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NORTHERN ELECTRIC plc REPORT & ACCOUNTS TO DECEMBER 1999

MIDAMERICAN
ENERGY HOLDINGS COMPANY

NORTHERN
ELECTRIC & GAS

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DIRECTORS' REPORT

THE DIRECTORS PRESENT THEIR REPORT AND THE GROUP ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1999.

PRINCIPAL ACTIVITIES & BUSINESS REVIEW

Following its merger with MidAmerican Energy Holdings Company, Inc. on 12 March 1999, CalEnergy, Inc. (Northern Electric's ultimate parent) changed its name to MidAmerican Energy Holdings Company.

On 14 March 2000 the shares of MidAmerican Energy Holdings Company were acquired by an investment group including Berkshire Hathaway, Inc., Walter Scott and David L Sokol.

The principal activities of Northern Electric and its subsidiaries are the distribution and supply of electricity to industrial, commercial and domestic customers, the operation of a gas supply business, the generation of electricity and the retailing of electrical and gas appliances.

Northern Electric serves the fourth largest geographic area of the twelve regional electricity companies in England and Wales. Its service area comprises 14,400 sq km in north east England with a resident population of 3.2 million. The Company's principal business receives electricity from the National Grid transmission system and distributes it to customers, at voltages of up to 132kV, via its own network of transformers, switchgear and cables. In the year to 31 December 1999 Northern Electric distributed 15,943 GWh.

The Group supplies 1.5 million electricity customers and 0.6 million gas customers.

FUTURE DEVELOPMENTS

The directors intend to develop the Group and conduct its business in a manner which is consistent with the way it has operated in the past. Issues that may affect the Group in the future include the impact of the Utilities Bill, and the implementation of OFGEM's business separation requirements.

In December 1999 Northern Electric accepted OFGEM's proposals in respect of the distribution and supply reviews. The distribution review reduced allowed income by 23% from 1 April 2000. Northern Electric has implemented a number of strategies to minimise the effect on future profit. Northern Electric is also seeking to minimise the additional financial effects of the supply review.

RESULTS FOR THE YEAR ENDED 31 DECEMBER 1999

The Group profit and loss account appears on page 6. As further explained in note 11 the introduction of FRS 12 "Provisions, Contingent Liabilities and Contingent Assets" has meant that the results for the prior reporting period have been restated.

The results for the year to 31 December 1999 show an historical cost profit of £95.2m before taxation. The results reflect the incidence of additional customer acquisition and service costs in the electricity and gas markets. In addition, restructuring charges of £5.9m were incurred arising from the manpower reduction programme being implemented following acceptance of OFGEM's proposals for reductions in distribution prices as from 1 April 2000.

The net increase in the cash balance was £15.6m. Net debt reduced by £131.4m mainly due to the sale, on a non-recourse basis, of certain electricity debtors and the transfer of loans relating to the CalEnergy Gas (Holdings) group of companies, that were transferred along with the investment in the group to CE Electric UK plc (Note 25).

Preference dividends totalling £9.0m were also paid.

After allowing for total dividends of £45.0m the profit transferred to reserves for the year was £29.7m. No final dividend is proposed.

RESEARCH AND DEVELOPMENT

The Group supports a programme of research which is expected to contribute to higher standards of performance and more cost effective operation of our business in a competitive environment.

DIRECTORS

The directors who served during the year were as follows:

David L Sokol	Chairman
Gregory E Abel	Chief Executive Officer from 22 April 1999
P Eric Connor	President and Chief Operating Officer from 22 April 1999
Malcolm Chandler	(resigned 19 July 1999)
Ron Dixon	
Patrick J Goodman	(appointed 14 May 1999)
Craig Hammett	(resigned 14 May 1999)
Steven A McArthur	
Walter Scott	
David M Swan	

On 18 January 2000 John M France, John A Rasmussen and James D Stallmeyer were appointed as directors of the Company.

Mr Scott resigned as a director on 18 January 2000.

In accordance with the Articles of Association, Mr Dixon and Mr Swan will retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election. In addition, Mr France, Mr Rasmussen and Mr Stallmeyer will retire at the Annual General Meeting in accordance with the Articles of Association and, being eligible, will offer themselves for re-election.

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 Group.

Note 8 to the accounts gives details of the directors' share interests. No director holds any non-beneficial interest in shares of the Company.

DISABLED EMPLOYEES

The Group is an equal opportunities employer and is committed to the criteria underpinning the Employment Service disability symbol. It is the Group's 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 their employment is retrained.

EMPLOYEE CONSULTATION

The Group is committed to maintaining and improving effective communication with employees, principally through regular team briefings, meetings with staff and their representatives, and the distribution of staff briefing notes.

CHARITABLE AND POLITICAL DONATIONS

The Group contributed approximately £0.4m in cash and kind to support welfare, enterprise and community activities, of which £0.1m was in donations to charitable organisations. No contributions were made to political organisations.

SUPPLIER PAYMENT POLICY

Northern Electric complies with the CBI Code of Conduct for the prompt payment of suppliers in accordance with the normal terms of trade. A copy of the Code of Conduct can be obtained from the Company Secretary at the registered office of the Company. It is Company policy with respect to its suppliers to settle the terms of payment with those suppliers when agreeing the terms of each transaction, to ensure that those suppliers are aware of the terms of payment, and to pay in accordance with the Company's contractual and other legal obligations. The number of days purchases in trade creditors at 31 December 1999 was 37 (December 1998 - 37).

YEAR 2000 COMPLIANCE

The systems and contingency plans that were put in place to counter the year 2000 computer problems ("Y2K") were effective and there was no impact on the Group during the millennium changeover. The Group has spent £5.5m on the programme and does not envisage any significant expenditure in the future. Ongoing scrutiny of potential Y2K impacts will be maintained until all processing cycles have been completed.

AUDITORS

A resolution to reappoint the auditors, Deloitte & Touche, 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 appear on page 29 of this report.

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 the affairs of the Company and the Group at the end of the financial year and of the profit of the Group for the year to that date. The accounts must be prepared in accordance with applicable accounting standards, which the directors confirm have been applied in preparing the accounts. 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 Company has no ordinary shares listed on the London Stock Exchange. Accordingly, it has availed itself of exemption from the London Stock Exchange requirements to make corporate governance disclosures and for auditor review thereof.

GOING CONCERN

The directors are confident, after having made appropriate enquiries, that the Company and the Group have adequate resources to continue in operation for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

By order of the board

Valerie Giles, Secretary

25 May 2000

DIRECTORS' BIOGRAPHIES

DAVID L SOKOL

Appointed January 1997. Mr Sokol has been Chairman of CalEnergy Company, Inc. and now MidAmerican Energy Holdings Company since May 1994, Chief Executive Officer since April 1993 and served as President from April 1993 to January 1995. Mr Sokol has been a director of CalEnergy since March 1991. Formerly, among other positions held in the independent power industry, Mr Sokol served as President and Chief Executive Officer of Kiewit Energy Company, which at that time was a wholly-owned subsidiary of Peter Kiewit Sons', Inc., and Ogden Products, Inc. Aged 43.

GREGORY E ABEL

Appointed January 1997. Mr Abel joined CalEnergy Company, Inc. in 1992 and is President and Chief Operating Officer of MidAmerican Energy Holdings Company. Mr Abel is a Chartered Accountant and from 1984 to 1992, he was employed by Price Waterhouse. In the San Francisco office of Price Waterhouse, he was responsible for clients in the energy industry. Aged 37.

P ERIC CONNOR

Appointed in March 1998. Mr Connor is a Chartered Engineer and joined Northern Electric in 1992. Prior to joining the Company he was a director at NEI Reyrolle Limited. His previous appointments included engineering and management posts with National Nuclear Corporation, NEI and Marconi Space and Defence. Aged 51.

RON DIXON

Appointed October 1997. Mr Dixon worked for North Eastern Electricity Board and Northern Electric throughout his career, being appointed Secretary in 1987. He was appointed Managing Director of the Power Division in 1990, responsible for electricity supply and distribution, and Commercial Director in 1991. He retired from the board on 31 July 1997 and was re-appointed on 22 October 1997. Aged 62.

JOHN M FRANCE

Appointed January 2000. Mr France has worked for Northern Electric since 1989, during which time he has been responsible for regulatory affairs. Aged 42.

PATRICK J GOODMAN

Appointed May 1999, Mr Goodman is Senior Vice President and Chief Financial Officer of MidAmerican Energy Holdings Company. Mr Goodman joined CalEnergy in 1995 and served as manager of Consolidation Accounting until September 1996 when he was promoted to Controller. In September 1997 he was promoted to Vice President and in February 1998 he was promoted to Chief Accounting Officer. He was promoted to Senior Vice President and Chief Financial Officer in April 1999. Mr Goodman was Reinsurance and Financial Accounting Administrator for National Indemnity Company from 1993 and 1995 and an Auditor for Coopers & Lybrand from 1989 to 1993. Aged 33.

STEVEN A MCARTHUR

Appointed January 1997. Mr McArthur is Senior Vice President Mergers, Acquisitions and Special Projects and Secretary of MidAmerican Energy Holdings Company. Mr McArthur joined CalEnergy in February 1991. From 1988 to 1991 he was an attorney in the Corporate Finance Group at Shearman & Sterling in San Francisco. From 1984 to 1988 he was an attorney in the Corporate Finance Group at Winthrop, Stimson, Puttnam and Roberts in New York. Aged 42.

JOHN A RASMUSSEN

Appointed January 2000. Mr Rasmussen is Senior Vice President and General Counsel of MidAmerican Energy Holdings Company. Mr Rasmussen has been Senior Vice President and General Counsel of MidAmerican Energy Company since November 1996 and Group Vice President from July 1995 to November 1996. Prior to that he was Vice President and General Counsel of Midwest Power Systems, Inc, a predecessor company, from 1993 to 1995. Aged 54.

JAMES D STALLMEYER

Appointed January 2000. Mr Stallmeyer is General Counsel and Commercial Director of Northern Electric. Mr Stallmeyer joined CalEnergy in August 1993. Prior to joining CalEnergy he was an attorney in the public finance and corporate finance departments at Chapman and Cutler in Chicago (1984-1986; 1987-1993), in the public finance department of Skadden Arps Slate Meagher and Flom in Chicago (1986-1987), and an instructor of legal writing at the University of Illinois College of Law (1987-1988). Aged 42.

DAVID M SWAN

Appointed March 1998. Mr Swan is a Chartered Electrical Engineer and has worked for the North Eastern Electricity Board and Northern Electric throughout his career. He is responsible for the electricity distribution activity. Aged 55.

REPORT OF THE AUDITORS

REPORT OF THE AUDITORS TO THE MEMBERS OF NORTHERN ELECTRIC plc

We have audited the financial statements on pages 6 to 28 which have been prepared under the accounting policies set out on pages 9 and 10.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report, including as described on page 3 preparation of the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the UK Listing Authorities, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors remuneration and transactions with the Company and other members of the Group is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements.

BASIS OF OPINION

We conducted our audit in accordance with United Kingdom auditing 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 financial statements 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 financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 1999 and of the profit of the Group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche

Chartered Accountants and Registered Auditors

Gainsborough House
34-40 Grey Street
Newcastle upon Tyne
NE1 6AE

25 May 2000

GROUP PROFIT AND LOSS ACCOUNT
For the 12 months ended 31 December 1999

	Notes	12 Months to 31 December 1999 £m	9 Months to 31 December 1998 £m Restated
Turnover of the Group including its share of joint ventures	2	1,339.9	861.5
Share of turnover of joint ventures		(72.5)	(51.1)
GROUP TURNOVER		1,267.4	810.4
Cost of sales		(918.8)	(567.0)
GROSS PROFIT		348.6	243.4
Distribution costs		(86.3)	(63.9)
Administrative expenses	6	(158.0)	(104.8)
Other operating income		0.2	0.2
OPERATING PROFIT	5&6	104.5	74.9
Share of operating profit in joint ventures less amortisation of goodwill	2	17.7	12.0
Profit on disposal of fixed assets		4.9	0.2
Income from fixed asset investments	3	3.8	1.9
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		130.9	89.0
Net interest	4	(35.7)	(22.7)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2&6	95.2	66.3
Tax on profit on ordinary activities	6&9	(20.5)	(15.9)
PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY		74.7	50.4
Dividends on non-equity shares	10	(9.0)	(6.8)
Dividends on equity shares	10	(36.0)	(77.0)
RETAINED PROFIT/(LOSS) FOR THE YEAR		29.7	(33.4)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	12 Months to 31 December 1999 £m	9 Months to 31 December 1998 £m Restated
Profit attributable to members of the parent company		74.7	50.4
Realisation of revaluation gains	23	2.5	2.0
Total recognised gains related to the year		77.2	52.4
Prior year profit adjustment relating to provisions	11	3.4	
Total gains recognised since last annual report		80.6	

All activities relate to continuing operations.

BALANCE SHEETS
For the 12 months ended 31 December 1999

	Notes	GROUP 1999 £m	GROUP 1999 £m	GROUP 1998 £m	GROUP 1998 £m Restated	COMPANY 1999 £m	COMPANY 1998 £m Restated
FIXED ASSETS							
Tangible assets	12		575.2		634.1	536.9	508.0
Investments	13		0.1		0.9	163.2	199.8
Investments in joint ventures:	13						
share of gross assets		214.2		210.3			
share of gross liabilities		(162.2)		(156.8)			
goodwill		2.4		2.7			
			54.4		56.2	-	-
			629.7		691.2	700.1	707.8
CURRENT ASSETS							
Stocks	15		19.1		14.8	-	-
Debtors:							
amounts falling due after one year	16		32.9		34.3	11.1	11.4
amounts falling due within one year	16		165.1		210.0	111.2	160.9
Debtors subject to financing	16	91.7		-		91.7	-
Less: non-recourse amount	16	(91.7)		-		(91.7)	-
			-		-	-	-
Cash at bank and in hand	24		23.3		7.7	6.1	-
			240.4		266.8	128.4	172.3
CREDITORS: amounts falling due within one year	17		(270.5)		(353.5)	(263.1)	(343.4)
NET CURRENT LIABILITIES			(30.1)		(86.7)	(134.7)	(171.1)
TOTAL ASSETS LESS CURRENT LIABILITIES			599.6		604.5	565.4	536.7
CREDITORS: amounts falling due after more than one year	18		(223.2)		(250.6)	(222.2)	(224.3)
PROVISIONS FOR LIABILITIES AND CHARGES	20		(19.5)		(27.2)	(7.3)	(13.3)
TOTAL ASSETS LESS LIABILITIES	2		356.9		326.7	335.9	299.1
CAPITAL AND RESERVES							
Called up share capital	21		73.3		73.3	73.3	73.3
Share premium account	23		158.8		158.8	158.8	158.8
Capital redemption reserve	23		6.2		6.2	6.2	6.2
Statutory reserve	23		2.2		2.2	-	-
Revaluation reserve	23		25.4		28.2	-	-
Profit and loss account	23		91.0		58.0	97.6	60.8
SHAREHOLDERS' FUNDS			356.9		326.7	335.9	299.1
Equity interests			355.8		325.6	334.8	298.0
Non-equity interests			1.1		1.1	1.1	1.1
			356.9		326.7	335.9	299.1

The accounts on pages 6 to 28 were approved by the board of directors on 25 May 2000 and signed on its behalf by:

P ERIC CONNOR, President and Chief Operating Officer

DAVID M SWAN, Director

GROUP STATEMENT OF CASH FLOWS

For the 12 months ended 31 December 1999

	Notes	12 Months to 31 December 1999 £m	9 Months to 31 December 1998 £m
Cash inflow from operating activities	24	**113.8**	74.7
Dividends received from joint ventures		**6.0**	5.2
Returns on investments and servicing of finance	24	**(33.8)**	(22.9)
Taxation	24	**(33.2)**	(59.4)
Capital expenditure and financial investment	24	**(97.7)**	(68.3)
Acquisitions and disposals	24	**6.4**	-
Equity dividends paid		**-**	(77.0)
Cash outflow before management of liquid resources and financing		**(38.5)**	(147.7)
Management of liquid resources	24	**(6.1)**	8.2
Financing	24	**54.1**	146.0
Increase in cash in the year	24	**9.5**	6.5

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	12 Months to 31 December 1999 £m	9 Months to 31 December 1998 £m
Increase in cash in the year	**9.5**	6.5
Cash outflow/(inflow) from decrease/(increase) in debt	**45.9**	(146.0)
Cash outflow/(inflow) from management of liquid resources	**6.1**	(8.2)
Change in net debt resulting from cash flows	**61.5**	(147.7)
Loans disposed of with subsidiary	**70.0**	-
Amortisation of bond issue costs	**(0.1)**	-
Movement in net debt in the year	**131.4**	(147.7)
Net debt at 1 January/April	**(391.5)**	(243.8)
Net debt at 31 December	**(260.1)**	(391.5)

NOTES TO THE ACCOUNTS

For the 12 months ended 31 December 1999

1. ACCOUNTING POLICIES

Basis of preparation

The accounts on pages 6 to 28 are prepared under the historical cost convention and in accordance with applicable accounting standards. The particular accounting policies adopted by the directors are described below:

Basis of consolidation

The Group accounts consolidate the accounts of Northern Electric plc and its subsidiary undertakings for the year ended 31 December 1999 and the nine months ended 31 December 1998. No profit and loss account is presented for Northern Electric plc as permitted by section 230 of the Companies Act 1985. The profit dealt with in the accounts of the parent company was £81.8m (December 1998 - £63.4m). Undertakings, other than subsidiary undertakings, which the Group jointly controls are treated as joint ventures. Where material the Group accounts include the appropriate share of these undertakings' results and reserves based on accounts prepared to the balance sheet date.

Change in Accounting Policy

The introduction of FRS 12 "Provisions, Contingent Liabilities and Contingent Assets", which changes the definition of provisions, has resulted in a change of accounting policy in relation to the overrecovery of regulated income. Previously, where there was an overrecovery of distribution revenues against the regulated maximum allowable amount, or supply revenues in accordance with the regulated tariff caps, such overrecoveries were deferred and the deferred amount deducted from turnover and included in provisions. FRS 12 disallows any such deferral.

The introduction of FRS 12 has also resulted in a change in the treatment of abandonment costs in relation to tangible fixed assets (note 12).

Further details are given in note 11.

Goodwill

Purchased goodwill is capitalised and amortised over the directors' estimate of its useful life of up to 40 years.

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 invoiced 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.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost. The charge for depreciation is calculated to write off assets to their residual values over their estimated useful lives using the methods described below for distribution system and oil and gas 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

Oil and gas assets

Expenditure on oil and gas properties is accounted for using the full cost method. Under this method, exploration, appraisal and development costs are capitalised in appropriate cost pools. Capitalised costs, other than costs of unevaluated exploration projects and projects awaiting development consent, are depleted using the unit of production method. Depletion is calculated based on hydrocarbon reserves of properties in the evaluated pool estimated to be commercially recoverable and include anticipated future development costs in respect of those reserves.

Non-operational assets	
Buildings - freehold	up to 60 years
- leasehold	lower of lease period or 60 years
Fixtures and equipment	up to 10 years
Software	up to 10 years

Freehold land is not depreciated.

Customer 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.

Software development costs

Costs in respect of major developments are capitalised and amortised over the expected life of the software.

Capitalisation of interest

Interest is capitalised in respect of expenditure incurred net of customer contributions on projects from the date of commencement to the date of commissioning of the respective assets. Interest is calculated using the gross average interest rate payable on the Group's borrowings.

Commercial reserves of oil and gas

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

Abandonment costs

A full provision has been created for future abandonment costs and a related abandonment asset has been established within fixed assets.

The estimated costs of abandonment are held at the present value of the expected ultimate obligation, on the assumption that the facilities will be fully removed where appropriate and are based on estimates provided by the operators.

Amortisation of the abandonment asset is carried out on a unit of production basis, calculated field by field using the same reserve quantities as are used for depreciation purposes. It is assumed that certain abandonment costs will be allowable for petroleum revenue tax and corporation tax purposes when incurred.

Effect of changing estimates

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

Ceiling test of oil and gas assets

Ceiling tests are carried out at least annually and provision is made for any permanent impairment where the net book amount of capitalised expenditure, less provisions for future abandonment costs and royalties, exceeds the estimated future undiscounted net revenues using prices and cost levels ruling at the balance sheet date.

Over and underlifts

The quantities of oil and other hydrocarbons lifted may differ from the equity share of production giving rise to over or underlifts. Overlifts are included in accruals whilst underlifts are included in debtors, both being valued at the year end spot or prevailing contract price. Any adjustment for over or underlift is reflected in cost of sales.

Petroleum revenue tax

Provision is made for petroleum revenue tax over the expected life of each field on a unit of production basis taking into account the estimated benefit of uplift, oil allowance, exploration expenditure relief, safeguard and abandonment costs and using the relevant oil prices and cost levels prevailing at the balance sheet date.

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 ceased on 31 March 2000.

Investments

Investments in joint ventures are shown using the gross equity method. The Group's share of the results of joint ventures is included in the profit and loss account. Fixed asset investments are stated at cost less provision for impairment in value, or at directors' valuation. Current asset investments are shown at cost or directors' valuation.

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 less progress payments on short-term contracts

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

Provisions

Provisions are recognised where there is a present obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the effect is significant, provisions in respect of material future liabilities are stated at their net present value, arrived at by discounting the anticipated future costs.

Research and development

Expenditure on research and development is written off to the profit and loss account in the period 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/reviews, 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.

Derivatives

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk, interest rate movements and commercial risks associated with its supply business. The Group does not hold derivative financial instruments for speculative purposes.

Gains and losses arising on foreign exchange contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction itself has been recognised in the Group's accounts.

For energy purchases contracts for difference and energy futures agreements, the difference payments and receipts are recognised in energy purchase costs over the financial year. Difference payments and receipts with regard to sales contracts are included in turnover.

2. TURNOVER AND SEGMENTAL ANALYSIS

The Group operates in four principal areas of activity, that of the distribution and generation of electricity, the supply of electricity and gas, and retailing, all in the United Kingdom.

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

	Distribution		Supply		Generation		Retailing		Other		Total	
	12 Months to 31 Dec 1999 £m	9 Months to 31 Dec 1998 £m Restated	**12 Months to 31 Dec 1999 £m**	9 Months to 31 Dec 1998 £m Restated	**12 Months to 31 Dec 1999 £m**	9 Months to 31 Dec 1998 £m	**12 Months to 31 Dec 1999 £m**	9 Months to 31 Dec 1998 £m	**12 Months to 31 Dec 1999 £m**	9 Months to 31 Dec 1998 £m	**12 Months to 31 Dec 1999 £m**	9 Months to 31 Dec 1998 £m Restated
TURNOVER												
Total sales including share of joint ventures	**232.6**	169.2	**1,123.0**	723.5	**67.9**	51.4	**50.3**	34.1	**233.5**	157.3	**1,707.3**	1,135.5
Inter-segment sales	**(175.1)**	(138.6)	**(1.4)**	(1.1)	**(0.3)**	(0.2)	**(3.8)**	(2.7)	**(186.8)**	(131.4)	**(367.4)**	(274.0)
Sales to third parties including share of joint ventures	**57.5**	30.6	**1,121.6**	722.4	**67.6**	51.2	**46.5**	31.4	**46.7**	25.9	**1,339.9**	861.5
Share of turnover of joint ventures	**-**	-	**-**	-	**(67.3)**	(51.1)	**-**	-	**(5.2)**	-	**(72.5)**	(51.1)
Total Group sales to third parties	**57.5**	30.6	**1,121.6**	722.4	**0.3**	0.1	**46.5**	31.4	**41.5**	25.9	**1,267.4**	810.4
PROFIT BEFORE TAXATION												
Operating profit/(loss)	**81.3**	54.6	**(2.3)**	11.7	**(1.4)**	(1.3)	**(0.3)**	(3.4)	**27.2**	13.3	**104.5**	74.9
Share of operating profit of joint ventures	**-**	-	**-**	-	**16.9**	12.2	**-**	-	**1.1**	-	**18.0**	12.2
Amortisation of goodwill	**-**	-	**-**	-	**(0.3)**	(0.2)	**-**	-	**-**	-	**(0.3)**	(0.2)
Profit on disposal of fixed assets	**0.3**	0.1	**-**	-	**-**	-	**-**	-	**4.6**	0.1	**4.9**	0.2
Investment income	**-**	-	**-**	-	**3.2**	1.5	**-**	-	**0.6**	0.4	**3.8**	1.9
Net interest	**-**	-	**-**	-	**(11.0)**	(8.5)	**-**	-	**(24.7)**	(14.2)	**(35.7)**	(22.7)
Profit/(loss) on ordinary activities before taxation	**81.6**	54.7	**(2.3)**	11.7	**7.4**	3.7	**(0.3)**	(3.4)	**8.8**	(0.4)	**95.2**	66.3
NET ASSETS/(LIABILITIES)												
Net assets/(liabilities) by segment	**516.8**	506.9	**34.4**	104.1	**71.3**	74.4	**29.8**	28.6	**(295.4)**	(387.3)	**356.9**	326.7

Notes:

(i) Other comprises the Group's engineering, energy marketing activities, business support units, and unallocated items including investments, financing, dividends and taxation.

(ii) Supply's turnover in the year reflects a net decrease in the overrecovery of electricity revenues of £3.4 m (December 1998 - £12.7m).

At 31 December 1999 the cumulative overrecovery of electricity revenues in the supply business was nil (31 December 1998 £3.4m).

3. INCOME FROM FIXED ASSET INVESTMENTS

	12 Months to 31 December 1999 £m	9 Months to 31 December 1998 £m
Dividends received	**0.6**	0.4
Other investment income	**3.2**	1.5
	3.8	1.9

4. NET INTEREST

	12 Months to 31 December 1999 £m	9 Months to 31 December 1998 £m
Interest payable:		
On bank loans and overdrafts	**(3.1)**	(2.6)
On other loans	**(24.5)**	(18.4)
Debt securitisation	**(1.1)**	-
	(28.7)	(21.0)
Share of joint ventures' net interest payable	**(11.8)**	(8.7)
Total interest payable	**(40.5)**	(29.7)
Interest receivable	**1.0**	3.5
	(39.5)	(26.2)
Interest capitalised on fixed assets	**3.8**	3.5
Net interest	**(35.7)**	(22.7)

5. OPERATING PROFIT

This is stated after charging:	Cost of Sales		Distribution Costs		Administrative Expenses		Total	
	12 Months to 31 December 1999 £m	9 Months to 31 December 1998 £m	12 Months to 31 December 1999 £m	9 Months to 31 December 1998 £m	12 Months to 31 December 1999 £m	9 Months to 31 December 1998 £m	12 Months to 31 December 1999 £m	9 Months to 31 December 1998 £m
Staff costs (Note 7)	**9.2**	4.9	**24.2**	18.7	**47.6**	24.7	**81.0**	48.3
Research and development expenditure	-	-	-	-	**0.2**	0.3	**0.2**	0.3
Depreciation	**0.2**	0.2	**24.5**	16.2	**16.9**	18.5	**41.6**	34.9
Rental of land and buildings	-	-	-	-	**4.0**	3.4	**4.0**	3.4
Hire of plant and equipment	-	-	-	-	**0.6**	0.6	**0.6**	0.6
Debt securitisation costs	-	-	-	-	**4.9**	-	**4.9**	-
Auditors' remuneration								
- UK statutory audit	-	-	-	-	**0.1**	0.1	**0.1**	0.1
- other services	-	-	-	-	**0.1**	0.2	**0.1**	0.2

6. EXCEPTIONAL ITEMS

	12 Months to 31 December 1999 £m	9 Months to 31 December 1998 £m
Recognised in arriving at operating profit:		
Restructuring costs	(5.9)	-
Recognised below operating profit:		
Taxation arising on restructuring costs	1.8	-
Effect on profit attributable to members of the parent company	(4.1)	-

7. STAFF COSTS

	12 Months to 31 December 1999 £m	9 Months to 31 December 1998 £m
Salaries	91.2	55.2
Social security costs	7.1	5.0
Other pension costs	2.3	4.8
	100.6	65.0
Less: charged as capital expenditure	19.6	16.7
	81.0	48.3

	12 Months to 31 December 1999 Number	9 Months to 31 December 1998 Number
The average number of employees:		
Energy	2,874	2,542
Retail	549	548
Other	366	398
	3,789	3,488

8. DIRECTORS' REMUNERATION

a. Directors' emoluments

	Highest paid director		All	
	12 Months to 31 December 1999 £000	9 Months to 31 December 1998 £000	12 Months to 31 December 1999 £000	9 Months to 31 December 1998 £000
Directors' fees and remuneration	185	206	477	428

b. Pensions

Pension contributions relate to defined benefit schemes only. At 31 December 1999 four executive directors were eligible for defined benefit schemes (December 1998 - four executive directors).

The accrued pension benefit relating to the highest paid director is £18,813 (1998 - £5,659). This is based upon the director not receiving a lump sum on retirement. Accrued pension benefits can be converted into a lump sum payment, which would reduce the accrued benefit stated above.

c. Directors' share options

No options over Northern Electric shares existed during the year ended 31 December 1999.

Options over ordinary shares in the ultimate parent company granted in the year ended 31 December 1999 were as follows:

David Sokol	-
Greg Abel	-
Eric Connor	20,000
Patrick Goodman	60,000
Steven McArthur	-
Walter Scott	3,489
David Swan	6,000

No options over shares in the ultimate parent company were exercised in the year ended 31 December 1999.

d. Directors' beneficial interests

No director had an interest in the share capital of the Company or any of its subsidiaries.

The beneficial interests of the directors in ordinary shares of the ultimate parent company were as follows:

Registered Holdings	At 1 January 1999	At 31 December 1999
David Sokol	180,202	180,202
Greg Abel	11,718	23,066
Eric Connor	-	-
Patrick Goodman	-	2,939
Steven McArthur	17,185	27,621
Walter Scott	3,010,000	3,010,000
David Swan	-	-

Subsequent to the year-end, the shares in the ultimate holding company, including those held by directors, were acquired by an investment group including Berkshire Hathaway, Inc., Walter Scott and David Sokol. Also, the options in the ultimate holding company were cancelled. The directors were compensated for the cancellation of their options on the same terms and conditions as other employees who held similar options.

No director had an interest in the share capital of CE Electric UK plc, CE Electric UK Holdings or in CE Electric UK Funding Company.

9. TAXATION

	12 Months to 31 December 1999 £m	9 Months to 31 December 1998 £m
Tax on profit for the year:		
Corporation tax at 30.25% (December 1998 - 31%)	**10.9**	10.2
Provision for payment for group relief	**10.8**	7.1
Corporation tax over provided in previous periods	**(4.0)**	(1.8)
Share of joint ventures' tax charge	**2.6**	1.5
Petroleum revenue tax	**0.1**	(0.3)
	20.4	16.7
Deferred tax	**0.1**	(0.8)
Tax charge	**20.5**	15.9

Tax relief of £1.1m (1998 - £1.1m) has been claimed in respect of capitalised interest.

The Company is a member of the CE Electric UK Funding Company Group for tax purposes. Group relief is to be claimed by Northern Electric and provision for payment to the CE Electric UK Funding Company Group at a rate of 30.25% (December 1998 - 31%) has been made.

Deferred tax of £0.9m (December1998 - £0.8m) has been provided on short term timing differences within the Group accounts. No deferred tax has been provided in the Company's accounts (December1998 - nil).

The tax charge has been reduced by £8.5 m (December 1998 - £3.9m) being the effect of timing differences for which no provision has been made. Potential deferred tax liabilities, for which no provision has been made, computed at the appropriate rate of corporation tax of 30% (December1998 - 30%), are as follows:

	GROUP		COMPANY	
	1999 £m	1998 £m Restated	**1999 £m**	1998 £m Restated
Capital allowances in excess of depreciation	**65.1**	72.8	**66.5**	64.2
Other timing differences	**58.5**	50.1	**57.6**	54.7
	123.6	122.9	**124.1**	118.9

10. DIVIDENDS

	12 Months to 31 December 1999 pence	9 Months to 31 December 1998 pence	12 Months to 31 December 1999 £m	9 Months to 31 December 1998 £m
Preference dividend for year	**8.06**	6.05	**9.0**	6.8
Interim dividend on ordinary shares paid	**28.19**	60.30	**36.0**	77.0

11. PRIOR PERIOD ADJUSTMENTS

The introduction of FRS 12 has resulted in £3.4m of provisions at 31 December 1998 being written back to reserves in relation to supply over-recoveries. The impact on the current year's results of the change in accounting policy was to decrease the profit attributable to members by £2.1m. The impact on results for the nine months ended 31 December 1998 of this change was to decrease the profit attributable to members by £1.0m.

The introduction of FRS 12 has also resulted in a £1.6m increase in fixed assets and provisions as at 31 December 1998 in relation to the treatment of abandonment costs. There was no impact on the financial results due to this change.

NOTES TO THE ACCOUNTS *continued*

For the 12 months ended 31 December 1999

12. GROUP AND COMPANY TANGIBLE FIXED ASSETS

	GROUP						
	Distribution System £m	Oil and gas assets £m	Non-operational land and buildings £m	Fixtures and equipment £m	Vehicles and mobile plant £m	Deduct: Customer contributions £m	Total £m
COST:							
At 1 January 1999	946.3	93.9	33.4	146.3	23.1	(245.4)	997.6
Prior year adjustment (note 11)	-	1.6	-	-	-	-	1.6
At 1 January 1999 (restated)	946.3	95.5	33.4	146.3	23.1	(245.4)	999.2
Reclassifications	0.4	-	-	(4.2)	-	-	(3.8)
Transfers to parent company	-	(154.6)	-	(1.1)	-	-	(155.7)
Additions	63.2	59.1	-	25.4	-	(20.1)	127.6
Disposals	(9.7)	-	(2.1)	(9.1)	(23.1)	0.4	(43.6)
At 31 December 1999	**1,000.2**	**-**	**31.3**	**157.3**	**-**	**(265.1)**	**923.7**
DEPRECIATION:							
At 1 January 1999	323.6	19.1	13.2	63.1	15.7	(69.6)	365.1
Transfers to parent company	-	(23.2)	-	(0.5)	-	-	(23.7)
Provided during the year	29.0	4.1	0.4	14.9	-	(6.8)	41.6
Disposals	(9.7)	-	(0.8)	(8.7)	(15.7)	0.4	(34.5)
At 31 December 1999	**342.9**	**-**	**12.8**	**68.8**	**-**	**(76.0)**	**348.5**
Net book value at 31 December 1999	**657.3**	**-**	**18.5**	**88.5**	**-**	**(189.1)**	**575.2**
Net book value at 31 December 1998 (restated)	622.7	76.4	20.2	83.2	7.4	(175.8)	634.1
Assets in the course of construction included above:							
At 31 December 1999	**34.5**	**-**	**-**	**26.0**	**-**	**-**	**60.5**
At 31 December 1998	36.0	-	-	19.9	-	-	55.9
Net book value of capitalised interest included above:							
At 31 December 1999	**22.3**	**-**	**-**	**5.7**	**-**	**-**	**28.0**
At 31 December 1998	20.9	-	-	5.3	-	-	26.2

The depreciation charge was £41.6m (9 months to 31 December 1998 - £34.9m) before taking account of profit from disposals of £0.3m (9 months to 31 December 1998 - £0.1m).

12. GROUP AND COMPANY TANGIBLE FIXED ASSETS *continued*

	COMPANY				
	Distribution System	Non-operational land and buildings	Fixtures and equipment	Deduct: Customer contributions	Total
	£m	£m	£m	£m	£m
At 1 January 1999	948.0	0.2	73.9	(245.4)	776.7
Reclassifications	0.4	-	(4.2)	-	(3.8)
Additions	67.2	-	14.2	(20.1)	61.3
Disposals	(9.7)	-	-	0.4	(9.3)
At 31 December 1999	**1,005.9**	**0.2**	**83.9**	**(265.1)**	**824.9**
DEPRECIATION:					
At 1 January 1999	323.6	0.1	14.6	(69.6)	268.7
Provided during the year	29.0	-	6.4	(6.8)	28.6
Disposals	(9.7)	-	-	0.4	(9.3)
At 31 December 1999	**342.9**	**0.1**	**21.0**	**(76.0)**	**288.0**
Net book value at 31 December 1999	**663.0**	**0.1**	**62.9**	**(189.1)**	**536.9**
Net book value at 31 December 1998	624.4	0.1	59.3	(175.8)	508.0
Assets in the course of construction included above:					
At 31 December 1999	**34.5**	-	**16.8**	-	**51.3**
At 31 December 1998 (restated)	36.0	-	19.9	-	55.9
Net book value of capitalised interest included above:					
At 31 December 1999	**22.3**	-	**5.1**	-	**27.4**
At 31 December 1998	20.9	-	5.1	-	26.0

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

	GROUP		COMPANY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Freehold	**13.9**	17.1	-	-
Long leasehold	**4.3**	2.8	-	-
Short leasehold	**0.3**	0.3	**0.1**	0.1
	18.5	20.2	**0.1**	0.1
The total of land which is not depreciated is:	**3.4**	3.3	**1.6**	1.5

13. INVESTMENTS

	GROUP Shares in joint ventures £m	Shares in other undertakings £m	Total £m	COMPANY Shares in subsidiary undertakings £m	Shares in other undertakings £m	Total £m
COST OR VALUATION:						
At 1 January 1999	56.7	10.9	67.6	199.1	10.7	209.8
Additions	**0.9**	-	**0.9**	-	-	-
Share of joint ventures' results less dividends received	**(2.4)**	-	**(2.4)**	-	-	-
Transfers to parent company	-	-	-	**(36.0)**	-	**(36.0)**
Disposals	-	**(10.8)**	**(10.8)**	-	**(0.6)**	**(0.6)**
At 31 December 1999	**55.2**	**0.1**	**55.3**	**163.1**	**10.1**	**173.2**
PROVISION FOR DIMINUTION IN VALUE:						
At 1 January 1999	0.5	10.0	10.5	-	10.0	10.0
Release of provision	-	**(10.0)**	**(10.0)**	-	-	-
Amortisation of goodwill in the year	**0.3**	-	**0.3**	-	-	-
At 31 December 1999	**0.8**	-	**0.8**	-	**10.0**	**10.0**
Net book value at 31 December 1999	**54.4**	**0.1**	**54.5**	**163.1**	**0.1**	**163.2**
Net book value at 31 December 1998	56.2	0.9	57.1	199.1	0.7	199.8

Details of the principal investments of the Group at 31 December 1999 are listed below.

Name of company	**Holding of ordinary shares**	**Proportion of voting rights and shares held**	**Nature of business**
Principal subsidiary undertakings			
Held by Company:			
Northern Electric Distribution Limited	100 at £1	100%	Agency company, managing the distribution network
Northern Electric Finance plc	50,000 at £1 (25p paid)	100%	Finance company
Northern Electric & Gas Limited	84,785,000 at £1	100%	Gas supply, electrical and gas appliance retailing and the provision of engineering contracting and other support services
Northern Electric Generation Limited	38,661,500 at £1	100%	Holding company
Northern Electric Investments Limited	10,027,221 at £1	100%	Holding company
Northern Electric (Overseas Holdings) Limited	2,500,000 at £1	100%	Holding company
Northern Electric Properties Limited	32,207,100 at £1	100%	Property holding and management company
Northern Electric Supply Limited	100 at £1	100%	Agency company, retailing electricity and gas
Northern Transport Finance Limited	5,000,000 at £1	100%	Car retailing company
Held by Northern Electric subsidiaries:			
Kirkheaton Wind Limited	75 at £1	75%	Generation of electricity
Northern Electric Generation (Peaking) Limited	1,500,000 at £1	100%	Generation of electricity
Northern Electric Generation (TPL) Limited	33,674,809 at £1	100%	Holding company
Northern Electric Insurance Services Limited	145,000 at £1	100%	Insurance services
Northern Metering Services Limited	100 at £1	100%	Agency company, meter operation & data collection services
Northern Electric Retail Limited	100 at £1	100%	Agency company, retailing of electrical and gas appliances
Northern Electric Training Limited	100 at £1	100%	Agency company, training services
Northern InfoCom Limited	100 at £1	100%	Agency company, information technology & telecommunication services
Northern Utility Services Limited	100 at £1	100%	Agency company - engineering contracting services
Principal joint ventures			
Held by Northern Electric subsidiaries:			
Teesside Power Limited	2,183,540,000 at 1p	15.38%	Generation of electricity
Vehicle Lease and Service Limited	950,000 at £1	50%	Transport services
Viking Power Limited	50 at £1	50%	Generation of electricity

All of the above companies are registered in England and Wales except for Northern Electric Insurance Services Limited which is registered in the Isle of Man.

Transactions of the agency companies are reflected in the accounts of their respective parent company.

14. GROUP'S SHARE OF JOINT VENTURES

	1999 £m	1998 £m
Turnover	**72.5**	51.1
Profit before taxation	**6.2**	3.5
Taxation	**2.6**	1.5
Profit after taxation	**3.6**	2.0
Fixed Assets	**149.6**	147.5
Current Assets	**64.6**	62.8
Liabilities due within one year	**22.1**	17.2
Liabilities due after one year	**140.1**	139.6

The aggregate amounts disclosed for joint ventures above relate mainly to the Group's share of Teesside Power Limited.

15. GROUP'S STOCKS

	1999 £m	1998 £m
Raw materials and consumables	**3.9**	4.2
Work in progress	**8.7**	5.0
Goods for resale	**11.2**	8.4
Payments on account	**(4.7)**	(2.8)
	19.1	14.8

16. DEBTORS

	GROUP		COMPANY	
	1999 £m	1998 £m Restated	1999 £m	1998 £m Restated
Amounts falling due after more than one year:				
Prepayments and accrued income	**13.2**	11.6	**11.1**	11.4
Credit sales instalments not yet due	**19.7**	22.7	**-**	-
	32.9	34.3	**11.1**	11.4
Amounts falling due within one year:				
Trade debtors	**29.3**	118.1	**22.6**	105.3
Credit sales instalments not yet due	**12.3**	10.1	**-**	-
Prepayments and accrued income	**5.4**	4.7	**16.4**	16.9
Unbilled consumption	**107.3**	72.0	**48.4**	27.3
Amounts owed by subsidiary undertakings	**-**	-	**19.1**	11.2
Amounts owed by joint ventures	**3.1**	3.1	**-**	-
Advance corporation tax recoverable	**-**	0.2	**-**	0.2
Other	**7.7**	1.8	**4.7**	-
	165.1	210.0	**111.2**	160.9

Northern Electric plc has entered into an agreement to securitise certain electricity receivables and future receivables with a third party. The third party issues commercial paper secured on those assets. The issue terms of the commercial paper include provisions that the holders have no recourse to any member of the Group in any form. Northern Electric plc is not obliged to support any losses nor does it intend to.

At 31 December 1999, £91.7m of the funding is secured on trade debtors (31 December 1998 - nil). Under Financial Reporting Standard 5, "Reporting the Substance of Transactions", this amount has been offset against trade debtors.

The amount of funding secured on future receivables £8.3m (31 December 1998: nil) is included in Other Creditors (note 17).

The comparative for group trade debtors has been increased by £60.0m with a corresponding reduction in the comparative for unbilled consumption due to a reallocation of credit balances with customers. A similar adjustment has been made for the Company of £51.3m.

NOTES TO THE ACCOUNTS *continued*

For the 12 months ended 31 December 1999

17. CREDITORS: amounts falling due within one year

	GROUP		COMPANY	
	1999 £m	1998 £m	1999 £m	1998 £m
Loans (Note 19)	**85.6**	178.0	**87.7**	183.6
Overdrafts (Note 19)	**-**	-	**11.1**	36.0
Payments received on account	**4.1**	3.5	**4.1**	3.5
Trade creditors	**115.0**	111.3	**87.8**	77.2
Amounts due to parent/subsidiary undertakings	**13.3**	-	**49.1**	-
Amounts due to joint ventures	**4.9**	10.2	**1.0**	10.2
Corporation tax	**1.1**	9.5	**-**	5.7
Advance corporation tax	**-**	0.2	**-**	0.2
Other taxes and social security costs	**2.6**	2.3	**2.5**	2.3
Group relief	**9.8**	11.6	**7.4**	11.6
Other creditors	**31.8**	24.6	**10.1**	10.8
Dividends accrued and proposed	**2.3**	2.3	**2.3**	2.3
	270.5	353.5	**263.1**	343.4

18. CREDITORS: amounts falling due after more than one yea

	GROUP		COMPANY	
	1999 £m	1998 £m	1999 £m	1998 £m
Loans (Note 19)	**197.8**	221.2	**197.7**	197.7
Deferred petroleum revenue tax	**-**	1.9	**-**	-
Amounts due to joint ventures	**24.5**	26.6	**24.5**	26.6
Other	**0.9**	0.9	**-**	-
	223.2	250.6	**222.2**	224.3

19. BORROWINGS

	GROUP		COMPANY	
Analysis of borrowings:	1999 £m	1998 £m	1999 £m	1998 £m
Not wholly repayable within five years	**197.8**	197.7	**197.7**	197.7
Wholly repayable between two to five years	**-**	23.5	**-**	-
Wholly repayable within one year	**85.6**	178.0	**98.8**	219.6
	283.4	399.2	**296.5**	417.3

The principal loans not wholly repayable within five years are bearer bonds, repayable in £100m tranches in 2005 and 2020, bearing interest at 8.625% and 8.875% respectively.

20. PROVISIONS FOR LIABILITIES AND CHARGES

GROUP

	Regulatory correction factor 1999 £m	Regulatory correction factor 1998 £m Restated	Pensions 1999 £m	Pensions 1998 £m	Insurance claims 1999 £m	Insurance claims 1998 £m	Restructuring 1999 £m	Restructuring 1998 £m	Warranties 1999 £m	Warranties 1998 £m Restated	Other 1999 £m	Other 1998 £m Restated	Total 1999 £m	Total 1998 £m Restated
At 1 January/1 April	**3.4**	20.5	**0.9**	1.0	**9.8**	8.6	**2.0**	4.6	**5.8**	-	**5.3**	3.5	**27.2**	38.2
Prior year adjustment (note 11)	-	(4.4)	-	-	-	-	-	-	-	-	-	1.6	-	(2.8)
At 1 January/1April (restated)	**3.4**	16.1	**0.9**	1.0	**9.8**	8.6	**2.0**	4.6	**5.8**	-	**5.3**	5.1	**27.2**	35.4
Utilised/paid in period	**(3.4)**	(12.7)	-	(0.1)	**(6.7)**	(0.8)	**(2.9)**	(2.8)	**(3.1)**	(1.4)	**5.9**	-	**(10.2)**	(17.8)
Transferred from profit and loss account	-	-	-	-	**1.2**	2.0	**5.9**	0.2	**5.3**	7.2	**0.6**	0.2	**13.0**	9.6
Transferred to parent company (note 25)	-	-	-	-	-	-	-	-	-	-	**(10.5)**	-	**(10.5)**	-
At 31 December	-	3.4	**0.9**	0.9	**4.3**	9.8	**5.0**	2.0	**8.0**	5.8	**1.3**	5.3	**19.5**	27.2

COMPANY

	Regulatory correction factor 1999 £m	Regulatory correction factor 1998 £m Restated	Pensions 1999 £m	Pensions 1998 £m	Insurance claims 1999 £m	Insurance claims 1998 £m	Restructuring 1999 £m	Restructuring 1998 £m	Warranties 1999 £m	Warranties 1998 £m Restated	Other 1999 £m	Other 1998 £m Restated	Total 1999 £m	Total 1998 £m Restated
At 1 January/1 April	**3.4**	20.5	**0.9**	1.0	**3.4**	3.0	**1.9**	4.5	**1.9**	-	**1.8**	3.2	**13.3**	32.2
Prior year adjustment (note 11)	-	(4.4)	-	-	-	-	-	-	-	-	-	-	-	(4.4)
At 1 January/1April (restated)	**3.4**	16.1	**0.9**	1.0	**3.4**	3.0	**1.9**	4.5	**1.9**	-	**1.8**	3.2	**13.3**	27.8
Transferred to subsidiary	-	-	-	-	-	(1.6)	-	(0.2)	-	-	-	(0.8)	-	(2.6)
Utilised/paid in the period	**(3.4)**	(12.7)	-	(0.1)	**(3.5)**	-	**(1.1)**	(2.4)	**(0.4)**	-	**(1.2)**	(0.7)	**(9.6)**	(15.9)
Transferred from profit and loss account	-	-	-	-	**1.2**	2.0	**2.3**	-	-	1.9	**0.1**	0.1	**3.6**	4.0
At 31 December	-	3.4	**0.9**	0.9	**1.1**	3.4	**3.1**	1.9	**1.5**	1.9	**0.7**	1.8	**7.3**	13.3

The provision for regulatory correction factor has been reduced by £3.4m and the provision for Other has been increased by £1.6m at 31 December 1998 due to the introduction of FRS12 (Note 11).

Pensions: The provision represents the actuarial assessment of the cost of unfunded pension arrangements.

Insurance Claims: Provision has been made to cover costs arising from actual claims which are not externally insured.

Restructuring: The restructuring provision relates primarily to the cost of severance payments to be incurred in year ending 31 December 2000.

Warranties: This relates to the estimated value of claims calculated in accordance with industry accepted practice arising under extended warranty contracts sold on electrical and gas appliances.

Other: Relates primarily to wayleave disputes and holidays in suspense.

21. SHARE CAPITAL

	Authorised 1999 Number (millions)	Authorised 1998 Number (millions)	Authorised 1999 £m	Authorised 1998 £m	Allotted, called up and fully paid 1999 Number (millions)	Allotted, called up and fully paid 1998 Number (millions)	Allotted, called up and fully paid 1999 £m	Allotted, called up and fully paid 1998 £m
Equity - ordinary shares of 56 12/23p each	**176.9**	176.9	**100.0**	100.0	**127.7**	127.7	**72.2**	72.2
Non equity - cumulative preference shares of 1p each	**115.0**	115.0	**1.2**	1.2	**111.7**	111.7	**1.1**	1.1
	291.9	291.9	**101.2**	101.2	**239.4**	239.4	**73.3**	73.3

Cumulative preference shares:

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

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

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

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

22. DERIVATIVES

The Group's policies as regards derivatives and financial instruments are set out below and in the accounting policies on pages 9 and 10.

The Group finances its operations by a mixture of retained profits, long-term debt securities, long-term and short-term bank borrowings, commercial paper and bills of exchange.

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items that arise directly from its operations, for example trade debtors and trade creditors.

The Group also enters into derivative transactions to manage the interest rate risks arising from the Group's sources of finance and commercial risks arising in the supply business.

The commercial risks associated with the supply business and the risks associated with financial assets held in a wholly captive insurance company are managed separately from other risks managed by the Group's treasury function, and are considered separately below.

Treasury Activities

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and currency risk. The Board has agreed policies for each of these risks and they are summarised below.

Interest Rate Risk

The Group's primary objective in respect of borrowings is to provide a stable, low cost of financing over time whilst observing approved risk parameters.

The Group's primary objective in respect of investments is to maximise the returns whilst observing approved risk parameters.

The Group is partly financed by borrowings at both fixed and floating rates of interest. At the year end 70% of the Group's borrowings was at fixed rates and the average maturity for the borrowings was 13 years.

Liquidity Risk

The Group's primary objective is to ensure that the Group has access to sufficient liquidity to enable it to meet its obligations as they fall due and to provide adequately for contingencies. The Group's policy is to maintain sufficient committed bank facilities to meet its forecast borrowing requirement.

Flexibility in the management of short-term liquidity is increased by the use of uncommitted facilities.

Currency Risk

The Group's primary objective is to hedge all material currency risks so as to eliminate any exposure. As at 31 December 1999, the Group had no material currency risks.

Trading

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken in relation to treasury activities.

The Supply Business

Hedging

The Group holds financial instruments to hedge the risks associated with the purchase and sale of electricity resulting from price volatility.

Virtually all electricity generated in England and Wales is sold by generators and bought by suppliers through the Pool. The majority of the Group's customers are on fixed rate contracts or tariffs. In addition, with effect from 1 April 1998, the Group's Public Electricity Supply licence placed a price cap on customers using less than 12,000kWh per year within the area defined in that licence. Therefore the Group is exposed to the risk associated with fluctuations in the cost of purchased electricity relative to the price received from the customer to the extent that it has not hedged this risk.

The Group therefore substantially hedges this risk by employing a variety of risk management tools including management of its supply sales contract portfolio and hedging contracts.

The most common contracts entered into to hedge the risk of Pool price volatility are contracts for differences (CFD's) and electricity forward agreements (EFA's). Both CFDs and EFAs are contracts predominantly between generators and suppliers, which fix the major elements of the price of electricity for a contracted quantity over a specific time period. Differences between the actual price set by the Pool and the agreed prices give rise to difference payments between the parties to the particular contract. Therefore these contracts allow the Company to convert effectively the majority of anticipated Pool purchases from variable market prices to fixed prices. Accordingly the gains and losses on such contracts are deferred and recognised as electricity is purchased.

The Group's policy is to also enter into financial instruments to hedge against fluctuations in the purchase price of gas.

CFDs, EFAs and similar contracts in place at 31 December 1999 will hedge a portion of electricity and gas purchases through to the year 2007. As set out below, the directors' estimate of the fair value of the contracts outstanding at 31 December 1999 is a net liability of £14.5m.

Trading

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken in relation to the supply business.

Captive Insurance Company

Northern Electric Insurance Services Limited, a wholly owned subsidiary company, holds financial assets to fund claims arising from its insurance activities.The Group's objective in respect of these assets is to achieve as high a return as is consistent with maintaining the portfolio's security and liquidity. Asset management companies, who operate under strict guidelines, including restrictions on which assets they may invest in and the minimum credit ratings required of counter-parties, manage these investments.Throughout the year under review these guidelines were complied with.

Numerical Disclosures

The numerical disclosures which follow deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13 "Derivatives and other Financial Instruments: Disclosures" (FRS 13). As permitted by FRS 13, certain financial assets and liabilities such as investments in subsidiary companies, debtors and creditors have been excluded from the disclosures.

22. DERIVATIVES *continued*

Interest rate risk profile of financial assets and financial liabilities

Financial assets

The interest rate profile of the Group's financial assets at 31 December 1999 was:

	Total £m	Floating rate financial assets £m	Fixed rate financial assets £m	Financial assets on which no interest is received £m
Sterling	23.3	23.3	-	-

The floating rate financial assets comprises a £6.1m deposit placed on the money markets at six day rates and £17.2m of bank and other deposits invested at prevailing market rates.

Financial Liabilities

The interest rate profile of the Group's financial liabilities at 31 December1999 was:

	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Financial liabilities on which no interest is paid £m
Sterling	308.8	85.0	197.8	26.0

	Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	8.7	17

The floating rate liabilities comprise bank loans of £85.0m that bear interest at rates based on inter-bank money market rates.

The weighted average period until maturity regarding financial liabilities upon which no interest is paid is 5 years.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 December 1999 was as follows:

	Total £m	Borrowings £m	Other £m
In one year or less	85.6	85.6	-
In more than two years but not more than five years	6.3	-	6.3
In more than five years	216.9	197.8	19.1
	308.8	283.4	25.4

Borrowing facilities

The Group has various undrawn committed borrowing facilities.The undrawn facilities available at 31 December 1999 in respect of which all conditions precedent had been met were as follows:

	£m
Expiring in less than one year	50.0
Expiring in more than two but not more than five years	12.1
	62.1

22. DERIVATIVES *continued*

Fair value disposals

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities as at 31 December 1999:

	Book value £m	Fair Value £m
Financial assets		
Money market investments and bank deposits	23.3	23.3
Primary financial instruments issued to finance the Group's operations		
Short term financial liabilities and current portion of long term liabilities	(85.6)	(85.6)
Long term financial liabilities	(223.2)	(249.4)
Derivative financial instruments held to manage commercial risks in the supply business		
CFDs, EFAs and other similar contracts	-	(14.5)

The fair values of financial liabilities have been determined by reference to quoted market prices where available. The estimated difference between the book and fair value of assets for which market prices are not quoted is not material.

The fair value of CFDs and EFAs and similar contracts have been calculated by reference to the directors' estimate of future electricity pool prices and gas purchase costs.

Gains/losses on hedges

As explained above, the Group enters into CFDs, EFAs and other similar contracts to hedge against fluctuations in the purchase price of electricity and gas. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures. An analysis of unrecognised gains and losses is as follows:

	Total Losses £m
Unrecognised losses on hedges at 31 December 1999	14.5
Losses expected to be recognised in year ending 31 December 2000	8.0
Losses expected to be recognised in year ending 31 December 2001 or later	6.5

The gain on hedges brought forward at 31 December 1998 and recognised in the current year profit and loss account was £3.1m.

23. MOVEMENT ON RESERVES AND RECONCILIATION OF SHAREHOLDERS' FUNDS

GROUP

	Share Capital £m	Share Premium Account £m	Capital Redemption Reserve £m	Statutory Reserve £m	Revaluation Reserve £m	Profit & Loss Account £m	Total Shareholders' Funds £m
Total shareholders' funds at 1 April 1998	73.3	158.8	6.2	2.2	30.2	85.0	355.7
Prior year adjustments (note 11)	-	-	-	-	-	4.4	4.4
Total shareholders' funds at 1 April 1998 (restated)	73.3	158.8	6.2	2.2	30.2	89.4	360.1
Profit attributable to members (restated)	-	-	-	-	-	50.4	50.4
Dividends	-	-	-	-	-	(83.8)	(83.8)
Release of revaluation reserve in joint ventures	-	-	-	-	(1.8)	1.8	-
Release of revaluation reserves in CalEnergy Gas (UK) Ltd	-	-	-	-	(0.2)	0.2	-
Total shareholders' funds at 31 December 1998 (restated)	73.3	158.8	6.2	2.2	28.2	58.0	326.7
Profit attributable to members	**-**	**-**	**-**	**-**	**-**	**74.7**	**74.7**
Dividends	**-**	**-**	**-**	**-**	**-**	**(45.0)**	**(45.0)**
Release of revaluation reserve in joint ventures	**-**	**-**	**-**	**-**	**(2.4)**	**2.4**	**-**
Release of revaluation reserves in CalEnergy Gas (UK) Ltd	**-**	**-**	**-**	**-**	**(0.1)**	**0.1**	**-**
Adjustments on transfer of CalEnergy Gas (Holdings) Ltd (note 25)	**-**	**-**	**-**	**-**	**(0.3)**	**0.8**	**0.5**
Total shareholders' funds at 31 December 1999	**73.3**	**158.8**	**6.2**	**2.2**	**25.4**	**91.0**	**356.9**
Equity interests							**355.8**
Non-equity interests							**1.1**
							356.9

COMPANY

	Share Capital £m	Share Premium Account £m	Capital Redemption Reserve £m	Profit & Loss Account £m	Total Shareholders' Funds £m
Total shareholders' funds at 1 April 1998	73.3	158.8	6.2	76.8	315.1
Prior year adjustments (note 11)	-	-	-	4.4	4.4
Total shareholders' funds at 1 April 1998 (restated)	73.3	158.8	6.2	81.2	319.5
Profit attributable to members (restated)	-	-	-	63.4	63.4
Dividends	-	-	-	(83.8)	(83.8)
Total shareholders' funds at 31 December 1998 (restated)	73.3	158.8	6.2	60.8	299.1
Profit attributable to members	**-**	**-**	**-**	**81.8**	**81.8**
Dividends	**-**	**-**	**-**	**(45.0)**	**(45.0)**
Total shareholders' funds at 31 December 1999	**73.3**	**158.8**	**6.2**	**97.6**	**335.9**
Equity interests					**334.8**
Non-equity interests					**1.1**
					335.9

24. NOTES TO THE CASH FLOW STATEMENT

	12 Months to 31 December 1999 £m	9 Months to 31 December 1998 £m Restated
i) RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS		
Operating profit	**104.5**	74.9
Depreciation and amortisation	**41.6**	34.9
Decrease in provisions	**(5.6)**	(11.7)
Increase in stocks	**(4.3)**	(3.6)
Increase in debtors	**(47.2)**	(51.3)
Increase in creditors	**24.8**	31.5
Net cash inflow from operating activities	**113.8**	74.7
ii) ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT		
Returns on investments and servicing of finance		
Interest received	**0.8**	3.4
Interest paid	**(29.4)**	(23.8)
Preference dividends paid	**(9.0)**	(4.5)
Ordinary dividends received	**0.6**	0.1
Other investment income	**3.2**	1.9
Net cash outflow for returns on investments and servicing of finance	**(33.8)**	(22.9)
Taxation		
Corporation tax	**(14.0)**	-
Advanced corporation tax	**(0.3)**	-
Payments for group relief	**(19.0)**	-
Petroleum revenue tax	**0.1**	(0.2)
"Windfall tax"	**-**	(59.2)
Net cash outflow for taxation	**(33.2)**	(59.4)
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	**(131.9)**	(84.7)
Receipts from sale of tangible fixed assets	**10.1**	0.9
Receipt of customer contributions	**19.9**	15.1
Receipts from sale of fixed asset investments	**4.2**	0.4
Net cash outflow for capital expenditure and financial investment	**(97.7)**	(68.3)
Acquisitions and disposals		
Net cash acquired on disposal of subsidiary	**6.4**	-
Management of liquid resources		
Cash (added)/withdrawn from short term deposits greater than 24 hours	**(6.1)**	3.9
Sale of sterling commercial paper	**-**	4.3
Net cash (outflow)/inflow from management of liquid resources	**(6.1)**	8.2
Financing		
Non-recourse and related finance	**100.0**	-
(Repayment)/issue of bank loans	**(45.9)**	146.0
Net cash inflow from financing	**54.1**	146.0

24. NOTES TO THE CASH FLOW STATEMENT *continued*

iii) ANALYSIS OF NET DEBT

	Balance 1 January 1999 £m	Non-cash adjustments £m	Cash Flow £m	**Balance 31 December 1999 £m**
Cash at bank and in hand	7.7	-	9.5	**17.2**
Liquid resources *	-	-	6.1	**6.1**
Loans	(399.2)	69.9	45.9	**(283.4)**
Net debt	(391.5)	69.9	61.5	**(260.1)**

*included within cash at bank and in hand on the balance sheet

Non-cash adjustments relate to amortisation of bond issue costs of £0.1m and the transfer of loans totalling £70.0m held by the CalEnergy Gas (Holdings) group of companies at the time that the group was transfered to CE Electric UK plc (note 25).

iv) CASH FLOW RELATING TO EXCEPTIONAL ITEMS

	12 Months to 31 December 1999 £m	9 Months to 31 December 1998 £m
Operating activities		
Restructuring costs paid	**(2.0)**	-
Taxation		
"Windfall tax" paid	-	(59.2)
Net cash outflows relating to exceptional items	**(2.0)**	(59.2)

25. TRANSFER OF SUBSIDIARY UNDERTAKING

During the year the Group's interest in its subsidiary undertaking CalEnergy Gas (Holdings) Limited was transferred to the immediate holding company CE Electric UK plc. The transfer was made as settlement of the interim equity dividend declared by the Group. There was no cash consideration. The assets and liabilities transfered were:

	£m
Tangible assets	131.6
Investments	0.3
Cash	4.1
Debtors	5.3
Creditors: amounts falling due within one year	(36.8)
Creditors: amounts falling due after more than one year	(58.5)
Abandonment provisions	(10.5)
	35.5
Adjustment to reserves	0.5
Settlement of interim equity dividend	36.0

Included in the cash flows of the Group in respect of the CalEnergy Gas (Holdings) group of companies are the following amounts:

	£m
Cash inflow from operating activities	5.4
Returns on investments and servicing of finance	(1.4)
Taxation	0.1
Capital expenditure and financial investment	(50.9)
Financing	45.0

26. GROUP'S OBLIGATIONS UNDER HIRE AGREEMENTS

Annual commitments under non-cancellable operating leases are as follows:

	Land and Buildings		**Other**	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Expiring within one year	**0.1**	0.1	-	0.1
Expiring between two and five years	**0.5**	0.2	-	-
Expiring after five years	**2.5**	2.9	-	-
	3.1	3.2	-	0.1

The Company had no obligations under hire agreements (1998 - nil).

27. PENSION COMMITMENTS

Pension commitments have been accounted for in accordance with Statement of Standard Accounting Practice 24.

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 Electricity Supply Pension Scheme was closed to staff commencing employment on or after 23 July 1997. The Northern Electric Money Purchase Scheme was made available to new employees from that date.

The last full actuarial valuation of the Group's share of the Electricity Supply Pension Scheme was carried out by Bacon and Woodrow, consulting actuaries, as at 31 March 1998. The attained age method was used for the valuation. The principal actuarial assumptions were that the investment return would exceed salary increases by 3.0% per annum (inclusive of merit awards) and exceed future pension increases by 4.0% per annum. Allowance has also been made for the additional liabilities which 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.

The Actuary's valuation of the Electricity Supply Pension Scheme and of the separate Groups is based on the situation known at the date of signature of the report. It takes no account of any changes to the Group's assets or liabilities which may arise from the determination of a complaint in relation to the Scheme which has been notified by the Pensions Ombudsman at the request of a member. The complaint relates to the deferral of retirement deficiency costs. The case was passed to the Court of Appeal in May 1999 and the orders made by the Court of Appeal have been stayed and are subject of a further appeal on a date yet to be arranged (note 29).

For the Northern Electric Group the valuation showed that the actuarial value of the assets represented 113.5% of the actuarial value of the accrued benefits (before allowing for the Company's dealings with the surplus). 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 former members were made with effect from 1 April 1999. Allowing for these improvements the actuarial value represents 110.3% of accrued benefits.

The total market value of the assets of the Electricity Supply Pension Scheme at the date of actuarial valuation was £18,745.0m of which £684.7m represented the section of the Scheme relating to the Northern Electric Group.

At the Company's request the actuaries have carried out a separate formal review of the Company's future pension costs using the same assumptions as those underlying the actuarial valuation of the Group as at 31 March 1998, which the actuaries have confirmed facilitate a reasonable best estimate of those costs. This review has been based on the same membership and other data as at 31 March 1998 and using the attained age method.

The board has accepted the advice of the actuaries and has formally approved the use of these assumptions for the purpose of calculating the Group's pension cost charge. As a result, the total pension cost for the year ended 31 December 1999 has been reduced by £5.0m to £2.3m. The pension cost for the nine months ended 31 December 1998 was £4.8m after £1.0m actuarial surplus reduction.

The difference between the amounts charged in the accounts and the amounts paid over to the fund are shown as a prepayment in the balance sheet. The cumulative prepayment as at 31 December 1999 was £13.4m (1998 - £11.6m).

Contributions, based on a composite rate and payable by the Group to the Scheme during the year were £7.3m (nine months to 31 December 1998 £5.8m).

28. CAPITAL AND OTHER COMMITMENTS

The Group has entered into contractual commitments in relation to capital investment of £1.2m (1998 - £1.6m).

29. CONTINGENT LIABILITIES

Following a complaint by two pensioners in December 1996 the Pensions Ombudsman made a ruling against National Grid Group plc (NGG) relating to the use of an actuarial valuation surplus in their part of the Electricity Supply Pension Scheme. The ruling prohibits the use of a valuation surplus to meet the additional pension costs of early retirement arising from restructuring. On 10 June 1997 the High Court granted appeal by NGG and overruled the Pensions Ombudsman's decision. On 10 February 1999 the Court of Appeal ruled against NGG on a technical issue but confirmed the key rulings of the High Court, ie

- that the pension surplus does not belong to scheme members;
- that the company can benefit from use of pension scheme surplus, provided Scheme rules allow and members interests are taken into account.

In order to obtain specific directions, a further hearing before the Court has taken place, but this has not resulted in a final decision and an appeal to the House of Lords is possible.

A claim against Northern Electric applying the same arguments has been received. This will not be considered by the Pensions Ombudsman until the above case has been settled. At this time, the directors are of the view, based upon actuarial advice, that there would be no adverse effect on the Group's profit or loss account were the Court of Appeal ruling to be finalised.

On 16 May 2000, the European Court of Justice ruled that UK legislation on the backdating of part-timers' claims to pension scheme benefits on grounds of sex descrimination was incompatible with EU law. As a result, part-timers can claim for backdating of their pension scheme benefits to 8 April 1976. The Group is unable to quantify the effect if any of this ruling until such time that any claims are brought against the Group and allowed by the Court.

30. DIRECTORS' INTERESTS

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

31. RELATED PARTY TRANSACTIONS

As the Company is more than 90% owned by CE Electric UK Funding Company, a company registered in England and Wales, which prepares consolidated financial statements, the Company has pursuant to paragraph 17 of FRS 8 "Related Party Disclosures" not included details of transactions with other companies which are investees of the CE Electric UK Funding Company Group. There are no other related party transactions requiring disclosure in these accounts.

Disclosure of the directors' interests in the shares of the Company and parent undertakings is made in the Directors' Report and note 8 to the accounts.

32. PARENT UNDERTAKINGS

The immediate parent undertaking of Northern Electric plc is CE Electric UK plc. At 31 December 1999 the ultimate controlling party and ultimate parent undertaking of Northern Electric plc was MidAmerican Energy Holdings Company, a company incorporated in Iowa, United States of America.

Copies of the group accounts of MidAmerican Energy Holdings Company, the parent undertaking of the largest group preparing group accounts which include Northern Electric plc and the group accounts of CE Electric UK Funding Company, the smallest parent undertaking to prepare group accounts in the UK for the year ended 31 December 1999 can both be obtained from the Company Secretary, Northern Electric plc, Carliol House, Market Street, Newcastle upon Tyne NE1 6NE.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Northern Electric plc will be held at Carliol House, Market Street, Newcastle upon Tyne, NE1 6NE on 3 August 2000 at 11.00 am for the following purposes:

ORDINARY BUSINESS

Resolution 1

To receive and consider the directors' and auditors' reports and the Group accounts for the year ended 31 December 1999.

Resolution 2

To re-elect Mr R Dixon as a director.

Resolution 3

To re-elect Mr D M Swan as a director.

Resolution 4

To re-elect Mr J M France as a director.

Resolution 5

To re-elect Mr J A Rasmussen as a director.

Resolution 6

To re-elect Mr J D Stallmeyer as a director.

Resolution 7

To re-appoint Deloitte & Touche as auditors and to authorise the directors to determine their remuneration.

By order of the board

Valerie Giles

Secretary

25 May 2000

Registered office:

Carliol House, Market Street,

Newcastle upon Tyne, NE1 6NE

Registered in England No 2366942

Note:

All the issued ordinary shares in the Company are held by or on behalf of CE Electric UK plc. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. Holders of preference shares have the right to receive notice of, attend and speak at the Annual General Meeting but are only entitled to vote if, at the date of the notice of the meeting, payment of the dividend to which they are entitled is six months or more in arrears or if a resolution is to be considered at the meeting for the winding up of the Company or abrogating, varying or modifying any of the special rights attaching to the preference shares. As none of these circumstances apply to this Annual General Meeting, preference shareholders should note that they do not have the right to vote on any of the business to be considered.

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NORTHERN
ELECTRIC⊕GAS

Registered Office: Carliol House, Market Street, Newcastle upon Tyne NE1 6NE