

NORTHERN ELECTRIC plc
HALF-YEARLY FINANCIAL REPORT
SIX MONTHS ENDED 30 JUNE 2011

NORTHERN ELECTRIC plc:
INTERIM MANAGEMENT REPORT

Registered Number: 2366942

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

Cautionary Statement

This interim management report has been prepared solely to provide additional information to shareholders to assess the strategies of Northern Electric plc (the "Company") and its subsidiaries (the "Group") and the potential for those strategies to succeed and should not be relied on by any other party or for any other purpose.

Operations

The principal activity of the Company during the six months to 30 June 2011 was to act as a holding company, with its main operating subsidiaries being Northern Electric Distribution Limited ("NEDL") and Integrated Utility Services Limited ("IUS"). NEDL holds an electricity distribution licence serving an area of approximately 14,400 sq km in the north east of England. It receives electricity from the National Grid transmission system and distributes it to the 1.6 million customers connected to its electricity distribution network of transformers, switchgear and overhead and underground cables, at voltages of up to 132kV. NEDL is subject to regulation by the Gas and Electricity Markets Authority, which acts through the Office of Gas and Electricity Markets ("Ofgem"). IUS provides engineering contracting services to a range of clients.

During the six months to 30 June 2011, NEDL distributed electricity to customers in its distribution services area and continued to target its investment strategy at delivering improvements in the overall performance of its electricity distribution network in an efficient and cost-effective manner. NEDL's capital expenditure programme included activities to refurbish, replace and construct assets such as substations, transformers, switchgear, overhead and underground cables and associated equipment. IUS continued to operate its engineering contracting business, including the provision of connections services to electricity distribution networks.

NEDL's priorities during the six-month period to June 2011 continued to include reducing the average level of fault repair work in progress, introducing improvements in field response and supply restoration times and in the management of intermittent faults, implementing enhanced controls for outage risk management and adopting a more robust approach to the control of operations on the low voltage network.

NEDL formally implemented new electricity connections guaranteed standards of performance in October 2010 and performance in respect of meeting those standards continued to be positive in the six-month period to June 2011.

IUS continued to experience challenging trading conditions in the six-month period to June 2011, with the prevailing economic environment increasing competition in the contracting market. IUS is reviewing its ongoing cost base in light of this situation.

INTERIM MANAGEMENT REPORT (CONTINUED)**Operations (continued)**

In respect of its key customer service performance indicators, NEDL's reported performance for the regulatory year ended 31 March 2011 was better than target in respect of Customer Interruptions ("CI") and Customer Minutes Lost ("CML") but did not meet the Customer satisfaction target. That performance was as follows:

	Year to 31 March 2011		Year to 31 March 2010	
	Actual	Target	Actual	Target
CML:	71.1	71.3	68.8	67.4
CI:	65.2	68.3	62.3	74.5
Customer satisfaction:	86.6%	90.0%	91.2%	90.0%

The safety of its employees continued to be of paramount importance to the Group, with the on-going focus being on the goal that no employees should be injured during their working time.

In this respect, performance in the six months to 30 June 2011 continued to exceed the industry average while falling short of the CE Electric UK Funding Company group of companies (the "CE Group")'s goals in certain areas. During that time, the Group experienced two lost time accidents (six months to 30 June 2010: 3), against an annual target of three for the CE Group and six preventable vehicle accidents (six months to 30 June 2010: 2) against an annual target of 26 for the CE Group. Work continues to reduce the accident rates, with the lessons learned from such incidents being incorporated into the CE Group's safety improvement plan and road risk management programme. As a result of the CE Group's continued commitment to improving its safety performance, it remains a leading safety performer in its sector.

In 2011 NEDL received a President's Award from the Royal Society for the Prevention of Accidents for achieving ten consecutive Gold Awards, which have been presented in recognition of achievements in 2010 and continued or improving standards of health and safety over a sustained period, and continued to maintain its occupational health and safety management system and retain OHSAS 18001 certification.

Results for the six months ended 30 June 2011

The half-yearly accounts for the six months ended 30 June 2011 consolidate the results of the Company and its subsidiaries and are prepared under International Financial Reporting Standards. The half-yearly accounts do not comprise statutory accounts required to be delivered to the Registrar of Companies under the Companies Act 2006 and have not been subject to audit or review by the Group's auditors. The Group will deliver its statutory accounts for the current financial year ending on 31 December 2011 to the Registrar of Companies by 30 April 2012.

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INTERIM MANAGEMENT REPORT (CONTINUED)

A summary of the key financial results is set out below:

Key financials

Revenue

Revenue at £147.0m was £6.6m higher than for the six months ended 30 June 2010 mainly due to higher distribution tariffs, partly offset by a reduction in engineering contracting revenues.

Cash flow

Cash and cash equivalents as at 30 June 2011 were £231.5m, representing an increase of £164.3m when compared with the position at 31 December 2010, mainly due to the drawdown of loans from the European Investment Bank in January 2011.

The Group has access to short-term borrowing facilities provided by Yorkshire Electricity Group plc, a related party, and to committed revolving credit facilities of £75.0m provided by Lloyds TSB Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc.

Financial position

Profit before tax at £61.4m was £6.5m higher than the six months ended 30 June 2010 mainly as a result of increased revenues.

Dividends

No ordinary dividends were paid in the period resulting in £50.6m being transferred to reserves.

Related party transactions

The Company provides certain corporate functions to the CE Group, including financial and management accounting, financial planning, treasury, taxation, procurement, pensions, internal audit, legal advice, insurance management, claims handling and litigation services. Further details of the related party transactions entered into by the Group and the Company and changes therein are included in Note 3 to this interim management report.

Pensions

The Company is the principal employer of the Northern Electric Group of the Electricity Supply Pension Scheme (the "Scheme"), a defined benefit scheme.

The Company has been engaged with the Group Trustees of the Scheme in the triennial actuarial valuation process, as at 31 March 2010, in order to determine the funding position of the Scheme and the associated deficit repair arrangements. The actuarial valuation concluded that there was a shortfall of assets in the Scheme compared to the value of accrued benefits of £275m.

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INTERIM MANAGEMENT REPORT (CONTINUED)

Pensions (continued)

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

As part of the DPCR5 process, Ofgem recognised that pensions, particularly with respect to the current deficit positions of various schemes, represent a significant cost to the distribution network operators ("DNOs") and confirmed that the 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 their regulated revenues.

Risks and uncertainties

Regulation

One of the principal risks facing NEDL relates to possible changes in its allowed income as a result of modifications to the price control formulae that are set out within the special conditions of the electricity distribution licence. However, all of the changes to those special conditions required to give effect to Ofgem's final proposals in respect of DPCR5 were agreed and implemented with effect from 1 April 2010 for the five-year period ending on 31 March 2015. Given the regulatory environment in which NEDL operates, the financial risks to NEDL during the term of the price control, are that changes in most categories of cost incurred by NEDL will have a direct impact on its financial results.

Financial

The principal risks associated with the regulatory environment, within which NEDL operates are mentioned above. As IUS' business is primarily in the competitive engineering contracting market, it continues to be subject to the issues created by the general economic downturn and associated trading conditions. Consequently, demand for IUS' multi-utility service has varied more significantly than in previous years and there is an enhanced risk of counter-party default, with the associated increase in the potential for IUS to be exposed to bad debt. It is anticipated that these conditions will continue for the remainder of 2011.

The Group addresses interest rate risk by having a policy of providing a stable, low cost of financing over time whilst observing approved risk parameters being financed by long-term borrowings at fixed rates and having access to short-term borrowing facilities at floating rates of interest.

Having entered into an agreement with the European Investment Bank ("EIB") on 2 July 2010, under which EIB provided NEDL with a credit facility of £119m, 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%. The financial obligations of NEDL under this contract are guaranteed by CE Electric UK Funding Company.

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INTERIM MANAGEMENT REPORT (CONTINUED)

Risks and uncertainties (continued)

Financial (continued)

As at 30 June 2011, 100% of the Group's borrowings were at fixed rates and the average maturity for these borrowings was 17 years. Despite this position, the Group remains mindful of the current economic climate and the associated potential impact on the cost of its short-term borrowings. No material currency risks are faced by the Group and it is policy that no trading in financial instruments should be undertaken.

Further information on the principal long term risks and uncertainties and the internal control system are included in the Company's latest annual report for the year to 31 December 2010, which is available at www.ce-electricuk.com.

Going concern

In the Company's latest annual report and accounts for the year to 31 December 2010 the directors set out a number of factors taken into account when considering continuing to adopt the going concern basis in preparing those annual report and accounts and would confirm that no events have occurred during the six months to 30 June 2011 to alter the view expressed in those annual report and accounts.

Future strategy and objectives

The Company will continue to develop its business as a holding company in a manner that concentrates on the Group's 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 its electricity distribution system with the aim of improving the quality of supply and service provided to its customers. The majority of NEDL's distribution revenues for the period to 31 March 2015 have been set by Ofgem.

IUS will look to develop further its engineering contracting business by delivering a high standard of service to its existing clients and pursuing opportunities in other sectors.

Responsibility Statement

We confirm that to the best of our knowledge:

- (a) the condensed set of financial statements has been prepared in accordance with IAS 34, "Interim Financial Reporting", and gives a true and fair view of the assets, liabilities, financial position and profit of the Group for the six months to 30 June 2011;
- (b) the interim management report contains a fair review of the information required by DTR 4.2.7 (indication of important events during the first six months of the year and description of the principal risks and uncertainties for the remaining six months of the year); and

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INTERIM MANAGEMENT REPORT (CONTINUED)

Responsibility Statement (continued)

- (c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the board

A handwritten signature in black ink, appearing to read 'P A Jones', with a stylized flourish at the end.

P A Jones
Director
19 August 2011

NORTHERN ELECTRIC plc**REGISTERED NUMBER: 2366942****CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2011****CONSOLIDATED INCOME STATEMENT**

	6 Months ended 30 June 2011 Unaudited £m	6 Months ended 30 June 2010 Unaudited £m	Year ended 31 December 2010 Audited £m
Revenue	147.0	140.4	288.6
Cost of sales	<u>(11.6)</u>	<u>(17.3)</u>	<u>(29.2)</u>
Gross profit	135.4	123.1	259.4
Distribution costs	(30.9)	(30.0)	(74.1)
Administrative expenses	<u>(25.4)</u>	<u>(22.8)</u>	<u>(31.7)</u>
Operating profit	79.1	70.3	153.6
Share of profit after tax of joint venture accounted for using the equity method	0.2	0.2	0.3
Other gains	-	0.1	0.3
Finance income	0.8	0.7	2.0
Finance costs	<u>(18.7)</u>	<u>(16.4)</u>	<u>(33.9)</u>
Profit before tax	61.4	54.9	122.3
Income tax expense	<u>(10.8)</u>	<u>(16.6)</u>	<u>(25.1)</u>
Profit from ordinary activities after tax	<u>50.6</u>	<u>38.3</u>	<u>97.2</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME - SIX MONTHS ENDED 30 JUNE 2011

There is no other comprehensive income for the Group for the six months to 30 June 2011, the comparative six month period in 2010 or the year ended 31 December 2010, other than the profits reported above.

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CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2011

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital £m	Share Premium Account £m	Capital Redemption Reserve £m	Retained Earnings £m	Total Equity £m
Balance at 1 January 2011 (audited)	72.2	158.8	6.2	453.2	690.4
Comprehensive income for the period (unaudited)	-	-	-	50.6	50.6
Balance at 30 June 2011 (unaudited)	<u>72.2</u>	<u>158.8</u>	<u>6.2</u>	<u>503.8</u>	<u>741.0</u>

	Share Capital £m	Share Premium Account £m	Capital Redemption Reserve £m	Retained Earnings £m	Total Equity £m
Balance at 1 January 2010 (audited)	72.2	158.8	6.2	416.0	653.2
Comprehensive income for the period (unaudited)	-	-	-	38.3	38.3
Balance at 30 June 2010 (unaudited)	<u>72.2</u>	<u>158.8</u>	<u>6.2</u>	<u>454.3</u>	<u>691.5</u>

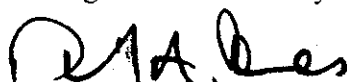
	Share Capital £m	Share Premium Account £m	Capital Redemption Reserve £m	Retained Earnings £m	Total Equity £m
Balance at 1 January 2010 (audited)	72.2	158.8	6.2	416.0	653.2
Dividends	-	-	-	(60.0)	(60.0)
Comprehensive income for the year (audited)	-	-	-	97.2	97.2
Balance at 31 December 2010 (audited)	<u>72.2</u>	<u>158.8</u>	<u>6.2</u>	<u>453.2</u>	<u>690.4</u>

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2011 Unaudited £m	30 June 2010 Unaudited £m	31 December 2010 Audited £m
Non-current assets			
Property, plant and equipment	1,468.2	1,391.8	1,439.9
Intangibles	3.9	4.1	4.0
Investments in joint venture	3.1	3.1	3.2
Investments in other companies	0.1	0.1	0.1
Retirement benefit asset	175.2	143.4	158.3
Trade and other receivables	4.6	4.9	4.6
	<u>1,655.1</u>	<u>1,547.4</u>	<u>1,610.1</u>
Current assets			
Inventories	12.2	12.0	10.3
Trade and other receivables	43.8	47.2	51.2
Cash and cash equivalents	231.5	188.9	67.2
	<u>287.5</u>	<u>248.1</u>	<u>128.7</u>
Total assets	<u>1,942.6</u>	<u>1,795.5</u>	<u>1,738.8</u>
Current liabilities			
Trade and other payables	(86.9)	(64.7)	(61.0)
Current income tax liabilities	(13.8)	(10.4)	(14.5)
Deferred revenue	(14.1)	(12.7)	(13.4)
Borrowings	(12.3)	(73.3)	(9.7)
Provisions	(1.5)	(1.2)	(2.1)
	<u>(128.6)</u>	<u>(162.3)</u>	<u>(100.7)</u>
Net current assets	<u>158.9</u>	<u>85.8</u>	<u>28.0</u>
Non-current liabilities			
Borrowings	(468.6)	(349.6)	(349.5)
Deferred income tax liabilities	(176.4)	(183.4)	(177.9)
Retirement benefit obligations	(1.4)	(1.4)	(1.4)
Deferred revenue	(425.2)	(405.6)	(417.5)
Provisions	(1.4)	(1.7)	(1.4)
	<u>(1,073.0)</u>	<u>(941.7)</u>	<u>(947.7)</u>
Total liabilities	<u>(1,201.6)</u>	<u>(1,104.0)</u>	<u>(1,048.4)</u>
Net assets	<u>741.0</u>	<u>691.5</u>	<u>690.4</u>
EQUITY			
Share capital	72.2	72.2	72.2
Share premium account	158.8	158.8	158.8
Retained earnings	503.8	454.3	453.2
Other reserves	6.2	6.2	6.2
Total equity	<u>741.0</u>	<u>691.5</u>	<u>690.4</u>

The interim accounts were approved by the board of directors and authorised for issue on 19 August 2011 and were signed on its behalf by:



P A Jones, Director

NORTHERN ELECTRIC plc**REGISTERED NUMBER: 2366942****CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2011****CONSOLIDATED CASH FLOW STATEMENT**

	6 Months ended 30 June 2011 Unaudited £m	6 Months ended 30 June 2010 Unaudited £m	Year ended 31 December 2010 Audited £m
Net cash from operating activities	<u>77.9</u>	<u>54.2</u>	<u>100.8</u>
Investing activities			
Dividends received from joint venture	0.3	0.4	0.4
Proceeds from disposal of property, plant and equipment	0.1	0.1	0.6
Purchase of property, plant and equipment	(56.9)	(58.5)	(120.8)
Purchase of intangible assets	(0.8)	(0.2)	(0.8)
Receipt of customer contributions	<u>24.7</u>	<u>19.7</u>	<u>37.9</u>
Net cash used in investing activities	<u>(32.6)</u>	<u>(38.5)</u>	<u>(82.7)</u>
Financing activities			
Movement in loan from parent undertaking	-	-	1.2
Movement in external loans	119.0	31.8	(33.5)
Equity dividends paid	<u>-</u>	<u>-</u>	<u>(60.0)</u>
Net cash generated from/(used in) financing activities	<u>119.0</u>	<u>31.8</u>	<u>(92.3)</u>
Net increase/(decrease) in cash and cash equivalents	164.3	47.5	(74.2)
Cash and cash equivalents at beginning of period	<u>67.2</u>	<u>141.4</u>	<u>141.4</u>
Cash and cash equivalents at end of period	<u>231.5</u>	<u>188.9</u>	<u>67.2</u>

NORTHERN ELECTRIC plc**REGISTERED NUMBER: 2366942****CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2011****NOTES TO THE ACCOUNTS****1. REVENUE AND SEGMENTAL ANALYSIS**

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

	6 months ended 30 June 2011 (Unaudited)				Total £m
	Distribution £m	Engineering Contracting £m	Other £m	Consolidation Adjustments £m	
REVENUE					
External sales	135.6	9.1	2.3	-	147.0
Inter-segment sales	0.2	-	3.5	(3.7)	-
Total Revenue	<u>135.8</u>	<u>9.1</u>	<u>5.8</u>	<u>(3.7)</u>	<u>147.0</u>
SEGMENT RESULTS					
Operating profit	<u>63.6</u>	<u>(0.5)</u>	<u>1.7</u>	<u>14.3</u>	79.1
Share of profit after tax of joint venture accounted for using the equity method					0.2
Other gains					-
Finance income					0.8
Finance costs					<u>(18.7)</u>
Profit before tax					<u>61.4</u>
OTHER INFORMATION					
Capital additions	54.3	-	-	(1.2)	53.1
Depreciation and amortisation	25.9	-	-	(0.4)	25.5
Amortisation of deferred revenue	<u>(7.2)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7.2)</u>

“Other” comprises business support units such as head office overheads. Consolidation Adjustments includes the elimination of inter-segment trading and pension accounting adjustments.

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

External sales to RWE Npower plc of £40.9m are included within the Distribution Segment.

NORTHERN ELECTRIC plc**REGISTERED NUMBER: 2366942****CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2011****NOTES TO THE ACCOUNTS (CONTINUED)****1. REVENUE AND SEGMENTAL ANALYSIS (CONTINUED)**

	6 months ended 30 June 2010 (Unaudited)				
	Distribution	Engineering Contracting	Other	Consolidation Adjustments	Total
	£m	£m	£m	£m	£m
REVENUE					
External sales	121.7	16.2	2.5	-	140.4
Inter-segment sales	0.2	-	3.7	(3.9)	-
Total Revenue	<u>121.9</u>	<u>16.2</u>	<u>6.2</u>	<u>(3.9)</u>	<u>140.4</u>
SEGMENT RESULTS					
Operating profit	<u>54.2</u>	<u>0.4</u>	<u>1.5</u>	<u>14.2</u>	70.3
Share of profit after tax of joint venture accounted for using the equity method					0.2
Other gains					0.1
Finance income					0.7
Finance costs					<u>(16.4)</u>
Profit before tax					<u>54.9</u>
OTHER INFORMATION					
Capital additions	56.3	-	-	(3.8)	52.5
Depreciation and amortisation	23.9	0.1	-	(1.0)	23.0
Amortisation of deferred revenue	<u>(6.1)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6.1)</u>

“Other” comprises business support units such as head office overheads. Consolidation Adjustments includes the elimination of inter-segmental trading and pension accounting adjustments.

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

External sales to RWE Npower plc of £39.6m are included within the Distribution Segment. External sales of £6.8m to E.ON are included within the Engineering Contracting Segment.

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2011

NOTES TO THE ACCOUNTS (CONTINUED)

1. REVENUE AND SEGMENTAL ANALYSIS (CONTINUED)

	Year ended 31 December 2010 (Audited)				
	Distribution	Engineering Contracting	Other	Consolidation Adjustments	Total
	£m	£m	£m	£m	£m
REVENUE					
External sales	257.0	26.0	5.6	-	288.6
Inter-segment sales	0.6	-	6.3	(6.9)	-
Total revenue	<u>257.6</u>	<u>26.0</u>	<u>11.9</u>	<u>(6.9)</u>	<u>288.6</u>
SEGMENT RESULTS					
Operating profit	<u>122.0</u>	<u>0.4</u>	<u>2.8</u>	<u>28.4</u>	153.6
Share of profit after tax of joint venture accounted for using the equity method					0.3
Other gains					0.3
Finance income					2.0
Finance costs					<u>(33.9)</u>
Profit before tax					<u>122.3</u>
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	<u>(12.4)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12.4)</u>

“Other” comprises business support units such as head office overheads. Consolidation Adjustments includes the elimination of inter-segmental trading and pension accounting adjustments.

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

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

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2011

NOTES TO THE ACCOUNTS (CONTINUED)

1. REVENUE AND SEGMENTAL ANALYSIS (CONTINUED)

The accounting policies of the reportable segments are the same as the Group's accounting policies which are described in the Group's latest annual financial statements. The segment results represent the profit earned by each segment without allocation of the share of profits of joint ventures, finance income and finance costs, and income tax expense. This is the measure reported to the Group's President and Chief Operating Officer for the purposes of assessment of segment performance.

Segment net assets

	30 June 2011 £m	30 June 2010 £m	31 December 2010 £m
	Unaudited	Unaudited	Audited
Distribution	1,044.7	1,012.1	1,052.5
Engineering contracting	3.9	0.5	3.1
Other	245.9	228.9	218.7
Consolidation Adjustments	(113.9)	(122.0)	(99.5)
Total net assets by segment	1,180.6	1,119.5	1,174.8
Unallocated net corporate liabilities	(439.6)	(427.8)	(484.4)
Total net assets	741.0	691.7	690.4

Segment assets in "Other" include investments held by Northern Electric plc in its subsidiary companies totaling £203.1m (June 2010: £203.1m, December 2010: £203.1m), which are eliminated in Consolidation Adjustments.

Consolidation Adjustments also include a £15.8m credit to operating profit (June 2010: £13.7m, December 2010: £27.4m), the recognition of the £175.2m retirement benefit asset (June 2010: £143.4m, December 2010: £158.3m) and a £23.8m reduction in cumulative capitalised costs (June 2010: £22.0m, December 2010: £23.0m) as a consequence of the Distribution and Engineering Contracting divisions accounting for retirement benefits on a cash accrued basis.

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

For the purposes of monitoring segment performance and allocating resources between segments, the Group's President and Chief Operating Officer monitors the tangible, intangible and financial assets attributable to each segment. All assets and liabilities are allocated to reportable segments with the exception of long-term and short-term borrowings and current and deferred tax balances.

NOTES TO THE ACCOUNTS (CONTINUED)

2. INCOME TAX EXPENSE

	6 months ended 30 June 2011 Unaudited £m	6 months ended 30 June 2010 Unaudited £m	Year ended 31 December 2010 Audited £m
Current tax	12.3	15.4	26.9
Deferred tax	(1.5)	3.5	(2.0)
Adjustment in relation to prior periods	-	(2.3)	0.2
Total income tax expense	10.8	16.6	25.1

The underlying tax for the interim period is calculated by applying the effective average tax rate of 27% on profit before preference dividends accrued.

The Finance Act 2011 includes a provision that the standard rate of corporation tax in the United Kingdom will reduce from 27% to 26% from April 2011. Accordingly, this rate has been applied when calculating deferred tax assets and liabilities throughout the Group as at 30 June 2011.

Preference dividends are included within finance costs.

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CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2011

NOTES TO THE ACCOUNTS (CONTINUED)

3. RELATED PARTY TRANSACTIONS

GROUP

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

Loans

The Group has made loans to companies in the CE Group. The total interest included in finance income in the income statement for the six months ended 30 June 2011 was £0.8m (six month ended 30 June 2010: £0.7m, year ended 31 December 2010: £1.6m). Included within cash and cash equivalents is £231.5m as at 30 June 2011 (30 June 2010: £188.9m, 31 December 2010: £67.2m) in respect of these loans.

The Group has received loans from companies in the CE Group. The total interest included in finance costs in the income statement for the six months ended 30 June 2011 was £5.9m (six months ended 30 June 2010: £11.3m, year ended 31 December 2010: £7.8m). Included within borrowings is £102.9m as at 30 June 2011 (30 June 2010: £173.2m, 31 December 2010: £102.6m) in respect of these loans.

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

NOTES TO THE ACCOUNTS (CONTINUED)

3. RELATED PARTY TRANSACTIONS (CONTINUED)

GROUP (CONTINUED)

Trading transactions

During the year, Group entities entered into the following trading transactions with related parties that are not members of the Group:

Related Party	Sales to Related Party £m	Purchases from Related Party £m	Amounts Owed to Related Party £m
June 2011:			
CE Insurance Services Limited	-	0.3	-
CE UK Gas Holdings Limited	0.1	-	-
Integrated Utility Services Limited (Registered in Eire)	-	0.5	0.1
Vehicle Lease and Service Limited	-	1.6	0.1
Yorkshire Electricity Distribution plc	9.7	3.9	-
June 2010:			
CE Insurance Services Limited	-	0.3	-
CE UK Gas Holdings Limited	0.1	-	-
Integrated Utility Services Limited (Registered in Eire)	-	0.5	0.1
Vehicle Lease and Service Limited	-	1.5	0.1
Yorkshire Electricity Distribution plc	8.1	3.6	-

NOTES TO THE ACCOUNTS (CONTINUED)

3. RELATED PARTY TRANSACTIONS (CONTINUED)

GROUP (CONTINUED)

Trading transactions (Continued)

Related Party	Sales to Related Party £m	Purchases from Related Party £m	Amounts Owed to Related Party £m
December 2010:			
CE Insurance Services Limited	-	0.5	-
CE UK Gas Holdings Limited	0.3	-	-
Integrated Utility Services Limited (Registered in Eire)	-	1.1	0.1
Vehicle Lease and Service Limited	0.1	3.1	0.3
Yorkshire Electricity Distribution plc	16.8	7.6	-
	<hr/>	<hr/>	<hr/>

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

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

During 2010, 3 directors (30 June 2010: 3, 31 December 2010: 3) and 8 key personnel (30 June 2010: 8, 31 December 2010: 8) utilised the services provided by Northern Transport Finance Limited, a company in the Group.

The amounts included in finance lease receivables owed by these directors and key personnel total £0.1m (30 June 2010: £0.1m, 31 December 2010: £0.1m) in respect of non-current receivables and £0.1m (30 June 2010: £0.1m, 31 December 2010: £0.1m) in respect of current receivables.

NORTHERN ELECTRIC plc

REGISTERED NUMBER: 2366942

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NOTES TO THE ACCOUNTS (CONTINUED)

3. RELATED PARTY TRANSACTIONS (CONTINUED)

COMPANY

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

Loans

The Company has made loans to companies in the CE Group. The total interest included in finance income in the income statement for the period ended 30 June 2011 was £0.4 (six months ended 30 June 2010: £0.5m, year ended 31 December 2010: £1.1m). Included within cash and cash equivalents is £148.9m as at 30 June 2011 (30 June 2010: £94.9m, 31 December 2010: £62.7m) in respect of these loans.

The Company has received loans from companies in the CE Group. The total interest included in finance costs in the income statement for the period ended 30 June 2011 was £nil (six months ended 30 June 2010: £nil, year ended 31 December 2010: £1.5m). Included within borrowings is £nil as at 30 June 2011 (30 June 2010: £nil, 31 December 2010: £nil) in respect of these loans.

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

Trading transactions

During the year, the Company entered into the following trading transactions with other members of the CE Group:

NOTES TO THE ACCOUNTS (CONTINUED)

3. RELATED PARTY TRANSACTIONS (CONTINUED)

COMPANY (CONTINUED)

Related Party	Sales to Related Party £m	Purchases from Related Party £m	Dividends received from Related Party £m
June 2011:			
CE UK Gas Holdings Limited	0.2	-	-
Integrated Utility Services Limited	0.2	-	-
Northern Electric Distribution Limited	1.6	0.1	-
Vehicle Lease and Service Limited	-	-	0.3
Yorkshire Electricity Distribution plc	1.7	-	-
June 2010:			
CE UK Gas Holdings Limited	0.1	-	-
Integrated Utility Services Limited	0.2	-	-
Northern Electric Distribution Limited	1.6	0.1	-
Northern Electric Properties Limited	0.1	0.1	-
Vehicle Lease and Service Limited	-	-	0.4
Yorkshire Electricity Distribution plc	1.7	-	-

NOTES TO THE ACCOUNTS (CONTINUED)

3. RELATED PARTY TRANSACTIONS (CONTINUED)

COMPANY (CONTINUED)

Related Party	Sales to Related Party £m	Purchases from Related Party £m	Dividends received from Related Party £m
December 2010:			
CE UK Gas Holdings Limited	0.3	-	-
Integrated Utility Services Limited	0.1	-	0.8
Northern Electric Distribution Limited	4.8	0.2	20.0
Vehicle Lease and Service Limited	-	-	0.4
Yorkshire Electricity Distribution plc	3.2	-	-

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

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

No dividends were received from Integrated Utility Services Limited in the period to June 2011.

4. ACCOUNTING POLICIES

The Group's accounting policies are the same as the accounting policies which are described in the Group's latest annual report and accounts for the year to 31 December 2010.