

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGULATORY ACCOUNTS

FOR THE YEAR ENDED

31 MARCH 2012

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 2906593

REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2012

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NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 2906593

Registered Office: Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF

DIRECTORS' REPORT

Cautionary statement regarding forward-looking statements

The Regulatory Accounts have been prepared in accordance with standard condition 44(5) (Regulatory Accounts) of the electricity distribution licence granted to the Company by the Secretary of State (the "Licence"). The Company, its directors, employees or agents do not accept or assume responsibility to any person in connection with this document, other than in respect of the obligations imposed on the Company under standard condition 44(5) of the Licence, and any such responsibility or liability is expressly disclaimed. The Regulatory Accounts contain 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 the Regulatory Accounts and will not be updated during the year. Nothing in the Regulatory Accounts should be construed as a profit forecast.

The directors present the Regulatory Accounts for the year ended 31 March 2012 (the "Regulatory Year") of Northern Powergrid (Northeast) Limited (the "Company"), which include the directors' report, business review, corporate governance statement and audited financial statements for that year. The businesses of the affiliates of the Company that have carried out activities forming part of, or ancillary to, the distribution business of the Company have not been consolidated with the activities of the Company in the preparation of these accounts. The Regulatory Accounts are separate and, therefore, may differ from the statutory financial statements of the Company for the year ended 31 December 2011, which were drawn up and presented in accordance with the Companies Act 2006.

PRINCIPAL ACTIVITIES

The Company is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group") and its principal activity during the Regulatory Year was to distribute electricity to customers connected to its electricity distribution network.

The Company serves an area of approximately 14,400 square kilometres in the northeast of England, which extends from North Northumberland, south to York and west to the Pennines. The Company's distribution system of transformers, switchgear and overhead and underground cables receives electricity from generators connected to it and from the National Grid's transmission system and distributes that electricity to approximately 1.6 million customers at voltages of up to 132kV. The Company is an authorised distributor under the Electricity Act 1989 and holds an electricity distribution licence granted by the Secretary of State.

The main classes of asset, which make up the Company's distribution network, include:

<u>Asset class</u>	<u>Approximate number</u>
Total circuit length (underground and overhead)	40,000 kilometres
Ground-mounted distribution substations	10,300
Pole-mounted distribution substations	15,900
Major substations	250
LV services (overhead)	153,000
LV services (underground)	1.4 million

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

PRINCIPAL ACTIVITIES (CONTINUED)

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

<u>Principle</u>	<u>Strategy</u>	<u>Indicator</u>
Financial strength	Effective stewardship of the Company's financial resources, investing in assets and focusing on long-term opportunities, which contribute to the Company's future strength.	Profitability, cash flow and maintenance of investment grade credit ratings. Managing commercial risk.
Customer service	Delivering reliability, fair prices and exceptional service.	Improving customer satisfaction.
Operational excellence	Setting high standards for the Company'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 Company's operations.	Reducing environmental impact and promoting and pursuing long-term sustainability.
Regulatory integrity	Adhering to a policy of strict compliance with appropriate standards, policies and legislation.	Strong internal controls, regulatory engagement and industry influence.

Strategic objectives

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

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

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

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

BUSINESS REVIEW

Review of the Regulatory Year

The Company changed its name from Northern Electric Distribution Limited to Northern Powergrid (Northeast) Limited with effect from 28 October 2011.

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

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

The Company's 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.

Financial strength

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

The Company 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 Regulatory Year were as follows:

Revenue

The Company's revenue at £285.2m was £16.9m higher than the prior year mainly due to higher tariffs arising from the DPCR 5 settlement.

Operating profit

The Company's operating profit at £133.9m was £2.6m higher than the previous year reflecting increased revenue partially offset by increases in operating costs such as depreciation and research and development.

Finance costs and investments

Finance costs net of investment income at £28.0m were £2.1m higher than the previous year mainly as a consequence of the full year impact of interest due on the loans received from the European Investment Bank in early 2011.

Taxation

The effective tax rate in the Regulatory Year was 17%. Details are provided in Note 9 to the accounts.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

BUSINESS REVIEW (CONTINUED)

Financial strength (continued)

Results and dividends

The Company made a profit after tax for the Regulatory Year of £88.0m (2011: £85.8m). An interim dividend of £30.0m was paid during the statutory accounting year ended 31 December 2011 (2010: £20.0m) and the directors recommended that no final dividend was paid in respect of that year.

No interim dividend was paid during the period from 1 January 2012 to 31 March 2012.

Share capital and debt structure

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

Dividend policy

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

Cash flow

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

Movements in cash flows were as follows:

Operating activities: Cash flow from operating activities at £126.2m was £5.8m higher than the previous year, reflecting an increase in cash profits and favourable working capital movements, partly offset by an increase in tax and interest paid.

Investing activities: Net cash used in investing activities at £85.2m was £1.1m higher than the previous year, reflecting higher capital expenditure offset by higher inflows from customer contributions.

Financing activities: The net cash used in financing activities at £12.1m was £3.9m higher compared to the previous year. Higher dividend payments were partly offset by additional borrowings.

Treasury

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

Liquidity risk

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

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

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

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

BUSINESS REVIEW (CONTINUED)

Financial strength (continued)

Interest rate risk

The Company is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 March 2012, 100% of the Company's long-term borrowings were at fixed rates and the average maturity for these borrowings was 17 years.

Currency risk

No material currency risks are faced by the Company.

Trading risk

Throughout the Regulatory Year, the Company's policy was that no trading in financial instruments should be undertaken.

Financial derivatives

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

Pensions

The Company is a participating employer in the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "Scheme"), a defined benefit scheme. Full details of the Company's commitments to the Scheme and the associated deficit repair payments are provided in Note 23 to the accounts.

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

Agreement was reached during June 2011 with the Group Trustees to repair this deficit over the 15 year period to 31 March 2025, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2010 being borne out in practice. The agreement includes cash payments of £29.9m per annum (of which £22.3m is borne by the Company), made on a monthly basis, for the first five years of the recovery plan followed by an agreed profile of payments to be made over the remaining ten years of the recovery plan.

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

Insurance

As part of its insurance and risk strategy, the Northern Powergrid Group has in place a range of insurance policies, including policies which cover risks associated with damage to property, employer's and third party motor liability and public liability. The Northern Powergrid Group carries appropriate excesses on those policies and is effectively self-insured up to the level of those excesses. Consequently, the risk management and health and safety programmes in place are viewed as extremely important elements of the business, given the contribution they make to the elimination or reduction of exposure to such risks.

Customer service

During the Regulatory Year, the Company distributed electricity to customers in its distribution services area and continued to improve the overall performance of the distribution network through an investment strategy targeted at delivering improvements in an efficient and cost-effective manner. The Company is focused on delivering a reliable and dependable supply of electricity and a high standard of service to its customers.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

BUSINESS REVIEW (CONTINUED)

Customer service (continued)

The Company 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 and stakeholder engagement, 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 include:

- the introduction of monthly connections surgeries to enable new connections customers to discuss their specific projects with representatives of the Company;
- building on the introduction of the interactive voice response system in the customer relations centre in order to take advantage of the latest developments in automatic messaging and to enable the provision of an improved service to customers during power cuts, including text and voice-message updates;
- extending the range of stakeholder groups to include groups active in the area of fuel poverty and increasing joint initiatives with other utility companies;
- launching an online community to facilitate discussion among stakeholders, to respond to any specific questions raised and to provide a dedicated web area so that stakeholders can 'have their say' and maintain contact with the Company;
- launching a new website offering so that customers can self-serve on several service lines and also obtain information on power cuts via a smart phone application;
- mobilising developments in customer relationship management information technology in order to support customer service;
- developing a social media presence as an additional channel to engage with customers further and to receive feedback on performance;
- improving the accuracy of the times provided to customers for the estimated restoration of supply during power cuts;
- continuing to improve under-performing parts of the distribution network by identifying "hot spots" and taking specific action to address the issues in those areas;
- maintaining the priority services register so that the Company is aware of people with disabilities or special needs who may be affected by power cuts so that it can take appropriate action to assist those people in such circumstances;
- undertaking a programme to reduce the number of instances in which the Company fails to meet an electricity guaranteed standard of performance;
- undertaking a training programme to provide employees from other parts of the Northern Powergrid Group with the tools and skill sets to handle calls regarding power cuts during periods of peak call demand and supporting that process with the implementation of new voice-over-internet-protocol technology; and
- undertaking a major customer service training programme for employees in all areas of the business.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

BUSINESS REVIEW (CONTINUED)

Customer service (continued)

The Company achieved a customer satisfaction score of 89.8% for the Regulatory Year and, by building on the telephony system and actions mentioned above, intends to more effectively integrate its other customer facing processes in order to improve the service provided. Continued development of the Company's customer service improvement plan will include increasing focus on excellence in customer service in order to achieve a customer satisfaction score of greater than 90%.

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

Ofgem's incentive scheme for quality of service, by which the DNOs are provided with financial incentives, is based upon targets set by Ofgem with regard to each DNO's performance in the following areas:

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

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

In respect of these key customer service performance indicators, the goal is to achieve performance that is below Ofgem's target number in respect of CML and CI and more than the target number in respect of customer satisfaction.

Although confirmation of certain adjustments due to weather-related incidents is awaited as at the date of the Regulatory Accounts, the Company's currently reported performance for the Regulatory Year is as follows:

	Year to 31 March 2012		Year to 31 March 2011	
	Actual	Target	Actual	Target
CML:	67.4	71.1	71.1	71.3
CI:	66.8	68.2	65.2	68.3
Customer satisfaction:	89.8%	90.0%	86.6%	90.0%

Performance in the Regulatory Year was better than Ofgem's target for both CML and CI and, while showing an improvement on the prior year, the customer satisfaction score was just below the target of 90%. The improvements detailed above, together with the various improvement actions in respect of the network's resilience, will continue to support improvements in customer service performance.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

BUSINESS REVIEW (CONTINUED)

Operational excellence

The Company's core service continues to be providing and maintaining an efficient distribution network that delivers electricity effectively. During the Regulatory Year, £139.5m was invested in the improvement of the distribution network, including for the replacement of assets and to continue with the network improvements that are intended to increase the quality of the electricity supply provided to customers.

Operational activity

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

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

The Company's priorities during the Regulatory 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 power cuts, the implementation of enhanced controls for outage risk management and a more robust approach to the control of operations on the low voltage network.

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

- Completion of major asset replacement works of the 132kV switchgear at Tynemouth in North Tyneside and of a new 33/20kV substation to provide improved voltage regulation in the Wensleydale area of North Yorkshire;
- Commencement of works to reinforce the 33kV network in the Harrogate area, to replace the 20kV switchgear at Fawdon and Hartmoor substations and to replace the 11kV switchgear at Northallerton and Catterick Camp substations;
- Completion of the replacement of 3.5km of 33kV oil-filled cables over the River Tyne and commencement of works on a number of projects across the area that will replace approximately 20km of 33kV oil filled cables in 2012 and over 5km of 132kV oil-filled cable in the next two years;
- The commencement of refurbishment works on almost 20km of 66kV overhead line and almost 50km of 132kV overhead line, the completion of refurbishment works on over 8km of 66kV overhead line and the refurbishment or rebuilding of 56km of high voltage overhead line and 63km of low voltage overhead line;
- Replacement of 62 units of high voltage outdoor switchgear, 48 high voltage distribution substations and 282 units of high voltage indoor switchgear;
- The upgrade and reinforcement of 24 sites to address the quality of supply performance issues relating to those circuits; and
- The installation and commissioning of 11 new remote control sites.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

Operational excellence (continued)

Operational activity (continued)

In order to deliver its investment strategy, the Company used a mix of its own staff and contractors to undertake its activities, including Integrated Utility Services Limited, an affiliated company in the Northern Powergrid Group.

Employee commitment

Health and safety

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

During the Regulatory Year, the Company received a President's Award from the Royal Society for the Prevention of Accidents for achieving 10 consecutive Gold Awards, which had been presented in recognition of achievements in 2011 and for continued or improving standards of health and safety over a sustained period. The Company continued to maintain its occupational health and safety management system and retained its Occupational Health and Safety Assessment Series ("OHSAS") 18001 certification and environmental management system ISO 14001 certification.

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

	Year to December 2011		Year to December 2010	
	Target	Actual	Target	Actual
Lost time accidents	2	5	0	4
Restricted duty accidents	1	0	1	1
Medical treatment accidents	2	1	3	2
Operational incidents	3	5	3	6
Preventable vehicle accidents	11	15	10	5

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

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

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

Employee commitment (continued)

Health and safety (continued)

In terms of the health of employees, the sickness absence rate across the Northern Powergrid Group was 2.82%, which was broadly in line with 2010 and does not give rise to any particular cause for concern. In support of the drive for continuous improvement, the Company introduced a new health surveillance policy during 2011 and conducted a stress survey, which led to action plans being implemented to address those areas which were identified for development.

Management structure

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

Employees

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

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

Given the demographics of the Company's workforce, the increasing investment in the distribution network and in order to encourage investment in a sustainable workforce, Ofgem provided an allowance in its DPCR5 final proposals in order to fund the plans for workforce renewal across the DPCR5 period. Ofgem has stated that the allowance is on a "use it or lose it" basis and the Company will need to demonstrate that it has used that allowance appropriately and efficiently to recruit and train new staff or for other means of renewing its workforce and report annually on its progress in that respect. The Northern Powergrid Group recruited 64 members of staff in 2011 and has a target to recruit an additional 75 in 2012 under its workforce renewal programme. Overall, plans are in place to have recruited a total of 275 graduate trainees, technical trainees and craft apprentices by the end of 2015.

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

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

The Company employed 989 staff at the end of March 2012 (2011: 963).

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

Employee commitment (continued)

Employees (continued)

Disabled employees

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

Employee consultation

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

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

Environmental respect

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

The Company has operated a United Kingdom Accreditation Service scheme for environmental management since the late 1990s, certified to the environmental management systems standard ISO 14001:2004. It is subject to regular six-monthly assessment visits and a three-yearly certificate renewal assessment by an accredited external certification body in order to retain that status. The most recent visit was a six-monthly surveillance assessment carried out by Lloyd's Register Quality Assurance in October 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 2011, strong performance on all environmental targets continued to provide a crucial contribution to the control of the Northern Powergrid Group's environmental impact to ground and the associated risk to the business. Future improvements are supported by the Company's continued asset investment plan.

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

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

Environmental respect (continued)

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

Sustainability

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

The Northern Powergrid Group measures and publishes details of its own carbon footprint. It set and achieved a target of reducing that footprint by 5% in 2011 and has set a target to reduce its carbon footprint by a further 3.5% in 2012. The Company has fitted speed limiters to the vehicle fleet, 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 Company has contributed to the sustainability agenda through public reporting on the carbon footprint of its business and, during 2011, achieved certification under CEMARS (the Certified Emissions Measurement and Reduction Scheme) that its measurement of its greenhouse gas emissions was in compliance with ISO 14064.

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

Regulatory integrity

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

As has been the case for some years, breaches by a DNO of its licence conditions could lead to financial penalties, which Ofgem has stated "will have a proportionate impact on shareholder returns". In order to assure compliance with its licence and other regulatory obligations, the Company operates a regulatory compliance affirmation process, under which ownership of the approximately 1,550 regulatory obligations contained within the compliance database is currently assigned to 60 responsible managers. Those responsible managers are required, on a quarterly basis, to review compliance with the relevant obligations that have been assigned to them for certification and report on any perceived risks to the compliance process, which are then addressed. The Regulation Manager reports to the board of directors on the outcome of each quarter's exercise.

A revenue-related issue arose during 2010 in that the adjustment of settlements data by certain suppliers had the effect of distorting the apparent performance of the Company under the losses incentive scheme for the regulatory year ended 31 March 2010. Throughout the Regulatory Year, the Company was engaged with Ofgem to resolve the complex issues of the losses incentive arrangements in both the Distribution Price Control Review 4 and DPCR5 periods. At the time of finalising the Regulatory Accounts, these issues remain unresolved.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

Regulatory integrity (continued)

Ofgem's decision that a revised methodology could be used for the calculation of the Company's annual reported losses for 2009/10 was sustained throughout the Regulatory Year. The decision set out details of the methodology that must be followed and the Company expects to reach a final conclusion to this issue with Ofgem during 2012. In accordance with International Financial Reporting Standards, the Company has not included any recognition of this issue in the Regulatory 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. The first price control review in electricity distribution under the RIIO framework (known as RIIO-ED1) was triggered by Ofgem in the first quarter of 2012 and, on conclusion of the process, will set revenues for the period from 2015 to either 2023 or 2024.

Corporate responsibility

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

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

In order to improve its response to emergency situations, the Company has developed key partnerships with the Environment Agency, the local authorities and the local resilience forums, via a Civil Contingency Co-ordinator, so that it can respond quickly to significant faults on or threats to the network. In the event that river levels rise and flood warnings are issued, staff can be deployed immediately to erect perimeter flood defences at major substation sites and portable defence barriers at lower risk sites. In addition, the Company has well-established emergency procedures that are triggered in times of weather-related incidents or long-duration power cuts when people are without power for some time.

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

As safety is its first priority and underpins every aspect of its operations, the Northern Powergrid Group participates alongside other key organisations in 'Crucial Crew', which is a schools-based safety initiative that teaches children to recognise and avoid situations that put them in danger, such as climbing electricity pylons and fishing near power lines. This campaign and a school visits programme promoting safety messages are supported through an interactive website and mobile phone game. In addition, the Company supports a sports programme in partnership with England Athletics, which is delivered through local schools and combines important safety messages with the promotion of healthy lifestyles.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES

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

Financial risk

As a holder of an electricity distribution licence, the Company is subject to regulation by the Gas and Electricity Markets Authority ("GEMA"), which acts through Ofgem. Most of the revenue of the electricity distribution licence holders is controlled by the distribution price control formula set out in the electricity distribution licence. The price control formula does not constrain profits from year to year but sets a maximum permitted revenue for each regulatory year and is a control on revenue that operates independently of most of the electricity distribution licence holder's costs. Where the Company recovers more, or less, than this maximum the difference is carried forward, with interest, into the entitlement for the following year.

It has been the practice of Ofgem to review and reset the formula at five-year intervals, although the formula has been, and may be, reviewed at other times at the discretion of Ofgem. A resetting of the formula can now be made by GEMA without the consent of the electricity distribution licence holder but, if a licensee wishes to appeal such a modification, the licensee may insist that the matter is referred to the Competition Commission for it to determine whether the modification should be made. Certain other interested parties have the same right. The current five-year price control period became effective on 1 April 2010 and has set the Company's revenues through to 31 March 2015. However, it is expected that the next price control will be set for eight or nine years. During the term of the current price control, changes in costs incurred will have a direct impact on the Company's financial results.

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

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

The other financial risks facing the Company are outlined in the Treasury section on page 4 of this report.

Operational risk

There are a number of risks to the Company's operational performance in respect of which mitigating actions have been taken. Appropriate credit cover arrangements are in place with the electricity suppliers, which would allow recovery of defaulted payments through the price control mechanism, a robust major incident management plan is implemented whenever severe weather impacts on the distribution network's performance and a programme of enhanced security measures has been put in place and awareness raising activity pursued at a national and local level in respect of the issues associated with metal theft from the Company's sites.

Commercial risk

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

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Commercial risk (continued)

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

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

Risk Management

The Northern Powergrid Group operates a structured and disciplined approach to the management of risk, as part of the overall risk management approach. Risks are assessed with due regard to probability and impact and the risk environment is reviewed continually in order that new or emerging potential risks are identified. Those risks assessed to be significantly high are logged within a risk register that the GRMG reviews regularly and key indicators are used to track and monitor those risks considered to be significant.

Risk mitigation and loss control plans are prepared in response to strategic risks in order that the directors can be assured that appropriate mitigating actions are in place and are being implemented. These plans are monitored through to implementation and reviewed to determine whether the level of residual, mitigated risk is within an acceptable level of tolerance.

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

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

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

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

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Internal Control

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

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

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

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

Other directors' report requirements

Research and development

In 2011 the Northern Powergrid Group began working, in partnership with British Gas, Durham University and EA Technology, on a three-year project, the Customer-Led Network Revolution, under Ofgem's Low Carbon Networks Fund. This was the largest project supported by Ofgem in the first year of the fund and the Northern Powergrid Group will incur expenditure of £31m over the three-year life of the project.

Of that expenditure, 90% is funded by electricity customers in Great Britain and successful delivery of the project over the three years agreed with Ofgem will enable recovery of the additional 10% from customers and potentially qualify for a further discretionary award. The project is assessing the potential for new network technology and flexible customer response to facilitate speedier and more economical take-up by customers of low-carbon technologies and the connection to the distribution network of increasing amounts of low-carbon or renewable energy generation.

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

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

Other directors' report requirements (continued)

Research and development (continued)

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

During the Regulatory Year, the Company invested £2.6m (2011: £0.5m) (Note 6 to the accounts) in its research and development activities.

Charitable and political donations

During the Regulatory Year, charitable donations of £19,125 were made (2011: £22,302), principally to local charities serving the communities in which the Company operates. No contributions were made to political organisations (2011: £nil).

Company's policy on payment of creditors

The Company complies with the Better Payment Practice Code for the prompt payment of suppliers in accordance with the normal terms of trade. It is Company policy with respect to its suppliers to settle the terms of payment with those suppliers when agreeing the terms of each transaction, to ensure that those suppliers are aware of the terms of payment and to pay in accordance with the Company's contractual and other legal obligations. The number of days purchases in trade creditors for the Company at 31 March 2012 was 17 (2011: 40).

Future Developments

The financial position of the Company, as at 31 March 2012, is shown in the statement of financial position on page 29.

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

Directors

The directors who served during the Regulatory Year and since the Regulatory Year end were as follows:

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

J P Barnett was appointed as a director of the Company with effect from 1 April 2012.

During and as at the end of the Regulatory Year, none of the directors was interested in any contract which was significant in relation to the business of the Company.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

Other directors' report requirements (continued)

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.

Going Concern

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

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

- The Company is a stable electricity distribution business operating an essential public service and is regulated by GEMA. In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Company is profitable with strong underlying cash flows and holds investment grade credit ratings; and
- The Company is financed by long-term borrowings with an average maturity of 17 years and has access to borrowing facilities provided by Lloyds TSB Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc.

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

Responsibility of the directors for the preparation of the Regulatory Accounts

The directors are responsible for preparing the Regulatory Accounts, including the directors' report, in accordance with standard condition 44(5) of the Licence. Consequently, the directors are required to prepare the Regulatory Accounts in accordance with International Financial Reporting Standards ("IFRS"). These Regulatory Accounts have been prepared on a consistent basis with those for the regulatory year ended 31 March 2011.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

Directors are also required to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

Responsibility of the directors for the preparation of the Regulatory Accounts (continued)

- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance: and
- Make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Audit of the accounts

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

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

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

Corporate Governance Statement

Although the Company does not have securities listed on the main market of the London Stock Exchange, this statement is provided pursuant to standard licence condition 44(5) of the Company's electricity distribution licence, which requires the Company's Regulatory Accounts to include a Corporate Governance Statement, which has the coverage and content of such a statement that a Quoted Company is required to prepare.

The Company, therefore, provides the following statement by reference to the principles in the UK Corporate Governance Code (the "Code").

Compliance statement

Set out below and in the review of the Regulatory Year in the directors' report are the areas in which the Company adopts and complies with the main principles of the Code. The Company has not complied with certain of the main principles of the Code, including main principles A2, A3, B2, B6, B7, D1, D2 and E2.

The directors confirm that such non-compliance was of a continuing nature throughout the Regulatory Year but consider the governance framework in place to be appropriate to the circumstances of the Company, given that the framework is agreed with MidAmerican and includes regular reporting to and meetings with the Chairman and senior management of MidAmerican, the presence of an independent non-executive director at board meetings of the Company and a strong internal control environment designed to meet the standards required by the Sarbanes-Oxley Act.

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

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

Corporate Governance Statement (continued)

Section A: Leadership

Principle A1: The Role of the Board

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

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

The Chairman of MidAmerican also receives weekly, monthly and quarterly reports on the Company's performance from the Northern Powergrid Group's President and Chief Executive Officer. MidAmerican's Executive Vice President and Chief Financial Officer and Executive Vice President, General Counsel and Corporate Secretary also hold similar weekly review meetings in respect of MidAmerican's financial and legal functions, at which the Company's Finance Director and General Counsel present their respective weekly reports.

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

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

Operational management of the Company's business (and that of its affiliate, Northern Powergrid (Yorkshire) plc) is delegated to a single senior management team, with specific functional responsibilities. That senior management team meets monthly with the senior management of the Northern Powergrid Group to monitor performance and address issues of policy across all areas of the business and holds weekly conference calls to report on and consider performance related issues for that week. Further details of the management structure of the Northern Powergrid Group are provided in the directors' report.

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

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

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

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

Corporate Governance Statement (continued)

Section A: Leadership (continued)

Principle A1: The Role of the Board (continued)

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

Health and Safety Management Committee

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

T E Fielden	Finance Director
J M France	Regulation Director
N M Gill	Field Operations Director
P A Jones	President and Chief Executive Officer
A J MacLennan	Managing Director, Integrated Utility Services Limited
G M Earl	Head of Health, Safety and Environment

The committee meets on a regular basis in order to oversee implementation of the health and safety policy, review and agree strategy for the management of health and safety issues, monitor health and safety performance across the Northern Powergrid Group, establish goals and targets, review the effectiveness of the health and safety policies and the health and safety management system and consider recommendations for changes in Northern Powergrid Group policy due to changes in appropriate legislation, codes of practice or guidance or due to recommendations arising from significant incidents.

Treasury Committee

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

G E Abel	Chairman, MidAmerican
P Ainsley	Financial Controller
D Brady	Treasurer
T E Fielden	Finance Director
P J Goodman	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

Pensions Committee

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

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

NORTHERN POWERGRID (NORTHEAST) LIMITED

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

Corporate Governance Statement (continued)

Section A: Leadership (continued)

Main Principle A1: The Role of the Board (continued)

Governance and Risk Management Group

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

The GRMG comprises:

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

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

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

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

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

Main Principle A2: Division of Responsibility

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

Main Principle A3: The Chairman

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

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

Corporate Governance Statement (continued)

Section A: Leadership (continued)

Main Principle A4: Non-Executive Directors

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

Section B: Effectiveness

Main Principle B1: The composition of the board

The board comprises five executive directors and Mr Dixon, an independent non-executive director, who, collectively, bring a range of skills and experience to the board. Although Mr Dixon is the sole non-executive director, so the board does not include a balanced number of executive and non-executive directors, the board believes that it possesses the skills and experience necessary to provide effective leadership, stewardship and control of the Company.

Main Principle B2: Appointments to the board

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

Main Principle B3: Commitment

The Company's non-executive director commits sufficient time to preparation for and attendance at board meetings, although his terms of reference do not quantify the time commitment required.

Main Principle B4: Development

The directors continually update their knowledge of and familiarity with the operations of the Company due to the robust reporting arrangements in place and have on-going access to the Company's operations and its staff.

Main Principle B5: Information and support

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

Main Principle B6: Evaluation

As part of their approved terms of reference, certain committees report regularly on their activities, enabling the directors to evaluate the activities of those committees. However, the board does not have a process of evaluation of its own performance or of the performance of individual directors in their capacity as directors. MidAmerican has a performance appraisal and development scheme in place, under which each senior manager of the Northern Powergrid Group is subject to a formal annual appraisal of performance against his individual and MidAmerican's goals

Main Principle B7: Re-election

The Company's articles of association do not require periodic retirement and re-election of directors.

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 2906593

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

Corporate Governance Statement (continued)

Section C: Accountability

Main Principle C1: Financial and business reporting

The board believes that the directors' report and review of the Regulatory Year provide a balanced and understandable assessment of the Company's position and prospects. The directors explain, at page 2, the Core Principles behind the Company's strategy and, at pages 18 and 19, their responsibility for preparing the report and accounts, have reported, at page 18 in the directors' report, that the Company is a going concern and included the independent auditor's report to the Company at pages 26 and 27 of the report and accounts.

Main Principle C2: Risk management and internal control

Details of the principal risks and uncertainties facing the Company and its internal control system, together with details of the issues addressed by the Company during the Regulatory Year, can be found at pages 14 to 16 of the directors' report.

Other key features of the internal control system are:

- Comprehensive business planning and financial reporting procedures, including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- Regular review of key performance indicators to assess progress towards objectives;
- A range of policies, codes of practice and more detailed instructions that define the processes to be followed;
- A strong internal audit function 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.

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 2906593

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

Corporate Governance Statement (continued)

Section C: Accountability (continued)

Main Principle C3: Audit committee and auditor

The board of Northern Powergrid Holdings Company has established an audit committee for the Northern Powergrid Group under delegated terms of reference, which include monitoring of the financial reporting process, the effectiveness of the internal control, internal audit and risk management systems, the statutory audit of the accounts, the independence of and the provision of additional services by the auditor.

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

R Dixon Non-Executive Director
T E Fielden Finance Director

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

The employee section on page 10 of the directors' report contains details of the Company's "speaking up" policy.

Section D: Remuneration

Main Principle D1: The level and components of remuneration

The Company does not have a remuneration committee. Annual remuneration awards for the senior management of the Northern Powergrid Group are subject to the performance appraisal and development scheme process and consideration by the Chairman of MidAmerican and the President and Chief Executive Officer. As the Company has no equity securities listed on the London Stock Exchange, it is not required to make directors' remuneration disclosures, other than those required for private companies.

Main Principle D2: Procedure

As noted under main principle D1, the Company does not have a remuneration committee. Annual remuneration awards for the senior management of the Northern Powergrid Group are subject to the performance appraisal and development scheme process and consideration by the Chairman of MidAmerican and the President and Chief Executive Officer. 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.

By order of the board



John Elliott
Company Secretary
19 July 2012

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 2906593

INDEPENDENT AUDITOR'S REPORT TO THE GAS AND ELECTRICITY MARKETS AUTHORITY ("THE REGULATOR") AND NORTHERN POWERGRID (NORTHEAST) LIMITED ("THE COMPANY")

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2012 on pages 28 to 54 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Cash Flow Statement and the related notes numbered 1 to 26. These Regulatory Accounts have been prepared under the accounting policies set out therein.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Standard Condition 44 of the Electricity Distribution Licence, (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions 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 Regulator for our audit work, for this report or for the opinions we have formed.

Basis of preparation

The Regulatory Accounts have been prepared under the historical cost convention and in accordance with the Regulatory Licence and the accounting policies set out in the notes to the Regulatory Accounts.

The Regulatory Accounts are separate from the statutory financial statements of the Company ("Statutory Accounts") and have not necessarily been prepared under the basis of International Financial Reporting Standards as endorsed by the European Union ("IFRS"). Financial information other than that prepared on the basis of IFRS does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 2006.

Respective responsibilities of the Regulator, the Directors and auditor

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Condition 44 of the Regulatory Licence are set out in the statement of directors' responsibilities on pages 18 and 19.

Our responsibility is to audit the Regulatory Accounts in accordance with International Standards on Auditing (UK & Ireland) issued by the Auditing Practices Board, except as stated in the 'Basis of audit opinion', below and having regard to the guidance contained in Audit 05/03 *'Reporting to Regulators of Regulated Entities'*.

We report to you our opinion as to whether the Regulatory Accounts present fairly, in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on pages 31 to 36, the results and financial position of the Company. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations that we require for our audit.

We read the other information presented with the Regulatory Accounts, being the business review, the directors' report, the corporate governance statement and the statement of directors' responsibilities on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts.

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 2906593

INDEPENDENT AUDITORS' REPORT TO THE GAS AND ELECTRICITY MARKETS AUTHORITY ("THE REGULATOR") AND NORTHERN POWERGRID (NORTHEAST) LIMITED ("THE COMPANY") (Continued)

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK & Ireland) issued by the UK Auditing Practices Board, except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts and of whether the accounting policies are consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of the Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under United Kingdom Auditing Standards.

Our opinion on the Regulatory Accounts is separate from our opinion on the Statutory Accounts of the Company on which we reported on 9 March 2012, which are prepared for a different purpose. Our audit report in relation to the Statutory Accounts (our "statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our statutory audit, for our Statutory audit report, or for the opinions we have formed in respect of that statutory audit.

Audit opinion

In our opinion

- the Regulatory Accounts of the Company present fairly in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on pages 31 to 36 the financial position of the Company as at 31 March 2012 and of its financial performance and cashflows for the year then ended; and
- have been properly prepared in accordance with Standard Condition 44 and the Company's accounting policies.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditor
Newcastle upon Tyne

25 July 2012

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 2906593

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

	Notes	2012 £m	2011 £m
Revenue	3	285.2	268.3
Cost of sales		<u>(7.6)</u>	<u>(7.4)</u>
Gross profit		277.6	260.9
Distribution costs		(78.5)	(74.5)
Administrative expenses		<u>(65.2)</u>	<u>(55.1)</u>
Operating profit	6	133.9	131.3
Profit on disposal of property, plant and equipment		0.2	0.2
Investment income	4	0.1	0.1
Finance costs	5	<u>(28.1)</u>	<u>(26.0)</u>
Profit before tax		106.1	105.6
Income tax expense	9	<u>(18.1)</u>	<u>(19.8)</u>
Profit for the financial year		<u>88.0</u>	<u>85.8</u>

All activities relate to continuing operations.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

There has been no other comprehensive income for the Company, other than the profits reported above, in the current or the prior year.

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

	Share Capital £m	Retained Earnings £m	Total Equity £m
At 1 April 2010	200.0	187.0	387.0
Comprehensive income for the year	-	85.8	85.8
Dividends paid	-	<u>(20.0)</u>	<u>(20.0)</u>
At 1 April 2011	200.0	252.8	452.8
Comprehensive income for the year	-	88.0	88.0
Dividends paid	-	<u>(30.0)</u>	<u>(30.0)</u>
At 31 March 2012	<u>200.0</u>	<u>310.8</u>	<u>510.8</u>

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 2906593

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2012

	Notes	2012 £m	2011 £m
Non-current assets			
Property, plant and equipment	11	1,587.3	1,493.3
Intangibles	12	4.9	3.7
		<u>1,592.2</u>	<u>1,497.0</u>
Current assets			
Inventories	14	8.3	7.4
Cash and cash equivalents		57.0	28.1
Trade and other receivables	15	45.8	41.7
		<u>111.1</u>	<u>77.2</u>
Total assets		<u>1,703.3</u>	<u>1,574.2</u>
Current liabilities			
Trade and other payables	16	(93.2)	(62.6)
Current income tax liabilities	16	(18.3)	(18.6)
Borrowings	17	(27.9)	(10.0)
Deferred revenue	19	(16.6)	(13.7)
Provisions	20	(1.0)	(1.3)
		<u>(157.0)</u>	<u>(106.2)</u>
Net current liabilities		<u>(45.9)</u>	<u>(29.0)</u>
Non-current liabilities			
Borrowings	17	(466.5)	(466.5)
Deferred income tax liabilities	18	(118.9)	(127.2)
Deferred revenue	19	(449.1)	(420.4)
Provisions	20	(1.0)	(1.1)
		<u>(1,035.5)</u>	<u>(1,015.2)</u>
Total liabilities		<u>(1,192.5)</u>	<u>(1,121.4)</u>
Net assets		<u>510.8</u>	<u>452.8</u>
Equity			
Share capital	21	200.0	200.0
Retained earnings		310.8	252.8
Total equity		<u>510.8</u>	<u>452.8</u>

The financial statements were approved by the board of directors and authorised for issue on 19 July 2012 and were signed on its behalf by:



P A Jones
Director

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 2906593

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

	Notes	2012 £m	2011 £m
Net cash from operating activities	22	<u>126.2</u>	<u>120.4</u>
Investing activities			
Purchase of property, plant and equipment		(139.3)	(123.7)
Purchase of intangible assets		(3.4)	(0.8)
Proceeds from disposals of property, plant and equipment		0.2	0.2
Receipt of customer contributions		<u>57.3</u>	<u>40.2</u>
Net cash used in investing activities		<u>(85.2)</u>	<u>(84.1)</u>
Financing activities			
Equity dividends paid		(30.0)	(20.0)
Repayment of borrowings		-	(25.0)
New borrowings		17.9	119.0
Movement in loans from Group undertaking		<u>-</u>	<u>(82.2)</u>
Net cash used in financing activities		<u>(12.1)</u>	<u>(8.2)</u>
Net increase in cash and cash equivalents		28.9	28.1
Cash and cash equivalents at beginning of year		<u>28.1</u>	<u>-</u>
Cash and cash equivalents at end of year		<u>57.0</u>	<u>28.1</u>

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 2906593

NOTES TO THE ACCOUNTS - 31 MARCH 2012

1 GENERAL INFORMATION

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

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

2 ACCOUNTING POLICIES

Accounting convention and basis of preparation

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

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

Going Concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further detail is contained within the Directors' Report on page 18.

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; and
- Impairment reviews carried out to evaluate the carrying value of assets held at the balance sheet date.

Critical accounting policies

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

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 2906593

NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)

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 and have affected the amounts reported 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 users to form an overall picture of the nature and extent of risks arising from financial instruments. This change has not led to any change in the disclosures contained within these financial statements.

IAS 1 Presentation of Financial Statements

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

The followings standards were in endorsed in June 2012 but are not effective in the current year.

IAS 1 Amendments – Presentation of items of other comprehensive income

Further amendments to IAS 1 clarify the required format of the statement of comprehensive income. This amendment is effective for periods beginning on or after 1 July 2012, and will have no impact on the financial statements of the Company.

IAS 19 Employee Benefits

The amendments to IAS 19 require enhanced disclosures about defined benefit pension plans and modified accounting for defined benefit termination charges. There is also a requirement for the immediate recognition of changes in defined benefit plan liabilities/assets, including immediate recognition of defined benefit costs, disaggregation of defined benefit costs into components, recognition of re-measurements in other comprehensive income, plan amendments and settlements.

This amendment is effective for periods beginning on or after 1 January 2013 and will not have a material impact on the financial statements of the Company, since the Company accounts for its costs in relation to its defined benefit pension scheme as if it were a defined contribution scheme (see note 23).

Revenue

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

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

Revenues from charges to end customers for the use of the Company's distribution network include estimates of the units distributed. The estimated usage is based on historic data, 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.

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 2906593

NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Revenue (continued)

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

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

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

Research costs

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

Operating profit

Operating profit is stated before investment income and finance costs.

Taxation

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

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

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

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

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

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 2906593

NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost. Cost includes the purchase price of the asset and any costs, including internal employee and other costs, directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Distribution system assets.....	45 years
Distributed generation.....	15 years
Metering equipment included in distribution system assets	up to 5 years
Information technology equipment included in distribution system assets.....	up to 10 years
Non-operational assets:	
Buildings – freehold.....	up to 60 years
Buildings – leasehold.....	lower of lease period or 60 years
Fixtures and equipment.....	up to 10 years
Software development costs	up to 10 years

Freehold land is not depreciated.

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

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

The Company is required to evaluate the carrying values of property, plant and equipment for impairment whenever circumstances indicate, in management's 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.

Software development costs

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

Investments

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

Inventories

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

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 2906593

NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Inventories (continued)

Raw materials and consumables are valued at purchase cost determined on an average price basis.

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

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Provisions

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

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.

Leases

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

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

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.

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.

NORTHERN POWERGRID (NORTHEAST) LIMITED

REGISTERED NUMBER 2906593

NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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.

Pensions

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

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

3 REVENUE

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

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

Revenue is all in respect of sales to United Kingdom customers.

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NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)

3 REVENUE (CONTINUED)

In accordance with the Company's distribution licence, the Company must publish certain segmental information in the Regulatory Accounts, as follows:

	Distribution 2011/12 £m	Distributed Generation 2011/12 £m	Excluded Services 2011/12 £m	Metering 2011/12 £m	De Minimis 2011/12 £m	Total 2011/12 £m
INCOME STATEMENT						
Sales	260.4	(0.1)	2.0	4.9	18.0	285.2
Cost of sales	(6.3)	-	(0.8)	-	(0.5)	(7.6)
Gross profit	<u>254.1</u>	<u>(0.1)</u>	<u>1.2</u>	<u>4.9</u>	<u>17.5</u>	<u>277.6</u>
Distribution costs	(73.3)	(1.7)	(0.2)	(3.3)	-	(78.5)
Administration costs	(47.7)	-	(0.5)	(0.1)	(16.9)	(65.2)
Operating profit	<u>133.1</u>	<u>(1.8)</u>	<u>0.5</u>	<u>1.5</u>	<u>0.6</u>	<u>133.9</u>
OTHER INFORMATION						
Capital tangible additions	113.8	14.6	16.2	0.4	-	145.0
Capital intangible additions	<u>3.2</u>	<u>0.1</u>	<u>0.1</u>	<u>-</u>	<u>-</u>	<u>3.4</u>
	Distribution 2010/11 £m	Distributed Generation 2010/11 £m	Excluded Services 2010/11 £m	Metering 2010/11 £m	De Minimis 2010/11 £m	Total 2010/11 £m
INCOME STATEMENT						
Sales	246.0	(0.8)	2.0	4.8	16.3	268.3
Cost of sales	(6.0)	-	(0.9)	-	(0.5)	(7.4)
Gross profit	<u>240.0</u>	<u>(0.8)</u>	<u>1.1</u>	<u>4.8</u>	<u>15.8</u>	<u>260.9</u>
Distribution costs	(69.7)	(0.9)	(0.2)	(3.7)	-	(74.5)
Administration costs	(39.1)	-	(0.5)	(0.1)	(15.4)	(55.1)
Operating profit	<u>131.2</u>	<u>(1.7)</u>	<u>0.4</u>	<u>1.0</u>	<u>0.4</u>	<u>131.3</u>
OTHER INFORMATION						
Capital tangible additions	112.6	9.6	3.8	1.1	-	127.1
Capital intangible additions	<u>0.7</u>	<u>0.1</u>	<u>0.1</u>	<u>-</u>	<u>-</u>	<u>0.9</u>

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NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)

4 INVESTMENT INCOME

	2012 £m	2011 £m
Interest receivable from Group undertakings	0.1	0.1
	<u>0.1</u>	<u>0.1</u>

5 FINANCE COSTS

	2012 £m	2011 £m
Interest payable on loans from Group undertakings	22.5	24.4
Interest payable on other loans	5.8	1.7
Total interest expense	28.3	26.1
Amounts included in the cost of qualifying assets	(0.2)	(0.1)
Total finance costs	<u>28.1</u>	<u>26.0</u>

6 OPERATING PROFIT

	2012 £m	2011 £m
This is stated after charging/(crediting):		
Staff costs (Note 7)	39.2	35.8
Research costs	2.6	0.5
Depreciation of property, plant and equipment	51.0	47.9
Amortisation of deferred revenue	(13.6)	(12.6)
Amortisation of intangibles	2.2	1.6
Impairment loss on trade and other receivables	-	0.1
	<u>-</u>	<u>0.1</u>
Analysis of auditor's remuneration is as follows:		
	2012 £000	2011 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	50	60
Other services supplied pursuant to legislation	45	49
Other assurance services	9	5
	<u>9</u>	<u>5</u>

Other services supplied pursuant to legislation relate to regulatory reporting in line with Ofgem's requirements.

NORTHERN POWERGRID (NORTHEAST) LIMITED

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NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)7 STAFF COSTS

	2012 £m	2011 £m
Salaries	39.8	37.3
Social security costs	3.5	3.2
Defined benefit pension costs	29.2	27.3
Defined contribution pension costs	0.4	0.1
	<u>72.9</u>	<u>67.9</u>
Less charged to property, plant and equipment	<u>(33.7)</u>	<u>(32.1)</u>
	<u>39.2</u>	<u>35.8</u>

The majority of the Company's employees are members of the Northern Powergrid Group of the ESPS, details of which are given in Note 23.

The average monthly number of employees during the year was:

	2012 No.	2011 No.
Technical	258	233
Industrial	455	465
Administration	194	201
Other	67	65
	<u>974</u>	<u>964</u>

8 DIRECTORS' & KEY PERSONNEL REMUNERATION

DIRECTORS' REMUNERATION	2012 £	2011 £
<u>Highest Paid</u>		
Short-term employee benefits	158,676	139,889
Post-employment benefits	23,240	10,977
Other long-term benefits	176,136	145,860
	<u>358,052</u>	<u>296,726</u>
<u>Total</u>		
Short-term employee benefits	410,433	381,240
Post-employment benefits	89,649	74,359
Other long-term benefits	387,018	274,985
	<u>887,100</u>	<u>730,584</u>
Directors who are members of the defined benefit scheme	<u>3</u>	<u>3</u>
Accrued pension benefit relating to highest paid director	<u>-</u>	<u>-</u>

NORTHERN POWERGRID (NORTHEAST) LIMITED

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NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)

8 DIRECTORS' & KEY PERSONNEL REMUNERATION (CONTINUED)

OTHER KEY PERSONNEL REMUNERATION	2012 £	2011 £
<u>Total</u>		
Short-term employee benefits	248,695	289,131
Post-employment benefits	72,939	61,332
Other long-term benefits	<u>120,069</u>	<u>102,350</u>
	<u>441,703</u>	<u>452,813</u>

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

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

9 INCOME TAX EXPENSE

	2012 £m	2011 £m
Tax expense comprises:		
Current tax expense:		
Corporation tax charge for the year	25.5	10.5
Payments for use of group losses	0.9	17.6
Under/(over) provision for prior years	<u>-</u>	<u>2.2</u>
Total current tax charge	26.4	30.3
Deferred tax:		
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	1.6	(0.7)
Effect of changes in legislation	<u>(9.9)</u>	<u>(9.8)</u>
Total deferred tax (credit)/charge	<u>(8.3)</u>	<u>(10.5)</u>
Tax on profit before tax	<u>18.1</u>	<u>19.8</u>
The total charge can be reconciled to the accounting profit as follows:		
Profit before tax	<u>106.1</u>	<u>105.6</u>
Tax on profit before tax at standard rate of corporation tax in United Kingdom of 26% (2011: 28%)	27.6	29.6
Effect of changes in tax rate	(9.9)	(9.8)
Under provision for prior years	<u>0.4</u>	<u>-</u>
Tax on profit before tax	<u>18.1</u>	<u>19.8</u>

The Finance Bill 2012 included a provision that the standard rate of corporation tax in the United Kingdom would reduce from 26% to 24% from April 2012. This was substantively enacted on 26 March 2012. Accordingly, this rate has been applied when calculating deferred tax assets and liabilities throughout the Northern Powergrid Group as at 31 March 2012. The Bill also included a provision for a further 1% reduction from April 2013 but this was not substantively enacted until 3 July 2012 and, therefore, has not impacted these financial statements.

NORTHERN POWERGRID (NORTHEAST) LIMITED

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NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)

10 DIVIDENDS

	2012 Pence per share	2011 Pence per share	2012 £m	2011 £m
Dividend paid	<u>15.0</u>	<u>10.0</u>	<u>30.0</u>	<u>20.0</u>

11 PROPERTY, PLANT AND EQUIPMENT

	Distribution system £m	Fixtures and Equipment £m	Non- Operational Land & Buildings £m	Total £m
COST				
At 1 April 2010	1,640.0	18.1	-	1,658.1
Additions	124.5	2.6	-	127.1
Disposals	<u>(4.2)</u>	<u>(1.3)</u>	<u>-</u>	<u>(5.5)</u>
At 1 April 2011	1,760.3	19.4	-	1,779.7
Additions	139.5	1.8	3.7	145.0
Disposals	<u>(5.4)</u>	<u>(0.2)</u>	<u>-</u>	<u>(5.6)</u>
At 31 March 2012	<u>1,894.4</u>	<u>21.0</u>	<u>3.7</u>	<u>1,919.1</u>
ACCUMULATED DEPRECIATION				
At 1 April 2010	228.5	15.5	-	244.0
Charge for the year	46.4	1.5	-	47.9
Disposals	<u>(4.2)</u>	<u>(1.3)</u>	<u>-</u>	<u>(5.5)</u>
At 1 April 2011	270.7	15.7	-	286.4
Charge for the year	49.4	1.6	-	51.0
Disposals	<u>(5.4)</u>	<u>(0.2)</u>	<u>-</u>	<u>(5.6)</u>
At 31 March 2012	<u>314.7</u>	<u>17.1</u>	<u>-</u>	<u>331.8</u>
Net book value at 31 March 2012	<u>1,579.7</u>	<u>3.9</u>	<u>3.7</u>	<u>1,587.3</u>
Net book value at 31 March 2011	<u>1,489.6</u>	<u>3.7</u>	<u>-</u>	<u>1,493.3</u>
Assets in the course of construction included above:				
At 1 April 2010	48.1	-	-	48.1
Additions	124.5	-	-	124.5
Available for use	<u>(108.6)</u>	<u>-</u>	<u>-</u>	<u>(108.6)</u>
At 1 April 2011	64.0	-	-	64.0
Additions	139.6	-	-	139.6
Available for use	<u>(112.9)</u>	<u>-</u>	<u>-</u>	<u>(112.9)</u>
At 31 March 2012	<u>90.7</u>	<u>-</u>	<u>-</u>	<u>90.7</u>

The Company has entered into contractual commitments in relation to the future acquisition of property, plant and equipment of £29.7m (2011: £13.2m).

NORTHERN POWERGRID (NORTHEAST) LIMITED**REGISTERED NUMBER 2906593****NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)****12 INTANGIBLES**

	Software Development Costs £m
COST	
At 1 April 2010	18.2
Additions	<u>0.9</u>
At 1 April 2011	19.1
Additions	<u>3.4</u>
At 31 March 2012	<u><u>22.5</u></u>
AMORTISATION	
At 1 April 2010	13.8
Charge for the year	<u>1.6</u>
At 1 April 2011	15.4
Charge for the year	<u>2.2</u>
At 31 March 2012	<u><u>17.6</u></u>
Net book value at 31 March 2012	<u><u>4.9</u></u>
Net book value at 31 March 2011	<u><u>3.7</u></u>

13 INVESTMENTS

Details of the principal investments of the Company at 31 March 2012 are listed below:

Name of Company	Country of Registration		Holding of Ordinary Shares	Proportion	Nature of Business
Electralink Limited	England and Wales	and	619 at 10p	6.7%	Data transfer network operator
MRA Service Company Limited	England and Wales	and	1 at £1	1.0%	Governance of the electricity industry's Master Registration Agreement
DCUSA Limited	England and Wales	and	1 at £1	2.0%	Management and governance of the Distribution Connection and Use of System Agreement
Northern Electric Finance plc	England and Wales	and	50,000 at £1	100%	Finance company

The above investments are unlisted. The cost and net book value of the investments are Electralink Limited £62 (2011: £62), MRA Service Company Limited £1 (2011: £1), DCUSA Limited £1 (2011: £1) and Northern Electric Finance plc £50,000 (2011: £50,000).

NORTHERN POWERGRID (NORTHEAST) LIMITED

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NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)14 INVENTORIES

	2012 £m	2011 £m
Raw materials and consumables	8.1	7.2
Work in progress	0.2	0.2
	<u>8.3</u>	<u>7.4</u>

15 TRADE AND OTHER RECEIVABLES**Trade and other receivables**

	2012 £m	2011 £m
Distribution use of system receivables	42.3	38.0
Amounts receivable from sale of goods and services	1.2	1.5
Prepayments and accrued income	1.4	2.1
Other receivables	0.9	0.1
	<u>45.8</u>	<u>41.7</u>

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

Distribution use of system receivables

The customers served by the Company's distribution network are supplied predominantly by a small number of electricity supply businesses with RWE NPower plc accounting for approximately 28% of distribution revenues in 2012 (2011: 30%). Ofgem has determined a framework which sets credit limits for each supply business based on its credit rating or payment history and requires them to provide credit cover if their value at risk (measured as being equivalent to 45 days usage) exceeds the credit limit. Acceptable credit typically is provided in the form of a parent company guarantee, letter of credit or an escrow account. Included within other payables are customer deposits of £1.5m as at March 2012 (2011: £1.5m).

Ofgem has indicated that, provided the Company has implemented credit control, billing and collection processes in line with best practice guidelines and can demonstrate compliance with the guidelines or is able to satisfactorily explain departure from the guidelines, any bad debt losses arising from supplier default will be recovered through an increase in future allowed income. Losses incurred to date have not been material. Included in the Company's use of system ("UoS") receivables are debtors with a carrying value of nil, which have been placed into administration and have therefore been provided in full at the year end (2011: £0.3m)

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 26 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.

NORTHERN POWERGRID (NORTHEAST) LIMITED

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NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)15 TRADE AND OTHER RECEIVABLES (CONTINUED)**Amounts receivable from sale of goods and services (continued)**

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £1.1m (2011: £0.7m) which are past due at the reporting date and for which the Company has provided an irrecoverable amount of £0.4m (2011: £0.4m) based on past experience. The Company does not hold any collateral over these balances. The average age of these receivables is 336 days (2011: 302 days).

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £0.4m (2011: £0.3m). These amounts are past due at the reporting date and the Company has not provided for any amounts as not being recoverable because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances. The average age of these receivables is 111 days (2011: 69 days).

Ageing of past due but not impaired receivables

	2012 £m	2011 £m
30-60 days	0.2	0.2
60-120 days	-	-
120-210 days	0.2	0.1
	<u>0.4</u>	<u>0.3</u>
Total	<u>0.4</u>	<u>0.3</u>

Movement in the allowance for doubtful debts

	£m	£m
At 1 April 2011	0.4	0.3
Amounts recognised in income statement	-	0.1
	<u>0.4</u>	<u>0.4</u>
At 31 March 2012	<u>0.4</u>	<u>0.4</u>

In determining the recoverability of the trade and other receivables, the Company considers any change in the credit quality of the trade and other receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk, other than in relation to UoS receivables, is limited due to the customer base being large and unrelated. Accordingly, the directors believe that no further credit provision is required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £0.3m (2011: £0.3m), 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.

NORTHERN POWERGRID (NORTHEAST) LIMITED

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NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)

15 TRADE AND OTHER RECEIVABLES (CONTINUED)

Categories of financial assets

	2012 £m	2011 £m
Loans and receivables at amortised cost	<u>101.4</u>	<u>67.7</u>
Total financial assets	<u>101.4</u>	<u>67.7</u>
Non-current assets	1,592.2	1,497.0
Inventories	8.3	7.4
Prepayments and accrued income	<u>1.4</u>	<u>2.1</u>
Total non-financial assets	<u>1,601.9</u>	<u>1,506.5</u>
Total Assets	<u>1,703.3</u>	<u>1,574.2</u>

16 OTHER FINANCIAL LIABILITIES

Trade and other payables

	2012 £m	2011 £m
Payments received on account	43.5	30.8
Trade payables	3.3	5.0
Amounts owed to Group undertakings	0.3	0.3
Other taxes and social security costs	6.2	8.3
Accruals	25.2	13.4
Other payables	<u>14.7</u>	<u>4.8</u>
	<u>93.2</u>	<u>62.6</u>

Current income tax liabilities

	2012 £m	2011 £m
Corporation Tax	11.7	12.0
Group Relief	<u>6.6</u>	<u>6.6</u>
	<u>18.3</u>	<u>18.6</u>

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

NORTHERN POWERGRID (NORTHEAST) LIMITED

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NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)

16 OTHER FINANCIAL LIABILITIES (CONTINUED)

The following tables detail the remaining contractual maturities for the non-derivative financial liabilities included in Notes 16 and 17. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest possible date on which the Company can be required to pay. The tables include both interest and principal cash flows.

	Less than 3 months £m	3 months To 1 year £m	1 to 5 Years £m	5+ Years £m	Total £m
2012:					
Non-interest bearing	49.7	-	-	-	49.7
Fixed interest rate liability	20.7	24.9	110.0	794.9	950.5
	<u>70.4</u>	<u>24.9</u>	<u>110.0</u>	<u>794.9</u>	<u>1,000.2</u>
2011:					
Non-interest bearing	34.3	-	-	-	34.3
Variable interest rate liability	-	-	-	-	-
Fixed interest rate liability	2.6	24.9	110.0	799.9	937.4
	<u>36.9</u>	<u>24.9</u>	<u>110.0</u>	<u>799.9</u>	<u>971.7</u>

Categories of financial liabilities

	2012 £m	2011 £m
Loans and payables at amortised cost	512.7	486.6
Total financial liabilities	<u>512.7</u>	<u>486.6</u>
Payments received on account	43.5	30.8
Income tax liabilities	137.2	145.8
Other taxes and social security	6.2	8.3
Accruals	25.2	13.4
Deferred Revenue	465.7	434.1
Provisions	2.0	2.4
Total non-financial liabilities	<u>679.8</u>	<u>634.8</u>
Total liabilities	<u>1,192.5</u>	<u>1,121.4</u>

NORTHERN POWERGRID (NORTHEAST) LIMITED**REGISTERED NUMBER 2906593****NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)****17 BORROWINGS**

The Directors' consideration of liquidity, interest rate and foreign currency risk is described in detail in the Directors' Report on pages 4 and 5.

	Book value		Fair value	
	2012 £m	2011 £m	2012 £m	2011 £m
Loans	137.6	119.6	151.2	120.6
Amounts owed to Group undertakings	<u>356.8</u>	<u>356.9</u>	<u>401.8</u>	<u>383.8</u>
	<u>494.4</u>	<u>476.5</u>	<u>553.0</u>	<u>504.4</u>
The borrowings are repayable as follows:				
On demand or within one year	27.9	10.0	27.9	10.0
After five years	<u>466.5</u>	<u>466.5</u>	<u>525.1</u>	<u>494.4</u>
	<u>494.4</u>	<u>476.5</u>	<u>553.0</u>	<u>504.4</u>
Analysis of borrowings:				
Short-term loan	18.0	-	18.0	-
Northern Electric Finance plc 2020 – 8.875%	104.1	104.1	142.1	133.7
Northern Electric Finance plc 2035 - 5.125%	50.0	50.0	53.7	49.2
Yorkshire Electricity Group plc 2037 – 5.9%	101.5	101.5	108.4	105.9
Northern Electric Finance plc 2037 – 5.125%	101.2	101.3	97.6	95.0
European Investment Bank 2018 – 4.065%*	40.2	40.2	43.7	40.6
European Investment Bank 2019 – 4.241%*	40.2	40.2	45.8	40.7
European Investment Bank 2020 – 4.386%*	<u>39.2</u>	<u>39.2</u>	<u>43.7</u>	<u>39.3</u>
	<u>494.4</u>	<u>476.5</u>	<u>553.0</u>	<u>504.4</u>

The fair value of the external borrowings is determined with reference to quoted market prices. The directors' estimates of the fair value of internal borrowings are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments.

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

2018: 3.901% - 4.283%

2019: 4.077% - 4.455%

2020: 4.227% - 4.586%

Interest on short-term loans is charged at a floating rate of interest at LIBOR plus 1.5%, thus exposing the Company to cash flow interest rate risk. A 1% movement in interest rates would subject the Company to an approximate change in interest costs of £0.4m per year. This is considered to be an acceptable level of risk. All other loans are at fixed interest rates and expose the Company to fair value interest rate risk.

NORTHERN POWERGRID (NORTHEAST) LIMITED**REGISTERED NUMBER 2906593****NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)****17 BORROWINGS (CONTINUED)**

The loans are non-secured and are denominated in sterling.

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

The Company's Senior Total Net Debt as at 31 March 2012 totalled £428.3m. 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 31 March 2012 of £1,033.6m. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 41.4%.

At 31 March 2012, the Company had available £61.0m (2011: £79.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

18 DEFERRED TAX

	Accelerated Tax Depreciation £m	Other £m	Total £m
At 1 April 2010	138.0	(0.3)	137.7
Charge to income statement	(10.6)	0.1	(10.5)
At 1 April 2011	127.4	(0.2)	127.2
(Credit)/charge to income statement	(8.3)	-	(8.3)
At 31 March 2012	<u>119.1</u>	<u>(0.2)</u>	<u>118.9</u>

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

19 DEFERRED REVENUE

	£m
At 1 April 2010	414.8
Additions	31.9
Amortisation	<u>(12.6)</u>
At 1 April 2011	434.1
Additions	45.2
Amortisation	<u>(13.6)</u>
At 31 March 2012	<u>465.7</u>

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NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)

19 DEFERRED REVENUE (CONTINUED)

	2012 £m	2011 £m
Included in current liabilities	16.6	13.7
Included in non-current liabilities	449.1	420.4
	<u>465.7</u>	<u>434.1</u>

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

20 PROVISIONS

	Claims £m	Other £m	Total £m
At 1 April 2010	1.0	1.1	2.1
Utilised/paid in the year	(0.9)	(0.2)	(1.1)
Charged to the income statement	1.4	-	1.4
At 1 April 2011	1.5	0.9	2.4
Utilised/paid in the year	(0.9)	(0.1)	(1.0)
Charged to income statement	0.6	-	0.6
At 31 March 2012	<u>1.2</u>	<u>0.8</u>	<u>2.0</u>
		2012 £m	2011 £m
Included in current liabilities		1.0	1.3
Included in non-current liabilities		1.0	1.1
		<u>2.0</u>	<u>2.4</u>

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

Other: Primarily consists of a provision for future safe disposal of transformers which contain oil contaminated with Polychlorinated Biphenyls (PCBs) and for an amount to cover claims made under section 74 of the New Road and Street Works Act 1991. Costs are expected to be incurred over the next 20 years.

21 SHARE CAPITAL

	2012 No./£	2011 No./£
Ordinary shares of £1 each		
Allotted, called up and fully paid	<u>200,000,100</u>	<u>200,000,100</u>

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

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NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)22 **NET CASH FROM OPERATING ACTIVITIES**

	2012 £m	2011 £m
Operating profit	133.9	131.3
Depreciation and amortisation	53.2	49.4
Amortisation of deferred revenue	(13.6)	(12.6)
(Decrease)/increase in provisions	(0.4)	0.3
Operating cash flows before movements in working capital	173.1	168.4
Increase in inventories	(0.9)	(1.1)
Increase in receivables	(3.6)	(6.4)
Increase in payables	12.2	6.8
Cash generated by operations	180.8	167.7
Group relief paid	(0.9)	(12.8)
Corporation tax paid	(25.7)	(9.5)
Interest received	0.4	0.1
Interest paid	(28.4)	(25.1)
Net cash from operating activities	126.2	120.4

23 **PENSION COMMITMENTS**

The Company has two retirement benefit schemes.

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

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

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

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

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

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NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)

23 PENSION COMMITMENTS (CONTINUED)

Agreement was reached during June 2011 with the Group Trustees to repair this deficit over the 15 year period to 31 March 2025, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2010 being borne out in practice. The agreement includes cash payments of £29.9m per annum (of which £22.3m is borne by the Company), made on a monthly basis, for the first five years of the recovery plan followed by an agreed profile of payments to be made over the remaining ten years of the recovery plan.

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

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

The Northern Powergrid Pension Scheme is also accounted for as a defined contribution scheme.

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

Principal assumptions:

	2012 Projected unit	2011 Projected unit
Valuation method		
Discount rate	4.8%	5.5%
Inflation rate	3.0%	3.2%
Increase to pensions	3.0%	3.2%
Increase to deferred benefits	3.0%	3.2%
Salary increases*	3.0%	3.2%

* assumed for the first 5 years then 3.3% p.a. thereafter

The mortality assumptions used in the triennial actuarial valuation as at 31 March 2012 were based on the recent actual mortality experience of members within the Northern Powergrid Group and also allow for future mortality improvements. The assumption is that a member currently aged 60 will live for a further 27.9 years, if he is male, and for a further 28.1 years, if she is female. For a member who retires in 2027 at age 60 the assumptions are that they will live on average for a further 29.6 years after retirement if they are male and for a further 29.8 years after retirement if they are female.

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

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NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)

23 PENSION COMMITMENTS (CONTINUED)

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

	2012 £m	2011 £m
Opening defined benefit obligation	1,097.0	1,023.2
Current service cost	10.7	9.8
Interest cost	59.3	56.4
Contributions from employees	2.2	3.0
Actuarial gains	108.8	48.4
Benefits paid	<u>(50.6)</u>	<u>(43.8)</u>
Closing defined benefit obligation	<u>1,227.4</u>	<u>1,097.0</u>

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

	2012 £m	2011 £m
Opening fair value of plan assets	1,045.2	981.8
Expected returns	69.9	63.2
Actuarial gains	32.7	4.6
Contributions by employer	57.4	36.4
Contribution from employees	2.2	3.0
Benefits paid	<u>(50.6)</u>	<u>(43.8)</u>
Closing fair value of plan assets	<u>1,156.8</u>	<u>1,045.2</u>

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

	Long term rates of return expected at		Value	
	2012 %	2011 %	2012 £m	2011 £m
Equities	8.5	8.5	331.0	338.8
Gilts	3.9	4.8	715.9	604.3
Cash	3.3	4.4	9.4	6.0
Property	<u>7.5</u>	<u>8.2</u>	<u>100.5</u>	<u>96.1</u>
Total fair value of scheme assets			<u>1,156.8</u>	<u>1,045.2</u>

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

The Northern Powergrid Group expects to contribute approximately £49.8m to its defined benefit plan in 2012/13, including £32.9m of pension deficit repair costs.

The Company pension cost for the year ended 31 March 2012 was £29.6m (2011: £27.4m).

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NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)

24 OPERATING LEASE ARRANGEMENTS

	2012 £m	2011 £m
Minimum lease payments under operating leases recognised in the year	<u>6.3</u>	<u>6.2</u>

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

	2012 £m	2011 £m
Within one year	4.1	4.1
In the second to fifth year inclusive	14.1	14.2
After five years	<u>11.8</u>	<u>13.1</u>
	<u>30.0</u>	<u>31.4</u>

Leases consist of rent payable in respect of properties and vehicle leases both primarily from related parties.

25 RELATED PARTY TRANSACTIONS

The Company has advanced loans to companies in the Northern Powergrid Group. The total interest included in investment income in the income statement for the year ended 31 March 2012 was £0.1m (2011: £0.1m).

The Company has received loans from other companies in the Northern Powergrid Group. The total interest included in finance costs in the income statement for the year ended 31 March 2012 was £22.5m (2011: £24.4m). Included within borrowings is £356.8m as at 31 March 2012 (2011: £356.9m).

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

NORTHERN POWERGRID (NORTHEAST) LIMITED**REGISTERED NUMBER 2906593****NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)****25 RELATED PARTY TRANSACTIONS (CONTINUED)**

The Company entered into transactions, in the ordinary course of business, with affiliated companies. Transactions entered into and trading balances outstanding at the year end were as follows:

Related Party	Sales to Related Party £m	Purchases from Related Party £m	Amounts Owed to Related Party (Note 16) £m
2012:			
CE Insurance Services Limited	-	0.5	-
Integrated Utility Services Limited	0.3	0.1	-
Integrated Utility Services Limited (registered in Eire)	-	0.5	-
Northern Electric plc	0.2	-	-
Northern Electric Properties Limited	-	0.4	-
Northern Powergrid (Yorkshire) plc	15.5	8.7	-
Vehicle Lease and Service Limited	-	3.2	0.3
2011:			
CE Insurance Services Limited	-	0.5	-
Integrated Utility Services Limited	0.4	0.1	-
Integrated Utility Services Limited (registered in Eire)	-	0.5	-
Northern Electric plc	0.2	4.9	-
Northern Electric Properties Limited	-	0.7	-
Northern Powergrid (Yorkshire) plc	14.7	8.9	-
Vehicle Lease and Service Limited	-	3.1	0.3

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

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

During the year the Company purchased land and buildings for £3.9m from Northern Electric Properties Limited, an affiliated company in the Northern Powergrid Group.

26 IMMEDIATE PARENT UNDERTAKING AND CONTROLLING PARTY

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

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