NORTHERN ELECTRIC

INTERIM Results

TO 30 SEPTEMBER 1995

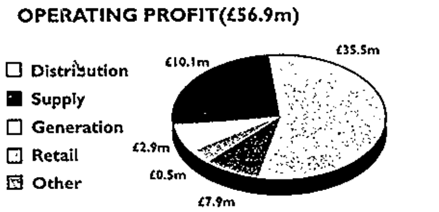
CHAIRMAN'S STATEMENT

1995/96 Half Year Results

INCREASED OPERATING PROFITS

I AM pleased to report good progress by your company during the first half of the year.

Even though turnover was down by £60.9m, gross profits were down only £13.4m, due mainly to the first Distribution Price Review. We are able to report, however, increased operating profits at £56.9m, up £3.8m from last year. This was due to a reduction in staff costs of £5.7m and a lower level of restructuring costs of £11.1m.



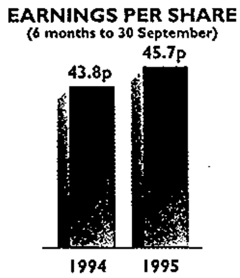
PROFIT BEFORE tax was £58.7m, down by £4.7m from 1994/95.

This reflects the increased operating profits (£3.8m), and an increase in the National Grid dividend (£1.3m). These were offset by the one-off costs of issuing the special dividend and bonus preference shares (£2.9m), the non-recurring 1994 profit on property disposal (£3.4m), and higher net interest charges (£3.4m) due to a lower cash position following the 1994 share repurchase.

EARNINGS PER SHARE INCREASED

PROFIT AFTER tax declined from £48.3m to £7.1m after providing £35.6m for the estimated capital gains tax payable on the flotation of the National Grid.

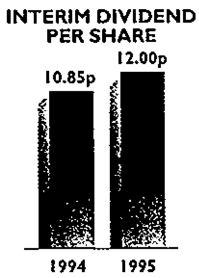
Excluding the effects of the capital gains tax and one-off costs associated with the shareholder value package, earnings per share increased from 43.8p to 45.7p.



INTERIM DIVIDEND

THESE RESULTS are in line with our expectations and we will be paying an interim dividend of 12p net per ordinary share on 19 February 1996.

This dividend reflects an underlying increase of 7% over last year.



Outlook

YOUR COMPANY faces considerable pressures on its business following the first Distribution Price Review and these will increase from April 1996 with the impact of the second Review.

David Morris, Chairman

VALUE TO SHAREHOLDERS

NEVERTHELESS, THE Board has successfully implemented the reorganisation of the company into separately managed businesses and the results of this will increasingly make themselves felt as the market place becomes more competitive.

We are confident that we can continue to deliver value to our shareholders and improving levels of service quality to our customers, who will benefit from an estimated average price reduction in their electricity bills of £215 per domestic customer over the five year period to March 2000, in addition to receiving a one-off discount of £50 as part of the National Grid flotation.

SIX MONTHS TO MARCH 1996

THE SECOND half results for 1995/96 will include the full impact of the National Grid flotation, which is the second stage of your Company's Shareholder Value Package.

The profit and loss account will reflect the customer discount charge (£62.1m) and benefit from the National Grid dividends (£89.3m) less the related tax charge (£17.0m), together with the distribution to shareholders of National Grid shares (£215.8m) and, uniquely among the RECs, passing through of the net dividends from National Grid (£62.1m).

TOTAL ORDINARY DIVIDENDS

THE BOARD reaffirmed in its circular dated 22 November 1995 that it expects to recommend total ordinary dividends, in the absence of unforeseen circumstances, of 39.9p net per ordinary share for the year ending 31 March 1996. It also reaffirmed its objective to grow total ordinary dividends by at least 7% year on year until March 2000, subject to maintaining satisfactory dividend cover.

SECOND SPECIAL DIVIDEND

IT REMAINS the Board's intention, subject to unforeseen circumstances, to seek shareholder approval for the payment of a Second Special Dividend of approximately 56.5p net per ordinary share, to be paid in February 1997.

SOVEREIGN EXPLORATION

The Board intends to exercise its option to purchase Neste's 50% of Sovereign Exploration Limited. This is in accordance with the terms of the original shareholders' agreement. It is expected that the purchase will be completed in January 1996 with an exercise price of around £11 million. The current trade investment will be fully consolidated on to the balance sheet at the year end.

The Board's current estimates of historical cost balance sheet gearing, fixed charge and dividend covers remain within those envisaged at the time of the circular to shareholders dated 21 July 1995.

David Morris, Chairman

INTERIM STATEMENT - SIX MONTHS ENDED 30 SEPTEMBER 1995

GROUP PROFIT AND LOSS ACCOUNT

	6 Months to 30 September 1995 (Unaudited) £m	6 Months to 30 September 1994 (Unaudited) £m	12 Months to 31 March 1995 (Audited) £m
TURNOVER	429.8	490.7	1,080.8
Cost of sales	(290.4)	(337.9)	(753.9)
GROSS PROFIT	139.4	152.8	326.9
Distribution costs	(32.3)	(40.7)	(80.4)
Administrative expenses	(51.1)	(59.0)	(111.5)
Other operating income	0.2	0.3	1.1
Income from interests in associated undertakings	0.7	(0.3)	0.1
OPERATING PROFIT	56.9	53.1	136.2
Shareholder value costs	(2.9)	-	(15.1)
Profit on disposal of tangible fixed assets	0.3	3.7	4.0
Income from investments	8.9	7.7	19.5
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST	63.2	64.5	144.6
Interest payable	(4.7)	(3.6)	(8.0)
Interest receivable	0.2	2.5	4.1
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	58.7	63.4	140.7
Tax on profit on ordinary activities	(16.0)	(15.1)	(37.5)
Deferred tax on revaluation of The National Grid Group plc	(35.6)	-	-
PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY	7.1	48.3	103.2
Ordinary dividend on equity shares	(11.9)	(10.7)	(36.8)
Dividend on preference shares	(0.4)	-	-
RETAINED PROFIT	(5.2)	37.6	66.4
Special dividends on equity shares	(114.9)	-	-
TRANSFER (FROM)/TO RESERVES	(120.1)	37.6	66.4
Earnings per equity share (see Note 4):			
Basic	6.8p	43.8p	99.2p
Shareholder value costs	2.9p	-	14.5p
Deferred tax provision on revaluation of The National Grid Group plc	36.0p	-	-
Earnings per share before charging non-operating exceptional items	45.7p	43.8p	113.7p
Interim dividend per equity share	12.00p	10.85p	37.30p
Special dividends per equity share:		-	-
First special dividend paid	100.00p		
The National Grid Group plc interim dividend to be passed through	4.58p	-	-
	104.58p	-	-
Fixed charge cover (times) (see Note 4.)	12.9	58.6	37.1
Equity dividend cover (times)	0.6	4.5	2.8
Average number of equity shares	98.756m	109.470m	104.074m

With the exception of the gain of £179.0m from the revaluation of the investment in The National Grid Group plc, there are no recognised gains or losses other than the profits for the periods shown above.

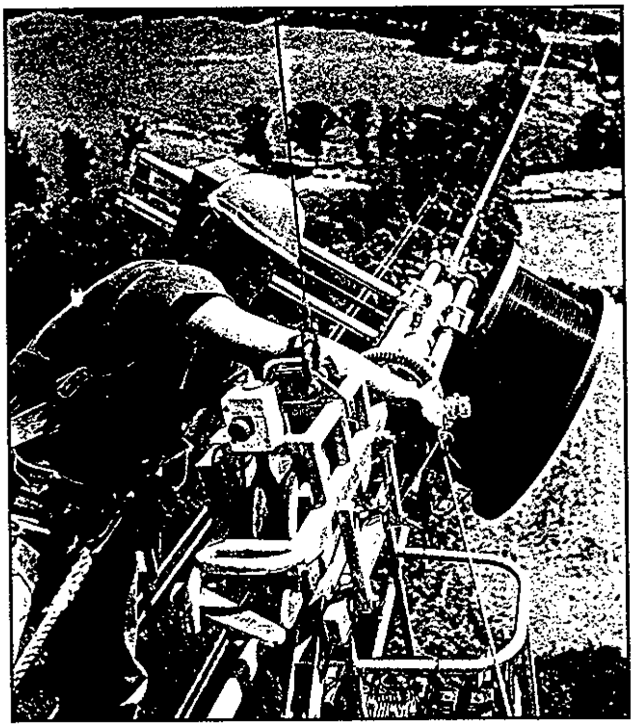
Notes.

1. The unaudited financial information contained in this interim statement does not amount to statutory accounts within the meaning of Section 240 of the Companies Act 1985. The information has been prepared in accordance with the historical cost convention, as modified by the revaluation of certain fixed asset investments, and for the purposes of the interim accounts the accounting policy is that an average electricity cost for the year as a whole is used in order to establish an appropriate cost of sales in the non-franchise market. With the exception of the foregoing, the accounting policies applied in the preparation of these accounts are in accordance with those set out in the Annual Report and Accounts for the year ended 31 March 1995.
2. Profit is after charging depreciation of £13.9m (1995 - £13.3m).
3. The taxation charge for the six months has been arrived at by applying the estimated effective tax rate for the financial year. It also includes provision for deferred tax on the revaluation of the investment in The National Grid Group plc (see Note 5).
4. Earnings per ordinary share are based on the profit for the period and on the weighted average number of ordinary shares in issue during the period. The weighted average has been adjusted to reflect the share consolidation which was effected on 11 September 1995 and comparative figures have been restated. Fixed charge cover is the quotient of profit before interest divided by the sum of all interest and preference dividend.
5. The investment in The National Grid Group plc has been revalued by the directors to £229.7m, on the basis of its estimated flotation value. In interim accounts prepared as at 1 April 1995 in accordance with section 270 of the companies act 1985, and filed with the registrar of companies on 22 November 1995, the investment was revalued to £204m, its estimated current cost value on a yield basis. The historical cost of the investment is £50.7m.
6. 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 takes into account the way in which these assets are financed. The current cost profit after taxation for the six months ended 30 September 1995 was £5.8m (1994 -profit of £31.9m) and current cost earnings per share before non-operating exceptional items were 33.1p (1994 25.8p). Current cost net assets at 30 September 1995 were £854.3m (1994 - £915.8m).

INTERIM STATEMENT - SIX MONTHS ENDED 30 SEPTEMBER 1995

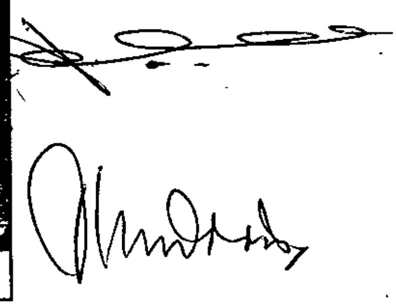
GROUP BALANCE SHEET

	As at 30 September 1995 (Unaudited)	As at 30 September 1994 (Unaudited)	As at 31 March 1995 (Audited)
	£m	£m	£m
FIXED ASSETS			
Tangible assets	423.6	402.6	423.1
Investments	283.4	102.0	103.8
	707.0	504.6	526.9
CURRENT ASSETS			
Stocks	12.7	9.5	9.6
Debtors	203.9	208.9	225.0
Investments	7.1	140.5	14.5
Cash at bank and in hand	11.9	12.0	20.4
	235.6	370.9	269.5
CREDITORS: amounts falling due within one year:			
Loans and overdrafts	(98.2)	(0.6)	(84.5)
Creditors and accruals	(172.8)	(316.0)	(138.4)
	(271.0)	(316.6)	(222.9)
NET CURRENT ASSETS	(35.4)	54.3	46.6
TOTAL ASSETS LESS CURRENT LIABILITIES	671.6	558.9	573.5
CREDITORS: amounts falling due after more than one year:			
Loans	(55.0)	(61.5)	(61.5)
Other creditors	(72.2)	(21.6)	(22.4)
	(127.2)	(83.1)	(83.9)
PROVISIONS FOR LIABILITIES AND CHARGES	(28.5)	(47.6)	(33.1)
TOTAL ASSETS LESS LIABILITIES	515.9	428.2	456.5
CAPITAL AND RESERVES			
Called up share capital	57.0	55.7	55.8
Share premium account	1.1	1.6	1.8
Capital redemption reserve account	6.2	6.2	6.2
Other reserves	180.0	0.5	1.0
Profit and loss account	271.6	364.2	391.7
SHAREHOLDERS' FUNDS	515.9	428.2	456.5
Equity interests	514.8	428.2	456.5
Non-equity interests	1.1	-	-
	515.9	428.2	456.5



Northern Electric's business customers can benefit from cheaper long distance call charges by using Energis' new fibre optic telecommunications network, seen here being wrapped onto National Grid's power infrastructure.

John Edwards, Finance Director.



Dean Hall, Marketing Manager for Northern Electric Supply Limited, tells Jenny Flex about the Company's move into the gas central heating market.

INTERIM STATEMENT - SIX MONTHS ENDED 30 SEPTEMBER 1995

GROUP STATEMENT OF CASH FLOWS

	Notes.	6 Months to 30 September 1995 (Unaudited) £m	6 Months to 30 September 1994 (Unaudited) £m	12 Months to 31 March 1995 (Audited) £m
NET CASH INFLOW FROM OPERATING ACTIVITIES	1.	135.9	91.5	83.7
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received		0.3	2.2	4.8
Interest paid		(4.4)	(3.6)	(7.6)
Dividends received		2.4	2.6	15.0
Dividends paid		(136.5)	-	(32.3)
NET CASH INFLOW/(OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(138.2)	1.2	(20.1)
TAXATION				
Corporation tax paid (including ACT on dividends)		(1.8)	(1.6)	(39.2)
INVESTING ACTIVITIES				
Payments to acquire tangible fixed assets		(24.7)	(33.8)	(71.7)
Receipts from sales of tangible fixed assets		1.1	4.3	5.0
Receipt of consumers' contributions		5.1	6.9	13.8
Payments to acquire fixed asset investments		(0.7)	(1.7)	(4.6)
Payments to acquire equity accounted entities		-	(1.6)	(1.7)
Payments to acquire current asset investments with a maturity date of more than 3 months		(2.3)	(94.9)	(47.5)
Receipts from disposals of current asset investments with a maturity date of more than 3 months		9.4	67.7	67.5
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(12.1)	(53.1)	(39.2)
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING		(16.2)	38.0	(14.8)
FINANCING				
Issue of ordinary share capital		(0.5)	(0.2)	(0.5)
Purchase of own shares		-	-	101.6
Loan Finance		(39.5)	-	(33.0)
NET CASH (INFLOW)/OUTFLOW FROM FINANCING		(39.0)	(0.2)	68.1
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	2.	(55.2)	38.2	(82.9)
		(16.2)	38.0	(14.8)

Notes.

1. Reconciliation of operating profit to net cash inflow from operating activities:

	6 Months to 30 September 1995 £m	6 Months to 30 September 1994 £m	12 Months to 31 March 1995 £m
Operating profit	56.9	53.1	136.2
Shareholder value costs	(2.9)	-	(15.1)
Share of (profits)/losses of associated undertakings	(0.7)	0.3	(0.1)
Depreciation charges	13.9	13.3	25.0
(Decrease)/increase in provisions	(4.6)	6.2	(8.3)
(Increase)/decrease in stocks	(2.1)	0.6	0.5
Decrease/(increase) in debtors	58.7	(27.5)	(37.0)
Increase/(decrease) in creditors	16.7	45.5	(17.5)
Net cash inflow from operating activities	135.9	91.5	83.7

2. Reconciliation of the movement of cash and cash equivalents and the movement in net liquid funds:

	6 Months to 30 September 1995 £m	6 Months to 30 September 1994 £m	12 Months to 31 March 1995 £m
Increase/(decrease) in cash and cash equivalents	(55.2)	38.2	(82.9)
Short-term borrowings	46.7	-	50.9
Net (sale)/purchase of non-cash equivalent current asset investments	(7.1)	27.2	(20.0)
Provision made against value of employee share option trust assets to write down to option price	(0.3)	-	(0.2)
(Decrease)/increase in net liquid funds in balance sheet	(15.9)	65.4	(52.2)

3. Net borrowings

	6 Months to 30 September 1995 £m	6 Months to 30 September 1994 £m	12 Months to 31 March 1995 £m
Cash at bank and in hand	11.9	12.0	20.4
Investments	7.1	140.5	14.5
Borrowings	(153.2)	(62.1)	(146.0)
Net (borrowings)/cash and investments	(134.2)	90.4	(111.1)

Rebecca Murrell and Adam Tate look on as Eddie Oliver presents a cheque from Northern Electric staff to Carol Harle of The Toy Library.

Pictured at The Riverside Stadium are Colin Dunn, left, Energy Advice Co-ordinator at The Middlesbrough Energy House and Northern Electric's Environmental Manager, Tony Burton on the occasion of the Company's 'Green' milestone.

INTERIM STATEMENT - SIX MONTHS ENDED 30 SEPTEMBER 1995

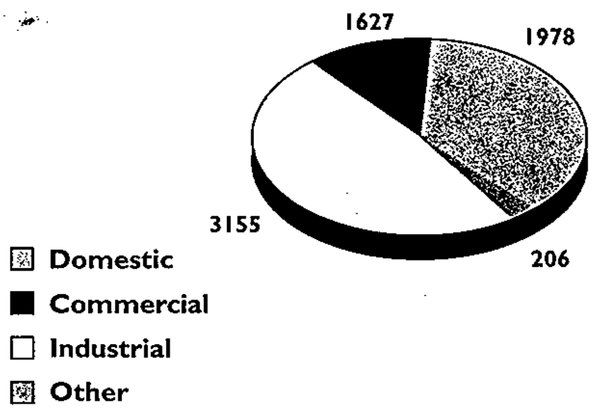
TURNOVER AND SEGMENTAL ANALYSIS

	6 Months to 30 September 1995 (Unaudited) £m	6 Months to 30 September 1994 (Unaudited) £m	12 Months to 31 March 1995 (Audited) £m
TURNOVER			
Distribution	110.4	120.3	260.1
Supply	383.2	454.9	982.9
Generation	0.5	0.6	1.2
Retail	24.1	24.2	56.4
Other	100.3	25.6	60.0
Total sales	618.5	625.6	1,360.6
Inter-segment sales	(188.7)	(134.9)	(279.8)
Sales to third parties	429.8	490.7	1,080.8
PROFIT BEFORE TAXATION			
Distribution	35.5	36.1	99.4
Supply	10.1	12.8	24.9
Generation	2.9	2.9	5.8
Retail	0.5	1.0	3.5
Other	7.8	7.6	(2.3)
	56.8	60.4	131.3
Dividend receivable from the National Grid Group plc	5.7	4.4	13.2
Group share of profit before taxation of associated undertakings	0.7	(0.3)	0.1
Net interest	(4.5)	(1.1)	(3.9)
Group profit before taxation	58.7	63.4	140.7
NET ASSETS			
Distribution	364.4	340.4	376.5
Supply	(22.4)	(20.3)	34.0
Generation	41.5	37.2	42.9
Retail	29.8	31.8	41.2
Other	90.3	27.8	(48.3)
	503.6	416.9	446.3
Group share of the net assets of associated undertakings	12.3	11.3	10.2
Total net assets	515.9	428.2	456.5

Notes.

1. The Group operates in four principal areas of activity, that of distribution, supply and generation of electricity and retailing, all in the United Kingdom. Other activities include business support units and corporate services. 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 is all in respect of continuing activities and sales to United Kingdom customers.
2. The distribution turnover in the period reflects an underrecovery of £1.4m (1994 - overrecovery of £5.0m) and at the end of the period the cumulative underrecovery was £6.3m (1994 - overrecovery of £5.0m). In the supply business turnover reflects an underrecovery of £2.5m (1994 - £8.0m) and at the end of the period the cumulative overrecovery was £4.6m (1994 - £8.3m.)
3. Other, which includes business support units and unallocated items including financing, dividends and taxation, reflects an increase in the number of support units following the restructuring of the Group with effect from 1 April 1995. As a consequence of this change in structure, there has been an increase in intra-group trading in this segment with a corresponding increase in the adjustment for inter-segment sales.

SALES BY CLASSIFICATION (6966 GWh) (6 months to 30 September 1995)



George Aitchison, Northern Electric's Customer Accounting Manager, presents Nelly Holmes with her gift for being Northern Electric's 400,000th Direct Debit customer.

NORTHERN ELECTRIC

COMPANY ADVISORS

Merchant Bankers

J. Henry Schroder & Co. Ltd.

Bankers

Lloyds Bank Plc

Stockbrokers

de Zoete & Bevan
Wise Speke

Auditors

Ernst & Young

Solicitors

Slaughter & May
Dickinson Dees

Registrar and Transfer Office

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

Financial Calendar

Interim ex-dividend date	8 January 1996
Interim dividend record date	16 January 1996
Interim dividend payment date	19 February 1996
Announcement of year end results	19 June 1996
Annual Report & Accounts Published	July 1996
Annual General Meeting	1 August 1996

Shareholder Enquiries

If you have any general enquiries or views about Northern Electric shareholder matters, or would like another copy of this report or our Annual Report and Accounts, please ring our shareholder Helpline on 0191 210 2405.
If you have a specific query about your Northern Electric shares, such as a change of address, or dividend payments, please ring our Registrars on 0121 433 8000.

Tony Hadfield (3rd from left), Northern Electric's Chief Executive with the winners of the 1995 Northern Electric Energy Awards.

Auditor's Report

WE HAVE reviewed the attached interim financial information in respect of the six months ended 30 September 1995 which is the responsibility of, and has been approved by, the directors. Our responsibility is to report on the results of our review.

Our review was carried out having regard to the Bulletin, Review of Interim Financial Information, issued by the Auditing Practices Board. This review consisted principally of obtaining an understanding of the process for the preparation of the interim financial information, applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied, and making enquiries of the Group's management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and verification of assets and liabilities and was substantially less in scope than an audit performed in accordance with Auditing Standards. Accordingly, we do not express an audit opinion on the interim financial information.

On the basis of our review:

- We are not aware of any material modifications that should be made to the interim financial information as presented; and,
- in our opinion the interim financial information has been prepared using accounting policies consistent with those adopted by Northern Electric plc in its accounts for the year ended 31 March 1995 with the exception of the matters referred to in Note 1 to the Profit & Loss Account.

Ernst & Young
Chartered Accountants
Registered Auditor
Newcastle upon Tyne

Ernst & Young

12 December 1995

John Barnett, Customer Manager for Northern Electric Distribution Limited, with the Customer Information Centre Team.

NORTHERN ELECTRIC

REGISTERED OFFICE
Carliol House, Market Street,
Newcastle upon Tyne NE1 6NE.
Registered in England No. 2366942

Printed on environmentally friendly paper.