovoltaic solar panels and heat pumps continued during 2011 and the Distribution Business worked with customers and installers to facilitate the process of connecting this technology to the electricity network. In June 2011, the Distribution Business hosted a well attended and well received micro-generation conference, in conjunction with CO2 Sense, to provide information to and obtain feedback from installers and social-housing providers about this process.

Regulatory integrity

The Group manages its business to the highest behavioural standards and adheres to a policy of strict compliance with all relevant standards, legislation and regulatory conditions. The Governance and Risk Management Group ("GRMG") monitored and managed performance in risk-related and compliance areas and met on four occasions during the year.

As has been the case for some years, breaches by a DNO of its licence conditions could lead to financial penalties, which Ofgem has stated "will have a proportionate impact on shareholder returns". In order to assure compliance with its licence and other regulatory obligations, the Distribution Business operates a regulatory compliance affirmation process, under which ownership of the approximately 1,550 regulatory obligations contained within the compliance database is currently assigned to 60 responsible managers. Those responsible managers are required, on a quarterly basis, to review compliance with the relevant obligations that have been assigned to them for certification and report on any perceived risks to the compliance process, which are then addressed. The Regulation Manager reports to the boards of Northeast and Yorkshire 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 Distribution Business under the losses incentive scheme for the regulatory year ended 31 March 2010. Throughout 2011, the Distribution Business was engaged with Ofgem, to resolve the complex issues of the Distribution Price Control Review 4 losses incentive arrangements and the impact of electricity supplier data-management programmes. Ofgem's decision to approve the Distribution Business' application to use a revised methodology for the calculation of 2009/10 annual reported losses was sustained throughout 2011 and the Distribution Business expects to reach a final conclusion to this issue with Ofgem during 2012. In accordance with International Financial Reporting Standards, the Group has not included any recognition of this issue in the accounts.

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

Corporate social responsibility

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

The Group aims to enhance its relationship with various stakeholders through direct engagement on the actions and investment planned to improve the performance of the network and on the environmental and social implications of its operations. The Group seeks to engage disadvantaged groups in projects that bring about benefits for participants and communities, which is supported by a small donation programme focused on the Group's key priorities of support for youth, education and the environment.

In order to improve its response to emergency situations, the Distribution Business 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 Distribution Business 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 Distribution Business dispatches customer service vehicles to the heart of areas affected, which are able to distribute hot drinks and microwave meals and generally assist with the welfare of customers in order to alleviate the impact of the incident. The Distribution Business also utilises 'customer ambassadors' who are able to pay particular attention to customers who have registered on the Priority Services Register. Working in conjunction with the customer relations centre, the ambassadors ensure that these high-priority customers are comfortable and are kept informed of the situation both throughout the event and after the power is restored.

As safety is the first priority and underpins every aspect of its operations, the 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 Group supports a sports programme in partnership with England Athletics, which is delivered through local schools and combines important safety messages with the promotion of healthy lifestyles.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

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

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

Operational risk
There are a number of risks to the Distribution Business' 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 networks' performance. Metal theft was a significant issue for the Distribution Business during the year with the activities of metal thieves causing power cuts on various occasions, which affected a large number of customers including those in the Doncaster, Hull and Cleckheaton areas. In response, the Distribution Business continued to put in place a programme of enhanced security measures at its sites and pursued awareness raising activity at a national and local level.

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

The Distribution Business' 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 networks, in respect of which it is necessary to ensure that the credit cover arrangements remain in place in line with Ofgem's guidance. The principal electricity suppliers that use the Distribution Business' networks are RWE Npower, British Gas, EdF Energy, E.on, Scottish and Southern Energy and Scottish Power.

In addition to the above, hydrocarbon exploration, construction and production are activities with inherent risk and, therefore, much of CE Gas' management time is directed towards managing those risks, which include exploration risk, which occurs during the process of identifying prospects through to exploration, drilling and, potentially, appraising them, construction risk, which occurs during the conversion of an exploration discovery into a commercial project. In addition, hydrocarbon reserve volumes may vary from current estimates causing future revenue to be less than expected.

Risk Management
The 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 Group identifies and assesses risks associated with the achievement of its strategic objectives, including those of an environmental and social nature. Any key actions needed to further enhance the control environment are identified, along with the person responsible for the management of the specific risk. A regular review of the key risks, controls and action plans is undertaken.

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

Risk management

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

A key element and requirement of the risk management process is that a written certificate is provided by the President and Chief Executive Officer 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 Group based on regular reporting, a series of operational and financial policy statements, investigations undertaken by internal audit and a stringent process for ensuring the implementation of any recommendations. MidAmerican requires a quarterly control risk self-assessment to be undertaken by all senior managers as part of its programme for compliance with the requirements of the Sarbanes-Oxley Act. A review is undertaken of the company-wide controls in place on a regular basis and, while no significant areas of weakness have been identified, any recommended improvements are implemented.

In addition, the Group employs comprehensive business planning and financial reporting procedures, regularly reviews key performance indicators to assess progress towards its goals and has a strong internal audit function to provide independent scrutiny of its internal control systems. The Group has risk management procedures in place, including the standards required by the Sarbanes-Oxley Act, operates under OHSAS 18001, which is subject to external certification and regular assessment, and has centralised treasury operations and established procedures for the planning, approving and monitoring of major capital expenditure.

The Group is committed to preventing corruption in all its forms and continues to have a zero-tolerance approach to corruption in its business or by those with whom it does business. During 2011, the board addressed the risks introduced by the Bribery Act 2010 through a new compliance policy, changes to contractual terms, training and other staff awareness measures. The introduction of annual risk assessments and enhanced due diligence in respect of new business transactions has further assisted in ensuring compliance. The Group requires staff, suppliers of services and business partners to comply with Bribery Act. Its policies encourage an employee who has any suspicion of bribery or other form of corruption within or related to the Group to report the suspicion to a manager.

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

CORPORATE GOVERNANCE STATEMENT

The Financial Reporting Council issued the UK Corporate Governance Code (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 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 and the Group, 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 independent non-executive directors at board meetings of the Company and a strong internal control environment designed to meet the standards required by the Sarbanes-Oxley Act.

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

Section A: Leadership
Main Principle A1: The Role of the Board

The board of directors is responsible for the overall management of the Company and its system of internal controls. The directors have agreed a quarterly schedule of board meetings at which they review business performance, strategy and operational and risk-related issues.

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

The Chairman of MidAmerican also receives weekly, monthly and quarterly reports on the Group's performance from the 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 Group's Finance Director and General Counsel present their respective weekly reports.

The board meets quarterly and as required to consider relevant issues and met on seven occasions in total during the year, with the attendance of those directors, who were directors as at 31 December 2011, being as follows:

G E Abel	Chairman	0
D L Anderson	Executive Vice President, General Counsel and Corporate Secretary, MidAmerican	0
R Dixon	Non-executive Director	5
J M France	Regulation Director	6
P J Goodman	Executive Vice President and Chief Financial Officer, MidAmerican	0
P A Jones	President and Chief Executive Officer	7
J N Reynolds	Non-executive Director	5

Operational management of the Distribution Business is delegated to a single senior management team, with specific functional responsibilities. That senior management team meets monthly with the senior management of the 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 Group are provided in the directors' report.

The directors have overall responsibility for the internal control environment, which, within the Group, is based on regular reporting, a series of operational and financial policy statements, investigations undertaken by internal audit and a stringent process for ensuring the implementation of any recommendations. In addition, MidAmerican requires a quarterly control risk self-assessment to be undertaken by all senior managers as part of its programme for compliance with the requirements of the Sarbanes-Oxley Act.

A review is undertaken of the company-wide controls in place on an annual basis and the review carried out in 2011, while not identifying any areas of significant weakness, resulted in the implementation of various recommended improvements. The key features of the Group's internal control system and the issues addressed by the Group during the year can be found in the review of business in the Report of the Directors.

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

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

Health and Safety Management Committee
The board of the 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 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 Group, establish goals and targets, review the effectiveness of the health and safety policies and the health and safety management system and consider recommendations for changes in 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 Report of the Directors, and comprises:

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

Pension Committee
The Pensions Committee oversees the 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 Group with regard to corporate governance. Its purpose is to ensure that 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 Company's Audit Committee. The GRMG comprises:

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 Group's approach to corporate governance and the management of internal controls can be found in the Report of the Directors.

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

Main Principle A2: Division of Responsibility
Mr Abel, the Chairman of MidAmerican, was formally appointed as Chairman of the Company with effect from 1 August 2011 and Dr Jones was appointed as President and Chief Executive Officer of the Company with effect from the same date. As President and Chief Executive Officer, Dr Jones is responsible for the operation and management of both the Company and the Group and reports directly to Mr Abel.

Main Principle A3: The Chairman
Dr Jones chairs board meetings and is responsible for the operation and management of both the Company and the Group and reports directly to Mr Abel, the Chairman of the Board.

Main Principle A4: Non-Executive Directors
There are two independent non-executive directors on the board of the Company, Mr Dixon and Mr Reynolds, who act under agreed terms of reference.

Section B: Effectiveness
Main Principle B1: The Composition of the Board
The board comprises five executive directors and two independent non-executive directors, who, collectively, bring a range of skills and experience to the board. Although the board does not include a balanced number of executive and non-executive directors, the board believes that it possesses the skills and experience necessary to provide effective leadership, stewardship and control of the Company and the Group.

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 directors commit sufficient time to preparation for and attendance at board meetings, although the time commitment required is not formally quantified.

Main Principle B4: Development
The directors continually update their knowledge of and familiarity with the operations of the Group due to the robust reporting arrangements in place and have ongoing access to the Group's operations and its staff.

Main Principle B5: Information and Support
Directors receive monthly reports outlining progress against the Group's goals and targets, enabling financial performance against budget and operational performance against a number of indicators to be reviewed, and are also able to participate in weekly meetings, which consider the key issues of that week in some detail. The directors are able to utilise the advice and services of the Company Secretary, in respect of their duties and responsibilities as directors and any new legislation that may affect those duties and responsibilities. The directors also have access to external legal advice should they feel it necessary. Interim briefings are provided to the non-executive directors, as appropriate.

Main Principle B6: Evaluation
As part of their approved terms of reference, certain committees report regularly on their activities, enabling the directors to evaluate the activities of those committees. However, the board does not have a process of evaluation of its own performance or of the performance of individual directors in their capacity as directors. MidAmerican has a performance appraisal and development scheme in place, under which each senior manager of the 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 Report of the Directors and review of the year provide a balanced and understandable assessment of the Group's position and prospects. The directors explain, at page 3, the Core Principles behind the Group's strategy and, at page 24, their responsibility for preparing the report and accounts, have reported, at page 25 in the Report of the Directors, that the Company is a going concern and included the independent auditor's report at page 27 of the report and accounts.

Main Principle C2: Risk Management and Internal Control
Details of the principal risks and uncertainties facing the Company and the Group and of the internal control system, together with details of the issues addressed by the Group during the year, can be found at pages 16 to 18 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 to provide independent scrutiny of internal control systems and risk management procedures, including the standards required by the Sarbanes-Oxley Act;
- On-going health and safety performance reviews carried out by in-house safety professionals in addition to the regime of routine health and safety risk assessment and management processes carried out within each of the operating units;
- Processes and procedures to operate under OHSAS 18001, which is subject to external certification and regular assessment;
- An external obligations register, which assists with compliance with financial, legal and regulatory obligations;
- Centralised treasury operations that operate within defined limits and are subject to regular reporting requirements and audit reviews; and
- Established procedures for planning, approving and monitoring major capital expenditure, major projects and the development of new business which includes short and long-term budgets, risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews.

Main Principle C3: Audit Committee and Auditors
The board has established an audit committee for the Group, under delegated terms of reference, which include monitoring of the financial reporting process, the effectiveness of the internal control, internal audit and risk management systems, the statutory audit of the accounts and the independence of and the provision of additional services by the auditor.

The Audit Committee receives annual reports from the GRMG and from the Group's Head of Internal Audit on the work of the Internal Audit Section during the year and the audit plan for the following year. The Audit Committee comprises:

R Dixon	Non-executive Director
T E Fielden	Finance Director

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

The employee section on page 13 of the directors' report contains details of the Group'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 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 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. Dr France and Dr Jones are subject to the performance appraisal and development scheme process in their capacity as senior managers of the 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 the Group and of the profit or loss of the Company and the Group 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 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- Make an assessment of the Company's and the Group's ability to continue as a going concern.

STATEMENT OF DIRECTORS' RESPONSIBILITIES – continued

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

GOING CONCERN

The Group's business activities, together with details regarding its future development, performance and position are set out in the review of business in the report of the directors. In addition, the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk are included in the 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:

a) The Group's main subsidiaries, Northeast and Yorkshire, are stable electricity distribution businesses operating an essential public service and are regulated by the Gas and Electricity Markets Authority ("GEMA"). In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;

b) The Group is profitable with strong underlying cash flows. The Company, Northeast and Yorkshire hold investment grade credit ratings;

c) The Group is financed by long-term borrowings with an average maturity of 14 years and has access to borrowing facilities provided by Lloyds TSB Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc; and

d) No repayments of long-term debt are due until 2018.

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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

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

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

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

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 3476201)

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2011

AUDITOR
An elective resolution is in place dispensing with the need to appoint auditors annually. Deloitte LLP has indicated its willingness to continue in office.

ON BEHALF OF THE BOARD:

J Elliott
Secretary
20 April 2012

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

Each of the directors in office as at the date of the Annual Report, whose names and functions are set out on page 5 of the Report of the Directors confirms that, to the best of their knowledge:

a) the accounts, prepared in accordance with applicable UK law and in conformity with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

b) the Report of the Directors includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 20 April 2012 and signed on its behalf by:

P A Jones
Director and President and Chief Executive Officer

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF NORTHERN POWERGRID HOLDINGS COMPANY

We have audited the financial statements of Northern Powergrid Holdings Company (the "Company") for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flow, the Company Statement of Cash Flow and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2011 and of the Group's profit for the year then ended;

- have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the Group's and the parent company's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF NORTHERN POWERGRID HOLDINGS COMPANY

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company's 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

23 April 2012

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 3476201)

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 £'000	2010 £'000
CONTINUING OPERATIONS			
Revenue	2, 3	**642,356**	605,674
Cost of sales		**(39,825)**	(47,358)
GROSS PROFIT		**602,531**	558,316
Administrative expenses		**(252,253)**	(240,318)
OPERATING PROFIT		**350,278**	317,998
Other gains	9	**329**	34,130
Finance costs	5	**(96,787)**	(97,025)
Finance income	5	**1,213**	1,332
PROFIT BEFORE INCOME TAX	6	**255,033**	256,435
Income tax	7	**(33,303)**	(42,766)
PROFIT FOR THE YEAR		**221,730**	213,669
Profit attributable to:			
Owners of the parent		**219,484**	210,960
Non-controlling interests		**2,246**	2,709
		221,730	213,669

The notes on pages 38 to 82 form part of these financial statements

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 3476201)

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

	2011 £'000	2010 £'000
PROFIT FOR THE YEAR	**221,730**	213,669
Exchange difference on translation of foreign operations	**11**	1,025
Purchase of minority interest	**(810)**	-
Disposal of assets denominated in foreign currencies	-	(7,400)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**220,931**	207,294
Total comprehensive income attributable to:		
Owners of the parent	**218,685**	204,585
Non-controlling interests	**2,246**	2,709
	220,931	207,294

The notes on pages 38 to 82 form part of these financial statements

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 3476201)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2011

	Notes	2011 £'000	2010 £'000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	11	**248,843**	248,843
Intangible assets	12	**11,153**	9,574
Property, plant and equipment	13	**3,872,470**	3,708,791
Investments	14	**3,346**	3,328
Pension asset	26	**201,800**	158,345
Trade and other receivables	17	**3,780**	4,609
		4,341,392	4,133,490
CURRENT ASSETS			
Inventories	16	**13,954**	11,369
Trade and other receivables	17	**117,291**	118,394
Cash and cash equivalents	18	**13,535**	5,685
		144,780	135,448
TOTAL ASSETS		**4,486,172**	4,268,938
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	20	**354,550**	354,550
Other reserves	21	**(839)**	(40)
Merger reserve	21	**(73)**	(163)
Retained earnings	21	**897,346**	677,952
		1,250,984	1,032,299
Non-controlling interests	19	**16,710**	14,464
TOTAL EQUITY		**1,267,694**	1,046,763

The notes on pages 38 to 82 form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued
31 DECEMBER 2011

	Notes	2011 £'000	2010 £'000
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables	22	**1,101,271**	1,060,862
Borrowings	23	**1,401,370**	1,521,851
Deferred tax	25	**388,931**	411,541
Provisions	24	**5,226**	5,280
		2,896,798	2,999,534
CURRENT LIABILITIES			
Trade and other payables	22	**200,287**	150,810
Borrowings	23	**93,945**	42,377
Tax payable		**24,949**	26,159
Provisions	24	**2,499**	3,295
		321,680	222,641
TOTAL LIABILITIES		**3,218,478**	3,222,175
TOTAL EQUITY AND LIABILITIES		**4,486,172**	4,268,938

The financial statements were approved by the Board of Directors on 20 April 2012 and were signed on its behalf by:

P A Jones
Director

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 3476201)

COMPANY STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2011

	Notes	2011 £'000	2010 £'000
ASSETS			
NON-CURRENT ASSETS			
Investments	14	376,289	376,289
Loans and other financial assets	15	264,158	264,158
		640,447	640,447
CURRENT ASSETS			
Trade and other receivables	17	101	-
Cash and cash equivalents	18	-	177
		101	177
TOTAL ASSETS		640,548	640,624
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	20	354,550	354,550
Retained earnings	21	70,375	67,575
TOTAL EQUITY		424,925	422,125
LIABILITIES			
NON-CURRENT LIABILITIES			
Borrowings	23	194,403	193,408
CURRENT LIABILITIES			
Trade and other payables	22	392	361
Borrowings	23	20,744	24,630
Tax payable		84	100
		21,220	25,091
TOTAL LIABILITIES		215,623	218,499
TOTAL EQUITY AND LIABILITIES		640,548	640,624

The financial statements were approved by the Board of Directors on 20 April 2012 and were signed on its behalf by:

P A Jones
Director

The notes on pages 38 to 82 form part of these financial statements

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 3476201)

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

	Called up share capital £'000	Retained earnings £'000	Other reserves £'000
Balance at 1 January 2010	354,550	465,607	6,335
Changes in equity			
Movement in merger reserve	-	1,385	-
Foreign exchange translation adjustment	-	-	(6,375)
Profit for the year	-	210,960	-
Balance at 31 December 2010	354,550	677,952	(40)
Changes in equity			
Movement in merger reserve	-	(90)	-
Foreign exchange translation adjustment	-	-	11
Purchase of minority interest	-	-	(810)
Profit for the year	-	219,484	-
Balance at 31 December 2011	354,550	897,346	(839)

	Merger reserve £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Balance at 1 January 2010	1,222	827,714	11,755	839,469
Changes in equity				
Movement in merger reserve	(1,385)	-	-	-
Foreign exchange translation adjustment	-	(6,375)	-	(6,375)
Profit for the year	-	210,960	2,709	213,669
Balance at 31 December 2010	(163)	1,032,299	14,464	1,046,763
Changes in equity				
Movement in merger reserve	90	-	-	-
Foreign exchange translation adjustment	-	11	-	11
Purchase of minority interest	-	(810)	-	(810)
Profit for the year	-	219,484	2,246	221,730
Balance at 31 December 2011	(73)	1,250,984	16,710	1,267,694

The notes on pages 38 to 82 form part of these financial statements

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

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2010	354,550	64,841	419,391
Changes in equity			
Profit for the year	-	2,734	2,734
Balance at 31 December 2010	354,550	67,575	422,125
Changes in equity			
Profit for the year	-	2,800	2,800
Balance at 31 December 2011	354,550	70,375	424,925

The notes on pages 38 to 82 form part of these financial statements

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 3476201)

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

	Notes	2011 £'000	2010 £'000
Cash flows from operating activities			
Cash generated from operations	29	**431,427**	373,608
Interest paid		**(153,825)**	(144,124)
Dividends received		**47**	47
Interest received		**774**	827
Tax paid		**(56,165)**	(38,440)
Net cash from operating activities		**222,258**	191,918
Cash flows from investing activities			
Purchase of intangible fixed assets		**(10,923)**	(843)
Purchase of tangible fixed assets		**(296,058)**	(298,061)
Proceeds from sale of assets		**350**	91,051
Dividends received from joint ventures		**392**	283
Receipt of customer contributions		**102,880**	78,747
Net cash used in investing activities		**(203,359)**	(128,823)
Cash flows from financing activities			
Loan repayments in the year		**(176,552)**	(215,241)
New loans in year		**165,503**	151,863
Net cash used in financing activities		**(11,049)**	(63,378)
Increase/(Decrease) in cash and cash equivalents		**7,850**	(283)
Cash and cash equivalents at beginning of year		**5,685**	5,968
Cash and cash equivalents at end of year		**13,535**	5,685

The notes on pages 38 to 82 form part of these financial statements

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 3476201)

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

	Notes	2011 £'000	2010 £'000
Cash flows from operating activities			
Cash generated from operations	29	**(33)**	57
Finance costs paid		**(15,297)**	(15,173)
Interest received		**18,592**	18,567
Tax paid		**(548)**	(1,038)
Net cash from operating activities		**2,714**	2,413
Cash flows from financing activities			
Loan repayments in year		**(2,891)**	(2,413)
Net cash used in financing activities		**(2,891)**	(2,413)
Decrease in cash and cash equivalents		**(177)**	-
Cash and cash equivalents at beginning of year		**177**	177
Cash and cash equivalents at end of year		**-**	177

The notes on pages 38 to 82 form part of these financial statements

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

1. GENERAL INFORMATION

Northern Powergrid Holdings 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 Review of Business, in the Report of the Directors.

2. ACCOUNTING POLICIES

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

Going concern
The directors have, at the time of approving the financial statements, a reasonable expectation that the Company 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.

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

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

- The estimation of useful economic lives for property, plant and equipment;
- The split of operating and capital expenditure and the allocation of overheads to capital projects;
- Impairment reviews carried out to evaluate the carrying value of assets held at the balance sheet date;
- Assumptions used when evaluating long-term pension plan assets and liabilities; and
- Assumptions used when evaluating commercial reserves of oil and gas.

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.

2. ACCOUNTING POLICIES - continued

Adoption of new or revised standards
In the current year, the following new and revised Standards and Interpretations have been adopted in these financial statements.

Standards affecting presentation and disclosure;

IFRS 7 Financial Instruments: Disclosure

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

IAS 1 Presentation of Financial Statements

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

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

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

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

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

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

Customer contributions towards distribution system assets are included in deferred revenue. The Group's policy is to credit the customer contribution to revenue over 15-45 years on a straight-line basis, in line with the useful life of the distribution system assets.

Revenue from the sale of gas is measured at the fair value of the consideration receivable, principally from the Group's share of production from its field interests, net of value added tax.

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

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

2. **ACCOUNTING POLICIES - continued**

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

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

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

Operating profit
Operating profit is stated before profit on disposals, investment income and finance costs.

Software Development Costs
Costs in respect of major developments are capitalised and amortised over the expected life of the software. Capitalised software costs that are not an integral part of the related hardware are included in intangible assets on the balance sheet and amortised over the expected life of the software of up to 15 years.

Gas Joint Venture operations
Exploration, development and production activities are conducted as co-licensee in joint ventures with other similar companies. The accounts reflect the relevant proportions of production, capital expenditure, operating costs and current assets and liabilities applicable to the Group's interests.

Oil and gas assets
Exploration and appraisal costs are accounted for on the successful efforts basis. All costs relating to licence and data acquisition, geological and geophysical activity and exploration and appraisal drilling are initially capitalised as intangible oil and gas assets pending determination of the commercial potential of the relevant oil and gas properties. Exploration costs, which are not incurred under a specific licence, are written off in the year incurred. If prospects are subsequently deemed to be unsuccessful on completion of evaluation, the associated costs are charged to the income statement in the year in which that determination is made. If the prospects are deemed to be commercially viable, such costs are transferred to tangible oil and gas assets under property, plant and equipment.

Depreciation, depletion and amortisation for oil and gas properties is calculated on a unit-of-production basis, using the ratio of oil and gas production in the period to the estimated quantities of proven and probable reserves at the end of the period plus production in the period, on a field-by-field basis. Proven and probable reserve estimates are based on a number of underlying assumptions including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain. Management uses established industry techniques to generate its estimates and regularly references its estimates against those of joint venture partners or external consultants. However, the amount of reserves that will ultimately be recovered from any field cannot be known with certainty until the end of the field's life.

Where there has been a change in economic or commercial conditions that indicates a possible impairment in a field, the recoverability of the net book value relating to that field, less any provisions for decommissioning costs, is assessed by comparison with the estimated discounted future net cash flows based on management's expectations of future gas and oil prices and future costs. Any impairment identified is charged to the income statement as additional depreciation. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement.

2. ACCOUNTING POLICIES - continued

Commercial Reserves of Oil and Gas
Commercial reserves used in the unit of production calculations are proven and probable reserves. Reserves are based on estimates provided by the operators.

The effects of changes in estimated costs or other factors affecting oil and gas unit of production calculations for depreciation and abandonment costs are dealt with prospectively over the estimated remaining commercial reserves of each field.

Abandonment Costs
Provisions for decommissioning costs are recorded at the present value of the expenditures expected to be required to settle the Group's future obligation, to the extent any damage has been caused to date taking risks and uncertainties into account in reaching the best estimates and, where available, operators' estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability.

A decommissioning asset is also established, since the future cost of decommissioning is regarded as part of the total investment to gain access to future economic benefit. The decommissioning asset is then depleted by field on a unit-of-production basis.

Provisions are reviewed at each balance sheet date to reflect the current best estimate of the cost at present value. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

It is assumed that certain abandonment costs will be allowable for petroleum revenue tax ("PRT") and corporation tax purposes when incurred.

Non-Current Assets Held for Sale
Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Reserves
In 2002, the merger reserve was created following the transfer of Property, Plant and Equipment between companies in the CE Gas group.

Reserves shown as "Other" on the balance sheet are foreign currency translation reserves, primarily held in the Group's investment in the CE Gas group.

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

2. **ACCOUNTING POLICIES - continued**

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

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

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent year.

On disposal of a subsidiary or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

Freehold land is not depreciated.

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

2. ACCOUNTING POLICIES - continued

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

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

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

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

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

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

Raw materials and goods for resale are valued at purchase cost on an average price basis.

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

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and costs to be incurred in marketing, selling and distribution.

2. **ACCOUNTING POLICIES - continued**

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

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

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

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

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

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

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

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

Leases
Leases are classified as finance leases 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 or to property, plant and equipment in equal annual amounts over the lease term.

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

The cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each December balance sheet date. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of the plan assets or 10% of the defined benefit obligation are spread to income over the employees' expected average remaining working lives.

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

2. **ACCOUNTING POLICIES - continued**

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

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

The key assumptions used for the actuarial valuation are based on the best estimate of the variables that will determine the ultimate cost of providing post-employment benefits and follow discussions with the actuary. The operating results are affected by the actuarial assumptions used. These assumptions include investment returns on the scheme's assets, discount rates, pay growth and increases to pensions and deferred pensions. These assumptions may differ from actual results due to changing market and economic conditions and longer or shorter lives of scheme members. Further detail is provided in Note 26.

The Group also participates in two defined contribution schemes. Contributions payable to those 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.

Foreign Currency
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

The results of overseas operations are translated at the average rates of exchange during the year and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in the consolidated statement of comprehensive income. All other exchange differences are included in the income statement.

Derivative financial instruments and hedge accounting
The use of financial derivatives is governed by the Group's policies approved by the board of directors.

In the event that the Group uses financial derivative instruments, changes in the fair value of those instruments that are designated as effective hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. Amounts deferred to equity are recognised in the income statement, or as adjustments to the carrying amount of property, plant and equipment, only when the hedged transaction itself has been recognised in the accounts.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transition occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement under the applicable heading depending on the nature of the instrument as they arise.

2. ACCOUNTING POLICIES - continued

Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Reasonable estimates involve judgment 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.

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 3476201)

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

3. SEGMENTAL REPORTING

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

The Group operates in the principal area of the distribution of electricity (the Distribution Business). Hydrocarbon exploration and development is carried out in Australia, Poland and the United Kingdom and the hydrocarbon exploration and development information in the table below is provided for comparative purposes with 2010.

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

	Distribution 2011 £m	Hydrocarbon Exploration and Development 2011 £m	Other 2011 £m	Total 2011 £m
REVENUE				
External sales	610.5	6.5	25.4	642.4
Inter-segment sales	0.2	-	(0.2)	-
Total revenue	610.7	6.5	25.2	642.4
SEGMENT RESULTS				
Operating profit	307.2	(1.9)	45.0	350.3
Other gains				0.3
Finance costs				(96.8)
Finance income				1.2
Profit before tax				255.0
OTHER INFORMATION				
Capital additions	302.3	8.5	(3.4)	307.4
Depreciation and amortisation	137.5	5.9	(1.3)	142.1
Amortisation of deferred revenue	(34.1)	-	-	(34.1)

3. **SEGMENTAL REPORTING - continued**

	Distribution 2011 £m	Hydrocarbon Exploration and Development 2011 £m	Other 2011 £m	Total 2011 £m
BALANCE SHEET				
Segment assets	4,309.2	67.7	95.9	4,472.8
Unallocated corporate assets				13.4
Total assets				4,486.2
Segment liabilities	(1,297.5)	(2.6)	(9.2)	(1,309.3)
Unallocated corporate liabilities				(1,909.2)
Total liabilities				(3,218.5)
Net assets/(liabilities) by segment	3,011.7	65.1	86.7	3,163.5
Unallocated net corporate liabilities				(1,895.8)
Total net assets				1,267.7

Unallocated net corporate liabilities include current and deferred tax liabilities (£416.6m) and borrowings (£1,491.0m).

"Other" includes the retirement benefit asset of £201.8m, a £61.0m reduction in cumulative capitalised costs and a £39.2m credit to operating profit as a consequence of the Distribution and Engineering Contracting activities accounting for retirement benefits on a cash accrual basis. "Other" also includes Engineering Contracting and Business Support Units.

Revenue from a key customer, RWE Npower, totalling £183.2m is included within the distribution segment.

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

3. SEGMENTAL REPORTING – continued

	Distribution 2010 £m	Engineering Contracting 2010 £m	Hydrocarbon Exploration and Development 2010 £m	Other 2010 £m	Total 2010 £m
REVENUE					
External sales	563.5	28.1	10.7	3.4	605.7
Inter-segment sales	0.2	1.1	-	(1.3)	-
Total revenue	563.7	29.2	10.7	2.1	605.7
SEGMENT RESULTS					
Gross profit	567.3	4.8	5.5	(19.3)	558.3
Pension deficit charges	(27.5)	(0.6)	-	28.1	-
Central recharges	0.7	(0.4)	-	(0.3)	-
Other operating costs	(255.6)	(3.0)	(5.8)	24.1	(240.3)
Operating profit	284.9	0.8	(0.3)	32.6	318.0
Other gains					34.1
Finance costs					(97.0)
Finance income					1.3
Profit before tax					256.4
OTHER INFORMATION					
Capital additions	308.6	-	5.1	0.2	313.9
Depreciation and amortisation	131.1	0.1	3.6	(0.9)	133.9
Amortisation of deferred revenue	(32.4)	-	-	-	(32.4)

3. SEGMENTAL REPORTING – continued

	Distribution 2010 £m	Engineering Contracting 2010 £m	Hydrocarbon Exploration and Development 2010 £m	Other 2010 £m	Total 2010 £m
BALANCE SHEET					
Segment assets	4,145.3	7.8	68.5	41.6	4,263.2
Unallocated corporate assets					5.7
Total assets					4,268.9
Segment liabilities	(1,209.7)	(4.3)	(4.2)	(2.1)	(1,220.3)
Unallocated corporate liabilities					(2,001.9)
Total liabilities					(3,222.2)
Net assets/(liabilities) by segment	2,935.6	3.5	64.3	39.5	3,042.9
Unallocated net corporate liabilities					(1,996.2)
Total net assets					1,046.7

Unallocated net corporate liabilities include current and deferred tax liabilities (£437.7m) and borrowings (£1,564.2m).

"Other" includes the retirement benefit asset of £158.3m, a £58.8m reduction in cumulative capitalised costs and a £27.3m credit to operating profit as a consequence of the Distribution and Engineering Contracting activities accounting for retirement benefits on a cash accrual basis. "Other" also includes Business Support Units.

Revenue from a key customer, RWE Npower, totalling £178.1m is included within the Distribution segment. Revenue from a key customer, E.ON, totalling £6.8m is included within the Engineering Contracting segment.

4. EMPLOYEES AND DIRECTORS

	2011 £'000	2010 £'000
Salaries	**97,031**	94,549
Social security costs	**9,323**	8,490
Defined benefit pension costs	**5,361**	14,712
Defined contribution pension costs	**927**	448
	112,642	118,199
Less charged to property, plant and equipment	**(71,726)**	(71,648)
	40,916	46,551

4. EMPLOYEES AND DIRECTORS- continued

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

The average monthly number of employees during the year was:

	2011 No.	2010 No.
Distribution	2,073	2,074
Engineering Contracting	151	161
Hydrocarbon exploration and development	12	12
Other	60	60
	2,296	2,307

The Company had no employees in the years ended 31 December 2011 and 31 December 2010.

DIRECTORS' REMUNERATION

	2011 £'000	2010 £'000
Highest Paid:		
Short-term employee benefits	307	258
Post employment benefits	39	20
Other long-term benefits	365	302
	711	580
Total:		
Short-term employee benefits	488	413
Post employment benefits	93	73
Other long-term benefits	485	424
	1,066	910
Directors who are members of the defined benefit scheme	3	3
Accrued pension benefit relating to highest paid director	-	-

OTHER KEY PERSONNEL REMUNERATION

	2011 £'000	2010 £'000
Total:		
Short-term employee benefits	864	954
Post employment benefits	217	224
Other long-term benefits	558	357
	1,639	1,535

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 Group.

5. NET FINANCE COSTS

	2011 £'000	2010 £'000
Finance income:		
Dividends received	47	47
Share of profit after tax of joint venture	392	353
Interest receivable	774	932
	1,213	1,332

	2011 £'000	2010 £'000
Finance costs:		
Interest payable on other borrowings	93,894	93,951
Unwinding of discount on abandonment provision	114	295
Preference dividends	2,779	2,779
	96,787	97,025
Net finance costs	95,574	95,693

6. PROFIT BEFORE INCOME TAX

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

	2011 £'000	2010 £'000
Depreciation - owned assets	132,754	128,991
Profit on disposal of fixed assets	(329)	(34,130)
Oil & Gas Assets amortisation	5,190	1,318
Software Development Costs amortisation	4,154	3,558
Research costs	8,399	1,172
Amortisation of deferred revenue	(34,057)	(32,472)
Impairment loss on trade and other receivables	210	455

Analysis of auditor's remuneration is as follows:

	2011 £'000	2010 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	105	81
Fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation	340	355
Total audit fees	445	436
Other services	74	5
Total auditor's remuneration	519	441

6. PROFIT BEFORE INCOME TAX - continued

	2011 £'000	2010 £'000
Fees payable to the Company's auditor and its associates in respect of the audit of associated pension schemes	**5**	5

7. INCOME TAX

Analysis of the tax charge

	2011 £'000	2010 £'000
Current tax:		
Tax	**55,913**	47,879
Deferred tax	**(22,610)**	(5,113)
Total tax charge in income statement	**33,303**	42,766

Factors affecting the tax charge

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

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	**255,033**	256,435
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.5% (2010 - 28%)	**67,584**	71,802
Effects of:		
Interest payable on non-cumulative preference shares	**778**	778
Tax effect of result of joint venture entities	**(104)**	(99)
Tax effect of PRT	**605**	222
Over provision for prior years	**(1,081)**	(1,144)
Effect of change in tax rates	**(31,116)**	(15,733)
Settlement of prior period capital gains claims	**(3,363)**	(5,128)
Substantial shareholdings relief	**-**	(7,932)
Total income tax	**33,303**	42,766

7. INCOME TAX - continued

	2011 £'000	2010 £'000
Tax expense comprises:		
Current tax expense:		
Corporation tax charge for the year	**57,039**	47,452
Tax effect of PRT	**976**	465
Over provision for prior years	**(2,102)**	(151)
Total current tax charge	**55,913**	47,766
Deferred tax:		
Deferred tax expenses relating to the origination and reversal of temporary differences	**8,506**	10,620
Effect of changes in legislation	**(31,116)**	(15,620)
Total deferred tax charge	**(22,610)**	(5,000)
Tax on profit before tax	**33,303**	42,766

The Finance Bill 2011 included a provision that the standard rate of corporation tax in the United Kingdom will reduce from 27% to 25% as at the 1 April 2012. Accordingly this rate has been used by the Group when calculating deferred tax balances as at 31 December 2011. The government has announced as part of the 2012 Budget that the standard rate of corporation tax will reduce further to 24% from this date. This rate change has not been reflected within these financial statements as it was not substantively enacted at the balance sheet date.

8. PROFIT OF PARENT COMPANY

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year was £2,800,000 (2010 - £2,734,000).

9. OTHER GAINS

On 30 September 2010, CalEnergy Gas (Australia) Limited, a Group company engaged in hydrocarbon exploration and development, was sold.

Other gains comprise:

	2011 £'000	2010 £'000
Sale of CalEnergy Gas (Australia) Limited	**-**	30,577
Profit on sale of property, plant and equipment	**329**	3,553
	329	34,130

10. OPERATING LEASE COMMITMENTS

Group

	2011 £'000	2010 £'000
Minimum lease payments under operating leases recognised in the year	**10,455**	6,246

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

	2011 £'000	2010 £'000
Within one year	**7,744**	5,245
In the second to fifth year	**21,832**	12,278
After five years	**9,685**	3,192
	39,261	20,715

The lease commitments represent obligations in relation to property and transport facilities. The transport facilities are provided by Vehicle Lease and Service Limited, a joint venture entity.

The Company had no obligations under hire agreements (2010: £nil).

11. GOODWILL

Group

	£'000
COST	
At 1 January 2011 and 31 December 2011	**248,843**
NET BOOK VALUE	
At 31 December 2011	**248,843**

	£'000
COST	
At 1 January 2010 and 31 December 2010	248,843
NET BOOK VALUE	
At 31 December 2010	248,843

11. GOODWILL - continued

Group

All of the goodwill arose on the acquisition of Yorkshire Power Group Limited prior to the adoption of IFRS by the Group. In accordance with the transitional rules on first time adoption, the allocation of goodwill to cash generating units ("CGUs") has not been reassessed from that used in the previous UK GAAP accounts.

The Group's distribution activities comprise two CGUs with carrying values as follows:

	2011	2010
	£m	£m
Northern Powergrid (Northeast) Limited	1,208	1,160
Northern Powergrid (Yorkshire) plc (including Goodwill)	1,807	1,730
Total Distribution	3,015	2,890

The carrying values of the CGUs comprise tangible and intangible assets with finite lives and are net of deferred revenues. In addition, the Northern Powergrid (Yorkshire) plc ("Yorkshire") CGU includes goodwill of £248.8m (2010: £248.8m).

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected outcomes of future distribution price control reviews.

Management estimates discount rates using pre tax rates that reflect the current market assessments of the time value of money and the risks specific to the CGUs. The rate used to discount the cash flows applicable to Northern Powergrid (Northeast) Limited ("Northeast") and Yorkshire was 5.6% (2010: 6.3%) pre-tax and ignoring the impact of price inflation. This rate represents the directors' estimate of the average rate of return for the Group, incorporating some degree of out-performance against Ofgem allowances.

The forecast of cash flows for future periods is extrapolated from the last year of the plan based on an estimated growth rate of 3.7% (real ignoring the impact of projected price inflation).

The application of these assumptions did not give rise to an impairment charge in 2011 (2010: £nil).

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 3476201)

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

12. INTANGIBLE ASSETS

Group

	Oil & Gas Assets £'000	Software Development Costs £'000	Totals £'000
COST			
At 1 January 2011	7,519	63,764	71,283
Additions	8,324	2,599	10,923
At 31 December 2011	15,843	66,363	82,206
AMORTISATION			
At 1 January 2011	6,087	55,622	61,709
Impairment	5,190	-	5,190
Amortisation for year	-	4,154	4,154
At 31 December 2011	11,277	59,776	71,053
NET BOOK VALUE			
At 31 December 2011	4,566	6,587	11,153

	Oil & Gas Assets £'000	Software Development Costs £'000	Totals £'000
COST			
At 1 January 2010	25,099	62,921	88,020
Additions	-	843	843
Disposals	(17,580)	-	(17,580)
At 31 December 2010	7,519	63,764	71,283
AMORTISATION			
At 1 January 2010	19,590	52,064	71,654
Impairment	1,318	-	1,318
Amortisation for year	-	3,558	3,558
Eliminated on disposal	(14,821)	-	(14,821)
At 31 December 2010	6,087	55,622	61,709
NET BOOK VALUE			
At 31 December 2010	1,432	8,142	9,574

The Company had no intangible assets at 31 December 2011 or 31 December 2010.

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 3476201)

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

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Non-operational land & buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Oil & gas assets £'000	Totals £'000
COST					
At 1 January 2011	7,090	4,670,498	42,055	4,622	4,724,265
Additions	809	287,751	7,806	88	296,454
Disposals	-	(12,077)	(1,316)	-	(13,393)
At 31 December 2011	7,899	4,946,172	48,545	4,710	5,007,326
DEPRECIATION					
At 1 January 2011	1,589	970,793	40,605	2,487	1,015,474
Charge for year	283	128,324	3,401	746	132,754
Eliminated on disposal	-	(12,056)	(1,316)	-	(13,372)
At 31 December 2011	1,872	1,087,061	42,690	3,233	1,134,856
NET BOOK VALUE					
At 31 December 2011	6,027	3,859,111	5,855	1,477	3,872,470

	Non-operational land & buildings £'000	Distribution system £'000	Fixtures and fittings £'000	Oil & gas assets £'000	Totals £'000
COST					
At 1 January 2010	6,777	4,373,985	41,753	58,140	4,480,655
Additions	368	305,483	2,117	5,069	313,037
Disposals	(55)	(8,970)	(1,815)	(56,229)	(67,069)
Exchange differences	-	-	-	(2,358)	(2,358)
At 31 December 2010	7,090	4,670,498	42,055	4,622	4,724,265
DEPRECIATION					
At 1 January 2010	1,269	856,348	39,414	30,182	927,213
Charge for year	372	123,415	3,006	2,198	128,991
Eliminated on disposal	(52)	(8,970)	(1,815)	(29,893)	(40,730)
At 31 December 2010	1,589	970,793	40,605	2,487	1,015,474
NET BOOK VALUE					
At 31 December 2010	5,501	3,699,705	1,450	2,135	3,708,791

13. PROPERTY, PLANT AND EQUIPMENT - continued

Group

Assets in the course of construction included above:

	Distribution system £'000	Fixtures and fittings £'000	Totals £'000
At 1 January 2011	**138,355**	**-**	**138,355**
Additions	**291,913**	**3,965**	**295,878**
Available for use	**(154,694)**	**(3,965)**	**(158,659)**
At 31 December 2011	**275,574**	**-**	**275,574**

The Group has entered into contractual commitments in relation to the future acquisition of property, plant and equipment of £44,074,000 (2010: £25,859,000).

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

	2011 £'000	2010 £'000
Freehold	**4,377**	3,851
Long leasehold	**1,302**	1,302
Short leasehold	**348**	348
	6,027	5,501

The Company had no property, plant and equipment assets as at 31 December 2011 (2010: £nil).

14. INVESTMENTS

	Group			Company
	Share of joint venture's net assets £'000	Shares in other undertakings £'000	Total £'000	Shares in subsidiary undertakings £'000
At 31 December 2010	3,307	21	3,328	376,289
Movement	18	-	18	-
At 31 December 2011	3,325	21	3,346	376,289

14. INVESTMENTS - continued

Details of the principal investments of the Group at 31 December 2011 are listed below:

Name of company	Holding of shares	Proportion of voting rights and shares held	Nature of business
Principal Subsidiary Undertakings Held by Company:			
CE Electric UK Holdings	354,550,312 at £1	99%	Holding Company
Yorkshire Power Group Limited	23,100,001 at £1	5.25%	Holding Company
Held by CE Electric UK Holdings and its Subsidiaries:			
CalEnergy Gas Limited	2,682,373 at £1	100%	Hydrocarbon exploration and development
CalEnergy Gas (Holdings) Limited	36,000,000 at £1	100%	Holding company
CalEnergy Resources Limited	17,897,530 at £1 375,125 at 1p	100%	Holding company
CalEnergy Resources (Australia) Limited	1 at £1	100%	Hydrocarbon exploration and development
CE Electric (Ireland) Limited (registered in Eire)	2 at 1 Euro	100%	Holding company
Northern Powergrid Limited	405,000,000 at £1	100%	Holding company
CE UK Gas Holdings Limited	36,000,001 at £1	100%	Holding company
Integrated Utility Services Limited	3,103,000 at £1	100%	Engineering contracting services
Integrated Utility Services Limited (registered in Eire)	10,000 at 1.27 Euro	100%	Engineering contracting services
Northern Electric plc (ordinary shares)	127,689,809 at 56 12/23p	100%	Holding company
Northern Electric plc (preference shares)	77,188,706 at 1p	69.1%	Hoding company
Northern Powergrid (Northeast) Limited	200,000,100 at £1	100%	Distribution Network Operator
Northern Electric Properties Limited	32,207,100 at £1	100%	Property investment company
Northern Electric Finance plc	50,000 at £1	100%	Finance company
Northern Transport Finance Limited	7,000,000 at £1	100%	Finance company
Northern Powergrid (Yorkshire) plc	290,000,000 at £1	100%	Distribution Network Operator
Yorkshire Electricity Group plc	159,270,954 at 68 2/11p	100%	Holding company
Yorkshire Power Finance Limited (registered in Cayman Islands)	2,000 at $1	100%	Finance company
Yorkshire Power Group Limited	416,900,001 at £1	94.75%	Holding company
Joint Venture Entities Held by CE Electric UK Holdings and its Subsidiaries:			
Vehicle Lease and Service Limited	950,000 at £1	50%	Transport services

All the above companies are registered in England and Wales, unless otherwise stated.

14. INVESTMENTS - continued

Interest in Joint venture

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

	2011	2010
	£'000	£'000
Long-term assets	**16,842**	16,442
Current assets	**16,547**	12,930
Long-term liabilities	**(14,640)**	(12,330)
Current liabilities	**(12,099)**	(10,428)
Net assets	**6,650**	6,614
Group's share of joint venture's net assets	**3,325**	3,307
Revenue	**14,807**	14,328
Profit for the year	**784**	706
Group's share of joint venture's profit for the year	**392**	353

15. LOANS AND OTHER FINANCIAL ASSETS

Company

	Book Value 2011 £'000	Book Value 2010 £'000	**Fair Value 2011 £'000**	Fair Value 2010 £'000
Amounts owed by subsidiary undertakings	**264,158**	264,158	**338,432**	312,490

The directors' estimate of the fair value is calculated by discounting the future cash flows at the market rate at the balance sheet date. The Company's maximum risk exposure is the book value of these debts, which are not past due at the balance sheet date. The directors do not consider there to be any indicators that these debts require impairment.

16. INVENTORIES

	Group	
	2011	2010
	£'000	£'000
Stocks	**9,907**	8,393
Work-in-progress	**3,627**	2,509
Assets held for sale	**420**	467
	13,954	11,369

The Company had no inventories at 31 December 2011 (2010: £nil).

Group construction contracts

Contracts in progress at balance sheet date:

	2011	2010
	£'000	£'000
Amounts due from customers included in inventories	**3,627**	2,509
Contract costs incurred plus recognised profits less recognised losses to date	**23,882**	25,721
Less: progress billings	**(20,255)**	(23,212)
	3,627	2,509

At 31 December 2011, retentions held by customers for contract work amounted to £359,000 (2010: £445,000).

Advances received from customers for contract work amounted to £nil (2010: £nil)

The Company had no construction contracts at 31 December 2011 (2010: £nil).

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Current:				
Distribution use of system receivable	**87,974**	89,334	-	-
Construction contract customers	**3,736**	5,168	-	-
Amounts receivable in respect of finance leases	**3,766**	3,422	-	-
Other debtors	**886**	1,203	-	-
Amounts receivable for sale of goods or services	**7,789**	5,891	-	-
Current PRT asset	**1,330**	1,220	-	-
Prepayments and accrued income	**11,810**	12,156	**101**	-
	117,291	118,394	**101**	-

17. TRADE AND OTHER RECEIVABLES - continued

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Non-current:				
Amounts receivable in respect of finance leases	**3,780**	4,609	**-**	-
Aggregate amounts	**121,071**	123,003	**101**	-

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

Finance lease receivables

	Minimum lease payments		Present value	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Amounts receivable under finance leases:				
Within one year	**3,757**	3,731	**3,766**	3,320
In the second to fifth years inclusive	**4,368**	4,877	**3,780**	4,609
	8,125	8,608	**7,546**	7,929
Less: unearned finance income	**(579)**	(679)	**-**	-
	7,546	7,929	**7,546**	7,929

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

The interest rate inherent in the agreements is fixed at the contract date for all of the term of the agreement. The average effective interest rate contracted is approximately 6.5% (2010: 6.5%) per annum. None of these debts are past due and there are no indicators of impairment. The directors consider the carrying value of finance lease receivables approximates their fair value. The maximum risk exposure is the book value of these receivables, less the residual value of the leased vehicles.

Distribution use of system receivables

The customers served by the Group's distribution networks are supplied predominantly by a small number of electricity supply businesses with RWE NPower plc accounting for approximately 29% of distribution revenues in 2011 (2010: 31%). Ofgem has determined a framework which sets credit limits for each supply business based on its credit rating or payment history and requires them to provide credit cover if their value at risk (measured as being equivalent to 45 days usage) exceeds the credit limit. Acceptable credit typically is provided in the form of a parent company guarantee, letter of credit or an escrow account. Included within other payables are customer deposits of £3,291,000 as at 31 December 2011 (2010: £3,285,000).

17. TRADE AND OTHER RECEIVABLES - continued

Ofgem has indicated that, provided Northeast and Yorkshire have implemented credit control, billing and collection processes in line with best practice guidelines and can demonstrate compliance with the guidelines or are able to satisfactorily explain departure from the guidelines, any bad debt losses arising from supplier default will be recovered through an increase in future allowed income. Losses incurred to date have not been material. Included in the Group's use of system ("UoS") receivables are debtors with a carrying value of £nil, which have been placed into administration and have, therefore, been provided in full at the year end (2010: £3,000).

Amounts receivable from sale of goods and services

Sales of goods and services comprise all income streams which are not classified as UoS income. Examples of non-UoS income streams would be service alterations/disconnections and recovery of amounts for damage caused by third parties to the distribution system.

The average credit period on sales of goods and services is 30 days. Interest is not generally charged on the trade receivables paid after the due date. An allowance for doubtful debts is made for debts past their due date based on estimated irrecoverable amounts from the sale of goods and services, determined by reference to past default experience.

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £1,682,000 (2010: £1,893,000) which are past due at the reporting date and for which the Group has provided an irrecoverable amount of £640,000 (2010: £639,000) based on past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 330 days (2010: 304 days).

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £1,142,000 (2010: £1,243,000). These amounts are past due at the reporting date and the Group has not provided for any amounts as not being recoverable, because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 60 days (2010: 60 days).

Ageing of past due but not impaired receivables:

	2011	2010
	£'000	£'000
30-60 days	**962**	889
60-120 days	**139**	307
120-210 days	**41**	47
Total	**1,142**	1,243

Construction contract customers

The average credit period on construction contracts is 30 days. Interest is not generally charged on construction contracts paid after the due date. The Group has provided fully for all receivables over 1 year for UK Contracting debts and all receivables over 6 months for Multi-Utility debts. Trade receivables between 30 days and these predetermined provision dates are provided for based on estimated irrecoverable amounts, determined by reference to past default experience.

17. TRADE AND OTHER RECEIVABLES - continued

Included in the Group's construction contracts balance are debtors with a carrying amount of £1,358,000 (2010: £3,054,000), which are past due at the reporting date for which the Group has provided for an irrecoverable amount of £103,000 (2010: £199,000) based on past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 102 days (2010: 99 days).

Included in the Group's construction contracts balance are debtors with a carrying amount of £49,000 (2010: £9,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 45 days (2010: 45 days).

Ageing of past due but not impaired receivables:

	2011 £'000	2010 £'000
30-90 days	49	9
Total	49	9

Movement in the allowance for doubtful debts

	2011 £'000	2010 £'000
At 1 January	841	1,102
Amounts utilised/written off in the year	(420)	(716)
Amounts recognised in income statement	210	455
At 31 December	631	841

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 £339,000 (2010: £376,000) 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.

17. TRADE AND OTHER RECEIVABLES - continued

Categories of financial assets

	2011	2010
	£'000	£'000
Group:		
Cash and bank balances	**13,535**	5,685
Designated as fair value through the profit and loss	**3,346**	3,328
Loans and receivables at amortised cost	**109,261**	110,847
Total financial assets	**126,142**	119,860
Non-current assets	**4,132,466**	3,967,208
Retirement benefit asset	**201,800**	158,345
Inventories	**13,954**	11,369
Prepayments and accrued income	**11,810**	12,156
Total non-financial assets	**4,360,030**	4,149,078
Total assets	**4,486,172**	4,268,938

	2011	2010
	£'000	£'000
Company:		
Receivables	**101**	177
Loans and receivables at amortised cost	**264,158**	264,158
Total financial assets	**264,259**	264,335
Investments held in subsidiaries and joint ventures	**376,289**	376,289
Total non-financial assets	**376,289**	376,289
Total assets	**640,548**	640,624

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Short-term deposits	**948**	2,571	-	-
Cash at bank and in hand	**12,587**	3,114	-	177
	13,535	5,685	-	177

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

19. NON-CONTROLLING INTERESTS

	2011	2010
	£'000	£'000
At 1 January	**14,464**	11,755
Share of profit on ordinary activities after tax	**2,246**	2,709
At 31 December	**16,710**	14,464

20. CALLED UP SHARE CAPITAL

	2011	2010
	No.	No.
Ordinary shares at £1 each		
Authorised	**400,000,000**	400,000,000
Allotted, called up and fully paid	**354,550,000**	354,550,000

	2011	2010
	£'000	£'000
Ordinary shares at £1 each		
Authorised	**400,000**	400,000
Allotted, called up and fully paid	**354,550**	354,550

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

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

21. RESERVES

Group

	Retained earnings £'000	Other reserves £'000	Merger reserve £'000	Totals £'000
At 1 January 2011	677,952	(40)	(163)	677,749
Movement in the year	219,394	(799)	90	218,685
At 31 December 2011	897,346	(839)	(73)	896,434

Company

	Retained earnings £'000
At 1 January 2011	67,575
Profit for the year	2,800
At 31 December 2011	70,375

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Current:				
Payments on account	68,268	39,313	-	-
Trade creditors	9,435	13,788	-	-
Amounts owed to joint venture entities	917	799	-	-
Social security and other taxes	20,895	15,950	-	-
Other creditors	16,094	5,713	-	-
Amounts owed to parent undertakings	392	361	392	361
Deferred revenue	37,990	33,869	-	-
Accrued expenses	46,296	41,017	-	-
	200,287	150,810	392	361

22. TRADE AND OTHER PAYABLES - continued

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Non-current:				
Deferred revenue	1,101,271	1,060,862	-	-
	1,101,271	1,060,862	-	-
Aggregate amounts	1,295,915	1,211,672	392	361

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

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 Group can be required to pay. The tables include both interest and principal cash flows.

Group

	Less than 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
2011:					
Non-interest bearing	21,195	-	-	-	21,195
Variable interest rate liability	44,241	-	-	-	44,241
Fixed interest rate liability	18,500	65,921	337,681	2,229,822	2,651,924
	83,936	65,921	337,681	2,229,822	2,717,360
2010:					
Non-interest bearing	20,661	-	-	-	20,661
Variable interest rate liability	-	-	-	-	-
Fixed interest rate liability	18,500	70,002	354,008	2,652,716	3,095,226
	39,161	70,002	354,008	2,652,716	3,115,887

22. TRADE AND OTHER PAYABLES - continued

Company

	Less than 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
2011:					
Non-interest bearing	**392**	-	-	-	**392**
Variable interest rate liability	**17,949**	-	-	-	**17,949**
Fixed interest rate liability	-	**14,500**	**58,000**	**287,000**	**359,500**
	18,341	**14,500**	**58,000**	**287,000**	**377,841**
2010:					
Non-interest bearing	361	-	-	-	361
Variable interest rate liability	24,630	-	-	-	24,630
Fixed interest rate liability	-	14,500	58,000	301,500	374,000
	24,991	14,500	58,000	301,500	398,991

22. TRADE AND OTHER PAYABLES - continued

Categories of financial liabilities

	2011 £'000	2010 £'000
Group		
Loans and payables at amortised cost	1,522,198	1,581,921
Total financial liabilities	1,522,198	1,581,921
Payments received on account	68,268	39,313
Income tax liabilities	413,880	437,700
Other taxes and social security	20,850	15,950
Accruals	46,296	43,985
Deferred Revenue	1,139,261	1,094,731
Provisions	7,725	8,575
Total non-financial liabilities	1,696,280	1,640,254
Total liabilities	3,218,478	3,222,175

	2011 £'000	2010 £'000
Company		
Loans and payables at amortised cost	215,539	218,399
Total financial liabilities	215,539	218,399
Payments received on account		
Income tax liabilities	84	100
Total non-financial liabilities	84	100
Total liabilities	215,623	218,499

Deferred Revenue

	2011 £'000	2010 £'000
At 1 January	1,094,731	1,059,936
Additions	78,587	67,267
Amortisation	(34,057)	(32,472)
At 31 December	1,139,261	1,094,731

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.

22. TRADE AND OTHER PAYABLES - continued

Derivative Financial Instruments

Exposure to liquidity, credit and market price risk arises as a result of the day to day business activities of the Group and the financing of those activities. Derivative financial instruments are used to hedge exposures to fluctuations in interest rates, foreign exchange rates and commodity prices.

a) **Funding and Liquidity Risk**
The Group operates a prudent approach to liquidity management using a mixture of long-term debt and investments together with short-term debt, cash and investments to meet its liabilities when due.

b) **Market Risk**
Market risk is the risk of loss arising from movements in market variables such as interest rates, exchange rates and commodity prices. Risks are mitigated by utilising appropriate risk management products.

(i) Interest rate risk
The Group's policy on interest rate risk is designed to limit the Group's exposure to floating interest rates.

Consistent with this policy, at 31 December 2011 the Group had 100% (2010: 93%) of net debt at fixed rates.

(ii) Foreign exchange risk
The Group is no longer subject to significant risk relating to foreign exchange.

(iii) Commodity Price Risk
The Group is exposed to an immaterial price risk on CE Gas revenues.

The Group had no derivative financial instruments at 31 December 2011.

The directors believe that the risks identified above are mitigated by the high proportion of debt which is held at fixed rates. Therefore, any movement in these variables would not have a material affect on the results of the Group.

23. FINANCIAL LIABILITIES - BORROWINGS

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

Group	**Book Value 2011 £'000**	Book Value 2010 £'000	**Fair Value 2011 £'000**	Fair Value 2010 £'000
The borrowings are repayable as follows:				
On demand or within one year	**93,945**	42,377	**93,945**	42,377
After five years	**1,401,370**	1,521,851	**1,656,474**	1,510,990
	1,495,315	1,564,228	**1,750,419**	1,553,367
Analysis of borrowings:				
Short-term loans	**44,250**	-	**44,250**	-
Short term loans from Group companies	**4,267**	1,764	**4,267**	1,764
2020 - 8.875%, Northern Electric Finance plc	**100,598**	100,508	**140,817**	133,249
2020 - 9.25%, Northern Powergrid (Yorkshire) plc	**244,797**	248,188	**293,238**	282,418
2022 - 7.25%, Northern Powergrid Holdings Company	**194,403**	197,573	**255,736**	230,684
2028 - 7.25%, Yorkshire Power Finance Limited	**197,198**	194,052	**247,625**	225,662
2035 - 5.125%, Northern Electric Finance plc	**152,745**	152,683	**161,544**	147,651
2035 - 5.125%, Northern Powergrid (Yorkshire) plc	**203,646**	203,561	**214,808**	195,728
EIB Loans*	**276,911**	153,759	**303,854**	150,175
Amounts owed to parent undertaking - 7%	**42,386**	278,026	**40,062**	139,605
Cumulative preference shares	**34,114**	34,114	**44,218**	46,431
	1,495,315	1,564,228	**1,750,419**	1,553,367

Company	**Book Value 2011 £'000**	Book Value 2010 £'000	**Fair Value 2011 £'000**	Fair Value 2010 £'000
The borrowings are repayable as follows:				
On demand or within one year	**20,744**	24,630	**20,744**	24,630
After five years	**194,403**	193,408	**255,736**	226,519
	215,147	218,038	**276,480**	251,149
Analysis of borrowings:				
2022	**194,403**	197,573	**255,736**	230,684
Amounts owed to Group undertakings	**20,744**	20,465	**20,744**	20,465
	215,147	218,038	**276,480**	251,149

* The EIB loans are at a weighted average interest rate of 4.17% and were drawn in several tranches, which mature between 2018 and 2022.

23. FINANCIAL LIABILITIES - BORROWINGS - continued

Of the total financial liabilities of £1,495,315,000, £1,404,412,000 relates to external borrowings and preference shares whose fair value is determined with reference to quoted market prices. The directors' estimates of the fair value of internal borrowings are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments.

As at 31 December 2011, 34,473,672 Northern Electric plc preference shares were held by non-Group undertakings (2010: 34,473,672).

The terms of the cumulative preference shares:

i) entitle holders, in priority to holders of all other classes of shares, to a fixed cumulative preferential dividend of 8.061p (net) per share per annum payable half-yearly in equal amounts on 31 March and 30 September;

ii) on a return of capital on a winding up, or otherwise, will carry the right to repayment of capital together with a premium of 99p per share and a sum equal to any arrears or accruals of dividend; this right is in priority to the rights of ordinary shareholders;

iii) carry the right to attend a general meeting of Northern Electric plc, and vote if, at the date of the notice convening the meeting, payment of the dividend to which they are entitled is six months or more in arrears, or if a resolution is to be considered at the meeting for the winding-up of Northern Electric plc or abrogating, varying or modifying any of the special rights attaching to them; and

iv) are redeemable in the event of the revocation by the Secretary of State of Northern Electric plc's Public Electricity Supply Licence at the value given in (ii) above.

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

At 31 December 2011, the Group had available £118.0m (2010: £281.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

The amounts due to parent undertaking represent the amounts drawn under the terms of an uncommitted subordinated revolving credit facility provided by MidAmerican Energy Holdings Company's subsidiary, CalEnergy Investments C.V. This facility expires on 15 September 2035. The terms and conditions relating to the facility were filed with the U.S. Securities and Exchange Commission on 22 April 2006 by MidAmerican Energy Holdings Company. Drawings under this subordinated revolving credit facility are not included within the definition of Senior Total Net Debt when determining compliance with the covenants associated with the Group's bonds.

The covenants associated with some of the Group's bonds 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 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 any fair value and accounting adjustments.

The Group's Senior Total Net Debt, as defined by the covenants, totalled £1,335.8m as at 31 December 2011 (2010: £1,180.6m).

23. FINANCIAL LIABILITIES - BORROWINGS - continued

Using the RAV value as at March 2012 as outlined by Ofgem in its Final Proposals for Distribution Prices published in December 2009 and up rating for the effects of movements in the value of the Retail Price Index gives an approximation for the RAV value as at December 2011 of £2,375m (2010: £2,200.8m). The Senior Total Net Debt to RAV ratio for the Group is therefore estimated at 56% (2010: 54%).

All other loans provided to the Group are unsecured.

24. PROVISIONS

	Group	
	2011	2010
	£'000	£'000
Provisions	**7,725**	8,575
Analysed as follows:		
Current	**2,499**	3,295
Non-current	**5,226**	5,280
	7,725	8,575

	Abandonment	Claims	Onerous contracts	Other	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2011	**1,792**	**3,052**	**339**	**3,392**	**8,575**
Utilised/paid in the year	**-**	**(2,401)**	**(164)**	**(1,987)**	**(4,552)**
Charged to the income statement	**110**	**1,519**	**-**	**1,959**	**3,588**
Unwinding of discount	**114**	**-**	**-**	**-**	**114**
Disposal	**-**	**-**	**-**		**-**
At 31 December 2011	**2,016**	**2,170**	**175**	**3,364**	**7,725**

Abandonment: A provision and corresponding asset have been created for the costs of site restoration.

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

Onerous contracts: Related to former retail business property leases. Settlement is expected substantially within the next 12 months.

Other: Relates primarily to deferred income associated with the hydrocarbons exploration and development business segment, environmental liabilities, wayleave disputes and holidays in suspense. Settlement is expected substantially after the next 12 months.

24. PROVISIONS - continued

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

At 31 December 2011, the Company had no provisions for liabilities and charges (2010: £nil).

25. DEFERRED TAX

	Accelerated tax depreciation	Rollover/ holdover relief	Retirement benefit assets	Other	Total
Group;	£'000	£'000	£'000	£'000	£'000
At 1 January 2011	**361,989**	**22,597**	**42,355**	**(15,400)**	**411,541**
Charge to income statement	**(29,816)**	**(5,204)**	**7,701**	**4,709**	**(22,610)**
At 31 December 2011	**332,173**	**17,393**	**50,056**	**(10,691)**	**388,931**

	Accelerated tax depreciation	Rollover/ holdover relief	Retirement benefit assets	Other	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2010	395,770	21,980	35,540	(25,322)	427,968
Foreign exchange translation	1,307	143	-	(45)	1,405
Disposal	(12,719)	-	-	-	(12,719)
Charge to income statement	(22,369)	474	6,815	9,967	(5,113)
At 31 December 2010	361,989	22,597	42,355	(15,400)	411,541

The other deferred tax asset primarily represents the tax benefit on interest accrued on loans from parent undertaking, fair value adjustments on borrowings acquired on the acquisition of Yorkshire Power Group Limited and cash flow hedges.

Movement in the year represents deferred tax on the movement in retirement benefit asset. A proportion of the movement has been capitalised in property, plant and equipment.

The Company had no deferred tax liability as at 31 December 2011 (2010: £nil).

26. EMPLOYEE BENEFIT OBLIGATIONS

The Group has three retirement benefit schemes.

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

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

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

For the Northern Electric Group of the ESPS, the actuarial valuation showed that the value of the assets represented 78% of the actuarial value of the accrued benefits. This represented 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, made on a monthly basis, for the first five years of the recovery plan followed by an agreed profile of payments to be made over the remaining ten years of the recovery plan.

At the Group's request the actuary has carried out a separate formal review of the Group's future pension costs using the assumptions set out below, which the actuary has confirmed facilitate a reasonable best estimate of those costs. This review has been based on the same membership and other data as at 31 March 2011. The board has accepted the advice of the actuary and formally approved the use of these assumptions for the purpose of calculating the Group's pension cost.

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

Principal assumptions:

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

26. EMPLOYEE BENEFIT OBLIGATIONS - continued

The mortality assumptions are based on the recent actual mortality experience of members within the 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. Life expectancy at age 60 for non-pensioners (currently aged 45) is assumed to be 30 years, if they are male, and 31 years, if they are female.

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

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

	2011 £m	2010 £m
Present value of funded defined benefit obligations	(1,141.8)	(1,061.1)
Fair value of plan assets	1,128.2	1,043.7
Deficit	(13.6)	(17.4)
Unrecognised actuarial losses	215.4	175.7
Net surplus recognised on the balance sheet	201.8	158.3

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

	2011 £m	2010 £m
Current service cost	11.0	10.0
Interest cost on obligations	57.5	57.4
Expected return on plan assets	(69.6)	(60.4)
Amortisation of actuarial loss	6.5	7.8
	5.4	14.8

The actual return on plan assets was £86.3m (2010: £102.3m)

26. EMPLOYEE BENEFIT OBLIGATIONS - continued

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

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

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

	2011 £m	2010 £m
Opening fair value of plan assets	**1,043.7**	938.4
Expected returns	**69.6**	60.4
Actuarial gains	**16.7**	41.9
Contributions by employer	**49.0**	43.7
Contributions from employees	**2.4**	3.0
Benefits paid	**(53.2)**	(43.7)
Closing fair value of plan assets	**1,128.2**	1,043.7

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

	Long term rates of return expected at		Value	
	2011	2010	**2011**	2010
	%	%	**£m**	£m
Equities	**8.50**	8.50	**303.6**	346.9
Gilts	**3.70**	4.60	**714.6**	602.0
Cash	**3.00**	4.20	**9.8**	0.8
Property	**7.50**	8.40	**100.2**	94.0
Total fair value of scheme assets			**1,128.2**	1,043.7

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

26. EMPLOYEE BENEFIT OBLIGATIONS - continued

The history of the plan for the current and prior years is as follows:

	2011	2010	2009	2008	2007
Present value of defined benefit obligation	**(1,141.8)**	(1,061.1)	(1,021.9)	(855.3)	(917.2)
Fair value of plan assets	**1,128.2**	1,043.7	938.4	801.4	956.6
Deficit	**(13.6)**	(17.4)	(83.5)	(53.9)	(39.4)
Experienced (losses)/gains on plan liabilities:					
Amount (£m)	**(63.0)**	(12.5)	(145.7)	87.3	32.0
Percentage of scheme liabilities (%)	**(5.5)**	(11.8)	(14.3)	10.2	3.5
Experience of gains/(losses) on plan assets:					
Amount (£m)	**16.7**	41.6	78.6	(231.4)	(19.6)
Percentage of scheme assets (%)	**1.5**	3.9	8.4	(28.9)	(2.0)

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

	£m
At 1 January 2011	**1.5**
Utilised/paid in the year	**(0.1)**
Transferred from income statement	**0.2**
At 31 December 2011	**1.6**

27. RELATED PARTY DISCLOSURES

GROUP

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

Trading transactions

During the year, Group entities entered into the following transactions with related parties that are not members of the Group:

Related Party	Sales to related parties £'000	Purchases from related parties £'000	Amounts owed to related parties £'000
2011:			
CE Insurance Services Limited	-	**1,308**	-
Vehicle Lease and Service Limited	-	**7,876**	**917**
2010			
CE Insurance Service Limited	-	1,279	-
Vehicle Lease and Service Limited	134	7,850	799

Loans

The Group has received loans from companies in the MidAmerican Energy Holdings Company group. The total interest included in finance costs in the income statement for the year ended 31 December 2011 was £10,737,000 (2010: £20,800,000). Included within borrowings is £42,386,000 as at 31 December 2011 (2010: £278,026,000).

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

COMPANY

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

Loans

The Company has advanced loans to other companies in the Group. The total interest included in investment income in the income statement for the year ended 31 December 2011 was £18,592,000 (2010: £18,567,000). Included within long term/short term securities is £264,158,000 as at 31 December 2011 (2010: £264,158,000).

The Company has received loans from other companies in the Group. The total interest included in finance costs in the income statement for the year ended 31 December 2011 was £14,946,000 (2010: £14,847,000). Included within borrowings is £20,744,,000 as at 31 December 2011 (2010: £20,465,000).

Taxation

The Company has received £838,000 (2010: £1,026,000) of group relief from other companies in the Group. Payment at the UK statutory rate of 26% (2010: 28%) will be made for the use of these losses.

28. ULTIMATE CONTROLLING PARTY

The ultimate controlling party and ultimate parent undertaking of Northern Powergrid Holdings Company is Berkshire Hathaway, Inc., a company incorporated in the United States of America.

Copies of the group accounts of Berkshire Hathaway, Inc., which include Northern Powergrid Holdings Company, can be obtained from the Company Secretary, Northern Powergrid Holdings Company, Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.

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

Group

	2011 £'000	2010 £'000
Profit before income tax	**255,033**	256,435
Depreciation charges	**142,098**	133,867
Profit on disposal of fixed assets	**(329)**	(34,130)
Amortisation of deferred revenue	**(34,057)**	(32,472)
Retirement benefit obligations	**(39,211)**	(27,334)
Movement in provisions	**(964)**	593
Finance costs	**96,787**	97,025
Finance income	**(1,213)**	(1,332)
	418,144	392,652
(Increase)/Decrease in inventories	**(2,585)**	2,972
Decrease/(Increase) in trade and other receivables	**2,258**	(9,069)
Increase/(Decrease) in trade and other payables	**13,610**	(12,947)
Cash generated from operations	**431,427**	373,608

Company

	2011 £'000	2010 £'000
Profit before income tax	**3,332**	3,363
Finance costs	**15,297**	15,173
Finance income	**(18,592)**	(18,567)
	37	(31)
Increase in trade and other receivables	**(101)**	-
Increase in trade and other payables	**31**	88
Cash (used in)/generated from operations	**(33)**	57