

**REPORT OF THE DIRECTORS AND
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010
FOR
NORTHERN ELECTRIC PLC**

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FOR THE YEAR ENDED 31 DECEMBER 2010**

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NORTHERN ELECTRIC PLC GROUP

**COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2010**

DIRECTORS:

G E Abel
J A Andreasen
R Dixon
T E Fielden
J M France
P J Goodman
P A Jones

SECRETARY:

J Elliott

REGISTERED OFFICE:

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Newcastle upon Tyne
NE1 6AF

REGISTERED NUMBER:

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AUDITORS:

Deloitte LLP
Newcastle upon Tyne

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2010**

The directors present the annual report and accounts of Northern Electric plc (the "Company") and its subsidiary companies (together the "Group") for the year ended 31 December 2010, which includes the business review and audited financial statements for that year. Pages 2 to 25 inclusive of this annual report comprise a directors' report that has been drawn up and presented in accordance with the Companies Act 2006.

Cautionary statement regarding forward-looking statements

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

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

PRINCIPAL ACTIVITY

The Company is part of the CE Electric UK Funding Company group of companies (the "CE Group") and its principal activity during the year was to act as a holding company.

The activities of the Company's principal subsidiaries during the year were the distribution of electricity by Northern Electric Distribution Limited ("NEDL") and the provision of engineering contracting services by Integrated Utility Services Limited ("IUS").

NEDL serves an area of approximately 14,400 sq km in the north east of England with a resident population of 3.2 million, which extends from North Northumberland, south to York and west to the Pennines. NEDL's distribution system receives electricity from the National Grid's transmission system and distributes it, at voltages of up to 132kV, to approximately 1.6 million customers connected to its network of transformers, switchgear and overhead and underground cables. NEDL is an authorised distributor under the Electricity Act 1989 and holds an electricity distribution licence granted by the Secretary of State.

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

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

| Principle | Strategy | Indicator |
|------------------------|---|---|
| Financial strength | Effective stewardship of the Company's financial resources, investing in assets and focusing on long-term opportunities, which contribute to the Company's future strength. | Profitability, cash flow and maintenance of investment grade credit ratings. |
| Customer service | Delivering reliability, fair prices and exceptional service. | Improving network resilience and performance, measured by: customer minutes lost, customer interruptions and customer satisfaction. |
| Operational excellence | Setting high standards for the Company's operations and system investment, operation and maintenance. | Effective asset management, managing commercial risk and improving network resilience and performance. |

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2010**

| | | |
|-----------------------|--|--|
| Employee commitment | Equipping employees with the resources and skills they need to operate successfully and in a safe and rewarding environment. | Leading safety performance, engaging employees and effective leadership. |
| Environmental respect | Using natural resources wisely and protecting the environment, where it is impacted by the Company's operations. | Reducing environmental impact and promoting and pursuing long-term sustainability. |
| Regulatory integrity | Adhering to a policy of strict compliance with appropriate standards, policies and legislation. | Strong internal controls, regulatory engagement and industry influence. |

The Group continues to put plans in place to deliver its objectives against the strategy based on the Core Principles, executes on those plans across a range of activities, measures its progress and introduces corrective action wherever required. Although there was only limited improvement in the general economic environment and IUS' earnings continued to be adversely impacted, by adhering to the Core Principles, the Group was able to deliver a continued, pleasing financial performance for the year.

REVIEW OF BUSINESS

The Company's performance in 2010 was pleasing, with NEDL making a promising start to the Distribution Price Control Review 5 ("DPCR5") period, which took effect on 1 April 2010 for a five-year period and followed NEDL's agreement to the required modifications to its electricity distribution licence. Based on the DPCR5 final proposals, together with a rebalancing of distribution charges between customer groups, NEDL's charges made in relation to the distribution of electricity to domestic customers increased by 2.8% on 1 April 2010, which was equivalent to about 0.4% on their electricity bills. Changes to the charges made in relation to non-domestic customers varied more widely between the different types of non-domestic customers.

During the year, the CE Group was successful in winning funding under the Low Carbon Networks Fund arrangements for its customer-led network revolution project, received an award under the electricity distribution customer service reward scheme, implemented the new guaranteed standards of performance in the network connections area of its business and achieved a significant reduction in the number of failures recorded against the various guaranteed standards of performance so that it recorded its best ever performance in that respect. Further details are given under sustainability in the Core Principles section below.

There were some disappointing aspects to the Group's health and safety performance for the year, with the Group missing its internal targets in respect of lost time accidents and operational incidents. However, the number of preventable vehicle accidents experienced was better than target and reduced in comparison to the year ended 31 December 2009.

IUS continued to experience difficult trading conditions in 2010, with activity in respect of the E.ON framework service provider contract being transferred to the new service providers at the end of March and the headcount reducing by approximately 50% accordingly.

Activity levels in the UK Contracting and Rail areas of IUS' business reduced in comparison to 2009 levels mainly due to a reduction in volumes delivered on the Scottish Water contract and Network Rail not releasing contracts to the market. However the second half of the year was more successful in Rail with new orders being secured for delivery in 2011 of £3.1m and the release of additional opportunities to tender that will be pursued in 2011. A significant increase in activity was experienced in 2010 in the Multi-Utility area with the housing market showing some signs of recovery. The Multi-Utility operational delivery model was changed in 2010 with IUS taking a greater role in the management and supervision of delivery of its labour-only sub-contractors, the financial benefits of which are expected to be seen in 2011.

RESEARCH AND DEVELOPMENT

The CE Group supports a programme of research that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. The main areas of activity during the year, on which the Group invested £586,000 (Note 6 to the accounts), were:

- Active participation in programmes of national significance in collaboration with other Distribution Network Operators ("DNOs") and academic institutions to make significant technological progress for utilisation by the industry as a whole;

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2010**

- Continuing to support collaboration with other DNOs, both through industry associations and on a multilateral basis, on a range of incremental improvements to tools and equipment that, if successful, will further add to overall efficiency improvements;
- Development of a successful competitive bid to the newly established Low Carbon Networks Fund, second tier. This project, which is being delivered in collaboration with several key UK technology providers, will trial novel technologies and approaches to the installation and use of low carbon technologies likely to be seen on the network in the near future and to explore the impact of such technologies on network planning, design, and operation;
- Building on the successful, and still ongoing, field trials of newly developed superconducting fault limiters. A new project, funded through the Low Carbon Networks Fund first tier, has been instigated to implement this new technology at higher voltages and thus provide further technology options as alternatives to traditional engineering solutions for network constraints;
- Continuing to develop a suite of asset indices for improved asset management alongside a new integrated database and expert system to allow better decision making and improved exploitation of information gathered in previous projects;
- Having completed a project at Durham University to assess electrical network risk with the objective of improving decision making for network reinforcement and operation NEDL has successfully obtained further funding, through the Knowledge Transfer Partnership programme to embed the learning developed within the organisation to ensure maximum business impact for the investment already made; and
- A new project, investigating demand side management impacts on network risk, which will also support the low carbon network activities is now underway.

FUTURE DEVELOPMENTS

The financial position of the Group, as at the year end, is shown in the statement of financial position on page 31 and there have been no significant events since the year end.

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

NEDL will continue to operate its business with the goal of out-performing the allowances in the distribution price control, while efficiently investing in the electricity distribution system with the aim of improving the quality of supply provided to customers.

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

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2010 to the date of this report.

| | |
|-------------|--|
| G E Abel | President, MidAmerican Energy Holdings Company |
| R Dixon | Non-Executive Director |
| T E Fielden | Finance Director, CE Electric UK |
| J M France | Regulation Director, CE Electric UK |
| P J Goodman | Senior Vice President and Chief Financial Officer, MidAmerican |
| P A Jones | President and Chief Operating Officer, CE Electric UK |

Other changes in directors holding office were as follows:

B K Hankel - resigned 15 March 2010

J A Andreasen, General Counsel, CE Electric UK - appointed 22 March 2010

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2010**

GROUP'S POLICY ON PAYMENT OF CREDITORS

The Group complies with the Better Payment Practice Code for the prompt payment of suppliers in accordance with the normal terms of trade. It is Group policy with respect to its suppliers to settle the terms of payment with those suppliers when agreeing the terms of each transaction, to ensure that those suppliers are aware of the terms of payment and to pay in accordance with the Group's contractual and other legal obligations. The number of days purchases in trade creditors for the Group at 31 December 2010 was 32 (2009: 47).

VOTE HOLDER AND ISSUER NOTIFICATION

There have been no disclosures to the Company under Disclosure and Transparency Rule 5 (Vote Holder and Issuer Notification Rules).

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year, charitable donations of £25,452 were made (2009: £50,301), principally to local charities serving the communities in which the Group operates. No contributions were made to political organisations (2009: nil).

STRATEGIC OBJECTIVES

As part of the CE Group, the Group's strategic objectives remain based on the Core Principles and are to build a business, which:

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

As part of its strategy the Group continues to be committed to putting safety first, respecting its customers, their time and property, doing a quality job, responding effectively in times of severe weather (when it is needed most) and caring for its local environment.

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FOR THE YEAR ENDED 31 DECEMBER 2010**

CORE PRINCIPLES

Financial strength

During the year, the Group continued to implement tighter expenditure controls through the wide-ranging cost mitigation exercise, enhanced the reporting of management information and embedded the culture of continuous financial improvement in all areas of its operations.

The Group remains very aware of the impact that the general economic climate has had and may continue to have for the foreseeable future on it and its customers. In that respect, procedures are in place to closely monitor and manage the issues that may impact on the Group's business more significantly than others, including lower activity in terms of new connections required to NEDL's network and the potential for higher debt write-off as the economic downturn further affects the Group's customers.

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

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

Revenue

The Group's revenue at £288,569,000 was £11,976,000 higher than the prior year. Higher distribution revenues (£33,042,000) were partly offset by lower contracting revenues as a result of the loss of the E.ON contract and general economic conditions.

Operating profit

The Group's operating profit at £153,600,000 was £29,774,000 higher than the previous year reflecting the increase in distribution revenues.

Finance costs and investment income

Finance costs net of investment income at £31,940,000 were £2,894,000 higher than the previous year reflecting a reduction in interest receipts.

Taxation

The effective tax rate in the current year is 21%. Details are provided in Note 7 to the accounts.

Results and dividends

The Company made a profit after tax for the year of £97,170,000. An interim dividend of £60,000,000 was paid during the year and the directors recommend that no final dividend be paid in respect of the year.

Share capital and debt structures

There were no changes to the Company's share capital during the year.

On 2 July 2010 NEDL entered into an agreement with the European Investment Bank ("EIB"), under which the EIB provided NEDL with a credit facility of £119m. The financial obligations of the Company under this contract are guaranteed by CE Electric UK Funding Company. Between 31 January 2011 and 28 February 2011, NEDL drew down the entire credit facility of £119m at an average fixed rate of 4.228%.

Dividend policy

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

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Cash flow

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

Movements in cash flows were as follows:

- Operating activities: Cash flow from operating activities at £100,818,000 was £26,820,000 higher than the previous year primarily as a result of the increase in distribution revenue in the year.
- Investing activities: Net cash used in investing activities at £82,764,000 was £20,203,000 lower than the previous year reflecting a reduction in net capital expenditure.
- Financing activities: The net cash used in financing activities at £92,278,000 represents a £80,594,000 adverse variance compared to the previous year, due to the payment of an interim dividend and the repayment of short term borrowings outstanding as at 31 December 2009.

Treasury

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

Liquidity risk

NEDL has access to £75m under a three year committed revolving credit facility provided by Lloyds TSB Bank plc, The Royal Bank of Scotland plc and Abbey National Treasury Services plc. This facility replaced the £50m five year committed revolving credit facility provided by Lloyds TSB Bank plc and The Royal Bank of Scotland plc, which expired on 31 March 2010. The £75m three year committed revolving credit facility expires on 31 March 2013 and NEDL expects to raise further facilities as required, at that time.

In addition, the Group has access to further short-term borrowing facilities provided by YEG, and has a £7m overdraft facility provided by Lloyds TSB Bank plc, which is renewable annually.

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

Interest rate risk

The Group is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 December 2010, 99% of the Group's borrowings were at fixed rates and the average maturity for these borrowings was 21 years.

Currency risk

No material currency risks are faced by the Group.

Trading risk

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

Financial derivatives

As at 31 December 2010 and during the year it was the Group's policy not to hold any derivative financial instruments.

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FOR THE YEAR ENDED 31 DECEMBER 2010**

Pensions

The Company is the principal employer of the Northern Electric Group of the Electricity Supply Pension Scheme (the "Scheme"), a defined benefit scheme. Full details of the Company's commitments to the Scheme and the associated deficit repair payments are provided in Note 24 to the accounts.

During 2010, the Company was engaged with the Group Trustees in the triennial actuarial valuation process, as at 31 March 2010, in order to determine the funding position of the Scheme and the associated deficit repair arrangements. Those discussions are continuing as at the date of these accounts.

Ofgem recognises that pensions, particularly with respect to the current deficit positions of various schemes, represent a significant cost to the DNOs and as part of the DPCR5 process undertook a review of the pension principles it established in 2003. In its DPCR5 final proposals, Ofgem confirmed that DNOs would be allowed to recover the full value of the deficits attributable to a licensee's distribution business in existence as at 31 March 2010 (after an adjustment to reflect the residual of unfunded early retirement deficiency costs as at 31 March 2010), via its regulated revenues. However, given the regulated nature of the DNOs' businesses, Ofgem took the view that there is not the same risk or urgency as in other sectors of the economy to ensure that those deficits are repaired as soon as possible and therefore set a notional repair period of 15 years for the purpose of assessing the DNOs' allowed revenues in respect of pension costs over the DPCR5 period.

As the actual repair period for each scheme is a matter for the trustees of that scheme to agree with the Company, Ofgem recognised that there is the potential for there to be a difference between the repair period so agreed and the 15 year notional repair period used in DPCR5. Noting this position, Ofgem commented in the DPCR5 final proposals that, should shorter deficit repair periods be agreed between trustees and sponsoring employers, the DNOs' allowed revenues over the remaining portion of the 15 years will be adjusted so that the DNOs suffer no detriment on a net present value basis.

The Company also participates in the Northern Electric Money Purchase Scheme, which is a defined contribution scheme.

Insurance

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

Customer service

During the year, NEDL distributed electricity to customers in its distribution services area and continued to improve the overall performance of the distribution network through an investment strategy targeted at delivering improvements in an efficient and cost-effective manner. NEDL is focused on delivering a reliable and dependable supply of electricity and a high standard of service to its customers and, during the year, a significant number of improvements were identified and delivered as part of the overall goal to improve customer satisfaction with the service provided.

Those improvements included:

- building on the introduction of the interactive voice response system in the call centre. The system takes advantage of the latest developments in automatic messaging and enables the provision of an improved service, including text and voice-message updates, to customers during loss of supply incidents;
- improving the accuracy of the times estimated for the restoration of supply during network faults that are communicated to customers;
- continuing to improve under-performing parts of the distribution network by identifying "hot spots" and taking specific action to address the issues in those areas;

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- maintaining the priority services register so that NEDL is aware of people with disabilities or special needs, who may be affected by interruptions to the electricity supply, and can take appropriate action to assist those people in such circumstances;
- undertaking a programme to reduce the number of instances in which NEDL fails to meet an electricity guaranteed standard of performance; and
- improving customer service by resolving in excess of 95% of enquiries at the initial point of contact.

NEDL achieved a customer satisfaction score of 91.2% for the regulatory year ended 31 March 2010 (2009: 89.2%) and intends to build on the telephony system mentioned above in order to more effectively integrate its other customer facing processes to improve the service provided. Continued development of the customer service improvement plan will include increasing focus on excellence in customer service in order to maintain a customer satisfaction score of greater than 90%.

NEDL formally implemented the new electricity connections guaranteed standards of performance in October 2010 following a successful audit, which confirmed compliance with Ofgem's requirements. Performance was positive throughout the opening quarter following the implementation of those new guaranteed standards, with NEDL achieving a success rate of 99.88%.

Following the completion of a successful audit, NEDL submitted a regulated margin notice to Ofgem, in accordance with the provisions of Charge Restriction Condition 12 of the electricity distribution licence, of its intention to charge a regulated margin on relevant connections activities. As a result, a regulated margin of 4% has been charged on the relevant connections activities since October 2010.

Ofgem has established an incentive scheme for quality of service, by which the DNOs are provided with financial incentives based upon targets set by Ofgem with regard to their performance in the following areas:

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

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

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

In respect of the key customer service performance indicators, NEDL's reported performance for the regulatory year to 31 March 2010, against the targets determined by Ofgem, was as follows:

| | Actual | Target |
|-----------------------|--------------------|------------------|
| CML: | 68.8 (2009:76.3) | 67.4 (2009:68.4) |
| CI: | 62.3 (2009:64.2) | 74.5 (2009:74.5) |
| Customer Satisfaction | 91.2% (2009:89.2%) | 90% (2009:90%) |

Performance in the regulatory year to 31 March 2010 showed an improvement in each category and was better than Ofgem's target for both customer satisfaction and CI, although CML slightly missed target. NEDL continues to anticipate that the customer service improvement actions mentioned above and the various improvement actions in respect of the network's resilience, will continue to support such improvements in performance.

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At the time the above targets were set, no account was taken of the customer service impact arising from additional vegetation management obligations, which were not allowed for in the distribution price control four ("DPCR4") settlement. The customer service targets were not adjusted to take account of the effects of the representations made by NEDL and accepted by Ofgem. Instead, the benefits arising from that decision were reflected in a favourable adjustment to the Company's base allowed revenue. That position continued until 31 March 2010 and the implementation of DPCR5 with effect from 1 April 2010.

Operational excellence

The Group's core service continues to be providing and maintaining an efficient distribution network that delivers electricity effectively. During the year, £124,462,000 was invested in the improvement of the distribution system, including the replacement of assets and continuing network improvements intended to increase the quality of the electricity supply provided to customers.

Operational activity

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

The Field Operations structure is designed to provide the best possible foundation for optimum operational performance and is based on six individual business units for the operation of the network, as follows:

- Network Operations provides the day-to-day and reactive management of the distribution network at all voltages and includes activities such as network performance, emergency planning and restoration activities associated with network faults;
- Service Delivery has responsibility for the control and management of the craft-based staff, direct labour and the provision of this resource to the other business units and is structured across two geographic zones;
- Network Repairs focuses on core repair activities and significant cost control initiatives in respect of expenditure on the repair of faulted assets;
- Connections Delivery undertakes non-discretionary, customer-driven work and is structured across two geographic zones;
- Programme Delivery has a functional bias to its activities and includes primary engineering projects, overhead programme delivery, asset programme delivery and protection and technical services; and
- Operational Services includes contract management, business controls and administration, supply chain management, training and health and safety services.

This operating structure enabled the focus in the year to continue to be on delivering the core operational programmes and assisted NEDL in identifying the priorities it needs to deliver in order to enhance its performance. Those priorities were identified as including a reduction in the average level of fault repair work in progress, the introduction of improvements in field response and supply restoration times and in the management of intermittent faults, the implementation of enhanced controls for outage risk management and a more robust approach to the control of operations on the low voltage network.

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

- Continuation of the 132kV switchgear replacement project at Tynemouth in North Tyneside and of a new 33/11kV substation to provide improved voltage regulation in the Wensleydale area of North Yorkshire and completion of a new 20kV capacitor switch station in the North Northumberland area;
- Refurbishment of 3km of 66kV overhead line and the refurbishment or rebuilding of 47km of high voltage overhead line and 17km of low voltage overhead line;
- Replacement of 56 units of high voltage outdoor switchgear, 34 high voltage distribution substations and 93 units of high voltage indoor switchgear;

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- The upgrade and reinforcement of 15 sites to address the quality of supply performance issues relating to those circuits; and
- The installation and commissioning of 290 new remote control sites.

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

Commercial risk

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

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

Employee commitment

Health and safety

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

NEDL received its fifth successive Gold Medal and IUS received its third successive Gold Medal from the Royal Society for the Prevention of Accidents, for occupational health and safety performance and provision, to recognise the achievement of continued or improving standards of health and safety over a sustained period. The Gold Award is the highest achievement award and the Gold Medal is presented for receiving five or more successive Gold Awards. NEDL also continued to maintain its OHSAS 18001 certification.

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

| | 2010 | | 2009 | |
|-------------------------------|--------|--------|--------|--------|
| | Target | Actual | Target | Actual |
| Lost time accidents | 0 | 4 | 0 | 1 |
| Restricted duty accidents | 1 | 1 | 1 | 1 |
| Medical treatment accidents | 4 | 2 | 4 | 5 |
| Operational incidents | 4 | 6 | 4 | 5 |
| Preventable vehicle accidents | 13 | 8 | 13 | 20 |

Although safety performance relative to the internal targets was disappointing in certain areas during 2010, performance levels continue to benchmark very well against others in the sector. The CE Group continues to implement a safety improvement plan that targets delivery of continuous improvement. As part of that plan, the CE Group introduced a number of safety initiatives in order to prevent slips, trips and falls, which proved successful during the severe wintry weather conditions experienced both at the beginning and end of the year. These initiatives included the use of "Spike Plus" ice cleats for use over other safety footwear and the increased availability of grit salt for use on site works.

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Performance in respect of preventable vehicle accidents was better than the target for the year and in comparison to 2009. A key factor in that improvement was the progress made in respect of the CE Group's road risk management plan, which involved a significant number of staff undertaking the Institute of Advanced Motorists online driver assessment and training module followed by an on-road refresher training session if required. In 2010 the road risk plan was named Van Fleet Initiative of the Year by industry experts in a competition run by industry magazine Fleet News.

Management structure

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

Employees

The challenging external economic environment continued throughout 2010 and the Group continued to implement its programme of cost mitigation, which included the control of headcount and salary cost allocation.

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

Given the demographics of NEDL's workforce, the increasing investment in the distribution network and in order to encourage investment in a sustainable workforce, Ofgem provided an allowance in its DPCR5 final proposals in order to fund the plans for workforce renewal across the DPCR5 period. Ofgem has stated that the allowance is on a "use it or lose it" basis and NEDL will need to demonstrate that it has used that allowance appropriately and efficiently to recruit and train new staff or for other means of renewing its workforce and report annually on its progress in that respect. During the year, the CE Group recruited 45 new members of staff under its workforce renewal programme and has plans in place to have recruited a total of 275 graduate trainees and craft apprentices by the end of 2015.

The Group employed 1,149 staff at the end of December 2010 (2009: 1,370).

Disabled employees

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

Employee consultation

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

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

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2010**

Environmental respect

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

NEDL has operated a United Kingdom Accreditation Service scheme since the late 1990s, certified to the environmental management systems standard ISO 14001 and is subject to regular six-monthly assessments by an accredited external certification body in order to retain that status. The most recent assessments were carried out by Lloyd's Register Quality Assurance in April and September 2010. There were no major non-conformances noted and the assessment reports concluded that the main management system elements were seen to be effective and well maintained and continual improvement was demonstrated.

Having met its key improvement target in the reduction of cable fluid leakages for the two previous years, NEDL did not achieve its target for 2010. However, the position remained stable, despite the adverse effect on the fluid-filled cable systems of the extremely low temperatures in early and late 2010. Although falling short of expectations, performance in 2010 continued to provide a crucial contribution to the control of the CE Group's environmental impact to ground and the associated risk to the business. Future improvements are supported by the Company's continued asset investment plan.

Improvements in support of the CE Group's environmental policy objectives during the year included:

- Replacing selected fluid-filled cable sections with non-fluid polymeric equivalents;
- Replacing oil-filled circuit breakers with vacuum and sulphur hexafluoride gas filled units at outdoor substations to reduce the potential for oil leakage;
- Installing underground cables using trenchless technology as opposed to open-cut excavations;
- A depot energy efficiency improvement programme; and
- Environmental awareness training for new personnel and contractors, complemented by periodic refresher training for all staff.

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

NEDL recognises the importance of its service to customers and the economy and is committed to forging strong links with partners to improve its emergency response. NEDL has strengthened its relationship with the Environment Agency and local authorities so that it can respond quickly when river levels rise. Once the Environment Agency issues a flood warning, NEDL's database now identifies substations that are at risk so that staff can be deployed immediately to erect perimeter flood defences at major substation sites and portable defence barriers at lower-risk sites. The CE Group now employs a full-time Civil Contingency Co-ordinator who liaises with the Resilience Forums of those local authorities in NEDL's distribution services area to ensure that its emergency response continues to improve.

Sustainability

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

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System losses contribute to the UK's carbon footprint and NEDL's programmes include trialling technological innovations that help to reduce those losses, such as the superconducting fault current limiter projects. It is also involved in studies with Durham University to examine behavioural influences on energy demand patterns. In recognition of the fact that the advent of the electric vehicle has the potential to radically alter how and when electricity is used, NEDL is working closely with key partners in the North East who are installing a significant number of electric vehicle charging points across the region and monitoring their impact on energy demand patterns. The findings will also influence future network investment.

The CE Group measures and publishes its own carbon footprint and has set a target of reducing that footprint by 5% in both 2010 and 2011. Actions taken in 2010 to assist in meeting this target included fitting speed limiters to its vehicle fleet, the training of staff in the use of the building energy management systems installed at its major office sites and extending the recycling of office waste to a total of five sites. In addition NEDL has, in line with Ofgem's requirements, contributed to the sustainability agenda through public reporting on the carbon footprint of its business.

In partnership with British Gas, Durham University and EA Technology, the CE Group submitted a successful bid to Ofgem's Low Carbon Networks Fund for its project, Customer-Led Network Revolution. The project was the largest project supported by Ofgem in the first year of the fund and the CE Group will incur expenditure of £31m over the three year life of the project. Of that expenditure, 90% is funded by electricity customers in Great Britain and successful delivery of the project over the three years agreed with Ofgem will enable the CE Group to recover the additional 10% from customers and potentially qualify for a further discretionary award. The project seeks to facilitate speedier and more economical take-up by customers of low-carbon technologies such as solar photovoltaics, heat pumps and electric vehicles. The project will investigate customer behaviour in the use of low-carbon technology, whether this can be influenced by financial incentives and the extent to which customer response, when used in conjunction with innovative network technology, can reduce network costs.

NEDL is also enabling customers in fuel poverty to reduce their energy bills and carbon emissions by working with leading suppliers of renewable energy technologies to minimise the impact of these technologies on the network, ultimately reducing the production cost for customers. NEDL has already produced a customer-friendly guide to sustainable energy production.

Regulatory integrity

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

As has been the case for some years, breaches by a DNO of its licence conditions could lead to financial penalties, which Ofgem has stated "will have a proportionate impact on shareholder returns". In order to assure compliance with its licence and other regulatory obligations, the CE Group operates a regulatory compliance affirmation process, under which ownership of the approximately 1,781 regulatory obligations contained within the compliance database is currently assigned to 55 owners. Those owners are required, on a quarterly basis, to review compliance with their relevant obligations and report on any perceived risks to the compliance process, which are then addressed. The Regulation Manager reports to the board of NEDL on the outcome of each quarter's exercise.

During the year, a revenue-related issue arose in that the adjustment of settlements data by certain suppliers had the effect of distorting the apparent performance of NEDL under the losses incentive scheme during the regulatory year ended 31 March 2010. NEDL devoted a significant effort to investigating the complexities of the settlement system data flows and presented its findings to Ofgem, which agreed to the restatement of 2009-10 losses information on a revised basis proposed by NEDL. Ofgem's agreement to this restatement covered only the data flows relating to the regulatory year ended 31 March 2010 and resulted in an under-recovery being generated in respect of NEDL's maximum permitted revenue for that year of £2,171,000, to be recognised as revenue over the 2011/12 regulatory period, as opposed to the previously anticipated over-recovery.

Although this restatement is a favourable outcome and a significant step towards resolving the overall commercial impact of supplier activity on allowed revenues associated with the losses incentive, the issue remains subject to the closing out of the DPCR4 rolling retention mechanism. In addition, the impact of the DPCR4 period performance on the DPCR5 final losses targets remains to be resolved.

**REPORT OF THE DIRECTORS
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Implementation of the DPCR5 settlement from April 2010 included the introduction, from October 2010, of a significant number of new guaranteed standards relating to NEDL's connection activities and unmetered repairs activities. NEDL successfully met a licence requirement to pass an independent audit of its readiness and ability to implement these new standards and comply with the associated new financial reporting requirements.

The outcome of the wholesale review of the regulatory framework across the energy industry in the UK that was heralded by the launch of Ofgem's "RPI-X@20" project in 2008, with the aim of determining how best to meet the challenges and opportunities of delivering the networks required for a sustainable, low-carbon energy sector, was announced in October 2010. The CE Group took an active part in the associated consultations and debates.

Under the resulting new RIIO (revenue = incentives + innovation + outputs) model for regulation, price controls will be set for eight years (rather than five as at present), with provision for a mid-period review of the outputs that network companies are required to deliver. There will be increased involvement and influence for other stakeholders. A particular potential issue, to which the new regime may give rise, lies in the cash-flow impacts of a proposed shift in the treatment of regulatory depreciation to reflect economic asset lives, especially at a time when significant investment is likely to be needed. The RIIO model will first be applied in the transmission and gas distribution price control reviews that are currently underway and are due to be implemented in April 2013.

Corporate social responsibility

The Group values its relationship with its customers and their communities, recognising the importance of a secure power supply to the local communities and the economy. The Group aims to enhance this relationship through wider involvement in the activities of, and dialogue with, the communities it serves.

As part of its customer service strategy, NEDL engages directly with the communities it serves to create a dialogue on quality of supply issues, the actions and investment planned to improve the quality of supply, the environmental and social implications of its operations and other opportunities to assist and engage in the life of the local communities. NEDL seeks to engage disadvantaged groups in projects that bring about benefits for participants and communities by actively promoting participation and the development of transferable skills. This is underpinned by a small donation programme focused on the key priorities for support for youth, education and the environment.

Safety is a theme that unites every aspect of the CE Group's operations and it participates alongside other key organisations in Crucial Crew, which is a schools-based safety initiative that teaches children to recognise and avoid situations that put them in danger, such as climbing electricity pylons and fishing near power lines. The campaign is supported through an interactive website and mobile phone game.

In September 2010, the CE Group received an award under the Corporate Social Responsibility category of Ofgem's Customer Service Reward scheme for its work to assist customers installing air source heat pumps.

**REPORT OF THE DIRECTORS
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PRINCIPAL RISKS AND UNCERTAINTIES

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

Financial risk

As a holder of an electricity distribution licence, NEDL is subject to regulation by the Gas and Electricity Markets Authority ("GEMA"), which acts through Ofgem.

Most of the revenue of the electricity distribution licence holders is controlled by a distribution price control formula set out in the electricity distribution licence. The price control formula does not constrain profits from year to year but is a control on revenue that operates independently of most of the electricity distribution licence holder's costs.

It has been the practice of Ofgem to review and reset the formula at five-year intervals, although the formula has been, and may be, reviewed at other times at the discretion of Ofgem. The current five-year price control period became effective on 1 April 2010 and has set NEDL's revenue through to 31 March 2015. A resetting of the formula requires the consent of the electricity distribution licence holder but licence modifications may be unilaterally imposed by Ofgem without such consent following review by the Competition Commission. During the term of the price control, changes in costs incurred will have a direct impact on the financial results of NEDL.

NEDL operates under a price control that determines the maximum permitted revenue for each regulatory year. Where NEDL recovers more, or less, than this maximum the difference is carried forward, with interest, into the entitlement for the following year. In respect of the regulatory year to 31 March 2010, NEDL was forecast to exceed the maximum permitted under the price control mainly as a result of late changes in the volumes of sales reported by the electricity suppliers that had an impact on its entitlement under the electrical losses incentive of its price control formula. NEDL entered into a dialogue with Ofgem in respect of this issue and proposed certain adjustments to the relevant data for the regulatory year to 31 March 2010, which Ofgem confirmed were necessary to restore NEDL's allowed revenue position to an appropriate level. This issue is discussed further on page 14.

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

Operational risk

There are a number of risks to the Group's operational performance in respect of the other Core Principles, which include:

- Counter-party security, with credit cover arrangements being in place with the electricity suppliers, which would allow recovery of defaulted payments through the price control mechanism;
- Severe weather incidents, which impact on the distribution network's performance and are addressed through a robust major incident management plan;
- The demand for copper, a key component in the construction of distribution network assets, which has resulted in inflated prices and an increased risk of unauthorised access to the Company's sites for the purpose of theft;
- Public safety and network security issues, particularly relating to the theft of copper;
- The potential for the failure of major circuits, which would put a significant number of customers at risk of losing supply; and
- The potentially significant impact on IUS' revenues in the event of a further deepening of the economic downturn.

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Risk management

The CE Group operates a structured and disciplined approach to the management of risk, as part of the overall risk management approach. Risks are assessed with due regard to probability and impact and the risk environment is reviewed continually in order that new or emerging potential risks are identified. Those risks assessed to be significantly high are logged within a risk register that the GRMG reviews regularly and key indicators track the number of significant risks, which are actively monitored by the GRMG at any one time.

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

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

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

The risk management programme includes regular review of crisis management and disaster recovery plans which are periodically tested. In 2010 activities included a review of the CE Group's major incident plan for operational systems, participation in exercises with local authorities to review the planned response to major events and a disaster recovery test simulating the loss of a non-operational office and support systems.

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

Internal control

A rigorous internal control environment exists within the CE Group based on regular reporting, a series of operational and financial policy statements, investigations undertaken by internal audit and a stringent process for ensuring the implementation of any recommendations. MidAmerican, a parent company of the Company, requires a quarterly control risk self-assessment to be undertaken by all senior managers as part of its programme for compliance with the requirements of the Sarbanes-Oxley Act. During the year, the annual, extensive programme to review the company-wide controls was completed and opportunities to enhance control arrangements, identified by that review, have been implemented.

The CE Group is committed to proper business conduct and, in common with MidAmerican, has adopted a code of business ethics that emphasises the requirement for all staff to manage their activities to achieve the highest level of ethical conduct.

The CE Group has a "speaking up" policy in place for staff to raise any instances of unethical acts, malpractice or impropriety. An additional process is also available to all staff via an international, anonymous help line operated by an independent company.

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

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

**REPORT OF THE DIRECTORS
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Other key features of the internal control system are:

- Comprehensive business planning and financial reporting procedures, including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- Regular review of key performance indicators to assess progress towards objectives;
- A range of policies, codes of practice and more detailed instructions that define the processes to be followed;
- A strong internal audit function to provide independent scrutiny of internal control systems and risk management procedures, including the standards required by the Sarbanes-Oxley Act;
- On-going health and safety performance reviews carried out by in-house safety professionals in addition to the regime of routine health and safety risk assessment and management processes carried out within each of the operating units;
- Processes and procedures to operate under the Occupational Health and Safety Assessment Series ("OHSAS") standard OHSAS 18001, which is subject to external certification and regular assessment;
- An external obligations programme, which provides a robust approach to compliance with financial, legal and regulatory obligations;
- Centralised treasury operations that operate within defined limits and are subject to regular reporting requirements and audit reviews; and
- Established procedures for planning, approving and monitoring major capital expenditure, major projects and the development of new business which includes short and long-term budgets, risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2010**

CORPORATE GOVERNANCE STATEMENT

The Financial Reporting Council issued a revised version of the Combined Code on Corporate Governance (the "Combined Code") in June 2008. The Disclosure and Transparency Rules ("DTR") require an issuer, to which section 7.2 of the DTR applies, to provide, in its annual directors' report, a corporate governance statement. That statement sets out how the issuer has applied the main principles in the Combined Code and, to the extent that it departs from the Combined Code, the issuer is required to explain from which parts of the Combined Code it departs and the reasons for doing so.

The Company, therefore, provides the following statement by reference to the principles incorporated in the Combined Code.

Compliance statement

Set out below and in the review of the year in the directors' report are the areas in which the Company adopts and complies with the principles of the Combined Code. The Company has not complied with certain principles of the Combined Code, including the principles A2, A3, A4, A6, A7, B1, B2, C3, D1 and D2. The directors confirm that such non-compliance was of a continuing nature throughout the year but consider the governance framework in place to be appropriate to the circumstances of the Company, given that the framework is agreed with MidAmerican and includes regular reporting to and meetings with the President and senior management of MidAmerican, the presence of an independent non-executive director at board meetings of the Company and a strong internal control environment designed to meet the standards required by the Sarbanes-Oxley Act.

The intention of the Combined Code is that companies should be able to explain their governance policies in light of the principles contained in the Combined Code, including any special circumstances applying to them, which have led to a particular approach. The directors are of the opinion that, in the instances where the Company does not comply with certain provisions of the Combined Code, this approach is justifiable, given that the Company is a wholly-owned subsidiary of MidAmerican and, as mentioned above, the governance framework in place throughout the CE Group is agreed with MidAmerican.

A Directors

Principle A1: The Board:

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

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

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

The board meets quarterly and as required to consider relevant issues and met on eight occasions in total during the year, with the attendance of those directors, who were directors as at 31 December 2010, being as follows:

| | | |
|----------------|--|---|
| G E Abel | President, MidAmerican | 0 |
| J A Andreassen | General Counsel, CE Electric UK | 0 |
| R Dixon | Non-Executive Director | 5 |
| T E Fielden | Finance Director, CE Electric UK | 5 |
| J M France | Regulation Director, CE Electric UK | 2 |
| P J Goodman | Senior Vice President and Chief Financial Officer, MidAmerican | 0 |
| P A Jones | President and Chief Operating Officer, CE Electric UK | 4 |

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Operational management of the Group's business is delegated to a single senior management team, with specific functional responsibilities. That senior management team meets monthly with the senior management of the CE Group to monitor performance and address issues of policy across all areas of the business and holds weekly conference calls to report on and consider performance related issues for that week. The senior management team of IUS also meets monthly but separately with the President and Chief Operating Officer and other senior managers of the CE Group.

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

A review is undertaken of the company-wide controls in place on an annual basis and the review carried out in 2010, while not identifying any areas of significant weakness, resulted in the implementation of various recommended improvements. The key features of the CE Group's internal control system and the issues addressed by the Company and the CE Group during the year can be found in the review of business in the directors' report.

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

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

Health and Safety Management Committee

The board of CE Electric UK Funding Company has established the CE Group Health and Safety Management Committee with delegated powers to manage the health and safety policy and performance of the CE Group. Membership of the committee comprises:

| | |
|---------------|--|
| T E Fielden | Finance Director |
| J M France | Regulation Director |
| N M Gill | Field Operations Director |
| P A Jones | President and Chief Operating Officer |
| A J MacLennan | Managing Director, Integrated Utility Services Limited |
| P McCormick | Director of Group Health, Safety and Environment |

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

**REPORT OF THE DIRECTORS
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Treasury Committee

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

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

Pensions Committee

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

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

Governance and Risk Management Group

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

| | |
|-------------|---------------------------------|
| J P Barnett | Director of Customer Operations |
| R Dixon | Non-Executive Director |
| M Drye | Director of Asset Management |
| J Elliott | Company Secretary |
| T E Fielden | Finance Director |
| J M France | Regulation Director |
| N M Gill | Field Operations Director |
| A Patterson | Director of Human Resources |
| L Taylor | Director of Business Systems |

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

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

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

As explained in Principle B1, the Company does not have a remuneration committee or a nomination committee.

**REPORT OF THE DIRECTORS
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Principle A2: Chairman and Chief Executive

The Company does not have a formally appointed Chairman or Chief Executive. However, in common with each of MidAmerican's business platforms, the President and Chief Operating Officer of the CE Group is responsible for the operation and management of the CE Group and reports directly to the President of MidAmerican.

Principle A3: Board balance and independence

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

The directors of the Company, as at the date of approval of the report and accounts, were as follows:

| | |
|---------------|--|
| G E Abel | President, MidAmerican |
| J A Andreasen | General Counsel, CE Electric UK |
| R Dixon | Non-Executive Director |
| T E Fielden | Finance Director, CE Electric UK |
| J M France | Regulation Director, CE Electric UK |
| N M Gill | Field Operations Director, CE Electric UK |
| P J Goodman | Senior Vice President and Chief Financial Officer, MidAmerican |
| P A Jones | President and Chief Operating Officer, CE Electric UK |

Principle A4: Appointments to the Board

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

Principle A5: Information and professional development

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

Principle A6: Performance evaluation

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

Principle A7: Re-election

The directors present themselves for re-election in accordance with the Company's articles of association.

B Remuneration

Principle B1: The level and make-up of remuneration

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

Principle B2: Procedure

As mentioned under Principle B1, the annual remuneration awards for senior management of the CE Group is subject to the performance appraisal and development scheme process and consideration by the President of MidAmerican and the President and Chief Operating Officer. Mr Fielden, Dr France, Mr Gill and Dr Jones are subject to the performance appraisal and development scheme process in their capacity as senior managers of the CE Group and not, specifically, in their capacity as board directors. No director is involved in deciding his own remuneration.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2010**

C Accountability and Audit

Principle C1: Financial Reporting

The board believes that the directors' report and review of the year provide a balanced and understandable assessment of the Company's position and prospects. The directors explain, at page 24, their responsibility for preparing the report and accounts, have reported, at page 24 in the directors' report, that the Company is a going concern and included the independent auditors' report to the Company at page 28 of the report and accounts.

Principle C2: Internal Control

The principal risks and uncertainties facing the Company and the key features of the internal control system, together with details of the issues addressed by the Company during the year, can be found at pages 17 and 18 of the directors' report.

Principle C3: Audit committee and auditors

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

The Audit Committee receives annual reports from the GRMG and from the CE Group's Head of Internal Audit on the work of the Internal Audit Section during the year and the audit plan for the following year. Combined Code provision C.3.1 states that the board should establish an audit committee of at least three independent non-executive directors and should satisfy itself that at least one member has recent and relevant financial experience. Given that Mr Dixon was the CE Group's sole independent non-executive director during the year, the Audit Committee comprises:

| | |
|-------------|------------------------|
| R Dixon | Non-Executive Director |
| T E Fielden | Finance Director |

Details of non-audit services paid to the Group's auditors are given in note 6 to the consolidated financial statements.

The internal control section on page 17 of the directors' report contains details of the Company's "speaking up" policy.

D Relations with shareholders

Principle D1: Dialogue with Institutional Shareholders

This section of the Combined Code is not applicable to the Company, as it is a wholly-owned subsidiary of a privately held group of companies and, therefore, has no institutional shareholders.

Principle D2: Constructive use of the AGM

This section of the Combined Code is not applicable to the Company, as it is a wholly-owned subsidiary of a privately held group of companies and, therefore, has no institutional shareholders.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2010**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by in the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, International Accounting Standard 1 requires the directors to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the company's ability to continue as a going concern.

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

GOING CONCERN

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

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

- a) The Group's main subsidiary, NEDL, is a stable electricity distribution business operating an essential public service and is regulated by the Gas and Electricity Markets Authority ("GEMA"). In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- b) The Group is profitable with strong underlying cash flows. The Company and NEDL hold investment grade credit ratings;
- c) The Group is financed by long-term borrowings with an average maturity of 21 years and has access to borrowing facilities provided by Lloyds TSB Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc. On 2 July 2010 NEDL entered into an agreement with EIB under which EIB provides NEDL with a £119m loan facility. As at 28 February 2011, that facility was fully drawn; and
- d) No repayments of long term debt are due until 2018.

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

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2010**

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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


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

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

AUDITORS

A resolution to reappoint Deloitte LLP and to authorise the directors to determine their remuneration will be proposed at the Annual General Meeting.

ON BEHALF OF THE BOARD:



J Elliott
Company Secretary
18 March 2011

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

Each of the directors in office as at the date of the Annual Report, whose names and functions are set out on page 4 of the Report of the Directors confirms that, to the best of their knowledge:

- a) the accounts, prepared in accordance with applicable UK law and in conformity with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- b) the Report of the Directors includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 18 March 2011 and signed on its behalf by:



P A Jones
President and Chief Operating Officer

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2010**

DIRECTORS' BIOGRAPHIES

GREGORY E ABEL

Appointed in January 1997, Mr Abel, 48, is President of MidAmerican, based in Des Moines, Iowa. He also serves as chairman and chief executive officer of PacifiCorp, which provides electric service to six Western states and approximately 1.6 million customers. Additionally, he is chief executive officer of MidAmerican Funding, LLC, the holding company for an integrated utility providing natural gas and electricity to 1.4 million customers in the Midwestern United States. Mr Abel also is a director of Kern River Gas Transmission Company and Northern Natural Gas Company. Kern River is a 1,700 mile interstate pipeline transporting Rocky Mountain and Canadian natural gas to markets in California, Nevada and Utah. Northern Natural Gas Company operates 16,400 miles of pipeline extending from the Permian Basin in Texas to the Upper Midwest. Mr Abel has more than 20 years of experience in senior management related to the energy industry. His responsibilities at MidAmerican are the operation and management of the holdings company; PacifiCorp's and MidAmerican Energy Company's supply and marketing and delivery services businesses; the CE Group's distribution businesses; CalEnergy's operations as an independent power producer; and the Kern River and Northern Natural Gas pipeline operations. Furthermore, he is responsible for the evaluation of opportunities relating to acquisitions and project development. Previously, as executive vice president, Mr Abel was responsible for engineering, construction and administrative functions for CalEnergy.

JON A ANDREASEN

Appointed in March 2010, Mr Andreasen, 47, has been Vice President & General Counsel for the CE Group since 2005. In addition to this appointment, he provides legal counsel to MidAmerican Energy Holdings Company and its other subsidiaries. He is a 1989 graduate of the University of Iowa College of Law and has worked in the electric utility business since 1989. From 2000-2002 he worked in Newcastle-upon-Tyne for the CE Electric UK group and is currently based in Urbandale, Iowa, USA.

RONALD DIXON

Appointed in October 1997, Mr Dixon, 73, worked for North Eastern Electricity Board and Northern Electric plc 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 in the capacity of a non-executive director on 22 October 1997. Mr Dixon is also a non-executive director of CE Electric UK Funding Company, Northern Electric Distribution Limited and Yorkshire Electricity Distribution plc.

JOHN M FRANCE

Appointed in January 2000, Dr France, 53, is Regulation Director for the CE Group. After leaving university he joined the British Gas Corporation where he held a number of posts before becoming a member of the team that handled the privatisation of British Gas in 1986. He joined Northern Electric plc as its Regulation Manager in 1989 and has been involved with all the distribution (and supply) price control reviews that have affected the Company since privatisation. He was a member of the team that negotiated the acquisition of the distribution business of Yorkshire Electricity Group plc and the sale of the Northern Electric plc supply businesses in 2001.

THOMAS E FIELDEN

Joined the CE Group in July 2009, became Finance Director on 12 October 2009 and was appointed as a director of the Company on 16 October 2009. Mr Fielden, 40, is a chartered accountant, having started his career at Coopers & Lybrand and has held a variety of finance appointments in BT, working in BT Group and BT Global Services, before joining Great North East Railway (GNER) as Financial Controller in 2005. He became Finance Director of GNER in 2006, transferring to National Express East Coast in 2007.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2010**

PATRICK J GOODMAN

Appointed in May 1999, Mr Goodman, 44, is Senior Vice President and Chief Financial Officer of MidAmerican and is responsible for managing all aspects of MidAmerican's financial operations. Mr Goodman supports the negotiation and closing of MidAmerican's international and domestic project financings along with supporting future acquisitions and project developments. Additionally, Mr Goodman manages all accounting, financial reporting, tax, budgeting and long-range financial planning functions for MidAmerican. Since joining MidAmerican in 1995, Mr Goodman has served in various financial positions including Chief Accounting Officer. Prior to joining MidAmerican, he served as a financial manager for National Indemnity Company and was a senior associate at PricewaterhouseCoopers.

PHILIP A JONES

Appointed in April 2007, Dr Jones, 42, is President and Chief Operating Officer of the CE Group, the UK platform in the global portfolio of MidAmerican. Prior to his appointment as President and Chief Operating Officer in November 2006, he was Strategy & Investment Director and, as such, was responsible for technical, economic and regulatory strategy within the organisation. Dr Jones is a chartered electrical engineer and has been working in the UK power distribution sector since completing his PhD in Electronic & Electrical Engineering in 1993. He has held a range of technical and managerial roles, mostly in the engineering field. He is also actively involved in a range of other industry bodies. He has been a director of the Institute of Asset Management and of the Energy Networks Association, the trade association that represents the power transmission and distribution companies.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF NORTHERN ELECTRIC PLC

We have audited the financial statements of Northern Electric plc for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Cash Flows, the Consolidated and Company Statements of Changes in Equity and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Christopher Powell FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne

29 March 2011

NORTHERN ELECTRIC PLC GROUP (REGISTERED NUMBER: 2366942)

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010**

| | Notes | 2010 £'000 | 2009 £'000 |
|---------------------------------|-------|----------------------|----------------------|
| CONTINUING OPERATIONS | | | |
| Revenue | 3 | 288,569 | 276,593 |
| Cost of sales | | <u>(29,176)</u> | <u>(47,795)</u> |
| GROSS PROFIT | | 259,393 | 228,798 |
| Operating expenses | 10 | <u>(105,793)</u> | <u>(104,972)</u> |
| OPERATING PROFIT | | 153,600 | 123,826 |
| Other gains | | 641 | 343 |
| Finance costs | 5 | <u>(33,913)</u> | <u>(32,947)</u> |
| Finance income | 5 | <u>1,973</u> | <u>3,901</u> |
| PROFIT BEFORE INCOME TAX | 6 | 122,301 | 95,123 |
| Income tax | 7 | <u>(25,131)</u> | <u>(27,316)</u> |
| PROFIT FOR THE YEAR | | <u>97,170</u> | <u>67,807</u> |

The notes form part of these financial statements

NORTHERN ELECTRIC PLC GROUP (REGISTERED NUMBER: 2366942)

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010**

| | 2010 | 2009 |
|--|----------------------|----------------------|
| | £'000 | £'000 |
| PROFIT FOR THE YEAR | 97,170 | 67,807 |
| OTHER COMPREHENSIVE INCOME | - | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>97,170</u> | <u>67,807</u> |

The notes form part of these financial statements

NORTHERN ELECTRIC PLC GROUP (REGISTERED NUMBER: 2366942)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2010**

| | Notes | 2010 £'000 | 2009 £'000 |
|-------------------------------------|-------|------------------|------------------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Intangible assets | 12 | 4,011 | 4,739 |
| Property, plant and equipment | 13 | 1,439,853 | 1,361,462 |
| Investments | 14 | 3,328 | 3,257 |
| Pension asset | 24 | 158,345 | 128,411 |
| Trade and other receivables | 16 | 4,609 | 5,410 |
| | | <u>1,610,146</u> | <u>1,503,279</u> |
| CURRENT ASSETS | | | |
| Inventories | 15 | 10,341 | 13,712 |
| Trade and other receivables | 16 | 51,166 | 58,021 |
| Cash and cash equivalents | 17 | 67,161 | 141,385 |
| | | <u>128,668</u> | <u>213,118</u> |
| TOTAL ASSETS | | <u>1,738,814</u> | <u>1,716,397</u> |
| EQUITY | | | |
| SHAREHOLDERS' EQUITY | | | |
| Called up share capital | 18 | 72,173 | 72,173 |
| Share premium | 19 | 158,748 | 158,748 |
| Other reserves | 19 | 6,185 | 6,185 |
| Retained earnings | 19 | 453,321 | 416,151 |
| TOTAL EQUITY | | <u>690,427</u> | <u>653,257</u> |
| LIABILITIES | | | |
| NON-CURRENT LIABILITIES | | | |
| Trade and other payables | 20 | 417,504 | 397,552 |
| Borrowings | 21 | 349,472 | 349,503 |
| Deferred tax | 23 | 177,933 | 179,915 |
| Provisions | 22 | 2,752 | 3,129 |
| | | <u>947,661</u> | <u>930,099</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 20 | 74,430 | 79,883 |
| Borrowings | 21 | 9,650 | 41,670 |
| Tax payable | | 14,544 | 10,454 |
| Provisions | 22 | 2,102 | 1,034 |
| | | <u>100,726</u> | <u>133,041</u> |
| TOTAL LIABILITIES | | <u>1,048,387</u> | <u>1,063,140</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>1,738,814</u> | <u>1,716,397</u> |

The financial statements were approved by the Board of Directors on 18 March 2011 and were signed on its behalf by:



P A Jones
Director

NORTHERN ELECTRIC PLC GROUP (REGISTERED NUMBER: 2366942)

**COMPANY STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2010**

| | Notes | 2010 £'000 | 2009 £'000 |
|-------------------------------------|-------|-----------------------|-----------------------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Intangible assets | 12 | - | - |
| Property, plant and equipment | 13 | 1,535 | 1,547 |
| Investments | 14 | <u>328,070</u> | <u>328,070</u> |
| | | <u>329,605</u> | <u>329,617</u> |
| CURRENT ASSETS | | | |
| Trade and other receivables | 16 | 681 | 610 |
| Cash and cash equivalents | 17 | <u>65,247</u> | <u>111,824</u> |
| | | <u>65,928</u> | <u>112,434</u> |
| TOTAL ASSETS | | <u><u>395,533</u></u> | <u><u>442,051</u></u> |
| EQUITY | | | |
| SHAREHOLDERS' EQUITY | | | |
| Called up share capital | 18 | 72,173 | 72,173 |
| Share premium | 19 | 158,748 | 158,748 |
| Other reserves | 19 | 6,185 | 6,185 |
| Retained earnings | 19 | <u>131,229</u> | <u>172,326</u> |
| TOTAL EQUITY | | <u><u>368,335</u></u> | <u><u>409,432</u></u> |
| LIABILITIES | | | |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 21 | 1,117 | 1,117 |
| Deferred tax | 23 | 12,120 | 17,682 |
| Provisions | 22 | <u>1,493</u> | <u>1,500</u> |
| | | <u>14,730</u> | <u>20,299</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 20 | 6,395 | 7,692 |
| Borrowings | 21 | 4,814 | 2,251 |
| Tax payable | | <u>1,259</u> | <u>2,377</u> |
| | | <u>12,468</u> | <u>12,320</u> |
| TOTAL LIABILITIES | | <u><u>27,198</u></u> | <u><u>32,619</u></u> |
| TOTAL EQUITY AND LIABILITIES | | <u><u>395,533</u></u> | <u><u>442,051</u></u> |

The financial statements were approved by the Board of Directors on 18 March 2011 and were signed on its behalf by:



P A Jones
Director

The notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010**

| | Called up share capital £'000 | Retained earnings £'000 | Share premium £'000 | Other reserves £'000 | Total equity £'000 |
|------------------------------------|--|--|------------------------------------|-------------------------------------|-----------------------------------|
| Balance at 1 January 2009 | 72,173 | 348,344 | 158,748 | 6,185 | 585,450 |
| Changes in equity | | | | | |
| Total comprehensive income | - | 67,807 | - | - | 67,807 |
| Balance at 31 December 2009 | <u>72,173</u> | <u>416,151</u> | <u>158,748</u> | <u>6,185</u> | <u>653,257</u> |
| Changes in equity | | | | | |
| Dividends | - | (60,000) | - | - | (60,000) |
| Total comprehensive income | - | 97,170 | - | - | 97,170 |
| Balance at 31 December 2010 | <u>72,173</u> | <u>453,321</u> | <u>158,748</u> | <u>6,185</u> | <u>690,427</u> |

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010**

| | Called up share capital £'000 | Retained earnings £'000 | Share premium £'000 | Other reserves £'000 | Total equity £'000 |
|------------------------------------|--|--|------------------------------------|-------------------------------------|-----------------------------------|
| Balance at 1 January 2009 | 72,173 | 154,717 | 158,748 | 6,185 | 391,823 |
| Changes in equity | | | | | |
| Total comprehensive income | - | 17,609 | - | - | 17,609 |
| Balance at 31 December 2009 | <u>72,173</u> | <u>172,326</u> | <u>158,748</u> | <u>6,185</u> | <u>409,432</u> |
| Changes in equity | | | | | |
| Dividends | - | (60,000) | - | - | (60,000) |
| Total comprehensive income | - | 18,903 | - | - | 18,903 |
| Balance at 31 December 2010 | <u>72,173</u> | <u>131,229</u> | <u>158,748</u> | <u>6,185</u> | <u>368,335</u> |

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010**

| | Notes | 2010 £'000 | 2009 £'000 |
|---|-------|----------------------|-----------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 28 | 155,978 | 125,051 |
| Finance costs paid | | (33,685) | (32,825) |
| Interest received | | 1,620 | 3,613 |
| Group relief paid | | (15,533) | (16,835) |
| Tax paid | | <u>(7,562)</u> | <u>(5,006)</u> |
| Net cash from operating activities | | <u>100,818</u> | <u>73,998</u> |
| Cash flows from investing activities | | | |
| Purchase of intangible fixed assets | | (843) | (419) |
| Purchase of tangible fixed assets | | (120,844) | (130,202) |
| Sale of tangible fixed assets | | 644 | 139 |
| Customer contributions | | 37,926 | 27,162 |
| Dividends received | | <u>353</u> | <u>293</u> |
| Net cash used in investing activities | | <u>(82,764)</u> | <u>(102,967)</u> |
| Cash flows from financing activities | | | |
| Movement in external loans | | (33,500) | 7,750 |
| Loans from Group undertakings | | 1,222 | (19,434) |
| Equity dividends paid | | <u>(60,000)</u> | <u>-</u> |
| Net cash used in financing activities | | <u>(92,278)</u> | <u>(11,684)</u> |
| Decrease in cash and cash equivalents | | <u>(74,224)</u> | <u>(40,653)</u> |
| Cash and cash equivalents at beginning of year | | <u>141,385</u> | <u>182,038</u> |
| Cash and cash equivalents at end of year | | <u><u>67,161</u></u> | <u><u>141,385</u></u> |

The notes form part of these financial statements

**COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010**

| | Notes | 2010 £'000 | 2009 £'000 |
|---|-------|----------------------|-----------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 28 | 1,004 | 4,728 |
| Finance costs paid | | (10,540) | (9,958) |
| Interest received | | 1,386 | 3,248 |
| Dividends received | | 21,083 | 21,503 |
| Group relief paid | | (2,073) | (7,753) |
| Tax paid | | - | 1,522 |
| Net cash from operating activities | | <u>10,860</u> | <u>13,290</u> |
| Cash flows from financing activities | | | |
| Movement in borrowings in year | | 2,563 | (15,152) |
| Equity dividends paid | | <u>(60,000)</u> | <u>-</u> |
| Net cash from financing activities | | <u>(57,437)</u> | <u>(15,152)</u> |
| Decrease in cash and cash equivalents | | <u>(46,577)</u> | <u>(1,862)</u> |
| Cash and cash equivalents at beginning of year | | <u>111,824</u> | <u>113,686</u> |
| Cash and cash equivalents at end of year | | <u><u>65,247</u></u> | <u><u>111,824</u></u> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

1. GENERAL INFORMATION

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

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

2. ACCOUNTING POLICIES

Accounting convention and basis of preparation

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

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further detail is contained within the Report of the Directors on page 24.

Judgments in applying accounting policies and key sources of estimation uncertainty

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

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

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

Critical accounting policies

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

Adoption of new or revised standards

In the current year, the following new and revised Standards have been adopted and have affected the amounts reported in these financial statements.

Standards affecting presentation and disclosure;

IFRS 8 Operating Segments - Amendments to IFRS 8

The amendments to IFRS 8 clarify the requirements with respect to the measurement of assets for each reportable business segment. This change has not led to any change in the disclosures contained within these financial statements. Further detail can be found in note 3 to the accounts.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010**

Standards affecting the reported results and the financial position;

IAS 17 Leases - Amendments to IAS 17

IFRIC 18 Transfer of Assets from Customers

The amendments to IAS 17 relate to the categorisation of leased land as an operating or a finance lease. These amendments have not had a material impact on these financial statements.

IFRIC 18 is an interpretation which applies to utility companies who have received assets, or funds to build assets, on behalf of their customers. The interpretation aims to ensure that these assets are reflected in the balance sheet of the utility companies. The adoption of amendments to IFRIC 18 has not had a material impact on these financial statements.

Basis of consolidation

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

Revenue

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

Revenue represents charges for the use of the Group's distribution network, amortisation of customer contributions, recharge of costs incurred on behalf of companies in the CE Electric UK Funding Company group of companies (the "CE Group") and the invoiced value of other goods sold and services provided, exclusive of value added tax.

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

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

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

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

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

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

Construction contracts

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

2. ACCOUNTING POLICIES - continued

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Operating profit

Operating profit is stated before profit on disposals, the share of the results of joint ventures, investment income and finance costs.

Software Development Costs

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

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

Investments

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

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

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

Property, plant and equipment and depreciation

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

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

| | |
|---|----------------------------------|
| Distribution system assets | 45 years |
| Distributed generation | 15 years |
| Metering equipment included in distribution system assets | up to 6 years |
| Information technology equipment included in distribution system assets | up to 10 years |
| Non-operational assets: | |
| Buildings - freehold | up to 60 years lower of lease |
| Buildings - leasehold | period or 60 years |
| Fixtures and equipment | up to 10 years |

Freehold land is not depreciated.

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010**

2. ACCOUNTING POLICIES - continued

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group or Company becomes a party to the contractual provisions on the instrument.

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial assets, such as trade receivables and construction contract debt, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables and construction contract debts could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and construction contract debts, where the carrying amount is reduced through the use of an allowance account. When a trade receivable or construction contract debt is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

Financial liabilities and equity

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

Inventories

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

2. ACCOUNTING POLICIES - continued

Taxation

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

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

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

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

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

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

Research costs

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

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

Leases

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

Rental costs under operating leases are charged to the income statement or to property, plant and equipment in equal amounts over the periods of the leases.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010**

2. ACCOUNTING POLICIES - continued

Pensions

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

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

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

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

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

The key assumptions used for the actuarial valuation are based on the best estimate of the variables that will determine the ultimate cost of providing post-employment benefits and follow discussions with the actuary. The operating results are affected by the actuarial assumptions used. These assumptions include investment returns on the scheme's assets, discount rates, pay growth and increases to pensions and deferred pensions. These assumptions may differ from actual results due to changing market and economic conditions and longer or shorter lives of scheme members. Further detail is provided in Note 24.

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

Provisions

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010**

2. ACCOUNTING POLICIES - continued

Trade receivables

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Borrowings

Borrowings are classified as other financial liabilities at amortised cost. They are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement for redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest rate method. They are added to the carrying amount of the instruments to the extent that they are not settled in the period in which they arise.

Cash and cash equivalents

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

Derivatives

The Group may use derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements.

3. SEGMENTAL REPORTING

The tables below represent the internal information provided to the President and Chief Operating Officer of the CE Electric UK Funding Company Group, for the purposes of resource allocation and segmental performance appraisal.

The Group operates in two principal areas of activity, those of the distribution of electricity and engineering contracting in the United Kingdom.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

| | Distribution 2010 £m | Engineering Contracting 2010 £m | Other 2010 £m | Consolidation Adjustments 2010 £m | Total 2010 £m |
|--|----------------------------|--|---------------------|--|---------------------|
| REVENUE | | | | | |
| External sales | 257.0 | 26.0 | 5.6 | - | 288.6 |
| Inter-segment sales | 0.6 | - | 6.3 | (6.9) | - |
| Total revenue | 257.6 | 26.0 | 11.9 | (6.9) | 288.6 |
| SEGMENT RESULTS | | | | | |
| Operating profit | 122.0 | 0.4 | 2.8 | 28.4 | 153.6 |
| Other gains | | | | | 0.6 |
| Finance costs | | | | | (33.9) |
| Finance income | | | | | 2.0 |
| Profit before tax | | | | | 122.3 |
| OTHER INFORMATION | | | | | |
| Capital additions | 127.6 | - | - | (1.3) | 126.3 |
| Depreciation and amortisation | 48.5 | 0.1 | 0.1 | - | 48.7 |
| Amortisation of deferred revenue | (12.4) | - | - | - | (12.4) |
| BALANCE SHEET | | | | | |
| Segment assets | 1,540.3 | 7.5 | 219.7 | (95.9) | 1,671.6 |
| Unallocated corporate assets | | | | | 67.2 |
| Total assets | | | | | 1,738.8 |
| Segment liabilities | (487.8) | (4.4) | (1.0) | (3.6) | (496.8) |
| Unallocated corporate liabilities | | | | | (551.6) |
| Total liabilities | | | | | (1,048.4) |
| Net assets/(liabilities) by segment | 1,052.5 | 3.1 | 218.7 | (99.5) | 1,174.8 |
| Unallocated net corporate liabilities | | | | | (484.4) |
| Total net assets | | | | | 690.4 |

"Other" comprises business support units.

Sales and purchases between the different segments are made at commercial prices.

Segment assets in "Other" include investments in the Distribution and Engineering Contracting activities totalling £203.1m, which are eliminated in Consolidation Adjustments. Consolidation Adjustments also include a £31.0m credit to operating profit, the recognition of the £158.3m retirement benefit asset and a £23.0m reduction in cumulative capitalised costs as a consequence of all segments accounting for retirement benefits on a cash accrued basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

Unallocated corporate assets and liabilities include cash and cash equivalents, borrowings and taxation.

External sales to RWE Npower plc of £77.1m are included within the Distribution segment. External sales to E.ON of £6.8m are included within the Engineering Contracting segment.

| | Distribution 2009 £m | Engineering Contracting 2009 £m | Other 2009 £m | Consolidation Adjustments 2009 £m | Total 2009 £m |
|--|----------------------------|--|---------------------|--|---------------------|
| REVENUE | | | | | |
| External sales | 224.5 | 45.9 | 6.2 | - | 276.6 |
| Inter-segment sales | 0.4 | - | 7.4 | (7.8) | - |
| Total revenue | 224.9 | 45.9 | 13.6 | (7.8) | 276.6 |
| SEGMENT RESULTS | | | | | |
| Operating profit | 89.6 | 1.1 | 3.0 | 30.1 | 123.8 |
| Other gains | | | | | 0.3 |
| Finance costs | | | | | (32.9) |
| Finance income | | | | | 3.9 |
| Profit before tax | | | | | 95.1 |
| OTHER INFORMATION | | | | | |
| Capital additions | 123.8 | - | - | (2.6) | 121.2 |
| Depreciation and amortisation | 43.5 | 0.1 | - | 1.0 | 44.6 |
| Amortisation of deferred revenue | (11.6) | - | - | - | (11.6) |
| BALANCE SHEET | | | | | |
| Segment assets | 1,460.8 | 15.7 | 213.5 | (115.0) | 1,575.0 |
| Unallocated corporate assets | | | | | 141.4 |
| Total assets | | | | | 1,716.4 |
| Segment liabilities | (459.7) | (10.0) | (9.9) | (1.6) | (481.2) |
| Unallocated corporate liabilities | | | | | (581.8) |
| Total liabilities | | | | | (1,063.0) |
| Net assets/(liabilities) by segment | 1,001.1 | 5.7 | 203.6 | (116.6) | 1,093.8 |
| Unallocated net corporate liabilities | | | | | (440.4) |
| Total net assets | | | | | 653.4 |

"Other" comprises business support units.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010**

Sales and purchases between the different segments are made at commercial prices.

Segment assets in "Other" include investments in the Distribution and Engineering Contracting activities totalling £203.1m, which are eliminated in Consolidation Adjustments. Consolidation Adjustments also include a £29.2m credit to operating profit, the recognition of the £128.4m retirement benefit asset and a £42.2m reduction in cumulative capitalised costs as a consequence of all segments accounting for retirement benefits on a cash accrued basis.

Unallocated corporate assets and liabilities include cash and cash equivalents, borrowings and taxation.

External sales to RWE Npower plc of £72.7m are included within the Distribution segment. External sales of £23.8m to E.ON are included within the Engineering Contracting segment.

4. EMPLOYEES AND DIRECTORS

| | 2010 | 2009 |
|---|----------------------|----------------------|
| | £'000 | £'000 |
| Salaries | 47,461 | 52,632 |
| Social security costs | 4,349 | 4,804 |
| Defined benefit pension costs | 1,473 | (1,885) |
| Defined contribution pension costs | 204 | 82 |
| | 52,487 | 55,633 |
| Less charged as capital expenditure | (30,069) | (26,200) |
| Released from/(charged to) work in progress | 860 | (1,200) |
| | <u>23,278</u> | <u>28,233</u> |

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

The average monthly number of employees during the year was:

| | 2010 | 2009 |
|-------------------------|---------------------|---------------------|
| | No. | No. |
| Distribution | 968 | 960 |
| Engineering Contracting | 138 | 327 |
| Other | 60 | 60 |
| | <u>1,166</u> | <u>1,347</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

4. EMPLOYEES AND DIRECTORS - continued

DIRECTORS' REMUNERATION

| | 2010 £'000 | 2009 £'000 |
|---|---------------|---------------|
| Highest Paid: | | |
| Short-term employee benefits | 127 | 134 |
| Post employment benefits | 10 | 11 |
| Other long-term benefits | <u>149</u> | <u>61</u> |
| | <u>286</u> | <u>205</u> |
| Total: | | |
| Short-term employee benefits | 321 | 340 |
| Post employment benefits | 49 | 65 |
| Other long-term benefits | <u>214</u> | <u>134</u> |
| | <u>584</u> | <u>538</u> |
| Directors who are member of the defined benefit scheme | <u>3</u> | <u>3</u> |
| Accrued pension benefit relating to highest paid director | <u>-</u> | <u>-</u> |

OTHER KEY PERSONNEL REMUNERATION

| | 2010 £'000 | 2009 £'000 |
|------------------------------|---------------|---------------|
| Total: | | |
| Short-term employee benefits | 360 | 407 |
| Post employment benefits | 100 | 123 |
| Other long-term benefits | <u>175</u> | <u>50</u> |
| | <u>635</u> | <u>580</u> |

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

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

5. NET FINANCE COSTS

| | 2010 £'000 | 2009 £'000 |
|--|---------------|---------------|
| Finance income: | | |
| Dividends from investments | - | 5 |
| Interest in joint venture | 353 | 288 |
| Interest receivable on loans to Group undertakings | <u>1,620</u> | <u>3,608</u> |
| | <u>1,973</u> | <u>3,901</u> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010**

5. NET FINANCE COSTS - continued

| | 2010 | 2009 |
|---|----------------------|----------------------|
| | £'000 | £'000 |
| Finance costs: | | |
| Interest payable on other loans | 17,119 | 17,439 |
| Interest payable on loans from Group undertakings | 7,793 | 6,507 |
| Preference dividends payable | 9,001 | 9,001 |
| | <u>33,913</u> | <u>32,947</u> |
| Net finance costs | <u>31,940</u> | <u>29,046</u> |

6. PROFIT BEFORE INCOME TAX

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

| | 2010 | 2009 |
|--|-----------------|--------------|
| | £'000 | £'000 |
| Depreciation - owned assets | 47,116 | 43,174 |
| Profit on disposal of fixed assets | (641) | (323) |
| Software development costs amortisation | 1,571 | 1,498 |
| Research costs | 586 | 431 |
| Amortisation of deferred revenue | (12,416) | (11,679) |
| Impairment loss on trade and other receivables | 128 | 223 |

Analysis of auditors' remuneration is as follows:

| | 2010 | 2009 |
|---|-------------------|-------------------|
| | £'000 | £'000 |
| Fees payable to the Company's auditors for the audit of the Company's annual accounts | 29 | 35 |
| Fees payable to the Company's auditors for the audit of the Company's subsidiaries pursuant to legislation | 162 | 162 |
| Total audit fees | <u>191</u> | <u>197</u> |
| Other assurance services | 5 | - |
| Total auditors' remuneration | <u>196</u> | <u>197</u> |
| | 2010 | 2009 |
| | £'000 | £'000 |
| Fees payable to the Company's auditors and their associates in respect of the audit of associated pension schemes | 5 | 5 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

7. INCOME TAX

Analysis of the tax charge

| | 2010 £'000 | 2009 £'000 |
|--------------------------------------|----------------|---------------|
| Current tax: | | |
| Tax | 27,113 | 16,764 |
| Deferred tax | <u>(1,982)</u> | <u>10,552</u> |
| Total tax charge in income statement | <u>25,131</u> | <u>27,316</u> |

Factors affecting the tax charge

The tax assessed for the year is lower (2009 - higher) than the standard rate of corporation tax in the UK. The difference is explained below:

| | 2010 £'000 | 2009 £'000 |
|--|----------------|---------------|
| Profit on ordinary activities before tax | <u>122,301</u> | <u>95,123</u> |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 - 28%) | 34,244 | 26,634 |
| Effects of: | | |
| Dividends on non-equity preference shares | 2,520 | 2,520 |
| Tax effect of result of joint venture | (99) | (81) |
| Adjustment to prior years | 200 | (1,733) |
| Change in tax rates | (6,592) | - |
| Settlement of prior period capital gains claims | (5,127) | - |
| Tax free income | (47) | (24) |
| Permanent disallowances | 17 | - |
| Payment under service level agreement | <u>15</u> | <u>-</u> |
| Total income tax | <u>25,131</u> | <u>27,316</u> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010**

7. INCOME TAX - continued

| | 2010 £'000 | 2009 £'000 |
|---|----------------------|----------------------|
| Tax expense comprises: | | |
| Current tax expense: | | |
| Corporation tax charge for the year | 7,936 | 7,348 |
| Payment for use of group losses | 18,889 | 10,912 |
| Under provision for prior years | <u>288</u> | <u>(1,503)</u> |
| Total current tax charge | 27,113 | 16,757 |
| Deferred tax: | | |
| Deferred tax expenses relating to the origination and reversal of temporary differences | 9,737 | 10,559 |
| Adjustments in respect of prior period | (5,127) | |
| Effect of changes in tax rates | <u>(6,592)</u> | <u>-</u> |
| Total deferred tax charge | <u>(1,982)</u> | <u>10,559</u> |
| Tax on profit before tax | <u><u>25,131</u></u> | <u><u>27,316</u></u> |

The Finance Act 2010 includes a provision that the standard rate of corporation tax in the United Kingdom will reduce from 28% to 27% from April 2011. Accordingly, this rate has been applied when calculating deferred tax assets and liabilities throughout the CE Group as at 31 December 2010.

8. PROFIT OF PARENT COMPANY

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year was £18,903,000 (2009 - £17,609,000).

9. DIVIDENDS

| | 2010 £'000 | 2009 £'000 |
|---|----------------------|-----------------|
| Interim dividend at 47p per share (2009: nil) | <u><u>60,000</u></u> | <u><u>-</u></u> |

10. OPERATING EXPENSES

Operating expenses comprise:

| | 2010 £'000 | 2009 £'000 |
|-------------------------|-----------------------|-----------------------|
| Distribution costs | 74,088 | 71,053 |
| Administrative expenses | 31,705 | 33,899 |
| | <u><u>105,793</u></u> | <u><u>104,952</u></u> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010**

11. OPERATING LEASE COMMITMENTS

Group

| | 2010 £'000 | 2009 £'000 |
|--|-----------------------|-----------------------|
| Minimum lease payments under operating leases recognised in the year | <u>3,379</u> | <u>3,782</u> |

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

| | 2010 £'000 | 2009 £'000 |
|-----------------------------|-----------------------|-----------------------|
| Within one year | 2,445 | 2,307 |
| In the second to fifth year | 5,462 | 5,194 |
| After five years | <u>1,795</u> | <u>899</u> |
| | <u>9,702</u> | <u>8,401</u> |

Company

| | 2010 £'000 | 2009 £'000 |
|--|-----------------------|-----------------------|
| Minimum lease payments under operating leases recognised in the year | <u>172</u> | <u>172</u> |

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

| | 2010 £'000 | 2009 £'000 |
|-----------------------------|-----------------------|-----------------------|
| Within one year | 172 | 172 |
| In the second to fifth year | 688 | 860 |
| After five years | <u>688</u> | <u>688</u> |
| | <u>1,548</u> | <u>1,720</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

12. INTANGIBLE ASSETS

Group

| | Software development costs £'000 |
|-----------------------|---|
| COST | |
| At 1 January 2010 | 27,724 |
| Additions | <u>843</u> |
| At 31 December 2010 | <u>28,567</u> |
| AMORTISATION | |
| At 1 January 2010 | 22,985 |
| Amortisation for year | <u>1,571</u> |
| At 31 December 2010 | <u>24,556</u> |
| NET BOOK VALUE | |
| At 31 December 2010 | <u>4,011</u> |

| | Software development costs £'000 |
|-----------------------|---|
| COST | |
| At 1 January 2009 | 27,205 |
| Additions | <u>519</u> |
| At 31 December 2009 | <u>27,724</u> |
| AMORTISATION | |
| At 1 January 2009 | 21,487 |
| Amortisation for year | <u>1,498</u> |
| At 31 December 2009 | <u>22,985</u> |
| NET BOOK VALUE | |
| At 31 December 2009 | <u>4,739</u> |

The Company had no intangible assets at 31 December 2010 (2009: £nil).

NORTHERN ELECTRIC PLC GROUP (REGISTERED NUMBER: 2366942)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010**

13. PROPERTY, PLANT AND EQUIPMENT

| Group | Non operational land and buildings £'000 | Distribution system £'000 | Fixtures and fittings £'000 | Totals £'000 |
|-----------------------|---|--|--|-------------------------|
| COST | | | | |
| At 1 January 2010 | 6,739 | 1,952,915 | 52,727 | 2,012,381 |
| Additions | - | 124,462 | 1,048 | 125,510 |
| Disposals | (3) | (3,885) | (1,077) | (4,965) |
| At 31 December 2010 | <u>6,736</u> | <u>2,073,492</u> | <u>52,698</u> | <u>2,132,926</u> |
| DEPRECIATION | | | | |
| At 1 January 2010 | 4,416 | 598,215 | 48,288 | 650,919 |
| Charge for year | 110 | 45,360 | 1,646 | 47,116 |
| Disposal | - | (3,885) | (1,077) | (4,962) |
| At 31 December 2010 | <u>4,526</u> | <u>639,690</u> | <u>48,857</u> | <u>693,073</u> |
| NET BOOK VALUE | | | | |
| At 31 December 2010 | <u>2,210</u> | <u>1,433,802</u> | <u>3,841</u> | <u>1,439,853</u> |
| | Non operational land and buildings £'000 | Distribution system £'000 | Fixtures and fittings £'000 | Totals £'000 |
| COST | | | | |
| At 1 January 2009 | 6,765 | 1,838,875 | 50,954 | 1,896,594 |
| Additions | - | 118,838 | 1,900 | 120,738 |
| Disposals | (26) | (4,798) | (127) | (4,951) |
| At 31 December 2009 | <u>6,739</u> | <u>1,952,915</u> | <u>52,727</u> | <u>2,012,381</u> |
| DEPRECIATION | | | | |
| At 1 January 2009 | 4,291 | 561,616 | 46,763 | 612,670 |
| Charge for year | 125 | 41,397 | 1,652 | 43,174 |
| Disposal | - | (4,798) | (127) | (4,925) |
| At 31 December 2009 | <u>4,416</u> | <u>598,215</u> | <u>48,288</u> | <u>650,919</u> |
| NET BOOK VALUE | | | | |
| At 31 December 2009 | <u>2,323</u> | <u>1,354,700</u> | <u>4,439</u> | <u>1,361,462</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

13. PROPERTY, PLANT AND EQUIPMENT - continued

Group

Assets in the course of construction included above:

| | Distribution system £'000 | Fixtures and fittings £'000 | Totals £'000 |
|---------------------|---------------------------------|-----------------------------------|------------------|
| At 1 January 2010 | 46,958 | - | 46,958 |
| Additions | 124,462 | 1,048 | 125,510 |
| Available for use | <u>(112,233)</u> | <u>(1,048)</u> | <u>(113,281)</u> |
| At 31 December 2010 | <u>59,187</u> | <u>-</u> | <u>59,187</u> |

The Company has entered into contractual commitments in relation to the future acquisition of property, plant and equipment of £15,412,000 (2009: £13,040,000).

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

| | 2010 £'000 | 2009 £'000 |
|-----------------|---------------|---------------|
| Freehold | 1,742 | 1,855 |
| Long leasehold | 368 | 368 |
| Short leasehold | <u>100</u> | <u>100</u> |
| | <u>2,210</u> | <u>2,323</u> |

Company

| | Distribution system £'000 | Fixtures and fittings £'000 | Totals £'000 |
|---|---------------------------------|--------------------------------------|-----------------|
| COST | | | |
| At 1 January 2010 and 31 December 2010 | <u>1,259</u> | <u>3,558</u> | <u>4,817</u> |
| DEPRECIATION | | | |
| At 1 January 2010 | - | 3,270 | 3,270 |
| Charge for year | <u>-</u> | <u>12</u> | <u>12</u> |
| At 31 December 2010 | <u>-</u> | <u>3,282</u> | <u>3,282</u> |
| NET BOOK VALUE | | | |
| At 31 December 2010 | <u>1,259</u> | <u>276</u> | <u>1,535</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

13. PROPERTY, PLANT AND EQUIPMENT - continued

Company

| | Distribution system £'000 | Fixtures and fittings £'000 | Totals £'000 |
|---|---------------------------------|--------------------------------------|-----------------|
| COST | | | |
| At 1 January 2009 and 31 December 2009 | <u>1,259</u> | <u>3,558</u> | <u>4,817</u> |
| DEPRECIATION | | | |
| At 1 January 2009 and 31 December 2009 | <u>-</u> | <u>3,270</u> | <u>3,270</u> |
| NET BOOK VALUE | | | |
| At 31 December 2009 | <u>1,259</u> | <u>288</u> | <u>1,547</u> |

14. INVESTMENTS

| | Share of joint venture's net assets £'000 | Group Shares in other undertakings £'000 | Total £'000 | Company Shares in subsidiary undertakings £'000 | Shares in other undertakings £'000 | Total £'000 |
|---------------------------|---|--|----------------|---|---|----------------|
| At 31 December 2009 | 3,236 | 21 | 3,257 | 327,099 | 971 | 328,070 |
| Movement | <u>71</u> | <u>-</u> | <u>71</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| At 31 December 2010 | <u>3,307</u> | <u>21</u> | <u>3,328</u> | <u>327,099</u> | <u>971</u> | <u>328,070</u> |

Details of the principal investments of the Group at 31 December 2010 are listed below:

| Name of company | Holding of shares | Proportion of voting rights and shares held | Nature of business |
|---|-------------------|---|--|
| Principal subsidiary undertakings Held by Company: | | | |
| Integrated Utility Services Limited | 3,103,000 at £1 | 100% | Engineering contracting services |
| Northern Electric Distribution Limited | 200,000,100 at £1 | 100% | Distribution of electricity |
| Northern Electric Properties Limited | 32,207,100 at £1 | 100% | Property holding and management company |
| Northern Transport Finance Limited | 7,000,000 at £1 | 100% | Car finance company |
| Held by Northern Electric subsidiaries: | | | |
| Northern Electric Finance plc | 50,000 at £1 | 100% | Finance company |
| Joint venture held by the Company: | | | |
| Vehicle Lease and Service Limited | 950,000 at £1 | 50% | Transport services |

All the above companies are registered in England and Wales.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010**

Interest in Joint venture

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

| | 2010 | 2009 |
|--|----------------------|---------------|
| | £'000 | £'000 |
| Long-term assets | 16,442 | 16,098 |
| Current assets | 12,930 | 13,320 |
| Long-term liabilities | (12,330) | (13,462) |
| Current liabilities | (10,428) | (9,485) |
| Net assets | <u>6,614</u> | <u>6,472</u> |
| Group's share of joint venture's net assets | <u>3,307</u> | <u>3,236</u> |
| Revenue | <u>14,328</u> | <u>14,469</u> |
| Profit for the year | <u>706</u> | <u>576</u> |
| Group's share of joint venture's profit for the year | <u>353</u> | <u>288</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

15. INVENTORIES

| | Group | |
|----------------------|---------------|---------------|
| | 2010 | 2009 |
| | £'000 | £'000 |
| Stocks | 7,601 | 6,962 |
| Work-in-progress | 2,273 | 6,568 |
| Assets held for sale | 467 | 182 |
| | <u>10,341</u> | <u>13,712</u> |

The Company had no inventories at 31 December 2010 (2009 - £nil).

Group construction contracts

Contracts in progress at balance sheet date:

| | 2010 | 2009 |
|--|-----------------|-----------------|
| | £'000 | £'000 |
| Amounts due from customers included in inventories | <u>2,273</u> | <u>6,568</u> |
| Contract costs incurred plus recognised profits less recognised losses to date | 25,721 | 62,936 |
| Less: progress billings | <u>(23,448)</u> | <u>(56,368)</u> |
| | <u>2,273</u> | <u>6,568</u> |

At 31 December 2010, retentions held by customers for contract work amounted to £445,000 (2009 : £452,000).

Advances received from customers for contract work amounted to £nil (2009: £nil)

Within amounts due from customers included in inventories is £nil (2009: £2,985,000) due from a key customer, E.ON, which has accounted for approximately 26% of construction contract revenue in the year (2009: 52%).

The Company had no construction contracts at 31 December 2010 (2009: £nil).

16. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---------------|---------------|------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| | £'000 | £'000 | £'000 | £'000 |
| Current: | | | | |
| Distribution use of system receivables | 36,193 | 34,508 | - | - |
| Construction contract customers | 5,243 | 9,423 | - | - |
| Amounts receivable in respect of finance leases | 3,320 | 3,123 | - | - |
| Other debtors | - | - | 442 | 266 |
| Amounts receivable for sale of goods and services | 1,498 | 7,455 | - | - |
| Prepayments and accrued income | <u>4,912</u> | <u>3,512</u> | <u>239</u> | <u>344</u> |
| | <u>51,166</u> | <u>58,021</u> | <u>681</u> | <u>610</u> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010**

16. TRADE AND OTHER RECEIVABLES - continued

| | Group | | Company | |
|---|---------------|---------------|----------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| | £'000 | £'000 | £'000 | £'000 |
| Non-current: | | | | |
| Amounts receivable in respect of finance leases | <u>4,609</u> | <u>5,410</u> | <u>-</u> | <u>-</u> |
| Aggregate amounts | <u>55,775</u> | <u>63,431</u> | <u>681</u> | <u>610</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

16. TRADE AND OTHER RECEIVABLES - continued

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

Finance lease receivables

| | Minimum lease payments | | Present value | |
|--|------------------------|---------------------|---------------------|---------------------|
| | 2010 | 2009 | 2010 | 2009 |
| | £'000 | £'000 | £'000 | £'000 |
| Amounts receivable under finance leases: | | | | |
| Within one year | 3,731 | 3,558 | 3,320 | 3,123 |
| In the second to fifth years inclusive | <u>4,877</u> | <u>5,788</u> | <u>4,609</u> | <u>5,410</u> |
| | 8,608 | 9,346 | 7,929 | 8,533 |
| Less: unearned finance income | <u>(679)</u> | <u>(813)</u> | <u>-</u> | <u>-</u> |
| | <u><u>7,929</u></u> | <u><u>8,533</u></u> | <u><u>7,929</u></u> | <u><u>8,533</u></u> |

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

The interest rate inherent in the agreements is fixed at the contract date for all of the term of the agreement. The average effective interest rate contracted is approximately 6.5% (2009: 6.5%) per annum. None of these debts are past due and there are no indicators of impairment. The directors consider the carrying value of finance lease receivables approximates their fair value. The maximum risk exposure is the book value of these receivables, less the residual value of the leased vehicles.

Distribution use of system receivables

The customers served by the Company's distribution network are supplied predominantly by a small number of electricity supply businesses with RWE NPower plc accounting for approximately 30% of distribution revenues in 2010 (2009: 32%). Ofgem has determined a framework which sets credit limits for each supply business based on its credit rating or payment history and requires them to provide credit cover if their value at risk (measured as being equivalent to 45 days usage) exceeds the credit limit. Acceptable credit typically is provided in the form of a parent company guarantee, letter of credit or an escrow account. Included within other payables are customer deposits of £1,530,000 as at 31 December 2010 (2009: £1,523,000).

Ofgem has indicated that, provided the Company has implemented credit control, billing and collection processes in line with best practice guidelines and can demonstrate compliance with the guidelines or is able to satisfactorily explain departure from the guidelines, any bad debt losses arising from supplier default will be recovered through an increase in future allowed income. Losses incurred to date have not been material. Included in the Company's use of system ("UoS") receivables are debtors with a carrying value of £3,000, which have been placed into administration and have therefore been provided in full at the year end (2009: £17,000)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010**

16. TRADE AND OTHER RECEIVABLES - continued

Amounts receivable from sale of goods and services

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

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

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £720,000 (2009: £1,164,000) which are past due at the reporting date and for which the Company has provided an irrecoverable amount of £348,000 (2009 : £435,000) based on past experience. The Company does not hold any collateral over these balances. The average age of these receivables is 304 days (2009: 347 days).

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £500,000 (2009: £328,000). These amounts are past due at the reporting date and the Company has not provided for any amounts as not being recoverable, because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances. The average age of these receivables is 60 days (2009: 60 days).

Ageing of past due but not impaired receivables:

| | 2010 | 2009 |
|--------------|-------------------|------------|
| | £'000 | £'000 |
| 30-60 days | 358 | 246 |
| 60-120 days | 129 | 65 |
| 120-210 days | 13 | 17 |
| | <hr/> | <hr/> |
| Total | <u>500</u> | <u>328</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

16. TRADE AND OTHER RECEIVABLES - continued

Construction contract customers

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

Included in the Group's construction contracts balance are debtors with a carrying amount of £3,054,000 (2009: £4,433,000), which are past due at the reporting date for which the Group has provided for an irrecoverable amount of £199,000 (2009: £293,000) based on past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 99 days (2009: 105 days).

Included in the Group's construction contracts balance are debtors with a carrying amount of £9,000 (2009: £2,182,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 45 days (2009: 45 days).

Ageing of past due but not impaired receivables:

| | 2010 | 2009 |
|------------|-----------------|---------------------|
| | £'000 | £'000 |
| 30-90 days | <u>9</u> | <u>2,182</u> |
| Total | <u><u>9</u></u> | <u><u>2,182</u></u> |

E.ON accounted for approximately 26% of construction contract revenues in 2010 (2009: 52%) and £nil of the construction contract debt outstanding as at 31 December 2010 (2009: £2,182,000).

The E.ON contract expired in March 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

16. TRADE AND OTHER RECEIVABLES - continued

Movement in the allowance for doubtful debts

| | 2010 | 2009 |
|--|------------|------------|
| | £'000 | £'000 |
| At 1 January | 870 | 988 |
| Amounts utilised/written off in the year | (448) | (341) |
| Amounts recognised in income statement | <u>128</u> | <u>223</u> |
| At 31 December | <u>550</u> | <u>870</u> |

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

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £242,000 (2009: £239,000) which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

Categories of financial assets

| | 2010 | 2009 |
|---|------------------|------------------|
| | £'000 | £'000 |
| Group: | | |
| Cash and bank balances | 67,161 | 141,385 |
| Loans and receivables at amortised cost | <u>46,254</u> | <u>54,509</u> |
| Total financial assets | <u>113,415</u> | <u>195,894</u> |
| Non current assets | 1,610,146 | 1,503,279 |
| Inventories | 10,341 | 13,712 |
| Prepayments and accrued income | <u>4,912</u> | <u>3,512</u> |
| Total non-financial assets | <u>1,625,399</u> | <u>1,520,503</u> |
| Total assets | <u>1,738,814</u> | <u>1,716,397</u> |
| | | |
| | 2010 | 2009 |
| | £'000 | £'000 |
| Company: | | |
| Cash and bank balances | 65,247 | 111,824 |
| Loans and receivables at amortised cost | <u>442</u> | <u>266</u> |
| Total financial assets | <u>65,689</u> | <u>112,090</u> |
| Non current assets | 329,605 | 329,617 |
| Prepayments and accrued income | <u>239</u> | <u>344</u> |
| Total non-financial assets | <u>329,844</u> | <u>329,961</u> |
| Total assets | <u>395,533</u> | <u>442,051</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

17. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|------------------------------------|---------------|----------------|---------------|----------------|
| | 2010 £'000 | 2009 £'000 | 2010 £'000 | 2009 £'000 |
| Amounts owed by Group undertakings | <u>67,161</u> | <u>141,385</u> | <u>65,247</u> | <u>111,824</u> |
| | <u>67,161</u> | <u>141,385</u> | <u>65,247</u> | <u>111,824</u> |

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

Amounts owed by Group undertakings represent surplus cash remitted to Yorkshire Electricity Group plc ("YEG"), a fellow company in the CE Group, and invested to generate a market rate of return for the Group. This is repayable on demand from YEG.

18. CALLED UP SHARE CAPITAL

| | 2010 No. | 2009 No. |
|------------------------------------|--------------------|--------------------|
| Ordinary shares at 56 12/23p each | | |
| Authorised | 176,921,852 | 176,921,852 |
| Allotted, called up and fully paid | <u>127,689,809</u> | <u>127,689,809</u> |

| | 2010 £'000 | 2009 £'000 |
|------------------------------------|---------------|---------------|
| Ordinary shares at 56 12/13p each | | |
| Authorised | 100,000 | 100,000 |
| Allotted, called up and fully paid | <u>72,173</u> | <u>72,173</u> |

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

19. RESERVES

| Group | Retained earnings £'000 | Share premium £'000 | Other reserves £'000 | Totals £'000 |
|---------------------|--|------------------------------------|-------------------------------------|-------------------------|
| At 1 January 2010 | 416,151 | 158,748 | 6,185 | 581,084 |
| Profit for the year | 97,170 | - | - | 91,170 |
| Dividends | (60,000) | - | - | (60,000) |
| At 31 December 2010 | <u>453,321</u> | <u>158,748</u> | <u>6,185</u> | <u>618,254</u> |
| | Retained earnings £'000 | Share premium £'000 | Other reserves £'000 | Totals £'000 |
| At 1 January 2009 | 348,344 | 158,748 | 6,185 | 513,277 |
| Profit for the year | 67,807 | - | - | 67,807 |
| At 31 December 2009 | <u>416,151</u> | <u>158,748</u> | <u>6,185</u> | <u>581,084</u> |
| Company | Retained earnings £'000 | Share premium £'000 | Other reserves £'000 | Totals £'000 |
| At 1 January 2010 | 172,326 | 158,748 | 6,185 | 337,259 |
| Profit for the year | 18,903 | - | - | 18,903 |
| Dividends | (60,000) | - | - | (60,000) |
| At 31 December 2010 | <u>131,229</u> | <u>158,748</u> | <u>6,185</u> | <u>296,162</u> |
| | Retained earnings £'000 | Share premium £'000 | Other reserves £'000 | Totals £'000 |
| At 1 January 2009 | 154,717 | 158,748 | 6,185 | 319,650 |
| Profit for the year | 17,609 | - | - | 17,609 |
| At 31 December 2009 | <u>172,326</u> | <u>158,748</u> | <u>6,185</u> | <u>337,259</u> |

NORTHERN ELECTRIC PLC GROUP (REGISTERED NUMBER: 2366942)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010**

20. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---------------------------------|-----------------------|-----------------------|---------------------|---------------------|
| | 2010 | 2009 | 2010 | 2009 |
| | £'000 | £'000 | £'000 | £'000 |
| Current: | | | | |
| Payments on account | 21,420 | 21,924 | - | - |
| Trade creditors | 8,544 | 8,093 | 1,368 | 798 |
| Amounts owed to related parties | 401 | 280 | - | - |
| Social security and other taxes | 9,078 | 8,026 | 4,080 | 3,612 |
| Other creditors | 4,073 | 2,610 | 526 | 2,056 |
| Deferred revenue | 13,431 | 13,807 | - | - |
| Accrued expenses | 17,483 | 25,143 | 421 | 1,226 |
| | <u>74,430</u> | <u>79,883</u> | <u>6,395</u> | <u>7,692</u> |
| Non-current: | | | | |
| Deferred revenue | <u>417,504</u> | <u>397,552</u> | - | - |
| | <u>417,504</u> | <u>397,552</u> | - | - |
| Aggregate amounts | <u>491,934</u> | <u>477,435</u> | <u>6,395</u> | <u>7,692</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

20. TRADE AND OTHER PAYABLES - continued

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

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

Group

| | Less than 3 months £'000 | 3 months to 1 year £'000 | 1 to 5 years £'000 | 5+ years £'000 | Total £'000 |
|-------------------------------------|--------------------------------|--------------------------------|-----------------------|-------------------|-------------------|
| 2010: | | | | | |
| Non-interest bearing | 39,579 | - | - | - | 39,579 |
| Variable interest rate liability | 2,563 | - | - | - | 2,563 |
| Fixed interest rate liability | - | 31,463 | 125,850 | 767,425 | 924,738 |
| | <u>42,142</u> | <u>31,463</u> | <u>125,850</u> | <u>767,425</u> | <u>966,880</u> |
| 2009: | | | | | |
| Non-interest bearing | 44,082 | - | - | - | 44,082 |
| Variable interest rate liability | 34,847 | - | - | - | 34,847 |
| Fixed interest rate liability | - | 31,463 | 125,850 | 773,888 | 931,201 |
| | <u>78,929</u> | <u>31,463</u> | <u>125,850</u> | <u>773,888</u> | <u>10,101,130</u> |

Company

| | Less than 3 months £'000 | 3 months to 1 year £'000 | 1 to 5 years £'000 | 5+ years £'000 | Total £'000 |
|----------------------------------|--------------------------------|--------------------------------|-----------------------|-------------------|----------------|
| 2010: | | | | | |
| Non-interest bearing | 6,395 | - | - | - | 6,395 |
| Fixed interest rate liability | - | 9,000 | 36,000 | 89,500 | 134,500 |
| | <u>6,395</u> | <u>9,000</u> | <u>36,000</u> | <u>89,500</u> | <u>140,895</u> |
| 2009: | | | | | |
| Non-interest bearing | 7,692 | - | - | - | 7,692 |
| Fixed interest rate liability | - | 9,000 | 36,000 | 73,500 | 118,500 |
| | <u>7,692</u> | <u>9,000</u> | <u>36,000</u> | <u>73,500</u> | <u>126,192</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

20. TRADE AND OTHER PAYABLES - continued

Categories of financial liabilities

| | 2010 £'000 | 2009 £'000 |
|--------------------------------------|---------------------------|---------------------------|
| Group: | | |
| Loans and payables at amortised cost | <u>(372,140)</u> | <u>(402,156)</u> |
| Total financial liabilities | <u><u>(372,140)</u></u> | <u><u>(402,156)</u></u> |
| Payments received on account | (21,420) | (21,924) |
| Income tax liabilities | (192,477) | (190,369) |
| Other taxes and social security | (9,078) | (8,026) |
| Accruals | (17,483) | (25,143) |
| Deferred revenue | (430,935) | (411,359) |
| Provisions | <u>(4,854)</u> | <u>(4,163)</u> |
| Total non financial liabilities | <u><u>(676,247)</u></u> | <u><u>(660,984)</u></u> |
| Total liabilities | <u><u>(1,048,387)</u></u> | <u><u>(1,063,140)</u></u> |

| | 2010 £'000 | 2009 £'000 |
|--------------------------------------|------------------------|------------------------|
| Company: | | |
| Loans and payables at amortised cost | <u>(7,825)</u> | <u>(6,222)</u> |
| Total financial liabilities | <u><u>(7,825)</u></u> | <u><u>(6,222)</u></u> |
| Income tax liabilities | (13,379) | (20,059) |
| Other taxes and social security | (4,080) | (3,612) |
| Accruals | (421) | (1,226) |
| Provisions | <u>(1,493)</u> | <u>(1,500)</u> |
| Total non financial liabilities | <u><u>(19,373)</u></u> | <u><u>(26,397)</u></u> |
| Total liabilities | <u><u>(27,198)</u></u> | <u><u>(32,619)</u></u> |

Deferred revenue

| | 2010 £'000 | 2009 £'000 |
|----------------|-------------------------|-------------------------|
| At 1 January | (411,359) | (398,005) |
| Additions | (31,992) | (25,033) |
| Amortisation | <u>12,416</u> | <u>11,679</u> |
| At 31 December | <u><u>(430,935)</u></u> | <u><u>(411,359)</u></u> |

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

The Company had no deferred revenue at 31 December 2010 (2009: £nil)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

21. FINANCIAL LIABILITIES - BORROWINGS

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

Group

| | Book Value | | Fair Value | |
|--|----------------|----------------|----------------|----------------|
| | 2010 | 2009 | 2010 | 2009 |
| | £'000 | £'000 | £'000 | £'000 |
| Loans | 253,191 | 287,805 | 280,900 | 298,420 |
| Cumulative preference shares | 3,368 | 3,368 | 134,571 | 118,500 |
| Amounts owed to Group undertakings | 102,563 | 100,000 | 108,579 | 100,528 |
| | <u>359,122</u> | <u>391,173</u> | <u>524,050</u> | <u>517,448</u> |
| The borrowings are repayable as follows: | | | | |
| On demand or within one year | 9,650 | 41,670 | 9,650 | 41,670 |
| After five years | 349,472 | 349,503 | 514,400 | 475,778 |
| | <u>359,122</u> | <u>391,173</u> | <u>524,050</u> | <u>517,448</u> |
| Analysis of borrowings: | | | | |
| Short term treasury loans | - | 34,874 | - | 34,874 |
| Short term loans from Group undertakings | 2,563 | - | 2,563 | - |
| 2020 - 8.875% | 100,508 | 100,324 | 133,249 | 123,643 |
| 2035 - 5.125% | 152,683 | 152,607 | 147,651 | 139,903 |
| 2037 - 5.9% loan from Group undertakings | 100,000 | 100,000 | 106,016 | 100,528 |
| Cumulative preference shares | 3,368 | 3,368 | 134,571 | 118,500 |
| | <u>359,122</u> | <u>391,173</u> | <u>524,050</u> | <u>517,448</u> |

Company

| | £'000 | £'000 | £'000 | £'000 |
|--|--------------|--------------|----------------|----------------|
| The borrowings are repayable as follows: | | | | |
| On demand or within one year | 4,814 | 2,251 | 4,814 | 2,251 |
| After five years | 1,117 | 1,117 | 130,069 | 116,249 |
| | <u>5,931</u> | <u>3,368</u> | <u>134,883</u> | <u>118,500</u> |
| Analysis of borrowings: | | | | |
| Short term loans from Group undertakings | 2,563 | - | 2,563 | - |
| Cumulative preference shares | 3,368 | 3,368 | 132,320 | 118,500 |
| | <u>5,931</u> | <u>3,368</u> | <u>134,883</u> | <u>118,500</u> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010**

21. FINANCIAL LIABILITIES - BORROWINGS – continued

The fair value of quoted external borrowings is determined with reference to quoted market prices. The directors' estimates of the fair value of internal borrowings are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments. The fair value of short-term borrowings is equal to their book value. All loans are non-secured and are denominated in sterling.

Interest on short-term loans from Group undertakings is charged at a floating rate of interest at Base rate minus 0.25%, thus exposing the Group to cash flow interest rate risk. A 1% movement in interest rates would not subject the Group to any material change in interest costs. All other loans are at fixed interest rates and expose the Company to fair value interest rate risk.

The Company had authorised 115,000,000 non-equity cumulative preference shares of 1p each as at 31 December 2010 and 2009. As at 31 December 2010 and 2009 111,662,378 were allotted, called up and fully paid.

The terms of the cumulative preference shares:

- i) entitle holders, in priority to holders of all other classes of shares, to a fixed cumulative preferential dividend of 8.061p (net) per share per annum payable half-yearly in equal amounts on 31 March and 30 September;
- ii) on a return of capital on a winding up, or otherwise, will carry the right to repayment of capital together with a premium of 99p per share and a sum equal to any arrears or accruals of dividend; this right is in priority to the rights of ordinary shareholders;
- iii) carry the right to attend a general meeting of 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.

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

At 31 December 2010, the Group had available £201m (2009: £15.2m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

No material market risks in relation to currency or interest rates are faced by the Company. As at 31 December 2010, 99% (2009: 90%) of the Group's borrowings were at fixed rates and the average maturity for these borrowings was 21 years (2009: 22 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

22. PROVISIONS

| | Group | | Company | |
|----------------------|--------------|--------------|--------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| | £'000 | £'000 | £'000 | £'000 |
| Other provisions | <u>4,854</u> | <u>4,163</u> | <u>1,493</u> | <u>1,500</u> |
| Analysed as follows: | | | | |
| Current | 2,102 | 1,034 | - | - |
| Non-current | <u>2,752</u> | <u>3,129</u> | <u>1,493</u> | <u>1,500</u> |
| | <u>4,854</u> | <u>4,163</u> | <u>1,493</u> | <u>1,500</u> |

| | Claims | Other | Total |
|-----------------------------|--------------|--------------|--------------|
| | £'000 | £'000 | £'000 |
| At 1 January 2010 | 1,359 | 2,804 | 4,163 |
| Utilised/paid in the year | (881) | (575) | (1,456) |
| Charged to income statement | <u>1,484</u> | <u>663</u> | <u>2,147</u> |
| At 31 December 2010 | <u>1,962</u> | <u>2,892</u> | <u>4,854</u> |

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

23. DEFERRED TAX

| | Accelerated tax depreciation £'000 | Rollover/ holdover relief £'000 | Retirement benefit (obligations) / assets £'000 | Other £'000 | Total £'000 |
|-------------------------------------|---|--|---|----------------|----------------|
| Group; | | | | | |
| At 1 January 2010 | 125,155 | 19,347 | 35,540 | (127) | 179,915 |
| (Credit)/charge to income statement | (3,321) | (5,553) | 6,815 | 77 | (1,982) |
| At 31 December 2010 | 121,834 | 13,794 | 42,355 | (50) | 177,933 |

| | Accelerated tax depreciation £'000 | Rollover/ holdover relief £'000 | Retirement benefit (obligations) / assets £'000 | Other £'000 | Total £'000 |
|----------------------------|---|--|---|----------------|----------------|
| At 1 January 2009 | 123,794 | 19,340 | 26,450 | (221) | 169,363 |
| Charge to income statement | 1,361 | 7 | 9,090 | 94 | 10,552 |
| At 31 December 2009 | 125,155 | 19,347 | 35,540 | (127) | 179,915 |

| | Accelerated tax depreciation £'000 | Rollover/ holdover relief £'000 | Retirement benefit (obligations)/ assets £'000 | Total £'000 |
|-------------------------------------|---|--|--|----------------|
| Company; | | | | |
| At 1 January 2010 | (56) | 18,155 | (417) | 17,682 |
| Charge/(credit) to income statement | 15 | (5,596) | 19 | 5,562 |
| At 31 December 2010 | (41) | 12,559 | (398) | 12,120 |

| | Accelerated tax depreciation £'000 | Rollover/ holdover relief £'000 | Retirement benefit (obligations)/ assets £'000 | Total £'000 |
|-------------------------------------|---|--|--|----------------|
| At 1 January 2009 | (73) | 18,160 | (403) | 17,684 |
| Charge/(credit) to income statement | 17 | (5) | (14) | (2) |
| At 31 December 2009 | (56) | 18,155 | (417) | 17,682 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010**

24. EMPLOYEE BENEFIT OBLIGATIONS

The Company has two retirement benefit schemes.

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

The Northern Electric Group of the ESPS and the Northern Electric Money Purchase Scheme are operated by Northern Electric plc on behalf of the participating companies within the CE Group.

The last full actuarial valuation of the Northern Electric Group of the ESPS was carried out by the Group Trustees' actuarial advisors, Hewitt Associates, as at 31 March 2007. The current valuation is ongoing. The projected unit method was used for the 2007 valuation. The principal actuarial assumptions were that pre retirement investment returns would exceed salary increases by 1.8% per annum (inclusive of merit awards) and post retirement returns would exceed future pension increases by 1.8% per annum.

The total market value of the assets of the Northern Electric Group of the ESPS, at the date of the actuarial valuation, was £926.7m.

For the Northern Electric Group of the ESPS, the actuarial valuation showed that the value of the assets represented 90.7% of the actuarial value of the accrued benefits. This represents a shortfall of assets compared to the value of accrued benefits of £95.1m. 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, and allows for an estimate of future salary increases.

The CE Group reached agreement during March 2008 with the Group Trustees to repair this deficit. The agreement comprised monthly cash payments of £2.4m (£28.8m per annum) backdated to commence in April 2007 in addition to the normal employer contributions. Of these annual payments, £21.9m was paid by the Company. These payments aimed to remove the shortfall of £95.1m by December 2010 subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2007 being borne out in practice.

At the Group's request the actuary has carried out a separate formal review of the Group's future pension costs using the assumptions set out below, which the actuary has confirmed facilitate a reasonable best estimate of those costs. This review has been based on the same membership and other data as at 31 March 2008. The board has accepted the advice of the actuary and formally approved the use of these assumptions for the purpose of calculating the Group's pension cost.

The contribution rates to the Northern Electric Group of the ESPS, in addition to the deficit repair contributions mentioned above, for 2009 were 44.7% for certain senior management and 26.3% for other employees. These rates will remain in place until a time as a new schedule of contributions is agreed between the trustees of the Northern Electric Group of the ESPS and the Company as part of the triennial valuation process.

The money purchase pension scheme is accounted for as a defined contribution scheme.

Principal assumptions:

| | 2010 | 2009 |
|-------------------------------|-----------------------|-----------------------|
| | Projected unit | Projected unit |
| Valuation method | | |
| Discount rate | 5.50% | 5.70% |
| Inflation rate | 3.20% | 3.20% |
| Increase to pensions | 3.20% | 3.20% |
| Increase to deferred benefits | 3.20% | 3.20% |
| Salary increase | 3.20% | 2.75%* |

* 2.75% per annum for ten years then 3.0% thereafter

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

The mortality assumptions are based on the recent actual mortality experience of members within the CE Group and the assumptions also allow for future mortality improvements. The assumption is that a member currently aged 60 will live for a further 28 years, if he is male, and for a further 28 years, if she is female. Life expectancy at age 60 for non-pensioners (currently aged 45) is assumed to be 28 years, if they are male, and 30 years, if they are female.

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

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

| | 2010 | 2009 |
|---|----------------------------|---------------------|
| | £m | £m |
| Present value of funded defined benefit obligations | (1,061.1) | (1,021.9) |
| Fair value of plan assets | <u>1,043.7</u> | <u>938.4</u> |
| | (17.4) | (83.5) |
| Unrecognised actuarial losses | <u>175.7</u> | <u>211.9</u> |
| Net surplus recognised on the balance sheet | <u><u>158.3</u></u> | <u><u>128.4</u></u> |

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

| | 2010 | 2009 |
|--|----------------------------|---------------------|
| | £m | £m |
| Current service cost | 10.0 | 7.5 |
| Interest cost on obligations | 57.4 | 53.7 |
| Expected return on plan assets | (60.4) | (54.6) |
| Amortisation of actuarial loss | <u>7.8</u> | <u>4.6</u> |
| | 14.8 | 11.2 |
| Charged to other CE Group undertakings | <u>(13.2)</u> | <u>(13.1)</u> |
| | <u>1.6</u> | <u>(1.9)</u> |
| Allocated to income statement | <u><u>(0.3)</u></u> | <u><u>(2.9)</u></u> |
| Allocated to property, plant and equipment | <u><u>1.9</u></u> | <u><u>1.0</u></u> |

The pension costs incurred are allocated between active members and pensioner/deferred members. Of the total amount allocated to the active members, 53% is capitalised in line with the work carried out by those members (2009: 53%). All of the amounts allocated to pensioner/deferred members are expensed.

The amount that relates to the active members is calculated as the total current service cost plus a proportion of the other elements, which is based on the allocation of liabilities to the active members and is proportionate to the total liabilities of the Northern Electric Group of the ESPS. That allocation is currently assumed to be 33.6% and is as agreed for the deficit repair payments (2009: 33.6%)

The amounts recovered from CE Group undertakings are credited to the income statement.

The actual return on plan assets was £102.3m (2009: £133.2m)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

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

| | 2010 £m | 2009 £m |
|------------------------------------|----------------|----------------|
| Opening defined benefit obligation | 1,021.9 | 855.3 |
| Current service costs | 10.0 | 7.5 |
| Interest cost | 57.4 | 53.7 |
| Contributions from employees | 3.0 | 3.0 |
| Actuarial losses | 12.5 | 145.7 |
| Benefits paid | (43.7) | (43.3) |
| Closing defined benefit obligation | <u>1,061.1</u> | <u>1,021.9</u> |

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

| | | |
|-----------------------------------|----------------|--------------|
| Opening fair value of plan assets | 938.4 | 801.4 |
| Expected returns | 60.4 | 54.6 |
| Actuarial gains | 41.9 | 78.6 |
| Contributions by employer | 43.7 | 44.1 |
| Contributions from employees | 3.0 | 3.0 |
| Benefits paid | (43.7) | (43.3) |
| Closing fair value of plan assets | <u>1,043.7</u> | <u>938.4</u> |

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

| | Long term rates of return expected at | | Value | |
|--------------------------------------|--|-----------|----------------|--------------|
| | 2010 % | 2009 % | 2010 £m | 2009 £m |
| Equities | 8.50 | 8.50 | 346.9 | 340.5 |
| Gilts | 4.60 | 5.10 | 602.0 | 516.0 |
| Cash | 4.20 | 4.50 | 0.8 | 0.5 |
| Property | 8.40 | 8.50 | 94.0 | 81.4 |
| Total fair value of scheme assets | | | <u>1,043.7</u> | <u>938.4</u> |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

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

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|----------------|---------------|---------------|--------------|---------------|
| Present value of defined benefit obligation | (1,061.1) | (1,021.9) | (855.3) | (917.2) | (925.9) |
| Fair value of plan assets | <u>1,043.7</u> | <u>938.4</u> | <u>801.4</u> | <u>956.6</u> | <u>912.8</u> |
| (Deficit)/surplus | <u>(17.4)</u> | <u>(83.5)</u> | <u>(53.9)</u> | <u>39.4</u> | <u>(13.1)</u> |
| Experienced (losses)/gains on plan liabilities: | | | | | |
| Amount (£m) | (12.5) | (145.7) | 87.3 | 32.0 | (2.1) |
| Percentage of scheme liabilities (%) | <u>(11.8)</u> | <u>(14.3)</u> | <u>10.2</u> | <u>3.5</u> | <u>(0.2)</u> |
| Experience of gains/(losses) on plan assets: | | | | | |
| Amount (£m) | 41.6 | 78.6 | (231.4) | (19.6) | 32.4 |
| Percentage of scheme assets (%) | <u>3.9</u> | <u>8.4</u> | <u>(28.9)</u> | <u>(2.0)</u> | <u>3.5</u> |

The directors are currently in negotiation with the scheme trustees in relation to the contributions to be made to the defined benefit plan in 2011 as part of concluding the March 2010 triennial valuation. Until those negotiations are concluded, it is not possible to state the value of the contributions to be made during 2011.

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

| | £m |
|-----------------------------------|------------|
| At 1 January 2010 | 1.5 |
| Utilised/paid in the year | (0.1) |
| Transferred from income statement | <u>0.1</u> |
| At 31 December 2010 | <u>1.5</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

25. RELATED PARTY DISCLOSURES

Group

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

Loans

The Group has made loans repayable on demand to companies in the CE Group. The total interest included in investment income in the income statement for the year ended 31 December 2010 was £1,620,000 (2009: £3,508,000). Included within cash and cash equivalents is £67,161,000 as at 31 December 2010 (2009: £141,385,000) in respect of these loans.

The Group has received loans from other companies in the CE Group. The total interest included in finance costs in the income statement for the year ended 31 December 2010 was £7,793,000 (2009: £6,507,000). Included within borrowings is £102,563,000 as at 31 December 2010 (2009: £100,000,000).

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

Trading transactions

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

| Related Party | Sales to related parties £'000 | Purchases from related parties £'000 | Amounts owed to related parties £'000 |
|---|---|--|---|
| 2010: | | | |
| CE Insurance Services Limited | - | 460 | - |
| Integrated Utility Services Limited (registered in Eire) | - | 1,070 | 70 |
| CE UK Gas Holdings Limited | 304 | - | - |
| Yorkshire Electricity Distribution plc | 16,788 | 7,563 | - |
| Vehicle Lease and Service Limited* | 92 | 3,131 | 331 |
| 2009: | | | |
| CE Insurance Services Limited | - | 629 | - |
| Integrated Utility Services Limited (registered in Eire) | - | 1,199 | - |
| CE UK Gas Holdings Limited | 238 | - | - |
| Yorkshire Electricity Distribution plc | 12,674 | 7,943 | - |
| Vehicle Lease and Service Limited* | 74 | 3,205 | 280 |

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

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of amounts owed by related parties* Vehicle Lease and Service Limited is a joint venture in which the Company has a 50% non-controlling interest.

During 2010, 3 directors (2009: 3) and 8 key personnel (2009: 8) utilised the services provided by NTF. The amounts included in finance lease receivables owed by these directors and key personnel total £13,000 (2009: £9,000) in respect of non-current and £19,000 (2009: £15,000) in respect of current receivables.

Company

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

Loans

The Company has made loans repayable on demand to companies in the CE Group. The total interest included in investment income in the income statement for the year ended 31 December 2010 was £1,091,000 (2009: £1,826,000). Included within cash and cash equivalents is £62,684,000 as at 31 December 2010 (2009: £111,824,000) in respect of these loans.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010**

The Company has received loans from companies in the CE Group. The total interest included in finance costs in the income statement for the year ended 31 December 2010 was £1,539,000 (2009: £326,000). Included within borrowings is £nil as at 31 December 2010 (2009: £nil) in respect of these loans.

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

Trading transactions

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

| Related Party | Sales to related parties £'000 | Purchases from related parties £'000 | Dividends received from related parties £'000 |
|---|---|---|--|
| 2010: | | | |
| CE UK Gas Holdings Limited | 304 | - | - |
| Integrated Utility Services Limited | 114 | - | 800 |
| Northern Electric Distribution Limited | 4,820 | 162 | 20,000 |
| Yorkshire Electricity Distribution plc | 3,165 | - | - |
| Vehicle Lease and Service Limited* | - | - | 353 |
| | <hr/> | <hr/> | <hr/> |
| 2009: | | | |
| CE UK Gas Holdings Limited | 238 | - | - |
| Integrated Utility Services Limited | 171 | - | 1,200 |
| Northern Electric Distribution Limited | 5,512 | 175 | 20,000 |
| Northern Electric Properties Limited | 93 | 172 | - |
| Yorkshire Electricity Distribution plc | 3,312 | - | - |
| Vehicle Lease and Service Limited* | - | - | 288 |
| | <hr/> | <hr/> | <hr/> |

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

There are no amounts outstanding to other members of the CE Group.

No ordinary dividends were paid in the current or prior year.

The Company has received £1,000,000 (2009: £1,186,000) of group relief from other companies in the CE Group. Payment at the UK statutory rate of 28% (2009: 28%) will be made for the use of these tax losses.

* Vehicle Lease and Service Limited is a joint venture in which the Company has a 50% non-controlling interest.

26. ULTIMATE CONTROLLING PARTY

The immediate parent undertaking of Northern Electric plc Group is CE Electric UK Limited. The ultimate controlling party and ultimate parent undertaking of CE Electric UK Limited is Berkshire Hathaway, Inc., a company incorporated in the United States of America.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

27. RECONCILIATION OF MOVEMENTS IN RESERVES

| Group | 2010 £'000 | 2009 £'000 |
|---|-------------------|-------------------|
| Profit for the financial year | 97,170 | 67,807 |
| Dividends | (60,000) | - |
| Net addition to reserves | 37,170 | 67,807 |
| Opening reserves | 653,257 | 585,450 |
| Closing reserves | 690,427 | 653,257 |
| Company | 2010 £'000 | 2009 £'000 |
| Profit for the financial year | 18,903 | 17,609 |
| Dividends | (60,000) | - |
| Net (reduction)/addition to reserves | (41,097) | 17,609 |
| Opening reserves | 409,432 | 391,823 |
| Closing reserves | 368,335 | 409,432 |

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

| Group | 2010 £'000 | 2009 £'000 |
|--|----------------|----------------|
| Profit before income tax | 122,301 | 95,123 |
| Depreciation charges | 48,687 | 44,672 |
| Profit on disposal of fixed assets | (641) | (323) |
| Amortisation of deferred revenue | (12,416) | (11,679) |
| Retirement benefit obligations | (27,334) | (29,150) |
| Finance costs | 33,913 | 32,947 |
| Finance income | (1,973) | (3,901) |
| | 162,537 | 127,689 |
| Decrease in inventories | 3,371 | 6,322 |
| Decrease/(Increase) in trade and other receivables | 1,048 | (9,678) |
| (Decrease)/Increase in trade and other payables | (11,669) | 877 |
| Movement in provisions | 691 | (159) |
| Cash generated from operations | 155,978 | 125,051 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2010

28. RECONCILIATION OF PROFIT BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS - continued

| Company | 2010 £'000 | 2009 £'000 |
|--|---------------------|---------------------|
| Profit before income tax | 14,272 | 17,273 |
| Depreciation charges | 12 | - |
| Finance costs | 10,540 | 9,958 |
| Dividends received | (21,083) | (21,503) |
| Finance income | <u>(1,386)</u> | <u>(3,248)</u> |
| | 2,355 | 2,480 |
| (Increase)/Decrease in trade and other receivables | (71) | 379 |
| (Decrease)/Increase in trade and other payables | <u>(1,280)</u> | <u>1,869</u> |
| Cash generated from operations | <u>1,004</u> | <u>4,728</u> |

29. OTHER RESERVES

At the Company's Annual General Meeting in August 1994, the shareholders gave approval to on-market purchases of up to 10% of its shares and this was given effect on 21 September 1994 when 12,370,400 shares were purchased. This transaction resulted in the creation of a capital redemption reserve of £6.2m. Under section 831(4) of the Companies Act 2006 this reserve is treated as an undistributable reserve.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Northern Electric plc will be held at Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF on 22 June 2011 at 10.00 am for the following purposes:

ORDINARY RESOLUTIONS

Resolution 1

To receive and consider the directors' and auditors' reports and the Group accounts for the year ended 31 December 2010.

Resolution 2

To declare that no final dividend be paid for the year ended 31 December 2010.

Resolution 3

To re-elect Mr R Dixon as a director.

Resolution 4

To re-elect Mr P J Goodman as a director.

Resolution 5

To re-elect Dr P A Jones as a director.

Resolution 6

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

Resolution 7

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

By order of the board

John Elliott

Secretary

18 March 2011

Registered office:

**Lloyds Court, 78 Grey Street,
Newcastle upon Tyne, NE1 6AF
Registered in England No 2366942**

Note:

1. All the issued ordinary shares in the Company are held by or on behalf of CE Electric UK Limited.
2. 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.
3. Members are entitled to appoint a proxy to exercise all or any of their rights on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the shareholder. A proxy need not be a shareholder of the Company.
4. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a nominated person does not have such a right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
5. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
6. The current price of the Company's preference shares can be obtained from the web site of the London Stock Exchange at www.londonstockexchange.com.