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NORTHERN ELECTRIC PLC REPORT AND ACCOUNTS 1994

Northern Electric is one of the twelve regional electricity companies of England and Wales.

We distribute and supply electricity to over 1.4 million customers in the counties of Northumberland, Tyne and Wear, Durham, Cleveland and North Yorkshire, and in addition we supply electricity to a number of large customers throughout England and Wales.

We also operate a gas supply business and sell electrical appliances through a chain of more than 50 shops.

Our aim is to achieve high standards of service and efficiency and to operate our business in an enterprising and innovative manner, so as to create value for our shareholders, customers and employees.

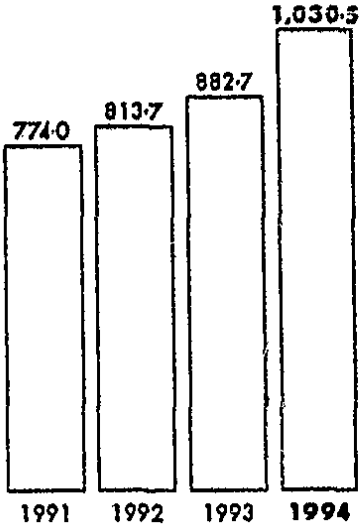
CONTENTS

HIGHLIGHTS OF THE YEAR

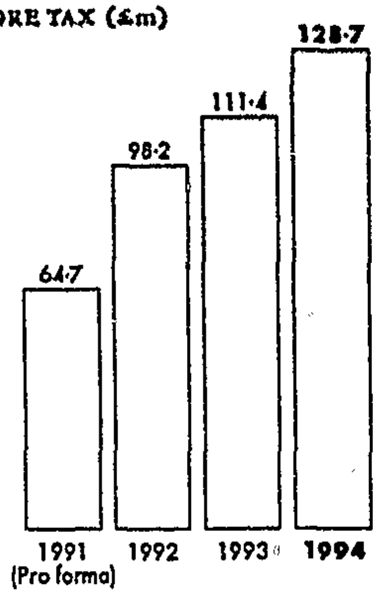
	1994	1993	Change
Group turnover	£1,030·5m	£882·7m	+16·7%
Profit before tax	£128·7m	£111·4m	+15·5%
Earnings per share	79·8p	69·3p	+15·2%
Dividends per share	24·85p	21·45p	+15·85%

- Growth in units of electricity distributed in the area
- Success in the competitive electricity supply business in and out of area
- Rebate to customers in 1993/94 and price freeze from 1 April 1994
- Increased proportion of earnings from unregulated activities
- Excellent first year for Teesside Power
- Launch of Gas UK and upstream gas joint venture
- Charter Mark awarded for excellence of customer service

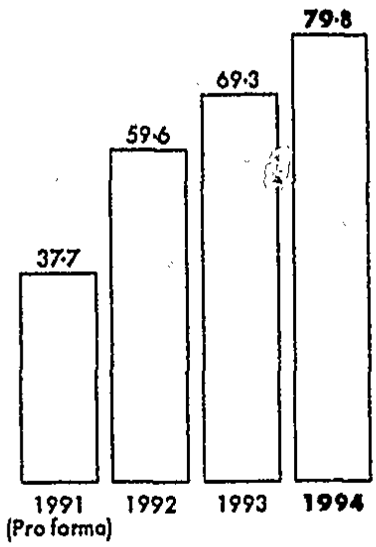
TURNOVER (£m)



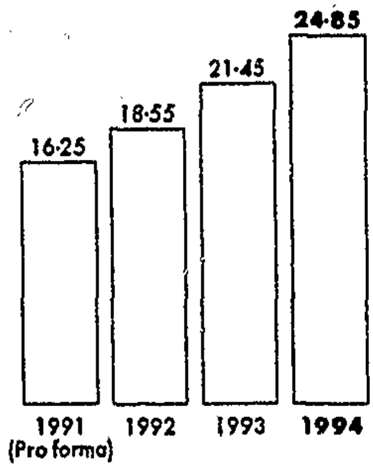
PROFIT BEFORE TAX (£m)



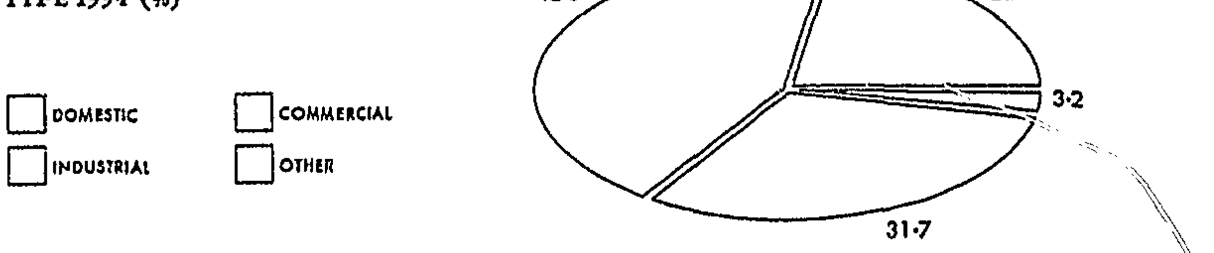
EARNINGS PER SHARE (p)



DIVIDENDS PER SHARE (p)



ELECTRICITY DISTRIBUTED
BY CUSTOMER TYPE 1994 (%)



CHAIRMAN'S STATEMENT

Northern Electric delivered another strong performance in the past year, with increased profits and continued improvement in efficiency and service in our core business, together with the development of related new business opportunities.

Group turnover increased substantially by 16·7% to £1,030·5m, due mainly to our growing share of the competitive national market in electricity supply. Pre-tax profits were up by 15·5% to £128·7m and earnings per share increased by 15·2% to 79·8p. Investment income was up and interest charges reduced. Cashflow continues to be strong and the Company is in a position of net cash after £68·1m of capital investment.

DIVIDEND

The Directors are recommending a final dividend of 17·45p per share. This makes a total dividend for the year of 24·85p, up 15·85% on last year. The increase is in line with our policy of progressive dividend growth and our current dividend cover remains strong at 3·2 times.

THE ELECTRICITY BUSINESS

There has been a pleasing increase in demand for electricity in our area, demonstrating the relative strength of the regional economy. Units distributed were up by 1·3%, with domestic and commercial sectors again performing strongly.

Electricity contract supply volumes increased strongly during the year reflecting our success in winning profitable supply contracts outside our franchise area. We continue to be a major national supplier. To the 400 sites outside the North East supplied during the past year we have now added a further 2,500 sites in the 100kW to 1MW range of demand following the widening of the competitive market from 1 April 1994.

PRICES AND SERVICE

The benefits of improved performance are being enjoyed by customers as well as shareholders. Following the price reduction of 3% in early 1993 customers received a £10 rebate last autumn, and from 1 April 1994 prices were frozen. The Company intends a further price reduction later this year. It is regrettable that VAT on electricity bills is offsetting these benefits.

We have made further improvements to the range and quality of services to our customers and were delighted to be awarded a Charter Mark in recognition of our progress. We continue to be the regional electricity company with the lowest number of complaints from customers to the Office of Electricity Regulation.

IMPROVING EFFICIENCY

The Company employs some 4,600 people, a reduction of over 900 or 18% since flotation at the end of 1990. The number of staff employed in our core electricity business fell by 5% in the year. We recognise the fundamental importance of continued efficiency improvement and cost reduction which investment in information technology systems, a reduction in organisational layers and improved flexibility of working is bringing.

OTHER BUSINESSES

Our appliance retail business improved its profit performance, with significantly increased turnover. In the autumn our gas supply subsidiary, Gas UK Limited, began trading and this was followed by the announcement of our new upstream gas joint venture, Sovereign Exploration and Production Limited, in which we are in partnership with the Finnish company Neste Oy. Teesside Power Limited, in which we have a 15·4% equity interest, has completed a very satisfactory first year of operation.

Newcastle Airport, where major developments to the passenger hall, a new freight village and increased flight services reflect the demand from a growing regional economy.

DIRECTORS AND STAFF

Tony Hadfield, Managing Director since October 1991, became Chief Executive on 1 April 1994, responsible for the day-to-day management of the Company's business and the achievement of the business plan agreed by the Board. Tony and I, on behalf of all the Directors, wish to record our thanks to the staff of Northern Electric for their contribution to the Company's success at a time when many changes are taking place to our organisation and ways of working.

PROSPECTS

The regional electricity companies are facing the first review by the Industry's Regulator of their core distribution businesses, the outcome of which is expected in the near future and has been predicted to reduce profitability for the sector. The Board believes that in comparisons of efficiency and service between companies in the sector, Northern Electric is well-placed.

The Directors are confident that a progressive policy of dividend growth can be maintained beyond the present regulatory period. Continued cost reduction, together with a prudent but positive approach to developing unregulated earnings, will be the principal objectives for Northern Electric in maintaining this dividend policy. The Company will continue to concentrate upon profit maximisation and customer service through increased efficiency and is committed to further enhancement of shareholder value.

David Morris

Chairman

Tony Hadfield

CHIEF EXECUTIVE'S REVIEW

At the time of privatisation Northern Electric identified and targeted five key elements of business strategy. These were:

- **Marketing for unit volume growth, especially in higher margin categories.**
- **Achieving excellence in customer service.**
- **Reducing our costs.**
- **Maintaining a profitable and low-risk electricity supply business.**
- **Prudently developing new businesses that are clearly related to the Company's expertise and strengths.**

These targets have been pursued consistently since privatisation and I am pleased to report that the past year has seen further progress in achieving them, with contributions from all of our businesses to the Group's overall success.

ELECTRICITY DISTRIBUTION

Our distribution business plans, constructs, maintains and operates the network of overhead lines, underground cables, transformers and other equipment taking electricity to our customers.

Units distributed were 1·3% up on the previous year, mainly because of continuing strong growth in the higher margin domestic and commercial sectors, up 2·5% and 2·8% respectively. Sales to the industrial market were down a little, notably in mining and shipbuilding, but partly offset by encouraging further growth in manufacturing and engineering.

We are *optimistic about the prospects* for our regional economy which is emerging from the recession in better shape than on past such occasions. We contine to benefit from inward investment, which we help to promote, and from a strong manufacturing base. Manufacturing and exports are a higher percentage of gross domestic product than in any other region.

Our aim is to meet customers' needs by operating our distribution network to *high standards of safety*, reliability and efficiency and to maximise the use and value of its assets.

During the past year we extended the network to meet new business activity in the commercial and industrial sectors, particularly in the riverside areas which are being regenerated by the work of the development corporations. In addition we connected almost 10,000 new homes to our network.

The contracts dealing room in Carliol House is part of Northern Electric's successful national electricity supply business.

We are continuing to make substantial *investments to improve* supply reliability. Over 1,200km of rural overhead lines were strengthened during the year, and 140 replacement indoor substations were built to house our equipment, which improves visual appearance and security. Despite widespread power cuts caused by storms in May 1993 and by snow and gales in the late winter, supply availability for the year was maintained at 99·98% in the Company's area.

The Oxford Street store of Marks & Spencer, one of 160 throughout the country supplied with electricity by Northern Electric.

ELECTRICITY SUPPLY

The supply business is the purchase of electricity and its sale to customers. Our aim is a low risk business that makes satisfactory and sustainable profits. Through careful purchase cost risk management we have maintained a profitable supply business each year, and our significant market presence, rapid response to customer enquiries and flexible supply contracts have ensured a growing business.
In 1993 we won new business in the competitive over-1MW market, supplying over 400 sites out of our area.

In April 1994 the competitive market extended to over-100kW customers and we retained some 80%, or around 1,700, of our in-area customers, as well as winning business to supply over 2,500 sites outside our area. This represents over 20% of all sites in the country that have changed supplier and confirms our position as one of the leading national suppliers. New customers include retail chains such as Marks & Spencer (160 stores) and C&A (125 stores).

The supply business operates with a low margin on a high turnover. We therefore take a prudent approach and have in place

Northern Electric's commitment to customers with special needs includes making available braille controls on electrical appliances.

a portfolio of hedging contracts with generators designed to minimise the risk of sharp changes in the prices at which we buy electricity through the Pool.

CUSTOMER SERVICE

Northern Electric has a tradition of reliability and excellence of customer service and we recognise how important customer loyalty will be when everyone has the freedom to choose their own supplier in 1998. The Regulator monitors and publishes a series of guaranteed and overall standards of service, and in addition we operate to a range of Company standards. If we fail to meet the guaranteed standards, for example by not keeping an appointment, customers are entitled to a set compensation payment of at least £20. During the year to 31 March 1994 out of over 800,000 services provided, we made only 437 payments, which is slightly fewer than in the previous twelve months but with the same overall performance of 99·95%. Our target is to be consistently among the best of the electricity companies on all of the standards and we are investing heavily in improved systems and in staff training to achieve this.

OFFER receives fewer complaints from our customers than from those of any other electricity company, and disconnection of customers for non-payment of bills has almost ceased.

Our progress in improving service to customers and our commitment to further improvement brought us welcome recognition when we were awarded a Charter Mark in October 1993.

Sovereign Exploration and Production Limited, a joint venture in gas production and development, is the latest of Northern Electric's new business developments.

OTHER BUSINESSES

Retail

We operate a *stand-alone retail business* which in the past year has achieved significantly increased sales volumes and improvements in margins and trading profit. Sales of both white goods and audio-visual equipment have increased substantially during the year. New out-of-town superstores have been opened successfully in North Tyneside, Durham, and, out of area, in Leeds, giving a total of five, and some smaller shops have been closed.

Generation

We seek to ensure that investment in competitive generation provides a return above that of the regulated core business. Teesside Power Limited, in which we have a 15·4% equity investment and a 400MW power purchase agreement, has completed its first year of operation and we are pleased with its performance and its *high level of availability.* Returns are in line with expectations and the station is providing competitively-priced electricity for our customers.

In combined heat and power (CHP) we continue to sell schemes below 1MW through our investment in Combined Power Systems (Northern) Limited. During the year we commissioned *6·4MW of diesel peaking plant* at one of our primary substations at Northallerton. This provides a hedge against pool prices and a cost-effective alternative to uprating the distribution system to meet additional demand.

Gas

Our strategy in entering the gas business has been to look for a competitive advantage which provides returns *above the core business* and has long-term prospects. The MMC report on

Teesside Power, the world's largest gas-fired combined heat and power plant, began generating in April 1993. Northern Electric has a 15·4% shareholding.

British Gas confirmed the emergent competitive market and we launched our gas marketing business, Gas UK Limited, in late 1993. This business is planned to grow rapidly and additional gas purchases have been made.

Competitive advantage has been enhanced through an integrated upstream/downstream approach to gas by the Company's subsequent investment in a joint venture with the Finnish energy comany Neste Oy. Northern Electric has invested £10·7m for a 50% stake in the joint venture, Sovereign Exploration and Production Limited, which manages a well-balanced portfolio of Southern Basin North Sea gas production, development and exploration assets.

Telecommunications

We have a significant in-house telecommunications business and we are also developing to take advantage of opportunities as the telecoms market is deregulated. One such interest is in trunk communications through Energis where we invest by way of our share of the National Grid Holding plc. For the local loop market we have made a small additional investment in the development of Ionica L3 Limited, maintaining our 10% holding.

ENERGY EFFICIENCY AND THE ENVIRONMENT

We are concerned to protect the environment at all times.

We promote efficiency in both the generation and use of electricity and we aim to be a good neighbour through a sensitive and responsible approach to our own operations.

We aim to ensure that our electricity generation schemes benefit the environment and so we favour gas-fuelled projects, which are more efficient and reduce carbon dioxide emissions, together with renewable energy projects. We have developed a database of renewable opportunities within the region and are involved in appraising a number of projects as potential applications under the current round of non-fossil fuel order schemes.

Within the Company we have set ambitious targets for energy saving under the pledge of "Making a Corporate Commitment" and during the past year we have reduced our own energy consumption by 5%. We are working towards accreditation to British Standard 7750 on environmental management. With the active interest and support of staff, over 100 of whom have been enlisted as environmental representatives, we have developed new initiatives for promoting energy awareness and reducing waste through recycling and better resource management.

Five "Envirocare 2000" towns are working with Northern Electric to raise

AMEC Offshore Limited, Wallsend, one of Europe's foremost offshore equipment fabricators and a major customer of Northern Electric for gas as well as electricity.

13·09·94

The electrified Metro system, an essential part of Tyneside's transport infrastructure, is to be extended to Sunderland.

Residents in an Anchor Housing scheme enjoying the benefits of energy-efficient electric heating and lighting.

environmental awareness and promote energy-saving projects in their areas. The Company has been a leading supporter of the establishment of one-stop Energy Advice Centres in Newcastle, Middlesbrough and Ryedale and is actively seeking projects with a wide range of groups to best use the funds now made available for energy efficiency following the Regulator's review of the supply business.

Support from Northern Electric has helped illuminate Tyneside's most famous landmark.

OUR STAFF

Northern Electric staff are highly trained and skilled to meet the technical, safety and customer service standards required and expected of us. The continued success of the Company depends upon their contribution as individuals and in teams, and the commitment of management at all levels to encourage teamwork, personal development and effective two-way communications.

In November the Company and the trade unions signed a local agreement on pay and conditions of service in the main electricity business, following the end of national bargaining in the industry. The Northern Electric Agreement has introduced single table bargaining, instead of separate agreements for different categories of staff, with a single salary structure. There are new provisions for greater flexibility of working geared to the needs of the business. In 1993 an element of profit-related pay was introduced to enable staff to share in the success of the Company.

The move to a more streamlined form of organisation has continued through reducing the number of management and supervisory layers within the Company.

Northern Electric will continue to give the highest priority to the best of training for staff, to promoting equal opportunities, helping career development and improving health and safety at work, where we have responded to staff wishes for a smoke-free environment, developed an ongoing health screening programme and jointly achieved a large reduction in accidents.

COMMUNITY INVOLVEMENT

We support many community and charitable causes in the region through secondments, employee volunteering or help in cash or kind. Our "flagship" areas are in special needs education, conservation, sponsorship of the arts and encouraging young people and people with disabilities to develop through sport. Our community involvement programme within the region was recognised in December 1993 when we won the special "Business In The Community" award category of the Northern Business Awards.

FINANCIAL REVIEW

OPERATING RESULTS

Overall operating performance is shown by the earnings available to shareholders after allowing for all the operating costs, interest on borrowings and taxation. These earnings of £98·3m represent 79·8p for each of the Group's 123 million shares, up 15·2% over the previous year.

Turnover

Turnover rose by £147·8m to £1,030·5m, the first time that the Group has had sales of over £1 billion. The increase was mainly from sales of electricity to large customers in the competitive market. Sales in the Group's other businesses also increased.

In the electricity businesses of distribution and supply the Regulator sets the maximum allowed income based on volumes and, in supply, the costs of generation and distribution. Any income above this permitted limit, *referred to as overrecovery*, has to be used to reduce prices in the following year. In the accounts the overrecovery is deducted from reported turnover and included in provisions in the balance sheet. In the following year the provision is released so there is no effect on profitability in either year.

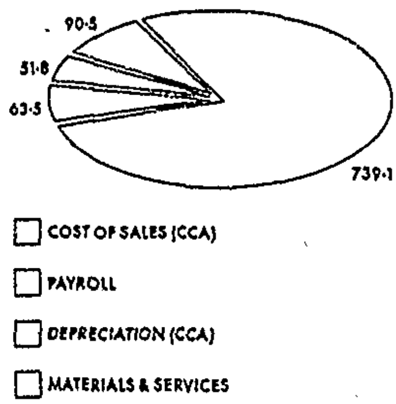
In setting prices for the year the Group has to make estimates as to the amount of elecricity customers will use and particularly the wholesale cost of the electricity it has to buy from the generating companies. In 1992/93 wholesale costs were lower than forecast, providing an overrecovery which was refunded during 1993/94. During this year the Group was again able to buy electricity at lower than forecast prices and has overrecovered by £16.3m or 1.7% of turnover. For the second year there was a small underrecovery in distribution. As a result of the supply overrecovery prices to customers will be reduced later in the year. The level of this reduction will depend on the outcome of the Distribution Price Review.

Changes in the regulatory regime for supply were introduced from 1 April 1994. Changes for distribution will be introduced from 1 April 1995.

Operating profit

Overall operating costs increased by £11·0m or 6·6%, mainly as a result of additional depreciation and costs associated with the development of computer systems, including the introduction of VAT on fuel. Staff costs have continued to fall as a result of the staff savings made during the current and previous years. These savings have been partly offset in the current year as a result of redundancy and severance payments made to the staff who have left.

ANALYSIS OF COSTS 1994 (£m)



Overall the operating profit increased by £8·3m to £114·7m, and is analysed segmentally in the accounts. Some £103·5m of the Group's operating profit was earned by the core businesses of distribution and supply. Of the remainder, £4·9m came from the property company and £2·7m from the retail business. The balance relates mainly to the insurance, transport, telecommunications and information technology activities.

During the year the retail activities of all regional electricity companies (RECs) were investigated by the Office of Electricity Regulation (OFFER) following a reference by the Dixons Group. OFFER concluded that the RECs were not acting in breach of their licence conditions and these conclusions were endorsed by the Office of Fair Trading. The Group's retail business operating profit of £2·7m was earned on turnover of £43·4m with an average capital employed of £29·5m. The results reflect the increased level of trading as well as cost savings made over the last two years.

Profit after tax

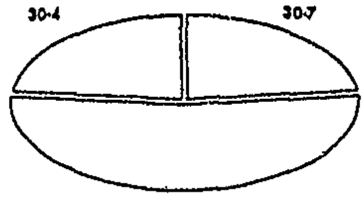
The Group received £12·2m as a gross dividend from its 6·5% holding in National Grid Holding plc, up 14·0% on the previous year. After allowing for the changes to taxation the net dividend is up 15·3%. In addition the investment in the Teesside Power project provided a return of £5·4m in its first year of operation.

The Group's cash generation and the continued reduction in interest rates means that net interest payable is down from £5·7m to £3·6m, representing only 3% of the profit before interest. This includes £7m of interest on the Government debt of £55m which will continue to be payable at 12·661% until September 1999.

The increase in dividends received and the reduction in net interest contributed to the profit before tax increase of 15·5% to £128·7m.

Overall, the corporation tax payable increased by 16·5% to £30·4m reflecting the increase in profits.

PROFIT BEFORE TAX 1994 (£m)



Dividends

The total net dividend for the year is 24·85p per share equivalent to £30·7m. With earnings of £98·3m, dividend cover is 3·2 times, unchanged from the previous year.

After allowing for the dividend of £30·7m the retained profit is £67·6m, increasing shareholders' accumulated reserves by 16·3% to £494·0m.

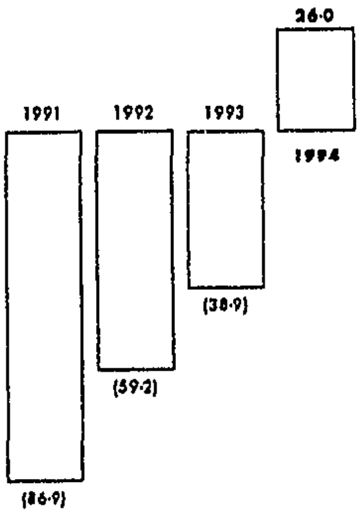
FINANCIAL REVIEW

FINANCIAL NEEDS AND RESOURCES

The cash flow from operations of £177·0m was £25·3m higher than the previous year. Of this, £21·3m resulted from payments received in advance from domestic customers seeking to save VAT which was introduced on 1 April 1994.

Operating profits accounted for £12·2m, with the balance reflecting changes in working capital and the reduction in the supply overrecovery. Electricity debtors in the competitive market increased reflecting the higher sales, while debtors in the franchise market were well below last year's level. There was also a reduction in the amount of debt which the Group failed to recover.

NET (BORROWINGS) AND CASH (£m)



The higher dividends paid to shareholders were partly offset by lower interest charges and the higher dividends received from National Grid Holding plc. In addition to the interest receivable from Teesside Power Limited the Group was also able to take advantage of unused tax allowances.

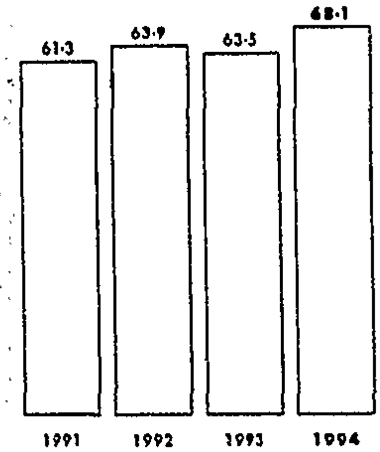
The Group has a continuous programme of capital expenditure largely to replace, improve and extend its electricity distribution network. After allowing for the cash inflows from customers contributing to the cost of extending the network and for other capital receipts, the funding of capital expenditure resulted in a net cash outflow of £55·5m, slightly up on last year.

During the year the Group invested £10·7m in a gas exploration and production joint venture with Neste Oy, as well as additional funding of £1·2m in Ionica L3 Limited.

The Group also repaid £19m of the Government debt during April 1993. In addition there was a cash inflow of £1·7m from staff exercising share options during the latter part of the year.

There was a cash inflow of £45·9m increasing the cash and short-term investments from £35·1m to £81·0m. With £55m of the Government debt not due for repayment until September 1999 this meant that the Group had a net cash balance of £26·0m compared with a net debt of £38·9m at the start of the year. The move to a net cash position is earlier than anticipated mainly as a result of the inflow of funds from customers seeking to minimise their VAT liabilities. Future cash inflows will be correspondingly reduced.

GROSS CAPITAL EXPENDITURE (£m)



Treasury

The activities of the Group's Treasury Section are carried out within the parameters established by the Board. The overall policy is one of risk management and control and no speculative transactions are permitted. The Group's main treasury exposure is to movements in interest rates which are managed with due regard to the level of interest rates and interest rate risk. The Group's exposure to movements in foreign exchange rates is minimal.

CURRENT COST ACCOUNTING

The accounts are presented on an historical cost accounting basis. Whilst this method of accounting is widely used, it understates the value of a company, particularly where assets have a long life, as is the case in the electricity industry.

The notes to the accounts present a current cost profit and loss account and balance sheet adjusted for the effects of inflation on asset values, associated depreciation and working capital. In addition, current cost results are provided in the separately published regulatory accounts.

The current cost adjustments reduce the profit after tax to £71·3m which gives a dividend cover of 2·3 times compared with 2·1 times in 1992/93.

In the current cost balance sheet the value of the tangible fixed assets is £731·6m being £339·7m higher than the historical cost value. National Grid Holding plc is an unlisted company and therefore a market value is not readily available. The valuation of £204m is a directors' valuation based on the level of dividends received and assuming an appropriate return. This valuation is £153·3m above the historical cost value and represents an increase of £58·8m during the year.

Overall the shareholders' funds, calculated on a current cost basis, are £987·1m, around twice the historical cost value.

The profit before interest of £104·5m provides a return on capital of 10·5% compared with the 9·1% earned in 1992/93.

SHAREHOLDER RETURN AND VALUE

The share price at 31 March 1994 was 706p, up 32% over the year and with over 123 million shares in issue this represents a market capitalisation of over £870m.

The share price showed strong growth in the early part of 1994. However towards the end of the financial year share prices fell across the electricity sector reflecting the market's uncertainty about the outcome of the Distribution Price Review.

The Group's policies are designed to provide shareholders with continued enhancement to the value of their shareholding. As part of its commitment to enhancing value the Group will, in common with all electricity companies, be studying the future of its holding in *National Grid Holding plc.*

The Group's dividend policy is to provide increases which reflect the underlying financial performance. Accordingly, the directors are recommending a final dividend of 17·45p. Following the interim dividend of 7·40p this gives a full year dividend of 24·85p which is 15·85% above last year's equivalent of 21·45p. Since flotation the total net dividends paid amount to 76·23p.

DIRECTORS

TONY HADFIELD   SIR PAUL NICHOLSON   RON DIXON   ALAN GROVES   BILL HOOK
STUART ERRINGTON   IAN McCUTCHEON   DAVID MORRIS

DAVID MORRIS – Chairman†
Northern Electric's Chairman since June 1989. Spent 19 years with English Electric Limited and General Electric Company plc before moving to Sears Holdings plc. In 1980 he joined Delta plc becoming Managing Director of the Switchgear and Accessories Division in 1981 and a main Board Director in 1984. Non-Executive Director of Neptune Power Limited, Electricity Association Technology (Services) Limited, Electricity Association Limited, Electricity Association Technology Limited, Jarrow 700 AD Limited, National Grid Holding plc, Non-Fossil Purchasing Agency Limited, Regional Technology Centre (Northern) Limited, The Newcastle Initiative. Chairman of Bede Foundation. Aged 59.

TONY HADFIELD – Chief Executive
Joined Northern Electric in 1991 as Managing Director and appointed Chief Executive from April 1994. Before joining the Central Electricity Generating Board (CEGB) in 1965 he was responsible for the design and management of overseas construction projects for private industry. He went on to hold management positions in Eastern Electricity, Yorkshire Electricity and Midlands Electricity before becoming Deputy Chairman and Chief Executive of Northern Ireland Electricity in 1985. Non-Executive Director of Teesside Power Limited, Electricity Association Limited, National Grid Holding plc. Aged 57.

ALAN GROVES – Finance Director
Appointed Financial Director of NEEB (The North Eastern Electricity Board) in 1974. Prior to this he worked for the CEGB and South Western Electricity and in 1966 joined the Electricity Council with responsibility for treasury matters and financial planning. Non-Executive Director of Universal Building Society, Combined Power Systems Limited, Electricity Pensions Limited, Non-Fossil Purchasing Agency Limited. Aged 58.

RON DIXON – Commercial Director
Became Commercial Director in 1991. Worked for NEEB and Northern Electric throughout his career, being appointed Secretary of NEEB in 1987 and later also Privatisation Director. Appointed Managing Director of the Power Division in 1990 where he was responsible for electricity supply and distribution. Non-Executive Director of Neptune Power Limited, Gateshead Healthcare Trust, Ionica L3 Limited, REC Collect Limited and Sovereign Exploration and Production Limited. Aged 56.

BILL HOOK – Operations Director
Operations Director since 1991. Apart from a period with Midlands Electricity he has spent his career with NEEB and Northern Electric, moving from Regional Manager to Retail Sales Manager and Personnel Director prior to his appointment to the Board in 1991. Non-Executive Director of North Durham Acute Hospitals NHS Trust. Aged 57.

STUART ERRINGTON*§†
Formerly Chairman and Chief Executive of Mercantile Group plc, a subsidiary of Barclays Bank plc. His Non-Executive Directorships include Kleinwort Overseas Investment Trust plc and Nationwide Building Society. He is also Chairman of the *National Association of Citizens' Advice* Bureaux. Aged 65.

IAN McCUTCHEON*§†
Formerly Group Controller of the Royal Dutch/Shell Group of companies, during his 30 years' career with Shell. Non-Executive Director of Community Hospitals plc. Aged 65.

SIR PAUL NICHOLSON*§†
Executive Chairman of Vaux Group plc. Non-Executive Director of Northern Electric and NEEB since 1985. Chairman of the Tyne and Wear Development Corporation and Non-Executive Director of Yorkshire-Tyne Tees Television Holdings plc and the Northern Development Company. Aged 56.

COMPANY ADVISERS

Merchant Bankers
S G Warburg & Co Ltd

Bankers
Lloyds Bank Plc

Stockbrokers
de Zoete & Bevan
Wise Speke

Auditors
Ernst & Young

Solicitors
Dickinson Dees

Registrar and Transfer Office
Lloyds Bank Plc
Registrar's Department
54 Pershore Road South
Birmingham B30 3ER

Registered Office
Northern Electric plc
Carliol House
Market Street
Newcastle upon Tyne
NE1 6NE

Registered in England
No. 2366942

* Non-Executive Director
§ Member of Audit Committee
† Member of Remuneration and Nominations Committee

DIRECTORS' REPORT

The directors present their report and the Group accounts for the year ended 31 March 1994.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Group are the distribution and supply of electricity to industrial, commercial and domestic customers, operation of a gas supply business and retailing of electrical appliances. The Chairman's Statement and Chief Executive's Review contain further information on the business activities of the Group.

RESULTS FOR THE YEAR

The Group profit and loss account appears on page 24. The results for the financial year to 31 March 1994 show an historical cost profit of £128·7m before taxation. A final dividend of 17·45p per ordinary share is recommended. An interim dividend of 7·40p per ordinary share was paid on 22 March 1994 giving a total dividend for the year of 24·85p per share. In 1993 the total dividend paid was 21·45p per share. After providing £30·4m for taxation, retained profit for the year amounted to £67·6m which was transferred to reserves.

SHARE CAPITAL

The issued share capital of the Company at 31 March 1994 was 123,705,568. Further details are given in note 21 to the accounts. During the year 622,431 fully paid ordinary shares were issued to employees and past employees of the Company who exercised their options to buy shares under the Northern Electric Sharesave Scheme and the Northern Electric Executive Share Option Scheme.

INVESTMENTS

On 18 February 1994 the Company invested £10·7m in Sovereign Exploration and Production Limited representing a shareholding of 50%. During the year the Company invested a further £1·2m in Ionica L3 Limited and a subsequent investment of £1·7m has been made since 31 March 1994, bringing the total investment to £6·2m, maintaining the Company's shareholding at 10%. Note 12 to the accounts provides details of the principal subsidiaries.

RESEARCH AND DEVELOPMENT

The Company supports a programme of research into new processes and the development of applications which are expected to contribute to higher standards of performance and more cost effective operation of our business in a competitive environment. The Company continues to participate in industry led research and development undertaken by Electricity Association Technology Limited, an independent company which is owned by UK electricity companies.

FIXED ASSETS

Details of the fixed assets of the Group and Company are set out in note 11 to the accounts. The directors are of the opinion that the present market value of the Group's properties does not differ substantially from the amounts at which they are stated in the current cost accounts.

DIRECTORS

The names of the present directors are given on page 19. All of the directors held office throughout the year. In accordance with the Articles of Association, Mr R. Dixon and Mr S. G. Errington retire by rotation and, being eligible, offer themselves for re-election. Mr Errington, a non-executive director, does not have a service contract with the Company. Mr Dixon has a service contract which may be terminated by the Company giving two years' notice at any time. Mr I. C. McCutcheon has notified his intention to retire as a non-executive director with effect from 30 September 1994. All executive directors have service contracts with the Company.

During and as at the end of the financial year, none of the directors was materially interested in any contract which was significant in relation to the business of the Company. During the year directors' and officers' liability insurance was in force.

Note 21 to the accounts gives details of the directors' share interests. There have been no changes in the directors' share interests between 31 March 1994 and 2 June 1994. No director holds any non-beneficial interest in shares of the Company.

SUBSTANTIAL SHAREHOLDINGS

At 1 June 1994, the Company had been notified of the interests of the following in 3% or more of the Company's ordinary share capital:

Prudential Corporation 6·01%

DISABLED EMPLOYEES

The Group is an equal opportunities employer and is committed to the criteria underpinning the Employment Service disability symbol. It is our policy to provide disabled people with equal opportunities for employment, training, career development and promotion having regard to their aptitudes and abilities. Wherever possible, any member of staff who becomes disabled during the course of their employment is assisted and retrained.

EMPLOYEE CONSULTATION

The Group is committed to maintaining and improving effective communication with employees, principally through regular team briefings and other meetings, together with the monthly staff newspaper.

EMPLOYEE SHARE SCHEMES

The Company operates a share option scheme for senior executives, and a share participation scheme and a share option scheme for all employees. Details of the shares issued and options granted under these schemes are shown in note 21 to the accounts.

CHARITABLE AND POLITICAL DONATIONS

The Group contributed approximately £650,000 in cash and kind to support welfare, enterprise and community activities, of which £229,000 was in donations to charitable organisations. *No contributions were made to political organisations.*

CLOSE COMPANY STATUS

The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

AUDITORS

A resolution to reappoint the auditors, Ernst & Young, and to authorise the directors to determine their remuneration will be proposed at the Annual General Meeting.

ANNUAL GENERAL MEETING

Full details of the Annual General Meeting to be held on 4 August 1994 and explanations of the resolutions appear in the separate Notice of Annual General Meeting enclosed with this Report.

By order of the Board
Valerie Giles, Secretary
29 June 1994
Carliol House, Market Street
Newcastle upon Tyne
NE1 6NE

CORPORATE GOVERNANCE

Good governance has been and remains the responsibility of the whole Board. The Cadbury Committee's report on the financial aspects of corporate governance contains a Code of Best Practice and the Group now complies with all of the operative provisions of the Code. Criteria for assessing the adequacy of internal accounting controls and guidance on the going concern status of the business are still awaited. However the Board is satisfied that internal controls are in place which provide reasonable assurance of the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

Corporate governance is the way in which companies are directed and controlled. The Board of Northern Electric, chaired by David Morris, meets monthly and comprises five executive and three non-executive directors. The directors discharge their responsibilities with the assistance of internal and external advice and in a way which has regard to the interests of customers, shareholders and employees. The Board deals with strategic issues and approves corporate plans, budgets and major projects as well as monitoring the performance of management. Certain powers are delegated to the Executive and other committees with appropriate terms of reference. A proper balance of responsibilities is maintained overall with a clear definition of those decisions which may be taken by the Chairman, the Chief Executive and the whole Board. The appointment of Tony Hadfield, previously Managing Director, as Chief Executive with effect from 1 April 1994 was announced in December 1993. During the year the duties of Chairman and Chief Executive were discharged by David Morris.

The Audit Committee meets regularly, is chaired by Ian McCutcheon, and is made up entirely of the non-executive directors. It examines any matters relating to the financial affairs of the Group. These include reviewing accounting policies, annual accounts, internal controls and compliance with accounting standards. An objective and professional relationship is maintained with our statutory auditors. In addition the Audit Committee has regular discussions with the Head of Internal Audit and the statutory auditor who have unrestricted access to the Audit Committee Chairman.

The Remuneration and Nominations Committee is chaired by Stuart Errington and comprises mainly non-executive directors. Its main task is to recommend executive directors' conditions of service, remuneration and bonus payments taking performance into account. It also considers Board succession and senior management remuneration policies.

Responsibility for Northern Electric Group pensions rests with the Trustees, voting rights being equally shared by employer-nominated and employee-elected trustees. The Northern Electric Group is a unit of the Electricity Supply Pension Scheme which is a defined benefit scheme for directors and employees in the electricity supply industry. Asset management is the responsibility of Electricity Pensions Trustee Limited and the Scheme's annual report and accounts is available to all members.

REPORT OF THE AUDITORS ON THE STATEMENT OF COMPLIANCE

to the members of Northern Electric plc

In addition to our audit of the financial statements we have reviewed the directors' statement on this page concerning the Group's compliance with the Code of Best Practice, insofar as it relates to the paragraphs of the Code which the London Stock Exchange has specified for our review. We carried out our review having regard to the Bulletin "Disclosures Relating to Corporate Governance" issued by the Auditing Practices Board.

The purpose of the directors' statement is to give readers information which assists them in forming their own views regarding the governance of the Group. In respect of the paragraphs of the Code specified for our consideration, we are required to draw attention to any aspects of the Group's non-compliance with the Code which the directors have not properly disclosed. We are not required to review, and have not reviewed, the effectiveness of the Group's governance procedures.

Through enquiry of certain directors and officers of the Group and examination of relevant documents, we have satisfied ourselves that the directors' statement appropriately reflects the Group's compliance with the specified paragraphs of the Code.

Ernst & Young

Ernst & Young
Chartered Accountants
Newcastle upon Tyne
29 June 1994

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF THE ACCOUNTS

The directors are required by company law to prepare accounts which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the results of the Group for the period to that date. The accounts must be prepared in accordance with applicable accounting standards. In addition, the directors are responsible for selecting suitable accounting policies, applying them consistently and for making judgements and estimates that are reasonable and prudent.

The directors are also responsible for maintaining adequate accounting records, and for ensuring that systems are in place both to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The corporate governance statement sets out the way in which the directors exercise their responsibilities.

REPORT OF THE AUDITORS

to the members of Northern Electric plc

We have audited the accounts on pages 24 to 41 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 27 and 28 and the current cost information set out in note 28 on pages 41 to 49 which has been prepared in accordance with the current cost principles, accounting policies and methods described in that note.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on this page the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, 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 accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

OPINIONS

In our opinion the accounts on pages 24 to 41 give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 1994 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

In our opinion the current cost information set out in note 28 on pages 41 to 49 has been properly prepared in accordance with the current cost principles, accounting policies and methods described in that note.

Ernst & Young

Ernst & Young
Chartered Accountants
Registered Auditor
Newcastle upon Tyne
29 June 1994

GROUP PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 1994

	Notes	1994 £m	1993 £m
TURNOVER	2	1,030·5	882·7
Cost of sales		(739·0)	(611·1)
GROSS PROFIT		291·5	271·6
Distribution costs		(80·6)	(74·6)
Administrative expenses		(97·1)	(92·1)
Other operating income		0·9	1·5
OPERATING PROFIT	5	114·7	106·4
Income from investments	3	17·6	10·7
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		132·3	117·1
Net interest	4	(3·6)	(5·7)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	128·7	111·4
Tax on profit on ordinary activities	8	(30·4)	(26·1)
PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY		98·3	85·3
Dividends on equity shares	9	(30·7)	(26·4)
RETAINED PROFIT FOR THE YEAR		67·6	58·9
		pence	pence
EARNINGS PER SHARE – basic	10	79·8	69·3

RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than £98·3m profit attributable to members of the parent Company in the year ended 31 March 1994 and £85·3m in the year ended 31 March 1993.

BALANCE SHEETS
AT 31 MARCH 1994

	Notes	GROUP 1994 £m	GROUP 1993 £m	COMPANY 1994 £m	COMPANY 1993 £m
FIXED ASSETS					
Tangible assets	11	391·9	361·5	357·4	328·4
Investments	12	100·7	88·0	133·0	94·1
		492·6	449·5	490·4	422·5
CURRENT ASSETS					
Stocks	13	10·1	9·5	10·1	9·4
Debtors	14	183·5	169·3	196·7	198·7
Investments	15	66·1	26·1	63·6	23·7
Cash at bank and in hand	16	14·9	9·0	2·9	0·8
		274·6	213·9	273·3	232·6
CREDITORS: amounts falling due within one year:	17				
Loans		–	(19·0)	–	(19·0)
Creditors and accruals		(155·3)	(112·9)	(169·2)	(112·4)
		(155·3)	(131·9)	(169·2)	(131·4)
NET CURRENT ASSETS		119·3	82·0	104·1	101·2
TOTAL ASSETS LESS CURRENT LIABILITIES		611·9	531·5	594·5	523·7
CREDITORS: amounts falling due after more than one year:	18				
Non-convertible loans		(55·6)	(55·0)	(55·6)	(55·0)
Other creditors		(20·9)	(7·6)	(18·6)	(7·3)
		(76·5)	(62·6)	(74·2)	(62·3)
PROVISIONS FOR LIABILITIES AND CHARGES	20	(41·4)	(44·2)	(31·5)	(36·9)
TOTAL ASSETS LESS LIABILITIES	2	494·0	424·7	488·8	424·5
CAPITAL AND RESERVES					
Called up share capital	21	61·9	61·6	61·9	61·6
Share premium account	22	1·4	–	1·4	–
Other reserves	22	0·5	0·3	–	–
Profit and loss account	22	430·2	362·8	425·5	362·9
SHAREHOLDERS' FUNDS		494·0	424·7	488·8	424·5

The accounts on pages 24 to 49 were approved by the Board of Directors on 29 June 1994 and signed on its behalf by:

D R MORRIS, Chairman

A GROVES, Finance Director

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 1994

	Notes	1994 £m	1993 £m
NET CASH INFLOW FROM OPERATING ACTIVITIES	5	177·0	151·7
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		2·8	3·4
Interest paid		(7·2)	(9·1)
Dividends received		8·7	8·0
Dividends paid		(27·7)	(23·8)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(23·4)	(21·5)
TAXATION			
Corporation tax paid (including ACT on dividends)		(22·8)	(23·6)
INVESTING ACTIVITIES			
Payments to acquire tangible fixed assets		(68·9)	(67·7)
Receipts from sales of tangible fixed assets		0·5	2·0
Receipt of consumers' contributions		12·9	13·9
Payments to acquire fixed asset investments		(12·7)	(34·6)
Payments to acquire current asset investments with a maturity date of more than three months		(28·6)	–
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(96·8)	(86·4)
NET CASH INFLOW BEFORE FINANCING		34·0	20·2
FINANCING			
Issue of ordinary share capital	21	(1·7)	(0·1)
Loan finance	19	(0·6)	–
Repayment of loans	19	19·0	–
NET CASH OUTFLOW/(INFLOW) FROM FINANCING		16·7	(0·1)
INCREASE IN CASH AND CASH EQUIVALENTS	16	17·3	20·3
		34·0	20·2

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 1994

1 ACCOUNTING POLICIES

Basis of preparation

The accounts on pages 24 to 41 are prepared under the historical cost convention and in accordance with applicable accounting standards. As recommended by the Accounting Standards Board the Group has adopted Financial Reporting Standards 4 and 5.

Basis of consolidation

The Group accounts consolidate the accounts of Northern Electric plc and its subsidiary undertakings drawn up to 31 March each year. No profit and loss account is presented for Northern Electric plc as permitted by Section 230 of the Companies Act 1985.

Undertakings, other than subsidiary undertakings, in which the group has an investment of not less than 20% of the voting rights and over which it exerts significant influence are treated as associated undertakings. Where material the Group accounts include the appropriate share of these undertakings' results and reserves based on the most recent audited accounts.

Goodwill

Depending on the circumstances of each acquisition, purchased goodwill is either set off directly against reserves or amortised through the profit and loss account over the directors' estimate of its useful life.

Turnover

Turnover represents the value of electricity and gas sold during the year, including an estimate of the sales value of units supplied to customers between the date of the last meter reading and the year end, and the invoice value of other goods sold and services provided, exclusive of value added tax.

Income from credit sales charges is apportioned in the trading accounts over the period of the sales agreements.

Regulatory correction factor (K Factor)

Where there is an overrecovery of supply or distribution business revenues against the maximum regulated amount, revenues are deferred equivalent to the overrecovered amount. The deferred amount is deducted from turnover and included in provisions. Where there is an underrecovery, no anticipation of any potential future recovery is made.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost. The charge for depreciation is calculated to write off assets over their estimated useful lives using the method described below for distribution system assets and straight-line depreciation for all other assets, as follows:

Distribution system assets ....40 years
  Depreciation is charged at
  3% for 20 years followed by
  2% for the remaining 20 years
Certain short-life metering equipment
  included in distribution system assets.........up to 10 years
Non-operational assets
  Buildings – freehold.....................up to 60 years
  – leasehold....................lower of lease period or 60 years
Vehicles and mobile plant..........................up to 10 years
Fixtures and equipment............................up to 10 years

Freehold land is not depreciated.

No allowance is made for residual values.

Consumers' contributions and capital grants are credited to the profit and loss account over a 40 year period at a rate of 3% for the first 20 years followed by 2% for the remaining 20 years.

1 ACCOUNTING POLICIES CONTINUED

Distribution system assets, fixtures and equipment are treated as fully written down on disposal and the sales proceeds taken to profit and loss account. The profit or loss on disposal of other tangible fixed assets is taken to the profit and loss account.

Property clawback

Under a trust deed HM Government is entitled to a proportion of any property gain (above certain thresholds) accruing or treated as accruing to Northern Electric plc as a result of disposals or deemed disposals. These arrangements will last until 31 March 2000.

A provision in respect of property disposals is made only to the extent that it is probable that a liability will crystallise. Such a liability will crystallise when an actual or deemed disposal occurs.

Investments

Fixed asset investments are stated at cost less provision for permanent impairment in value. Current asset investments are shown at the lower of cost and net realisable value.

Stocks and work in progress

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

Raw materials and goods for resale – purchase cost on an average price basis.

Work in progress – cost of direct materials and labour plus attributable overheads based on the normal level of activity.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal. Progress payments on short-term contracts are deducted in arriving at the amounts stated.

Research and development

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future benefits from the related project.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are only recognised if recovery is reasonably certain.

Pensions

The Group contributes to the Electricity Supply Pension Scheme and contributions to the scheme are charged to the profit and loss account. The capital cost of ex gratia and supplementary pensions are normally charged to the profit and loss account in the period in which they are granted. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

2 TURNOVER AND SEGMENTAL ANALYSIS

The Group operates in three principal areas of activity, that of the distribution, supply and generation of electricity in the United Kingdom. The distribution, supply and generation activities are treated as separate businesses under the Public Electricity Supply Licence granted to Northern Electric plc in 1990.

Turnover, all of which is in respect of continuing activities and sales to United Kingdom customers. Group profit on ordinary activities before tax and net assets are analysed below:

	Distribution		Supply		Generation		Other		Total	
	1994	1993	1994	1993	1994	1993	1994	1993	1994	1993
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
TURNOVER										
Total sales	250·6	237·1	957·6	809·0	0·6	0·2	96·4	68·0	1,305·2	1,114·3
Inter-segment sales	(229·8)	(207·9)	(1·7)	(1·9)	(0·1)	–	(43·1)	(21·8)	(274·7)	(231·6)
Sales to third parties	20·8	29·2	955·9	807·1	0·5	0·2	53·3	46·2	1,030·5	882·7
OPERATING PROFIT										
Segmental operating profit	97·7	102·9	5·8	3·7	(0·6)	(0·9)	11·8	0·7	114·7	106·4
Income from investments	–	–	–	–	5·4	–	12·2	10·7	17·6	10·7
Net interest	–	–	–	–	–	–	(3·6)	(5·7)	(3·6)	(5·7)
Profit on ordinary activities before taxation	97·7	102·9	5·8	3·7	4·8	(0·9)	20·4	5·7	128·7	111·4
NET ASSETS										
Net assets by segment	339·3	324·6	(15·2)	31·5	39·5	34·0	119·7	34·6	483·3	424·7
Net assets of associated undertakings	–	–	–	–	–	–	10·7	–	10·7	–
Total net assets	339·3	324·6	(15·2)	31·5	39·5	34·0	130·4	34·6	494·0	424·7

Other includes retailing, business support units and corporate services.

Regulatory correction factors.

The distribution turnover in the year reflects an overrecovery of £0·5m (1993 – £1·3m underrecovery). The supply turnover reflects a net reduction in the overrecovery of £4·9m (1993 – £17·1m increase in overrecovery).

At 31 March 1994 the cumulative underrecovery in the distribution business was £0·8m (1993 – £1·3m underrecovery) and in the supply business the cumulative overrecovery was £16·3m (1993 – £21·2m overrecovery).

3 INCOME FROM FIXED ASSET INVESTMENTS

	1994	1993
	£m	£m
Dividend receivable from National Grid Holding plc	9·7	8·4
Tax credit attributable to dividend (Note 8)	2·5	2·3
	12·2	10·7
Interest receivable from Teesside Power Limited	5·4	–
Amount included in profit and loss account	17·6	10·7

4 NET INTEREST

	1994	1993
Interest payable:	£m	£m
On loans and overdrafts wholly repayable within five years	(0·3)	(2·1)
On long-term loans repayable in whole or in part after five years	(7·0)	(7·0)
Interest receivable	3·7	3·4
	(3·6)	(5·7)

5 OPERATING PROFIT

(i) *This is stated after charging:*

	Cost of Sales		Distribution Costs		Administrative Expenses		Total	
	1994	1993	1994	1993	1994	1993	1994	1993
	£m	£m	£m	£m	£m	£m	£m	£m
Staff costs (Note 7)	4·4	5·1	33.0	34·3	46·2	47·1	83·6	86·5
Restructuring costs (Note 7)	–	–	–	–	6·9	4·9	6·9	4·9
Research and development expenditure	–	–	0·1	–	1·0	–	1·1	–
Depreciation	0·2	–	16·5	11·4	7·0	8·3	23·7	19·7
Rental of land and buildings	–	–	–	–	3·5	3·5	3·5	3·5
Hire of plant and machinery	–	–	1·6	1·3	–	–	1·6	1·3
Hire of computer equipment	–	–	–	–	1·9	1·9	1·9	1·9
Auditors' remuneration – audit services	–	–	–	–	0·1	0·1	0·1	0·1
– other services	–	–	–	–	0·1	0·1	0·1	0·1

(ii) Reconciliation of operating profit to net cash inflow from operating activities:	1994 £m	1993 £m
Operating profit	114.7	106·4
Depreciation charges	23·7	19·7
Increase/(decrease) in provisions	(2·8)	17·4
Decrease/(increase) in stocks	(0·6)	1·1
Increase in debtors	(8·5)	(3·7)
Increase in creditors	50·5	10·8
Net cash inflow from operating activities	177·0	151·7

6 DIRECTORS' REMUNERATION

	CHAIRMAN		ALL	
	1994	1993	1994	1993
	£000	£000	£000	£000
Non-executive directors' fees	–	–	53	47
Executive directors' remuneration	187	168	641	573
Performance related bonuses	21	23	71	78
Pension costs – funded scheme	25	28	87	77
– unfunded arrangement	70	64	134	105
Total remuneration	303	283	986	880

The Chairman is the highest paid director.

The cumulative amount for unfunded pensions of £0·2m (1993 – £0·1m) is included in the pensions provision referred to in Note 20.

Remuneration of executive directors is set by the Remuneration and Nominations Committee taking into account independent expert advice on equivalent market salaries both within the electricity industry and externally. Salary reviews have regard to performance with an annual review date of 1 September. In addition to basic salaries directors can earn bonuses which are based primarily on earnings per share.

The number of directors with emoluments, excluding pension contributions, within the bands stated were:

	1994 Number	1993 Number		1994 Number	1993 Number
£ 15,001 – £ 20,000	3	3	£120,001 – £125,000	1	–
£ 90,001 – £ 95,000	–	1	£145,001 – £150,000	–	1
£100,001 – £105,000	1	–	£160,001 – £165,000	1	–
£105,001 – £110,000	–	1	£190,001 – £195,000	–	1
£115,001 – £120,000	1	1	£205,001 – £210,000	1	–

The directors have been granted share options in the ordinary shares of the Company as disclosed in Note 21.

7 STAFF COSTS

	1994	1993
	£m	£m
Salaries	84·9	86·9
Social security costs	7·4	6·6
Other pension costs	10·7	13·0
	103·0	106·5
Less: charged as capital expenditure	19·4	20·0
	83·6	86·5
Add: restructuring costs	6·9	4·9
Charged to profit and loss account	90·5	91·4

The average number of employees during the year was:	1994	1993
	Number	Number
Electricity	3,656	3,696
Retail	645	741
Other	413	389
	4,714	4,826

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	1994	1993
Tax on profit for the year:	£m	£m
Corporation tax at 33% (1993 – 33%)	19·4	25·0
Provision for payment for consortium relief	11·2	5·2
Tax credits attributable to dividends received	2·5	2·3
Corporation tax (over)/under-provided in previous years	(6·3)	0·6
	26·8	33·1
Deferred taxation	3·6	(7·0)
Tax charge	30·4	26·1

Deferred tax was provided on the cumulative amount of income overrecovered in the regulated businesses at 31 March 1993. This was a timing difference which was expected to reverse in 1993/94 and therefore a deferred tax asset was created. Deferred tax has been provided on the cumulative overrecovery at 31 March 1994. Deferred tax has also been provided on interest receivable from Teesside Power Limited and on the dividend receivable from Northern Electric Insurance Services Limited.

The tax charge has been reduced by £11·5m (1993 – £12·0m) being the effect of timing differences for which no provision has been made. Total potential deferred tax liabilities, for which no provision has been made, computed at the current rate of corporation tax of 33% (1993 – 33%), are as follows:

	1994	1993
	£m	£m
Capital allowances in excess of depreciation	64·4	63·8
Other timing differences	34·8	23·9
	99·2	87·7

9 DIVIDENDS

	1994 pence	1993 pence	1994 £m	1993 £m
Interim dividend paid	7·40	6·30	9·1	7·8
Final dividend proposed	17·45	15·15	21·6	18·6
	24·85	21·45	30·7	26·4

10 EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share is based on earnings of £98·3m (1993 – £85·3m) and on 123,184,663 ordinary shares, being the weighted average number of shares in issue during the year (1993 – 123,078,429).

11 GROUP AND COMPANY TANGIBLE FIXED ASSETS

GROUP	Distribution System £m	Non-operational land and buildings £m	Fixtures and equipment £m	Vehicles and mobile plant £m	Deduct: Consumers' contributions £m	Total £m
COST:						
At 1 April 1993	630·6	40·4	48·7	20·1	(158·0)	581·8
Reclassification of assets	(6·0)	(1·5)	7·6	(0·1)	–	–
Additions	53·2	(0·1)	12·0	3·0	(13·5)	54·6
Disposals	(4·1)	(0·1)	(0·1)	(0·6)	0·3	(4·6)
At 31 March 1994	673·7	38·7	68·2	22·4	(171·2)	631·8
DEPRECIATION:						
At 1 April 1993	219·0	6·9	26·0	9·4	(41·0)	220·3
Reclassification of assets	(1·4)	–	1·4	–	–	–
Provided during the year	18·0	0·7	7·7	2·3	(4·6)	24·1
Disposals	(4·1)	–	(0·1)	(0·6)	0·3	(4·5)
At 31 March 1994	231·5	7·6	35·0	11·1	(45·3)	239·9
Net book value at 31 March 1994	442·2	31·1	33·2	11·3	(125·9)	391·9
Net book value at 31 March 1993	411·6	33·5	22·7	10·7	(117·0)	361·5
Assets in the course of construction included:						
At 31 March 1994	1·6	–	0·7	–	–	2·3
At 31 March 1993	4·6	–	0·3	–	–	4·9

The depreciation charge was £23·7m (1993 – £19·7m) after taking account of income from disposals of £0·4m (1993 – £2·0m).

11 GROUP AND COMPANY TANGIBLE FIXED ASSETS CONTINUED

	Distribution System	Non-operational land and buildings	COMPANY Fixtures and equipment	Vehicles and mobile plant	Deduct: Consumers' contributions	Total
	£m	£m	£m	£m	£m	£m
COST:						
At 1 April 1993	630·6	1·7	47·4	20·1	(158·0)	541·8
Reclassification of assets	(6·0)	(1·5)	7·6	(0·1)	-	-
Additions	53·2	-	9·6	3·0	(13·5)	52·3
Disposals	(4·1)	-	(0·1)	(0·6)	0·3	(4·5)
At 31 March 1994	673·7	0·2	64·5	22·4	(171·2)	589·6
DEPRECIATION:						
At 1 April 1993	219·0	0·1	25.9	9·4	(41·0)	213·4
Reclassification of assets	(1·4)	-	1·4	-	-	-
Provided during the year	18·0	-	7·6	2·3	(4·6)	23·3
Disposals	(4·1)	-	(0·1)	(0·6)	0·3	(4·5)
At 31 March 1994	231·5	0·1	34·8	11·1	(45·3)	232·2
Net book value at 31 March 1994	442·2	0·1	29·7	11·3	(125·9)	357·4
Net book value at 31 March 1993	411·6	1·6	21·5	10·7	(117·0)	328·4
Assets in the course of construction included:						
At 31 March 1994	1·6	-	-	-	-	1·6
At 31 March 1993	4·6	-	-	-	-	4·6

The net book value of non-operational land and buildings comprises:	GROUP 1994	GROUP 1993	COMPANY 1994	COMPANY 1993
	£m	£m	£m	£m
Freehold	26·0	28·2	-	-
Long leasehold	5·0	5·2	-	-
Short leasehold	0·1	0·1	0·1	1·6
	31·1	33·5	0·1	1·6
	£m	£m	£m	£m
The total of land which is not depreciated is:	3·6	3·5	1·3	1·2

12 INVESTMENTS

	GROUP Group undertakings Shares	Group undertakings Loans	Associated undertakings Shares	Associated undertakings Loans	Total	COMPANY Shares in subsidiary undertakings	Shares in other undertakings	Total
	£m	£m	£m	£m	£m	£m	£m	£m
COST:								
At 1 April 1993	56·5	31·5	-	-	88·0	40·0	54·1	94·1
Additions	2·0	-	5·0	5·7	12·7	39·2	2·1	41·3
Disposals	-	-	-	-	-	(2·4)	-	(2·4)
At 31 March 1994	58·5	31·5	5·0	5·7	100·7	76·8	56·2	133·0

All investments are unlisted securities. The disposal reflects the transfer of Northern Electric Insurance Services Limited to Northern Electric (Overseas Holdings) Limited.

12 INVESTMENTS CONTINUED

Details of the principal investments in which the Group or the Company holds ordinary share capital of greater than 10% or the holding represents greater than 10% of the net assets of the Group are as follows:

Name of company Principal subsidiary undertakings	Country of registration (or incorporation) and operation	Holding of ordinary shares	Proportion of voting rights and shares held	Nature of business
Held by Company:				
Northern Electric Generation Limited	England and Wales	36,641,146 at £1	100%	Holding company
Northern Electric (Overseas Holdings) Limited	England and Wales	2,500,000 at £1	100%	Holding company
Gas UK Limited	England and Wales	500,000 at £1	100%	Gas retailing
Northern Tracing and Collection Services Limited	England and Wales	30,000 at £1	100%	Debt collection and address tracing
Northern Electric Properties Limited	England and Wales	32,207,190 at £1	100%	Property holding and management company
Northern Electric Retail Limited	England and Wales	100 at £1	100%	Retailing of electrical appliances
Northgas Limited	England and Wales	2 at £1	100%	Holding company
Northern Electric Share Scheme Trustee Limited	England and Wales	2 at £1	100%	Trustee company for employee profit sharing scheme
Northern Electric Investments Limited	England and Wales	5,000,000 at £1	100%	Investment company
Held by Northern Electric subsidiaries:				
Northern Electric Generation (TPL) Limited	England and Wales	33,674,809 at £1	100%	Holding company
Northern Electric Generation (CPS) Limited	England and Wales	1,053,101 at £1	100%	Holding company
Northern Electric Generation (NPL) Limited	England and Wales	366,922 at £1	100%	Holding company
Northern Electric Generation (Peaking) Limited	England and Wales	1,500,000 at £1	100%	Generation of electricity
Combined Power Systems (Northern) Limited	England and Wales	200,000 at £1	56·6%	Selling of power supply systems
Northern Electric Insurance Services Limited	Isle of Man	145,000 at £1	100%	Insurance services
Associated undertakings: Held by Company				
REC Collect Limited	England and Wales	1 at £1	25%	Management services company
Held by Northern Electric subsidiaries:				
Sovereign Exploration and Production Limited	England and Wales	5,000,000 at £1	50%	Gas exploration and production
Neptune Power Limited	England and Wales	1 at £1	33%	Generation of electricity
Fixed asset investments Group and Company:				
Teesside Power Limited	England and Wales	26,923,076 at 1p	15·4%	Generation of electricity
National Grid Holding plc	England and Wales	26,000,000 at 10p	6·5%	Transmission of electricity
Combined Power Systems Limited	England and Wales	40,809 at £1	13·2%*	Manufacture of power supply systems
Ionica L3 Limited	England and Wales	38,069 at 10p	10%	Public telephony operator

The above investments are unlisted.

*17% voting rights

The Group's shares in National Grid Holding plc were acquired from the Secretary of State for Trade and Industry. The holding is included in the balance sheet at £50·7m based on the Group's share of the National Grid Company's historical cost net asset value at 31 March 1990.

The Group is involved in the Teesside Power Limited project – a joint venture with Enron, ICI and three other Regional Electricity Companies to operate a 1725MW power station.

In February 1994, the Group invested £10·7m in Sovereign Exploration and Production Limited, a joint venture with Neste Oy to exploit North Sea reserves of natural gas.

13 STOCKS

	GROUP		COMPANY	
	1994	1993	1994	1993
	£m	£m	£m	£m
Raw materials and consumables	3·5	3·7	3·5	3·7
Work in progress	4·2	4·2	4·2	3·5
Finished goods and goods for resale	6·4	5·3	6·4	5·3
Payments on account	(4·0)	(3·7)	(4·0)	(3·1)
	10·1	9·5	10·1	9·4

14 DEBTORS

	GROUP		COMPANY	
	1994	1993	1994	1993
Amounts falling due within one year:	£m	£m	£m	£m
Trade debtors	46·6	49·1	46·3	48·6
Credit sales instalments not yet due	8·7	6·3	8·7	6·3
Prepayments and accrued income	2·0	2·0	2·0	2·0
Unbilled consumption	75·9	75·0	75·9	75·0
Amounts owed by subsidiary undertakings	-	-	19·6	30·1
Other debtors:				
Advance corporation tax recoverable	1·8	1·7	1·8	1·7
Other	15·0	11·9	14·3	11·7
	150·0	146·0	168·6	175·4
Amounts falling due after more than one year:				
Loan interest	5·4	-	-	-
Credit sales instalments not yet due	19·3	12·3	19·3	12·3
Advance corporation tax recoverable	3·4	4·0	3·4	4·0
Deferred taxation on overrecovery recoverable 1995/96	5·4	7·0	5·4	7·0
	183·5	169·3	196·7	198·7

15 CURRENT ASSET INVESTMENTS

	GROUP		COMPANY	
	1994	1993	1994	1993
	£m	£m	£m	£m
Listed equity investments	0·4	-	-	-
Short-term deposits with banks	51·6	18·0	51·6	17·7
Sterling commercial paper	12·0	6·0	12·0	6·0
Treasury stock	1·9	1·6	-	-
Fixed interest stock	0·2	0·5	-	-
	66·1	26·1	63·6	23·7

The listed investments (market value £0.4m) are shares in Northern Electric plc held by a subsidiary company, Northern Electric Share Scheme Trustee Limited.

16 CASH AND CASH EQUIVALENTS

	1994	1993	Change
	£m	£m	£m
Analysis of balances in Group balance sheet:			
Cash at bank and in hand	14·9	9·0	5·9
Investments	66·1	26·1	40·0
Investments with an original maturity date of more than three months	(28.6)	-	(28.6)
	52·4	35·1	17·3

	1993	1992	Change
	£m	£m	£m
Cash at bank and in hand	9·0	4·4	4·6
Investments	26·1	10·4	15·7
	35·1	14·8	20·3

17 CREDITORS

	GROUP		COMPANY	
	1994	1993	1994	1993
Amounts falling due within one year:	£m	£m	£m	£m
Payments received on account	26·6	1·4	26·4	1·4
Loans and overdrafts (Note 19)	–	19·0	–	19·0
Trade creditors	77·1	52·6	76·9	54·4
Amounts due to subsidiary undertakings	–	–	15·9	–
Corporation tax	17·4	27·1	16·1	25·6
Advance corporation tax	5·2	5·7	5·2	5·7
Other taxes and social security costs	2·4	2·4	2·4	2·4
Other creditors	4·3	4·5	4·0	3·7
Accruals and deferred income	0·7	0·6	0·7	0·6
Proposed dividend	21·6	18·6	21·6	18·6
	155·3	131·9	169·2	131·4

18 CREDITORS

	GROUP		COMPANY	
	1994	1993	1994	1993
Amounts falling due after one year:	£m	£m	£m	£m
Loans (Note 19)	55·6	55·0	55·6	55·0
Deferred tax on investment income	2·0	–	–	–
Consortium relief	16·4	5·2	16·6	5·2
Other creditors	2·5	2·4	2·0	2·1
	76·5	62·6	74·2	62·3

19 LOANS

	GROUP		COMPANY	
	1994	1993	1994	1993
	£m	£m	£m	£m
Not wholly repayable within five years	55·6	55·0	55·6	55·0
Wholly repayable within five years	–	19·0	–	19·0
	55·6	74·0	55·6	74·0
Amount due within one year	–	(19·0)	–	(19·0)
	55·6	55·0	55·6	55·0

The loans not repayable within five years are long-term government bonds (£55·0m), repayable in 1999 and bearing interest at 12·661% per annum, and an interest free loan from Electricity Association Technology Limited (£0·6m) repayable after more than five years.

Analysis of changes in Group loan financing during the year:

	1994	1993
	£m	£m
At 1 April	74·0	74·0
Net cash outflow from financing	(18·4)	–
At 31 March	55·6	74·0

20 PROVISIONS FOR LIABILITIES AND CHARGES

GROUP

	Regulatory correction factor		Pensions		Holidays in suspense		Insurance claims		Restructuring		Other		Total	
	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m
At 1 April	21·2	9·4	5·5	4·4	2·0	2·1	9·2	5·5	5·4	4·5	0·9	0·9	44·2	26·8
Utilised/paid in year	(21·2)	(5·3)	–	–	(0·4)	(0·1)	(0·4)	(0·6)	(4·0)	(1·7)	(0·1)	(0·1)	(26·1)	(7·8)
Transferred from profit and loss account	16·3	17·1	0·2	1·1	0·1	–	2·8	4·3	3·9	2·6	–	0·1	23·3	25·2
At 31 March	16·3	21·2	5·7	5·5	1·7	2·0	11·6	9·2	5·3	5·4	0·8	0·9	41·4	44·2

COMPANY

	Regulatory correction factor		Pensions		Holidays in suspense		Insurance claims		Restructuring		Other		Total	
	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m
At 1 April	21·2	9·4	5·5	4·4	2·0	2·1	1·9	1·9	5·4	4·5	0·9	0·9	36·9	23·2
Utilised/paid in year	(21·2)	(5·3)	–	–	(0·4)	(0·1)	(0·4)	(0·6)	(4·0)	(1·7)	(0·1)	(0·1)	(26·1)	(7·8)
Transferred from profit and loss account	16·3	17·1	0·2	1·1	0·1	–	0·2	0·6	3·9	2·6	–	0·1	20·7	21·5
At 31 March	16·3	21·2	5·7	5·5	1·7	2·0	1·7	1·9	5·3	5·4	0·8	0·9	31·5	36·9

21 SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	1994 £m	1993 £m	1994 £m	1993 £m
Equity – 200,000,000 ordinary shares of 50p each	100·0	100·0	61·9	61·6
Non-equity – 1 special rights redeemable preference share of £1		Value less than £0·1m		
	100·0	100·0	61·9	61·6

The special rights redeemable preference share is redeemable at par at the request of the holder, the Secretary of State for Trade and Industry, at any time before 31 March 1995. Unless so redeemed, the special share will be redeemed by the Company on that date. This share does not carry any rights to vote at general meetings but entitles the shareholder to attend and speak. The written permission of the holder of the special share is required before certain provisions of the Company's Articles of Association can be altered.

Employee Share Schemes

1,032,157 shares were held in trust at 1 June 1994 (1,103,385 – 1 June 1993) on behalf of employees under special arrangements made at the time of the Offer for Sale in November 1990. In addition, Northern Electric plc, through its subsidiary company Northern Electric Share Scheme Trustee Limited, holds 54,153 of its own shares in trust on behalf of employees in connection with share option schemes.

21 SHARE CAPITAL CONTINUED

At 31 March 1994, options remained outstanding for the purchase of shares as follows:

	Option price £	Date of exercise	Number of shares
To employees under the Sharesave Scheme	1·75	1 March 1996	2,659,285
	3·12	1 October 1997	1,162,782
To senior executives under the Executive Share Option Scheme	2·82	January 1994 – January 2001	31,307
	3·32	August 1994 – August 2001	50,[illegible]2
	3·89	July 1995 – July 2002	263,123
	3·89	July 1995 – July 2002	302,432*
	3·31	July 1997 – July 2002	302,432*
	6·89	January 1997 – January 2004	237,042
	6·89	January 1997 – January 2004	79,013†
	5·86	January 1999 – January 2004	79,013†

*† The lower priced option of each pair of these parallel options may be exercised in whole or in part, in lieu of, but not in addition to the higher priced option of the same pair. Exercise at the lower option price in each case (£3·31 and £5·86 respectively) is subject to the Company achieving defined levels of performance.

622,431 (1993 – 10,814) ordinary shares were issued to employees and senior executives under the share option schemes during the year for an aggregate consideration of £1,723,605 (1993 – £18,975).

The beneficial interests of the directors at 31 March 1994 in ordinary shares of the company were as follows:

Registered holdings

	1994	1993
R Dixon	13,664	3,364
S G Errington	1,500	1,500
A Groves	26,037	7,437
A Hadfield	300	300
G W Hook	7,674	1,864
I C McCutcheon	2,000	2,000
D R Morris	75,512	7,106
P D Nicholson	880	800

Share options under Sharesave and Executive Share Option Schemes

	1 April 1993	Granted in 1994	Exercised in 1994*	31 March 1994	Price range	Earliest/latest date of exercise
R Dixon	74,575	15,674	48,226	42,023	£1.75 to £6.89	1995/2004
A Groves	68,902	20,783	45,390	44,295	£1.75 to £6.89	1995/2004
A Hadfield	51,549	23,919	–	75,468	£3.12 to £6.89	1995/2004
G W Hook	51,747	17,997	14,920	54,824	£1.75 to £6.89	1995/2004
D R Morris	124,248	31,466	85,106	70,608	£1.75 to £6.89	1995/2004

* Options exercised at £2.82 per share.

21 SHARE CAPITAL CONTINUED

In addition to the beneficial interests in shares noted above, the executive directors are for Companies Act purposes regarded as interested in the 1,644,850 shares which the trustee of the Northern Electric Employee Share Trust owns or is entitled to acquire. All employees (including executive directors) are potential beneficiaries under this trust, the purpose of which is to provide shares to satisfy options granted in July 1992 and January 1994 under the Company's share option schemes. Despite these technical interests in shares, it is not anticipated that any employee or executive director will be entitled to receive from the trust a greater number of shares than that to which he is entitled on exercise of options granted to him under the share option schemes.

Analysis of changes in share capital during the year:	1994 £m	1993 £m
At 1 April	61·6	61·5
Net cash inflow from financing	0·3	0·1
At 31 March	61·9	61·6

Analysis of changes in share premium during the year:	1994 £m	1993 £m
At 1 April	–	–
Net cash inflow from financing	1·4	–
At 31 March	1·4	–

22 MOVEMENT ON RESERVES AND RECONCILIATION OF SHAREHOLDERS' FUNDS

GROUP

	Share Capital £m	Share Premium Account £m	Statutory Reserve £m	Profit and Loss Account £m	Total Shareholders' Funds £m
Total shareholders' funds at 1 April 1992	61·5	–	0·2	304·0	365·7
Profit attributable to members	–	–	–	85·3	85·3
Dividends	–	–	–	(26·4)	(26·4)
Transfer to statutory reserve	–	–	0·1	(0·1)	–
Issue of ordinary shares	0·1	–	–	–	0·1
Total shareholders' funds at 31 March 1993	61·6	–	0·3	362·8	424·7
Profit attributable to members	–	–	–	98·3	98·3
Dividends	–	–	–	(30·7)	(30·7)
Transfer to statutory reserve	–	–	0·2	(0·2)	–
Issue of ordinary shares	0·3	1·4	–	–	1·7
Total shareholders' funds at 31 March 1994	61·9	1·4	0·5	430·2	494·0

In order to comply with the requirements of the insurance legislation in the Isle of Man, the Group's insurance company has increased the statutory reserve by £0·2m (1993 – £0·1m) out of profits earned in the year.

COMPANY

	Share Capital £m	Share Premium Account £m	Profit and Loss Account £m	Total Shareholders' Funds £m
Total shareholders' funds at 1 April 1992	61·5	–	304·4	365·9
Profit attributable to members	–	–	84·9	84·9
Dividends	–	–	(26.4)	(26.4)
Issue of ordinary shares	0·1	–	–	0·1
Total shareholders' funds at 31 March 1993	61·6	–	362·9	424·5
Profit attributable to members	–	–	93.3	93.3
Dividends	–	–	(30.7)	(30.7)
Issue of ordinary shares	0·3	1·4	–	1·7
Total shareholders' funds at 31 March 1994	61·9	1·4	425.5	488.8

23 PENSION COMMITMENTS

The Electricity Supply Pension Scheme 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 Scheme are held in a separate trustee administered fund.

The pension cost to the Company for the year was £10·7m (1993 – £11·9m). The last full actuarial valuation of the Company's share of the Scheme was carried out by Bacon and Woodrow, consulting actuaries, as at 31 March 1992 and the results of this valuation have been used as a basis for assessing pension cost. The attained age method was used for the valuation. The principal actuarial assumptions were that the investment return would exceed salary increases by 2% per annum (exclusive of merit awards) and exceed future pension increases by 4% per annum.

For the Northern Electric Group the valuation showed that the actuarial value of the assets represented 108% of the actuarial value of the accrued benefits. The accrued benefits include all benefits for pensioners and other former members as well as benefits based on service completed to date for active members, allowing for future salary increases. Improvements in benefits for members and dependants were made with effect from 1 April 1993. Allowing for these improvements the actuarial value represents 104·6% of accrued benefits.

The total market value of the assets of the Scheme at the date of actuarial valuation was £9,521m of which £327.3m represented the section of the Scheme relating to the Northern Electric Group.

Contributions, based on a composite rate and payable by the Company to the Scheme during the year were £10·6m (1993 – £10·9m). In addition, £0·1m (1993 – £1·0m) was incurred for ex gratia pensions and provisions for unfunded supplementary pensions.

The latest actuarial valuation did not allow for the additional liabilities which could potentially have arisen from the European Court of Justice's decision on 17 May 1990 in the case of Barber v Guardian Royal Exchange which relates to the equal treatment of men and women in occupational pension schemes. On 6 October 1993 the European Court gave a judgement in the Ten Oever case from which it is almost certain that equal treatment should apply to pensions only in respect of service after 17 May 1990; except in cases where legal proceedings had been initiated before this date. It is anticipated that this will be confirmed in the European Court judgement in the Coloroll case. Pending the outcome of the next actuarial valuation due in March 1995, a provision of £5·5m (1993 – £5·5m) has been retained (see Note 20).

24 OBLIGATIONS UNDER HIRE AGREEMENTS

	Land and Buildings				Other			
	GROUP		COMPANY		GROUP		COMPANY	
	1994	1993	1994	1993	1994	1993	1994	1993
	£m	£m	£m	£m	£m	£m	£m	£m
Annual commitments under non-cancellable operating leases are as follows:								
Expiring within two years	0·2	–	–	–	0·3	–	0·3	–
Expiring within two to five years	–	0·2	–	–	4·1	0·9	4·1	0·9
Expiring after five years	3·3	3·3	–	–	–	3·8	–	3·8
	3·5	3·5	–	–	4·4	4·7	4·4	4·7

25 CAPITAL AND OTHER COMMITMENTS

Capital expenditure authorised by the Board of Directors but not provided for at 31 March 1994 amounted to £47·2m (1993 – £39·2m) in respect of which the Group has entered into contractual commitments of £5·7m (1993 – £0·2m).

The Group is committed to make a further investment of £1·7m (1993 – £2·9m) in Ionica L3 Limited in the event of that company achieving certain levels of commercial performance. The Group is also committed to provide additional funding of £1·8m (1993 – Nil) to Teesside Power Limited in respect of remedial work on a cooling tower.

26 CONTINGENT LIABILITIES

There were no contingent liabilities at 31 March 1994 or at 31 March 1993.

27 DIRECTORS' INTERESTS

There are no interests in contracts which are required to be disclosed under the Companies Act 1985.

28 CURRENT COST ACCOUNTS

(a) Group Profit and Loss Account for the year ended 31 March 1994

	Notes	1994 £m	1993 £m
TURNOVER	*28(g)*	1,030·5	882·7
Cost of sales		(739·1)	(611·2)
GROSS PROFIT		291·4	271·5
Distribution costs		(107·7)	(102·0)
Administrative expenses		(98·1)	(93·2)
Monetary working capital adjustment		0·4	(3·0)
Other operating income		0·9	1·5
OPERATING PROFIT	*28(g)*	86·9	74·8
Income from investments	*3*	17·6	10·7
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		104·5	85·5
Net interest	*4*	(3·6)	(5·7)
Gearing adjustment		0·8	2·4
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	*28(d), (g)*	101·7	82·2
Tax on profit on ordinary activities	*8*	(30·4)	(26·1)
PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY		71·3	56·1
Dividends on equity shares	*9*	(30·7)	(26·4)
RETAINED PROFIT FOR THE YEAR		40·6	29·7
		pence	pence
EARNINGS PER SHARE – basic	*28(f)*	57·9	45·6

RECOGNISED GAINS AND LOSSES

Within the context of current cost accounting amounts taken to reserve are intended to maintain capital and therefore there are no recognised gains or losses other than £71·3m profit attributable to members of the parent Company in the year ended 31 March 1994 and £56·1m in the year ended 31 March 1993.

28 CURRENT COST ACCOUNTS CONTINUED

(b) Balance Sheets at 31 March 1994

	Notes	GROUP 1994 £m	GROUP 1993 £m	COMPANY 1994 £m	COMPANY 1993 £m
FIXED ASSETS					
Tangible assets	28(b)	731·6	727·8	680·4	676·4
Investments	28(i)	254·0	182·5	286·3	188·6
		985·6	910·3	966·7	865·0
CURRENT ASSETS					
Stocks	28(j)	10·2	9·6	10·2	9·5
Debtors	14	183·5	169·3	196·7	198·7
Investments	28(k)	66·1	26·2	63·6	23·7
Cash at bank and in hand	16	14·9	9·0	2·9	0·8
		274·7	214·1	273·4	232·7
CREDITORS: amounts falling due within one year:	17				
Loans		-	(19·0)	-	(19·0)
Creditors and accruals		(155·3)	(112·9)	(169·2)	(112·4)
		(155·3)	(131·9)	(169·2)	(131·4)
NET CURRENT ASSETS		119·4	82·2	104·2	101·3
TOTAL ASSETS LESS CURRENT LIABILITIES		1,105·0	992·5	1,070·9	966·3
CREDITORS: amounts falling due after more than one year:	18				
Non-convertible loans		(55·6)	(55·0)	(55·6)	(55·0)
Other creditors		(20·9)	(7·6)	(18·6)	(7·3)
		(76·5)	(62·6)	(74·2)	(62·3)
PROVISIONS FOR LIABILITIES AND CHARGES	20	(41·4)	(44·2)	(31·5)	(36·9)
TOTAL ASSETS LESS LIABILITIES	28(g)	987·1	885·7	965·2	867·1
CAPITAL AND RESERVES					
Called up share capital	21	61·9	61·6	61·9	61·6
Share premium account	28(l)	1·4	-	1·4	-
Other reserves	28(l)	612·1	552·8	593.8	533·5
Profit and loss account	28(l)	311·7	271·3	308.1	272·0
SHAREHOLDERS' FUNDS		987·1	885·7	965.2	867·1

28 CURRENT COST ACCOUNTS CONTINUED

(c) (i) Basis of preparation

These accounts have been prepared under the current cost convention and in accordance with applicable accounting standards. The policies adopted are consistent with those in Note 1 to these accounts, amended as follows for the current cost convention.

(ii) Current cost accounting

Current cost accounts reflect the long-term nature of the Group's assets. This convention allows for price changes specific to the business when reporting assets employed and profits thereon. The current cost operating profit is determined after allowing for the impact of price changes on the funds needed to maintain net operating assets and also takes into account the way in which those assets are financed. The impact of price changes is reflected as follows:

depreciation is calculated on the basis of the current cost of tangible fixed assets;

a cost of sales adjustment is made to allow for the impact of price changes on stock consumed in the year;

a monetary working capital adjustment is charged against the year's results to represent the amount of additional (or reduced) internally generated finance needed as a result of changes in the input prices of goods and services used and financed by the Group; and,

a gearing adjustment reduces the effect of the other current cost adjustments in the profit and loss account as set out above. This adjustment takes account of the benefit to shareholders of financing the business partly by borrowings.

Provision is made in the accounts for the effects of specific price changes on the resources necessary to maintain the operating capability of the business.

The cost of sales adjustment and the monetary working capital adjustment are calculated principally using standard prices or by applying appropriate indices to the historical cost. The component parts of indices are periodically reviewed.

(iii) Tangible fixed assets

The gross replacement cost of fixed assets is derived by applying appropriate indices to historical cost figures. Certain land and buildings are professionally valued on a cyclical basis. Consumers' contributions are indexed with the related assets and deducted therefrom.

(iv) Fixed asset investments

Fixed asset investments are shown at directors' valuation.

(v) Stocks and work in progress

Stocks are valued at the lower of current replacement cost and net realisable value. The valuation of work in progress is based on the current cost of labour plus appropriate overheads and the current replacement cost of materials. Progress payments on short-term contracts are deducted in arriving at the amounts stated.

(d) Reconciliation of current cost profit before taxation

	1994 £m	1993 £m
Historical cost profit before tax	128·7	111·4
Less current cost adjustments:		
– depreciation	(28·1)	(28·5)
– cost of sales	(0·1)	(0·1)
– monetary working capital	0·4	(3·0)
– gearing	0·8	2·4
Current cost profit before taxation	101·7	82·2

(e) Deferred taxation

Current cost revaluations do not provide a suitable basis for the provision of deferred tax and therefore no account has been taken of any potential liability arising if disposals were at current cost valuations.

28 CURRENT COST ACCOUNTS CONTINUED

(f) Earnings per ordinary share

The calculation of earnings per ordinary share is based on earnings of £71·3m (1993 – £56·1m) and on 123,184,663 ordinary shares (1993 – 123,078,429 ordinary shares), being the weighted average number of shares in issue during the year.

(g) Current cost turnover and segmental analysis

The Group operates in three principal areas of activity, that of the distribution, supply and generation of electricity in the United Kingdom. The distribution, supply and generation activities are treated as separate businesses under the Public Electricity Supply Licence granted to Northern Electric plc in 1990.

Turnover, all of which is in respect of continuing activities and sales to United Kingdom customers, Group profit on ordinary activities before tax and net assets are analysed below:

	Distribution		Supply		Generation		Other		Total	
	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m
TURNOVER										
Total sales	250·6	237·1	957·6	809·0	0·6	0·2	96·4	68·0	1,305·2	1,114·3
Inter-segment sales	(229·8)	(207·9)	(1·7)	(1·9)	(0·1)	–	(43·1)	(21·8)	(274·7)	(231·6)
Sales to third parties	20·8	29·2	955·9	807·1	0·5	0·2	53·3	46·2	1,030·5	882·7
OPERATING PROFIT										
Segmental operating profit	70·0	74·1	7·1	1·8	(0·6)	(0·9)	10·4	(0·2)	86·9	74·8
Income from investments	–	–	–	–	5·4	–	12·2	10·7	17·6	10·7
Net interest	–	–	–	–	–	–	(3·6)	(5·7)	(3·6)	(5·7)
Gearing adjustment	–	–	–	–	–	–	0·8	2·4	0·8	2·4
Profit on ordinary activities before taxation	70·0	74·1	7·1	1·8	4·8	(0·9)	19·8	7·2	101·7	82·2
NET ASSETS										
Net assets by segment	660·6	672·1	(15·2)	31·5	39·5	34·0	291·5	148·1	976·4	885·7
Net assets of associated undertakings	–	–	–	–	–	–	10·7	–	10·7	–
Total net assets	660·6	672·1	(15·2)	31·5	39·5	34·0	302·2	148·1	987·1	885·7

Other includes retailing, business support units and corporate services.

Regulatory correction factors.

The distribution turnover in the year reflects an overrecovery of £0·5m (1993 – £1·3m underrecovery). The supply turnover reflects a net reduction in the overrecovery of £4·9m (1993 – £17·1m increase in overrecovery). At 31 March 1994 the cumulative underrecovery in the distribution business was £0·8m (1993 – £1·3m underrecovery) and in the supply business the cumulative overrecovery was £16·3m (1993 – £21·2m overrecovery).

28 CURRENT COST ACCOUNTS CONTINUED

(h) Current cost tangible fixed assets

	GROUP					
	Distribution system	Non-operational land and buildings	Fixtures and equipment	Vehicles and mobile plant	Deduct: Consumers' con-tributions	Total
	£m	£m	£m	£m	£m	£m
COST:						
At 1 April 1993	2,464·5	52·1	64·3	25·4	(338·4)	2,267·9
Reclassification of assets	(6·3)	(1·5)	7·9	(0·1)	–	–
Additions	53·2	(0·1)	12·0	3·0	(13·5)	54·6
Disposals	(35·1)	(0·2)	(0·2)	(0·9)	2·9	(33·5)
Revaluation	14·0	(2·4)	(0·4)	1·9	(2·4)	10·7
At 31 March 1994	2,490·3	47·9	83·6	29·3	(351·4)	2,299·7
DEPRECIATION:						
At 1 April 1993	1,636·2	0·2	41·2	13·7	(151·2)	1,540·1
Reclassification of assets	(1·4)	–	1·4	–	–	–
Provided during the year	49·2	1·3	7·9	2·7	(8·9)	52·2
Disposals	(35·1)	(0·1)	(0·2)	(0·9)	2·9	(33·4)
Revaluation	10·4	(1·2)	(0·1)	1·2	(1·1)	9·2
At 31 March 1994	1,659·3	0·2	50·2	16·7	(158·3)	1,568·1
Net book value at 31 March 1994	831·0	47·7	33·4	12·6	(193·1)	731·6
Net book value at 31 March 1993	828·3	51·9	23·1	11·7	(187·2)	727·8
Assets in the course of construction included:						
At 31 March 1994	1·6	–	0·7	–	–	2·3
At 31 March 1993	4·6	–	0·3	–	–	4·9

The depreciation charge was £51·8m (1993 – £48·2m) after taking account of income from disposals of £0.4m (1993 – £2·0m).

28 CURRENT COST ACCOUNTS CONTINUED

(h) Current cost tangible fixed assets continued

	COMPANY					
	Distribution system	Non-operational land and buildings	Fixtures and equipment	Vehicles and mobile plant	Deduct: Consumers' contributions	Total
	£m	£m	£m	£m	£m	£m
COST:						
At 1 April 1993	2,464·5	1·7	63·0	25·4	(338·4)	2,216·2
Reclassification of assets	(6·3)	(1·5)	7·9	(0·1)	-	-
Additions	53·2	-	9·6	3·0	(13·5)	52·3
Disposals	(35·1)	(0·2)	(0·2)	(0·9)	2·9	(33·5)
Revaluation	14·0	-	(0·4)	1·9	(2·4)	13·1
At 31 March 1994	2,490·3	-	79·9	29·3	(351·4)	2,248·1
DEPRECIATION:						
At 1 April 1993	1,636·2	-	41·1	13·7	(151·2)	1,539·8
Reclassification of assets	(1·4)	-	1·4	-	-	-
Provided during the year	49·2	-	7·8	2·7	(8·9)	50·8
Disposals	(35·1)	-	(0·2)	(0·9)	2·9	(33·3)
Revaluation	10·4	-	(0·1)	1·2	(1·1)	10·4
At 31 March 1994	1,659·3	-	50·0	16·7	(158·3)	1,567·7
Net book value at 31 March 1994	831·0	-	29·9	12·6	(193·1)	680·4
Net book value at 31 March 1993	828·3	1·7	21·9	11·7	(187·2)	676·4
Assets in the course of construction included:						
At 31 March 1994	1·6	-	-	-	-	1·6
At 31 March 1993	4·6	-	-	-	-	4·6

The net book value of non-operational land and buildings comprises:

	GROUP		COMPANY	
	1994	1993	1994	1993
	£m	£m	£m	£m
Freehold	38·7	42·2	-	-
Long leasehold	8·8	9·5	-	-
Short leasehold	0·2	0·2	-	1·7
	47·7	51·9	-	1·7

	GROUP		COMPANY	
	1994	1993	1994	1993
	£m	£m	£m	£m
The total of land which is not depreciated is:	15·8	15·7	7·7	7·5

28 CURRENT COST ACCOUNTS CONTINUED

(i) Investments

	GROUP					COMPANY		
	Group undertakings		Associated undertakings		Total	Shares in subsidiary under-takings	Shares in other under-takings	Total
	Shares £m	Loans £m	Shares £m	Loans £m	£m	£m	£m	£m
COST:								
At 1 April 1993	151.0	31.5	–	–	182.5	40.0	148.6	188.6
Additions	2·0	–	5.0	5.7	12.7	39.2	2.1	41.3
Disposals	–	–	–	–	–	(2·4)	–	(2·4)
Revaluation	58·8	–	–	–	58·8	–	58·8	58·8
At 31 March 1994	211.8	31.5	5.0	5.7	254.0	76.8	209.5	286.3

All investments are unlisted securities. For current cost purposes the investment in National Grid Holding plc has been stated at directors' valuation and includes an adjustment of £153·3m (1993 – £94·5m) which has been transferred to current cost reserve. The disposal reflects the transfer of Northern Electric Insurance Services Limited to Northern Electric (Overseas Holdings) Limited.

(j) Stocks

The value of stock and work in progress stated is as disclosed in Note 13 except for a revaluation adjustment of £0·1m (1993 – £0·1m) which has been transferred to current cost reserve.

(k) Current asset investments

The value of investments is as disclosed in Note 15 (1993 – £0·1m greater) reflecting the market value of certain securities held by the Group's insurance subsidiary. The amount of the revaluation has been included in current cost reserve.

28 CURRENT COST ACCOUNTS CONTINUED

(i) Movement on current cost reserves and reconciliation of shareholders' funds

GROUP

	Share Capital £m	Share Premium Account £m	Statutory Reserve £m	Current Cost Reserve £m	Profit and Loss Account £m	Total Shareholders' Funds £m
Total shareholders' funds at 1 April 1992	61·5	–	0·2	495·4	241·7	798·8
Profit attributable to members	–	–	–	–	56·1	56·1
Dividends	–	–	–	–	(26·4)	(26·4)
Transfer to statutory reserve	–	–	0·1	–	(0·1)	–
Issue of ordinary shares	0·1	–	–	–		0·1
Revaluation of fixed asset investments	–	–	–	37·4	–	37·4
Revaluation of net fixed assets	–	–	–	18·9	–	18·9
Revaluation of current asset investments	–	–	–	0·1	–	0·1
Cost of sales and stock revaluation	–	–	–	0·1	–	0·1
Monetary working capital adjustment	–	–	–	3·0	–	3·0
Gearing adjustment	–	–	–	(2·4)	–	(2·4)
Total shareholders' funds at 31 March 1993	61·6	–	0·3	552·5	271·3	885·7
Issued share capital	61·6	–	–	–	–	61·6
Reserves – realised	–	–	0·3	91·5	271·3	363·1
Reserves – unrealised	–	–	–	461·0	–	461·0
	61·6	–	0·3	552·5	271·3	885·7
Profit attributable to members	–	–	–	–	71·3	71·3
Dividends	–	–	–	–	(30·7)	(30·7)
Transfer to statutory reserve	–	–	0·2	–	(0·2)	–
Issue of ordinary shares	0·3	1·4	–	–	–	1·7
Revaluation of fixed asset investments	–	–	–	58·8	–	58·8
Revaluation of net fixed assets	–	–	–	1·5	–	1·5
Revaluation of current asset investments	–	–	–	–	–	–
Cost of sales and stock revaluation	–	–	–	–	–	–
Monetary working capital adjustment	–	–	–	(0·4)	–	(0·4)
Gearing adjustment	–	–	–	(0·8)	–	(0·8)
Total shareholders' funds at 31 March 1994	61·9	1·4	0·5	611·6	311·7	987·1
Issued share capital	61·9	1·4	–	–	–	63·3
Reserves – realised	–	–	0·5	118·5	311·7	430·7
Reserves – unrealised	–	–	–	493·1	–	493·1
	61·9	1·4	0·5	611·6	311·7	987·1

In order to comply with the requirements of the insurance legislation in the Isle of Man, the Group's insurance company has increased the statutory reserve by £0·2m (1993 – £0·1m) out of profits earned in the year.

28 CURRENT COST ACCOUNTS CONTINUED

(l) Movement on current cost reserves and reconciliation of shareholders' funds continued

			COMPANY		
	Share Capital	Share Premium Account	Current Cost Reserve	Profit and Loss Account	Total Shareholders' Funds
	£m	£m	£m	£m	£m
Total shareholders' funds at 1 April 1992	61·5	–	495·4	242·1	799·0
Profit attributable to members	–	–	–	56·3	56·3
Dividends	–	–	–	(26·4)	(26·4)
Issue of ordinary shares	0·1	–	–	–	0·1
Revaluation of fixed asset investments	–	–	37·4	–	37·4
Revaluation of net fixed assets	–	–	–	–	–
Cost of sales and stock revaluation	–	–	0·1	–	0·1
Monetary working capital adjustment	–	–	3·0	–	3·0
Gearing adjustment	–	–	(2·4)	–	(2·4)
Total shareholders' funds at 31 March 1993	61·6	–	533·5	272·0	867·1
Issued share capital	61·6	–	–	–	61·6
Reserves – realised	–	–	90·9	272·0	362·9
Reserves – unrealised	–	–	442·6	–	442·6
	61·6	–	533·5	272·0	867·1
Profit attributable to members	–	–	–	66·8	66·8
Dividends	–	–	–	(30·7)	(30·7)
Issue of ordinary shares	0·3	1·4	–	–	1·7
Revaluation of fixed asset investments	–	–	58·8	–	58·8
Revaluation of net fixed assets	–	–	2·7	–	2·7
Cost of sales and stock revaluation	–	–	–	–	–
Monetary working capital adjustment	–	–	(0.4)	–	(0.4)
Gearing adjustment	–	–	(0.8)	–	(0.8)
Total shareholders' funds at 31 March 1994	61·9	1·4	593·8	308·1	965·2
Issued share capital	61·9	1·4	–	–	63·3
Reserves – realised	–	–	117.4	308.1	425·5
Reserves – unrealised	–	–	476·4	–	476·4
	61·9	1·4	593·8	308·1	965·2

GROUP FOUR YEAR SUMMARY

	HISTORICAL COST				CURRENT COST			
				(Pro forma)				(Pro forma)
Years ended 31 March	1994 £m	1993 £m	1992 £m	1991 £m	1994 £m	1993 £m	1992 £m	1991 £m
TURNOVER	1,030·5	882·7	813·7	774·0	1,030·5	882·7	813·7	774·0
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST	132·3	117·1	107·7	79·4	104·5	85·5	69·6	48·4
Gearing adjustment	–	–	–	–	0·8	2·4	4·5	5·2
Net interest	(3·6)	(5·7)	(9·5)	(14·7)	(3·6)	(5·7)	(9·5)	(14·7)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	128·7	111·4	98·2	64·7	101·7	82·2	64·6	38·9
Tax on profit on ordinary activities	(30·4)	(26·1)	(24·9)	(18·3)	(30·4)	(26·1)	(24·9)	(18·3)
Dividends	(30·7)	(26·4)	(22·8)	(20·0)	(30·7)	(26·4)	(22·8)	(20·0)
RETAINED PROFIT	67·6	58·9	50·5	26·4	40·6	29·7	16·9	0·6
EMPLOYMENT OF GROUP CAPITAL								
Fixed assets	492·6	449·5	386·6	354·5	985·6	910·3	819·6	690·3
Net working capital (less provisions)	27·4	59·7	80·9	90·3	27·5	59·8	81·0	90·4
	520·0	509·2	467·5	444·8	1,013·1	970·1	900·6	780·7
GROUP CAPITAL EMPLOYED								
Shareholders' funds	494·0	424·7	365·7	315·2	987·1	885·7	798·8	651·1
Loan capital	55·0	74·0	74·0	164·0	55·0	74·0	74·0	164·0
Dividends	21·6	18·6	16·0	14·0	21·6	18·6	16·0	14·0
Corporation tax and ACT	30·4	27·0	26·6	28·7	30·4	27·0	26·6	28·7
Cash and investments	(81·0)	(35·1)	(14.8)	(77·1)	(81·0)	(35·2)	(14·8)	(77·1)
	520·0	509·2	467·5	444·8	1,013·1	970·1	900·6	780·7
NET BORROWINGS								
Cash at bank and in hand	14·9	9·0	4·4	4·8	14·9	9·0	4·4	4·8
Investments	66·1	26·1	10·4	72·3	66·1	26·2	10·4	72·3
Loans falling due after more than one year	(55·0)	(55·0)	(55·0)	(74·0)	(55·0)	(55·0)	(55·0)	(74·0)
Loans falling due within one year	–	(19·0)	(19·0)	(90·0)	–	(19·0)	(19·0)	(90·0)
	26·0	(38·9)	(59·2)	(86·9)	26·0	(38·8)	(59·2)	(86·9)
STATISTICS								
Earnings per ordinary share	79·8p	69·3p	59·6p	37·7p	57·9p	45·6p	32·2p	16·7p
Dividends per ordinary share	24·85p	21·45p	18·55p	16·25p	24·85p	21·45p	18·55p	16·25p
Return on capital employed	25·7%	24·0%	23·6%	21·2%	10·5%	9·1%	8·3%	7·2%
Net debt/equity	–	9·2%	16·2%	27·6%	–	4·4%	7·4%	13·3%
Interest cover (times)	36·8	20·5	11·3	5·4	29·0	15·0	7·3	3·3
Dividend cover (times)	3·2	3·2	3·2	2·3	2·3	2·1	1·7	1·0

The 1991 profit and loss information is shown on a pro forma basis to be comparable with the three subsequent years. The pro forma adjustments to interest, tax and the current cost gearing adjustment assume that Northern Electric plc's revised capital structure had been in place for the whole of the financial year.

The calculation of earnings per share is on the Financial Reporting Standard Number 3 basis throughout and includes items previously described as extraordinary.

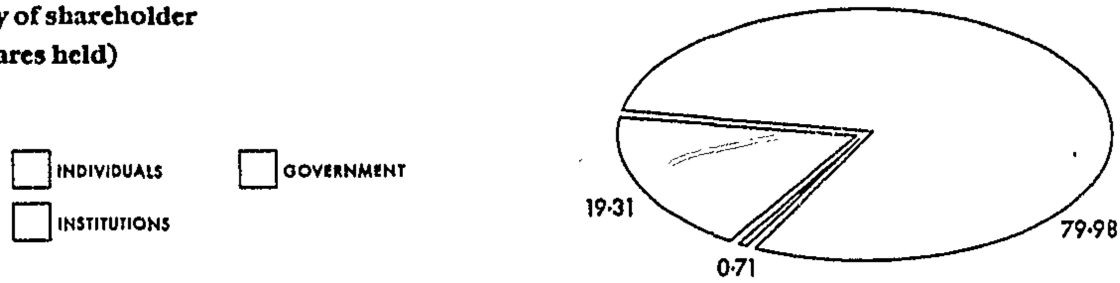
SHAREHOLDER INFORMATION

Analysis of shareholdings at 1 June 1994

Number of shareholders: 123,315

Shareholding range	Shareholders %	Shares %
up to 999	97.13	16.84
1,000 – 9,999	2.40	5.59
10,000 – 99,999	0.31	10.58
100,000 – 999,999	0.14	39.31
1,000,000 and above	0.02	27.68
Total:	100.00	100.00

Category of shareholder (% of shares held)



FINANCIAL CALENDAR

Ex-dividend date	18 July 1994
Annual General Meeting	4 August 1994
Qualifying date for final dividend	4 August 1994
Final dividend payable	4 October 1994
Announcement of interim results	12 December 1994
Interim dividend payable	March 1995

REPORTS ON AUDIO CASSETTE

To assist shareholders who may be visually handicapped, Northern Electric's annual and interim reports will be available on audio cassette. Please contact the Company Secretary at the address below, or ring 091 235 2405 if you would like to be registered for this free service.

REGULATORY ACCOUNTS

In accordance with the terms of its Public Electricity Supply Licence, the Company has prepared regulatory accounts for the year ended 31 March 1994. Copies are available on request from the Company Secretary, Northern Electric plc, Carliol House, Market Street, Newcastle upon Tyne NE1 6NE.

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Black Cyan Magenta Yellow

NORTHERN
ELECTRIC

Annual Review and Summary Financial Statement

1994

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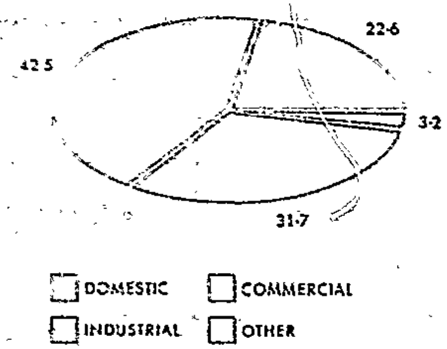
ELECTRICITY DISTRIBUTED
BY CUSTOMER TYPE 1994 (%)



Northern Electric is one of the twelve regional electricity companies of England and Wales.

We distribute and supply electricity to over 1·4 million customers in the counties of Northumberland, Tyne and Wear, Durham, Cleveland and North Yorkshire, and in addition we supply electricity to a number of large customers throughout England and Wales.

We also operate a gas supply business and sell electrical appliances through a chain of more than 50 shops.

Our aim is to achieve high standards of service and efficiency and to operate our business in an enterprising and innovative manner, so as to create value for our shareholders, customers and employees.

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HIGHLIGHTS OF THE YEAR

	1994	1993	Change
Group turnover	£1,030·5m	£882·7m	+16·7%
Profit before tax	£128·7m	£111·4m	+15·5%
Earnings per share	79·8p	69·3p	+15·2%
Dividends per share	24·85p	21·45p	+15·85%

- Growth in units of electricity distributed in the area.
- Success in the competitive electricity supply business in and out of area.
- Rebate to customers in 1993/94 and price freeze from 1 April 1994.
- Increased proportion of earnings from unregulated activities.
- Excellent first year for Teesside Power.
- Launch of Gas UK and upstream gas joint venture.
- Charter Mark awarded for excellence of customer service.

Black Cyan Magenta Yellow

CHAIRMAN'S STATEMENT

Northern Electric delivered another strong performance in the past year, with increased profits and continued improvement in efficiency and service in our core business, together with the development of related new business opportunities.

Group turnover increased substantially by 16·7% to £1,030·5m, due mainly to our growing share of the competitive national market in electricity supply. Pre-tax profits were up by 15·5% to £128·7m and earnings per share increased by 15·2% to 79·8p. Investment income was up and interest charges reduced. Cashflow continues to be strong and the Company is in a position of net cash after £68·1m of capital investment.

DIVIDEND

The Directors are recommending a final dividend of 17·45p per share. This makes a total dividend for the year of 24·85p, up 15·85% on last year. The increase is in line with our policy of progressive dividend growth and our current dividend cover remains strong at 3·2 times.

THE ELECTRICITY BUSINESS

There has been a pleasing increase in demand for electricity in our area, demonstrating the relative strength of the regional economy. Units distributed were up by 1·3%, with domestic and commercial sectors again performing strongly.

Electricity contract supply volumes increased strongly during the year reflecting our success in winning profitable supply contracts outside our franchise area. We continue to be a major national supplier. To the 400 sites outside the North East supplied during the past year we have now added a further 2,500 sites in the

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Black Cyan Magenta Yellow

100kW to 1MW range of demand following the widening of the competitive market from 1 April 1994.

PRICES AND SERVICE

The benefits of improved performance are being enjoyed by customers as well as shareholders. Following the price reduction of 3% in early 1993 customers received a £10 rebate last autumn, and from 1 April 1994 prices were frozen. The Company intends a further price reduction later this year. It is regrettable that VAT on electricity bills is offsetting these benefits.
We have made further improvements to the range and quality of services to our customers and were delighted to be awarded a Charter Mark in recognition of our progress. We continue to be the regional electricity

Newcastle Airport, where major developments to the passenger hall, a new freight village and increased flight services reflect the demand from a growing regional economy.

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company with the lowest number of complaints from customers to the Office of Electricity Regulation.

IMPROVING EFFICIENCY

The Company employs some 4,600 people, a reduction of over 900 or 18% since flotation at the end of 1990. The number of staff employed in our core electricity business fell by 5% in the year. We recognise the fundamental importance of continued efficiency improvement and cost reduction which investment in information technology systems, a reduction in organisational layers and improved flexibility of working is bringing.

OTHER BUSINESSES

Our appliance retail business improved its profit performance, with significantly increased turnover. In the autumn our gas supply subsidiary, Gas UK Limited, began trading and this was followed by the announcement of our new upstream gas joint venture, Sovereign Exploration and Production Limited, in which we are in partnership with the Finnish company Neste Oy. Teesside Power Limited, in which we have a 15.4% equity interest, has completed a very satisfactory first year of operation.

DIRECTORS AND STAFF

Tony Hadfield, Managing Director since October 1991, became Chief Executive on 1 April 1994, responsible for the day-to-day management of the Company's business and the achievement of the business plan agreed by the Board. Tony and I, on behalf of all the Directors, wish to record our thanks to the staff of Northern Electric for their contribution to the Company's success at a time when many changes are taking place to our organisation and ways of working.

PROSPECTS

The regional electricity companies are facing the first review by the industry's Regulator of their core distribution businesses, the outcome of which is expected in the near future and has been predicted to reduce profitability for the sector. The Board believes that in comparisons of efficiency and service between companies in the sector, Northern Electric is well-placed. The Directors are confident that a progressive policy of dividend growth can be maintained beyond the present regulatory period. Continued cost reduction, together with a prudent but positive approach to developing unregulated earnings, will be the principal objectives for Northern Electric in maintaining this dividend policy. The Company will continue to concentrate upon profit maximisation and customer service through increased efficiency and is committed to further enhancement of shareholder value.

David Morris

DAVID MORRIS
Chairman

BLACK CYAN MAGENTA YELLOW

Tony Hadfield

CHIEF EXECUTIVE'S REVIEW

THE ELECTRICITY BUSINESS
Our electricity distribution business plans, constructs, maintains and operates the network of overhead lines, underground cables, transformers and other equipment taking electricity to our customers.

Units distributed were 1·5% up on the previous year, mainly because of continuing strong growth in the higher margin domestic and commercial sectors, up 2·5% and 2·8% respectively. Sales to the industrial market were down a little, notably in mining and *shipbuilding, but partly offset by* encouraging further growth in manufacturing and engineering.

During the past year we extended the electricity network to meet new business activity in the commercial and industrial sectors, particularly in the riverside areas which are being regenerated by the work of the development corporations. In addition we connected almost 10,000 new homes to our network.

We are continuing to make substantial investments to improve supply reliability. Over 1200km of rural overhead lines were strengthened during the year, and 140 replacement *indoor substations were built to house* our equipment, which improves visual appearance and security. Despite

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widespread power cuts caused by storms in May 1993 and by snow and gales in the late winter, supply availability for the year was maintained at 99·98% in the Company's area.

The electricity supply business buys electricity and sells it to customers. Increasingly it is being opened up to competition, with customers able to "shop around" among suppliers. Our aim is a low risk business that makes satisfactory and sustainable profits. Through careful purchase cost risk management we have maintained a profitable supply business each year, and our wide market coverage, rapid response to customer enquiries and flexible supply contracts have ensured a growing business.

The contracts dealing room in Carliol House is part of Northern Electric's successful national electricity supply business.

The Oxford Street store of Marks & Spencer, one of 160 throughout the country supplied with electricity by Northern Electric.

In 1993 we won new business in the competitive over-1MW market, supplying over 400 sites out of our area. In April 1994 the competitive market extended to all customers with a demand of over 100kW and we retained some 80%, or around 1700, of our in-area customers, as well as winning business to supply over 2,500 sites outside our area. This represents over 20% of all sites in the country that have changed supplier and confirms our position as one of the leading national suppliers. New customers include retail chains such as Marks & Spencer (160 stores) and C&A (125 stores)

Black Cyan Magenta Yellow

CUSTOMER SERVICE

Northern Electric has a tradition of reliability and excellence of customer service and we recognise how important customer loyalty will be when everyone has the freedom to choose their own supplier in 1998. The Regulator monitors and publishes a series of guaranteed and overall standards of service, and in addition we operate to a range of Company standards. If we fail to meet the guaranteed standards, for example by not keeping an appointment, customers are entitled to a set compensation payment of at least £20. During the year to 31 March 1994 out of over 800,000 services provided, we made only 437 payments, which is slightly fewer than in the previous twelve months but with the same overall performance of 99·95%. Our target is to be consistently among the

Northern Electric's commitment to customers with special needs includes making available braille controls on electrical appliances.

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best of the electricity companies on all of the standards and we are investing heavily in improved systems and in staff training to achieve this.

The Office of Electricity Regulation receives fewer complaints from our customers than from those of any other electricity company, and disconnection of customers for non-payment of bills has almost ceased.

Our progress in improving service to customers and our commitment to further improvement brought us welcome recognition when we were awarded a Charter Mark in October 1993.

OTHER BUSINESSES

We operate a stand-alone retail business which in the past year has achieved significantly increased sales volumes and improvements in margins and trading profit. Sales of both white goods and audio-visual equipment have increased substantially during the year. New out-of-town superstores have been opened successfully in North Tyneside, Durham, and, out of area, in Leeds, giving a total of five, and some smaller shops have been closed.

We seek to ensure that investment in competitive generation provides a return above that of the regulated core business. Teesside Power Limited, in which we have a 15·4% equity investment and a 400MW power purchase agreement, has completed its first year of operation and we are pleased with its performance and its high level of availability. Returns are in line with expectations and the station is providing competitively-priced electricity for our customers. In combined heat and power (CHP) we continue to sell schemes below 1MW through our investment in Combined *Power Systems (Northern) Limited.*

Our strategy in entering the gas business has been to look for a competitive advantage which provides returns above the core business and

Teesside Power, the world's largest gas-fired combined heat and power plant, began generating in April 1993. Northern Electric has a 15·4% shareholding.

has long-term prospects. The MMC report on British Gas confirmed the emergent competitive market and we launched our gas marketing business, Gas UK Limited, in late 1993. This business is planned to grow rapidly and additional gas purchases have been made.

Competitive advantage has been enhanced through an integrated upstream/downstream approach to gas by the Company's subsequent investment in a joint venture with the Finnish energy company Neste Oy. Northern Electric has invested £10.7m for a 50% stake in the joint venture, Sovereign Exploration and Production Limited, which manages a well-balanced portfolio of Southern Basin North Sea gas production, development and exploration assets.

AMEC Offshore Limited, Wallsend, one of Europe's foremost offshore equipment fabricators and a major customer of Northern Electric for gas as well as electricity.

Black Cyan Magenta Yellow

Sovereign Exploration and Production Limited, a joint venture in gas production and development, is the latest of Northern Electric's new business developments.

We have a significant in-house telecommunications business and we are also developing to take advantage of opportunities as the telecoms market is deregulated. One such interest is in trunk communications through Energis where we invest by way of our share of the National Grid Holding plc. For the local loop market we have made a small additional investment in the development of Ionica L3 Limited, maintaining our 10% holding.

THE COMMUNITY AND THE ENVIRONMENT

Our community involvement programme within the region was recognised in December 1993 when we won the special "Business In The Community" award category of the Northern Business Awards.

Whilst we support many such cases through secondments, employee volunteering or help in cash or kind, our 'flagship" areas are in special needs education, conservation, sponsorship of the arts and encouraging young people and people with disabilities to develop though sport.

We are concerned to protect the environment at all times. We promote efficiency in both the generation and use of electricity and we aim to be a good neighbour through a sensitive and responsible approach to our own operations.

Within the Company we have set ambitious targets for energy saving under the pledge of "Making a Corporate Commitment" and during the past year we have

New out-of-town superstores play a big part in growing market share and profitability for Northern Electric Retail.

The electrified Metro system, an essential part of Tyneside's transport infrastructure, is to be extended to Sunderland.

reduced own energy consumption by 5%. We are working towards accreditation to British Standard 7750 on environmental management. With the active interest and support of staff, over 100 of whom have been enlisted as environmental representatives, we have developed new initiatives for promoting energy awareness and reducing waste through recycling and better resource management.

The Company has been a leading supporter of the establishment of one-stop Energy Advice Centres in Newcastle, Middlesbrough and Ryedale and is actively seeking projects with a wide range of groups to best use the funds now made available for energy efficiency following the Regulator's review of the supply business.

Support from Northern Electric has helped illuminate Tyneside's most famous landmark.

OUR STAFF

Northern Electric staff are highly trained and skilled to meet the technical, safety and customer service standards required and expected of us. The continued success of the Company depends upon their contribution as individuals and in teams, and the commitment of management at all levels to encourage teamwork, personal development and effective two-way communications.

We will continue to give the highest priority to the best of training for staff, to promoting equal opportunities, helping career development and improving health and safety at work, where we have responded to staff wishes for a smoke-free environment, developed an on-going health screening programme and jointly achieved a large reduction in accidents.

Black Cyan Magenta Yellow

TONY HADFIELD SIR PAUL NICHOLSON RON DIXON ALAN GROVES BILL HOOK
STUART ERRINGTON IAN McCUTCHEON DAVID MORRIS

DIRECTORS

DAVID MORRIS – CHAIRMAN †
Northern Electric's Chairman since June 1989. Spent 19 years with English Electric Limited and General Electric Company plc before moving to Sears Holdings plc. In 1980 he joined Delta plc becoming Managing Director of the Switchgear and Accessories Division in 1981 and a main Board Director in 1984. Non-Executive Director of Neptune Power Limited, Electricity Association Technology (Services) Limited, Electricity Association Limited, Electricity Association Technology Limited, Jarrow 700 AD Limited, National Grid Holding plc, Non-Fossil Purchasing Agency Limited, Regional Technology Centre (Northern) Limited, The Newcastle Initiative. Chairman of Bede Foundation. Aged 59.

TONY HADFIELD – CHIEF EXECUTIVE
Joined Northern Electric in 1991 as Managing Director and appointed Chief Executive from April 1994. Before joining the Central Electricity

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Generating Board (CEGB) in 1965 he was responsible for the design and management of overseas construction projects for private industry. He went on to hold management positions in Eastern Electricity, Yorkshire Electricity and Midlands Electricity before becoming Deputy Chairman and Chief Executive of Northern Ireland Electricity in 1985. Non-Executive Director of Teesside Power Limited, Electricity Association Limited, National Grid Holding plc. Aged 57.

ALAN GROVES – FINANCE DIRECTOR
Appointed Financial Director of NEEB (The North Eastern Electricity Board) in 1974. Prior to this he worked for the CEGB and South Western Electricity and in 1966 joined the Electricity Council with responsibility for Treasury matters and financial planning. Non-Executive Director of Universal Building Society, Combined Power Systems Limited, Electricity Pensions Limited, Non-Fossil Purchasing Agency Limited. Aged 58.

RON DIXON – COMMERCIAL DIRECTOR
Became Commercial Director in 1991. Worked for NEEB and Northern Electric throughout his career, being appointed Secretary of NEEB in 1987 and later also Privatisation Director. Appointed Managing Director of the Power Division in 1990 where he was responsible for electricity supply and distribution. Non-Executive Director of Neptune Power Limited, Gateshead Healthcare Trust, Ionica L3 Limited, REC Collect Limited and Sovereign Exploration and Production Limited. Aged 56.

BILL HOOK – OPERATIONS DIRECTOR
Operations Director since 1991. Apart from a period with Midlands Electricity he has spent his career with NEEB and Northern Electric, moving from Regional Manager to Retail Sales Manager and Personnel Director prior to his appointment to the Board in 1991. Non-Executive Director of North Durham Acute Hospitals NHS Trust. Aged 57.

STUART ERRINGTON * § †
Formerly Chairman and Chief Executive of Mercantile Group plc, a subsidiary of Barclays Bank plc. His Non-Executive Directorships include Kleinwort Overseas Investment Trust plc and Nationwide Building Society. He is also Chairman of the National Association of Citizens' Advice Bureaux. Aged 65.

IAN McCUTCHEON * § †
Formerly Group Controller of the Royal Dutch/Shell Group of companies, during his 30 years' career with Shell. Non-Executive Director of Community Hospitals plc. Aged 65.

SIR PAUL NICHOLSON * § †
Executive Chairman of Vaux Group plc. Non-Executive Director of Northern Electric and NEEB since 1985. Chairman of the Tyne and Wear Development Corporation and Non-Executive Director of Yorkshire – Tyne Tees Television Holdings plc and the Northern Development Company. Aged 56.

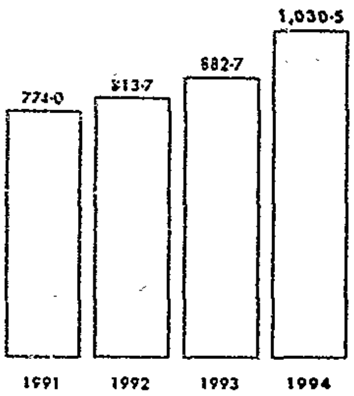
* Non-Executive Director § Member of Audit Committee † Member of Remuneration and Nominations Committee

FINANCIAL REVIEW

OPERATING RESULTS

Overall operating performance is shown by the earnings available to shareholders after allowing for all the operating costs, interest on borrowings and taxation. These earnings of £98·3m represent 79·8p for each of the Company's 123 million shares, up 15·2% over the previous year.

TURNOVER (£m)



Turnover

Turnover rose by £147·8m to £1,030·5m, the first time that the Group has had sales of over £1 billion. The increase was mainly from sales of electricity to large customers in the competitive market. Sales in the company's other businesses also increased.

In the electricity businesses of distribution and supply the regulator sets the maximum allowed income. In setting prices for the year the Group has to make estimates as to the amount of electricity customers will use and particularly the wholesale cost of the electricity it has to buy from the generating companies. In 1992/93 wholesale costs were lower than forecast providing an overrecovery which was refunded during 1993/94. During this year the Group was again able to buy electricity at lower than forecast prices and has overrecovered by £16·3m or 1·7% of turnover. As a result prices to customers will be reduced later in the year. The level of this reduction will depend on the outcome of the Distribution Price Review.

Changes in the regulatory regime for supply were introduced from 1 April 1994. Changes for distribution will be introduced from 1 April 1995.

Operating profit

Overall operating costs increased by £11·0m or 6·6%, mainly as a result of additional depreciation and costs associated with the development of computer systems, including the introduction of VAT on fuel. Staff costs have continued to fall as a result of the staff savings made during the current and previous years. These savings have been partly offset in the current year as a result of redundancy and severance payments made to the staff who have left.

Overall the operating profit increased by £8·3m to £114·7m. Some £103·5m, of this operating profit was earned by the core businesses of distribution and supply. Of the remainder, £4·9m came from the property company and £2·7m was earned by the retail business. The balance relates mainly to the insurance, transport, telecommunications and information technology activities.

Profit after tax
The company received £12·2m as a gross dividend from its 6·5% holding in National Grid Holding plc, up 14·0% on the previous year. In addition the investment in the Teesside Power project provided a return of £5·4m in its first year of operation.

The Group's cash generation and the continued reduction in interest rates means that net interest payable is down from £5·7m to £3·6m, representing only 3% of the profit before interest. This includes £7m of interest on the Government debt of £55m which will continue to be payable at 12·661% until September 1999.

The increase in dividends received and the reduction in net interest contributed to the profit before tax increase of 15·5% to £128·7m.

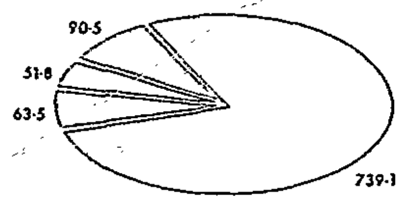
Overall the corporation tax payable increased by 16·5% to £30·4m reflecting the increase in profits.

Dividends
The total net dividend for the year is 24·85p per share equivalent to £30·7m. With earnings of £98·3m, dividend cover is 3·2 times, unchanged from the previous year.

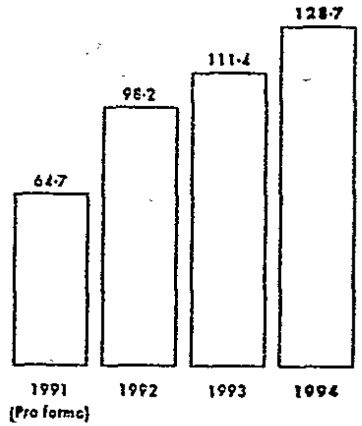
After allowing for the dividend of £30·7m the retained profit is £67·6m increasing shareholders' accumulated reserves by 16·3% to £494·0m.

FINANCIAL NEEDS AND RESOURCES
The cash flow from operations of £177·0m was £25·3m higher than the previous year.

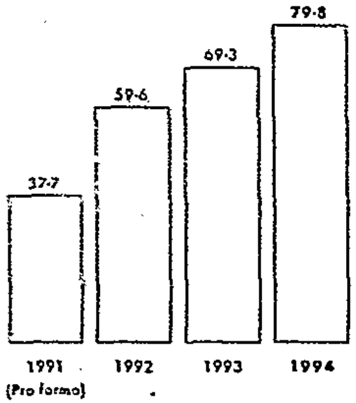
ANALYSIS OF COSTS 1994 (£m)



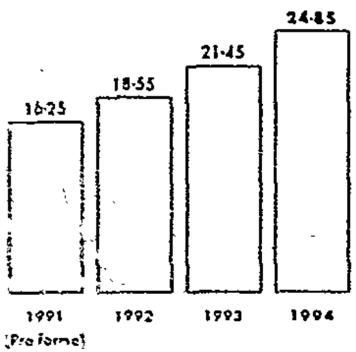
PROFIT BEFORE TAX 1994 (£m)



EARNINGS PER SHARE (p)



DIVIDENDS PER SHARE (p)



Of this £21·3m resulted from payments received in advance from domestic customers seeking to save VAT which was introduced on 1 April 1994.

Operating profits accounted for £12·2m, with the balance reflecting changes in working capital and the reduction in the supply overrecovery. Electricity debtors in the competitive market increased reflecting the higher sales while debtors in the franchise market were well below last year's level. There was also a reduction in the amount of debt which the company failed to recover.

The higher dividends paid to shareholders were partly offset by lower interest charges and the higher dividends received from National Grid Holding plc.

The Group has a continuous programme of capital expenditure largely to replace, improve and extend its electricity distribution network. After allowing for the cash inflows from customers contributing to the cost of extending the network and for other capital receipts the funding of capital expenditure resulted in a net cash outflow of £55·5m, slightly up on last year.

During the year the Group invested £10·7m in a gas exploration and production joint venture with Neste Oy, as well as additional funding of £1·2m in Ionica L3 Limited.

The Group also repaid £19m of the Government debt during April 1993. In addition there was a cash inflow of £1·7m from staff exercising share options during the latter part of the year.

There was a cash inflow of £45·9m increasing cash and short-term investments from £35·1m to £81·0m. With £55m of the Government debt not due for repayment until September 1999 this meant that the Group had a net cash balance of £26·0m compared with a net debt of £38·9m at the start of the year. The move to a net cash position is earlier than anticipated mainly as a result of the inflow of funds from customers seeking to minimise their VAT liabilities. Future cash inflows will be correspondingly reduced.

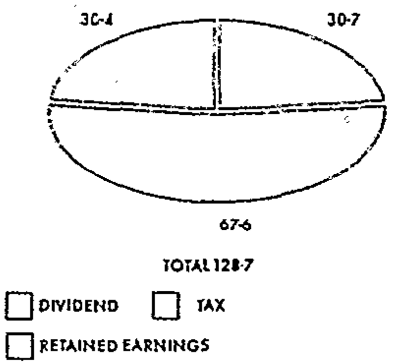
SHAREHOLDER RETURN AND VALUE
The share price at 31 March 1994 was 706p, up 32% over the year and with over 123 million shares in issue this represents a market capitalisation of over £870m.

The share price showed strong growth in the early part of 1994. However towards the end of the financial year share prices fell across the electricity sector reflecting the market's uncertainty about the outcome of the Distribution Price Review.

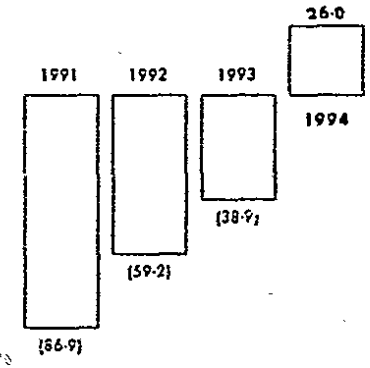
The Group's policies are designed to provide shareholders with continued enhancement to the value of their shareholding. As part of its commitment to enhancing value the Group will, in common with all electricity companies, be studying the future of its holding in National Grid Holding plc.

The Company's dividend policy is to provide increases which reflect the underlying financial performance. Accordingly, the directors are recommending a final dividend of 17·45p. Following the interim dividend of 7·40p this gives a full year dividend of 24·85p which is 15·85% above last year's equivalent of 21·45p. Since flotation the total net dividends paid amount to 76·23p.

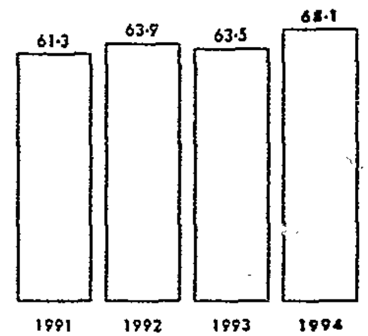
PROFIT BEFORE TAX 1994 (£m)



NET (BORROWINGS) AND CASH (£m)



GROSS CAPITAL EXPENDITURE (£m)



AUDITORS' REPORT ON THE STATEMENT OF COMPLIANCE TO THE MEMBERS OF NORTHERN ELECTRIC PLC

In addition to our audit of the financial statements we have reviewed the directors' statement on pages 21 and 22 concerning the Group's compliance with the Code of Best Practice, insofar as it relates to the paragraphs of the Code which the London Stock Exchange has specified for our review. We carried out our review having regard to the Bulletin "Disclosures Relating to Corporate Governance" issued by the Auditing Practices Board.

The purpose of the directors' statement is to give readers information which assists them in forming their own views regarding the governance of the Group. In respect of the paragraphs of the Code specified for our consideration, we are required to draw attention to any aspects of the Group's non-compliance with the Code which the directors have not properly disclosed. We are not required to review, and have not reviewed, the effectiveness of the Group's governance procedures.

Through enquiry of certain directors and officers of the Group and examination of relevant documents, we have satisfied ourselves that the directors' statement appropriately reflects the Group's compliance with the specified paragraphs of the Code.

Ernst & Young

ERNST & YOUNG
Chartered Accountants
Newcastle upon Tyne
29 June 1994

CORPORATE GOVERNANCE

Good governance has been and remains the responsibility of the whole Board. The Cadbury Committee's report on the financial aspects of corporate governance contains a Code of Best Practice and the company now complies with all of the operative provisions of the Code. Criteria for assessing the adequacy of internal accounting controls and guidance on the going concern status of the business are still awaited. However the Board is satisfied that internal controls are in place which provide reasonable assurance of the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

Corporate governance is the way in which companies are directed and controlled. The Board of Northern Electric, chaired by David Morris, meets monthly and comprises five executive and three non-executive directors. The directors discharge their responsibilities with the assistance of internal and external advice and in a way which has regard to the interests of customers, shareholders and employees. The Board deals with strategic issues and approves corporate plans, budgets and major projects as well as monitoring the performance of management. Certain powers are delegated to the Executive and other committees with appropriate terms of reference. A proper balance of responsibilities is maintained overall with a clear definition of those decisions which may be taken by the Chairman, the Chief Executive and the whole Board. The appointment of Tony Hadfield, previously Managing Director, as Chief Executive with effect from 1 April 1994 was announced in December 1993. During the year the duties of Chairman and Chief Executive were discharged by David Morris.

The Audit Committee meets regularly, is chaired by Ian McCutcheon, and is made up entirely of the non-executive directors. It examines any matters relating to the financial affairs of the Group. These include reviewing accounting policies, annual accounts, internal controls and compliance with accounting standards. An objective and professional relationship is maintained with our auditors. In addition the Audit Committee has regular discussions with the Head of Internal Audit and the statutory auditor who have unrestricted access to the Audit Committee chairman.

The Remuneration and Nominations Committee is chaired by Stuart Errington and comprises mainly non-executive directors. Its main task is to recommend executive directors' conditions of service, remuneration and bonus payments, taking performance into account. It also considers Board succession and senior management remuneration policies.

Responsibility for Northern Electric Group pensions rests with the Trustees, voting rights being equally shared by employer-nominated and employee-elected trustees. The Northern Electric Group is a unit of the Electricity Supply Pension Scheme which is a defined benefit scheme for directors and employees in the electricity supply industry. Asset management is the responsibility of Electricity Pensions Trustee Limited and the Scheme's annual report and accounts is available to all members.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF THE ACCOUNTS

The directors are required by company law to prepare accounts which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the results of the Group for the period to that date. The accounts must be prepared in accordance with applicable accounting standards. In addition, the directors are responsible for selecting suitable accounting policies, applying them consistently and for making judgements and estimates that are reasonable and prudent.

The directors are also responsible for maintaining adequate accounting records, and for ensuring that systems are in place both to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The corporate governance statement sets out the way in which the directors exercise their responsibilities.

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AUDITORS' STATEMENT TO THE MEMBERS OF NORTHERN ELECTRIC PLC

We have audited the summary financial statement set out on pages 24 to 27.

Respective responsibilities of directors and auditors

The summary financial statement is the responsibility of the directors. Our responsibility is to report to you our opinion as to whether the statement is consistent with the full annual accounts and directors' report.

Basis of opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. The audit of a summary financial statement comprises an assessment of whether the statement contains all information necessary to ensure consistency with the full annual accounts and directors' report and of whether the detailed information required by law has been properly extracted from those documents and included in the summary statement.

Our report on the Company's full annual accounts contains a reference to a statement of the directors' responsibilities for the preparation of those annual accounts. Our report on the company's full annual accounts also includes information on our responsibilities relating to the audit of those annual accounts and on the basis of our opinion on the annual accounts.

Opinion

In our opinion the summary financial statement on pages 24 to 27 is consistent with the full annual accounts and directors' report of Northern Electric plc for the year ended 31 March 1994, and complies with the requirements of Section 251 of the Companies Act 1985 and regulations made thereunder applicable to summary financial statements.

Ernst & Young

ERNST & YOUNG
Chartered Accountants, Registered Auditor
Newcastle upon Tyne. 29 June 1994

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SUMMARY FINANCIAL STATEMENT

For the year ended 31 March 1994

This summary financial statement is a summary of the information in the Group's annual accounts and directors' report for the year ended 31 March 1994 and does not contain sufficient information to allow for a full understanding of the results of the Group and state of affairs of the Group or of the Company. For further information the full annual report and accounts for the year ended 31 March 1994, the directors' report and the auditors' report on the accounts should be consulted.

The receipt of a summary financial statement does not remove the right of members under Section 239 of the Companies Act 1985 to demand, free of charge, a copy of the Group's full annual report and accounts. Shareholders who wish to receive the full annual report and accounts for 1994, or future years, should complete Card C (the annual report form of request) attached to the proxy form.

SUMMARY DIRECTORS' REPORT

Principal activities and business review: The principal activities of the Group are the distribution and supply of electricity to industrial, commercial and domestic customers, operation of a gas supply business and retailing of electrical appliances. The Chairman's Statement and Chief Executive's Review contain further information on the business activities of the Group. The names of the present directors are given on pages 14 and 15. All of the directors held office throughout the year.

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SUMMARY CONSOLIDATED GROUP PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1994

	1994	1993
	£m	£m
TURNOVER	1,030·5	882·7
OPERATING PROFIT	114·7	106·4
Income from fixed asset investments	17·6	10·7
Net interest payable	(3·6)	(5·7)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	128·7	111·4
Taxation on profit on ordinary activities	(30·4)	(26·1)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	98·3	85·3
Dividends paid and proposed	(30·7)	(26·4)
RETAINED PROFIT FOR THE YEAR	67·6	58·9
	pence	pence
EARNINGS PER ORDINARY SHARE	79·8	69·3
	£000	£000
DIRECTORS' EMOLUMENTS	986	880

The Executive Directors are paid basic salaries and can earn bonuses based primarily on the increase in earnings per share. These are set by the Remuneration and Nominations Committee.

SUMMARY CONSOLIDATED GROUP BALANCE SHEET

As at 31 March 1994

	1994 £m	1993 £m
FIXED ASSETS	492·6	449·5
CURRENT ASSETS	274·6	213·9
CREDITORS:		
amounts falling due within one year	(155·3)	(131·9)
NET CURRENT ASSETS	119·7	82·0
TOTAL ASSETS LESS CURRENT LIABILITIES	611·9	531·5
CREDITORS:		
amounts falling due after more than one year	(76·5)	(62·6)
PROVISIONS FOR LIABILITIES AND CHARGES	(41·4)	(44·2)
NET ASSETS	494·0	424·7
CAPITAL AND RESERVES	494·0	424·7

CURRENT COST ACCOUNTS

Current cost accounts reflect the long term nature of the Group's assets. The convention allows for price changes specific to the business when reporting assets employed and profits thereon. The current cost operating profit is determined after allowing for the impact of price changes on the funds needed to maintain net operating assets and also to take into account the way in which these assets are financed.

	1994 £m	1993 £m
HISTORICAL COST PROFIT FOR THE YEAR	98·3	85·3
CURRENT COST ADJUSTMENTS	(27·0)	(29·2)
CURRENT COST PROFIT FOR THE YEAR	71·3	56·1
NET ASSETS	987·1	885·7

FULL ANNUAL ACCOUNTS

The report of the auditors on the full accounts for the year ended 31 March 1994 was unqualified and did not contain a statement made under either Section 237(2) of the Companies Act 1985 (accounting records or returns inadequate or accounts not agreeing with records or returns) or Section 237(3) (failure to obtain necessary information and explanations).

The summary financial statement was approved by the directors on 29 June 1994.

D R MORRIS
Chairman

A GROVES
Finance Director

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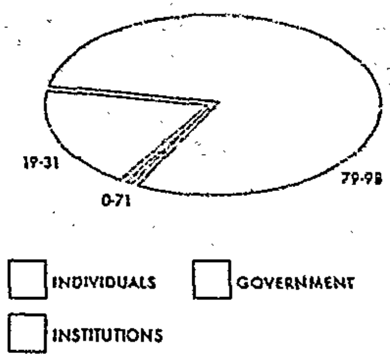
SHAREHOLDER INFORMATION

Analysis of shareholdings at 1 June 1994
NUMBER OF SHAREHOLDERS: 123,315

Shareholding range	Shareholders %	Shares %
up to 999	97·13	16·84
1,000 – 9,999	2·40	5·59
10,000 – 99,999	0·31	10·58
100,000 – 999,999	0·14	39·31
1,000,000 and above	0·02	27·68
Total:	100·00	100·00

Category of shareholder (% of shares held)



COMPANY ADVISERS

MERCHANT BANKERS
S G Warburg & Co Ltd
BANKERS
Lloyds Bank Plc
STOCKBROKERS
de Zoete & Bevan
Wise Speke
AUDITORS
Ernst & Young
SOLICITORS
Dickinson Dees
REGISTRAR AND TRANSFER OFFICE
Lloyds Bank Plc
Registrar's Department
54 Pershore Road South
Birmingham B30 3ER
REGISTERED OFFICE
Northern Electric plc
Carliol House
Market Street
Newcastle upon Tyne
NE1 6NE
REGISTERED IN ENGLAND
No. 2366942

FINANCIAL CALENDAR

Ex-dividend date	18 July 1994
Annual General Meeting	4 August 1994
Qualifying date for final dividend	4 August 1994
Final dividend payable	4 October 1994
Announcement of interim results	12 December 1994
Interim dividend payable	March 1995

REPORTS ON AUDIO CASSETTE

To assist shareholders who may be visually handicapped, Northern Electric's annual and interim reports will be available on audio cassette. Please contact the Company Secretary at the address below, or ring 091 235 2405 if you would like to be registered for this free service.

REGULATORY ACCOUNTS

In accordance with the terms of its Public Electricity Supply Licence, the Company has prepared regulatory accounts for the year ended 31 March 1994. Copies are available on request from the Company Secretary, Northern Electric plc, Carliol House, Market Street, Newcastle upon Tyne NE1 6NE.

Front cover photograph – Residents in an Anchor Housing scheme enjoying the benefits of energy-efficient electric heating and lighting.

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