NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

REPORT & ACCOUNTS
TO 31 DECEMBER 2009

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

REPORT AND ACCOUNTS TO 31 DECEMBER 2009

CONTENTS

REGISTERED NUMBER 2366942

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

DIRECTORS' REPORT

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.

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 2009, which includes the business review and audited financial statements for that year. Pages 1 to 30 inclusive of this annual report comprise a directors' report that has been drawn up and presented in accordance with the Companies Act 2006.

PRINCIPAL ACTIVITIES

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, receives electricity from the National Grid's transmission system and distributes it to approximately 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 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 the 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.

The CE Group operates a business model and strategy based on its six core principles (the "Core Principles"), which remain consistent and are:

Principle	Strategy	Indicator
Financial strength	Effective stewardship of the Group's financial resources, investing in assets and focusing on long-term opportunities, which contribute to the CE Group's future strength.	Profitability. Cash flow. Maintenance of investment grade credit ratings.

PRINCIPAL ACTIVITIES (continued)

Principle	Strategy	Indicator
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 CE Group's operations and system investment, operation and maintenance.	Effective asset management. Managing commercial risk. Improving network resilience and performance.
Employee commitment	Equipping employees with the resources and skills they need to operate successfully and in a safe and rewarding environment.	Leading safety performer. Engaging employees. Effective leadership.
Environmental respect	Using natural resources wisely and protecting the environment, where it is impacted by the CE Group's operations.	Reducing environmental impact. 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. 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. Adherence to its strategy and the Core Principles enabled the Group to deliver a satisfactory financial performance against the challenging economic environment, which persisted throughout 2009, including the highest reduction in the number of units distributed across NEDL's network for a number of years and a significant impact on IUS' earnings.

BUSINESS REVIEW

Review of the year

The performance of the Group during the year was considered to be solid, with NEDL's financial performance meeting the challenges of the year, assisted by a strong cost control and mitigation exercise, customer service performance improving in the call centre with the introduction of a new inter-active voice recognition system and a significant reduction being achieved in the relation to the work in progress to repair faults on the distribution network. Disappointingly, those incidents classified as preventable vehicle accidents increased during the year and the Group failed to meet its targets in respect of lost time accidents, medical treatment accidents and operational incidents. In addition, a single network fault early in 2009 resulted in NEDL's guaranteed standards of performance failures being in excess of those experienced in 2008.

During the year, NEDL distributed electricity to customers in its distribution services area, as defined in its electricity distribution licence, and continued to improve the overall performance of its distribution network through an investment strategy being targeted at delivering improvements in an efficient and cost-effective manner.

During 2009, NEDL was fully engaged with the Office of Gas and Electricity Markets ("Ofgem") in the Distribution Price Control Review 5 ("DPCR5") process, which culminated on 7 December 2009 with Ofgem publishing its final proposals in respect of the price control formula that will take effect for the five-year period commencing 1 April 2010. That process involved submission of NEDL's detailed business plans in February 2009, the publication by Ofgem of an initial set of proposals on 3 August 2009 and continuing subsequent dialogue between NEDL and Ofgem throughout the remainder of the year. Following detailed analysis, NEDL advised Ofgem, on 23 December 2009, that it was accepting its final proposals.

Review of the year (continued)

Under its final proposals for DPCR5, Ofgem set a 4.7 per cent 'vanilla' weighted average cost of capital, which equates to 5.6 per cent pre-tax, in order to allow NEDL to fund its cost of debt and equity. NEDL was disappointed at the low level of the return on capital allowed but pleased that Ofgem recognised it as one of the more efficient distribution network operators ("DNOs").

NEDL was also pleased to see the focus in DPCR5 on rewarding DNOs for delivering high standards of customer service and providing the opportunity for outperforming Ofgem's baseline expenditure and performance targets. In addition, Ofgem has set out the "outputs" it expects NEDL to achieve and, as an incentive to provide better customer service, will introduce new, statutory guaranteed standards of performance in respect of connections to NEDL's network, more challenging targets for network reliability and a new measure of customer satisfaction with the service provided.

NEDL's charges based on the DPCR5 final proposals, together with a rebalancing of distribution charges between customer groups, mean that, on 1 April 2010, NEDL's charges made in relation to the distribution of electricity to domestic customers will increase by about 2.8%, or equivalent to about 0.4% on their electricity bills. Changes to the charges made in relation to non-domestic customers will vary more widely between different types of non-domestic customers.

2009 was a disappointing year for IUS with regards to the E.ON framework service provider contract worth £23.8m in revenue in 2009 (2008: £29.4m). With the existing contract due to expire in March 2010, E.ON made the decision to adopt an 'Alliance' delivery strategy from April 2010. IUS successfully pre-qualified and subsequently tendered for both the Infrastructure and New Connections Alliances. However, IUS was ultimately unsuccessful and will transfer activity to the new service providers at the end of March 2010. IUS will reduce headcount by approximately 50% as E.ON service staff transfer to the new service providers.

The year also provided IUS with an opportunity to extend its current relationship with Scottish Water for a further 10 years. IUS is currently operating in the South of Scotland but the new contract includes the potential to also work in the North of Scotland. The Scottish Water projects are delivered by the UK Contracting business stream and, although IUS experienced reduced revenues compared to 2009, margins remained stable. The downturn in order intake in UK Contracting as a result of the economic climate was also experienced in the Multi-Utility business stream, which is directly linked to the UK housing market. Although this area was extremely challenging in 2009, the final quarter saw the first indications of an upturn in enquiries and provides some grounds for optimism in 2010. The IUS Rail division had a promising year with an increase in order intake from £0.4m in 2008 to £4.2m in 2009. Within High Voltage Customer Service, IUS has continued to grow its maintenance and small works activity, with the Midlands and Scotland being target areas for new customers. Overall revenue in IUS reduced by £4.0m in comparison to 2008.

Strategic objectives

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

- continues to generate value over the long-term, in keeping with the nature of that business;
- 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.

Strategic objectives (continued)

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.

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 strength:

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 2005 and has set NEDL's revenue through to 31 March 2010. 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.

The other financial strength risks facing the Company are outlined in the Treasury section on page 9 below.

Operational Risk

The principal risks in respect of the other Core Principles include:

Risk	Issue	Mitigation
Counter-party security (Financial Strength)	A counter-party with which the Group trades may go bankrupt causing loss of invested funds or amounts owing.	The treasury function has strict controls in respect of the counter-parties with which it deals, including the use of credit ratings and appropriate limits. Credit cover arrangements are in place with the electricity suppliers, which would allow recovery of defaulted payments through the price control mechanism, if good debt control practices continue to be followed.

Principal risks and uncertainties (continued)

Operational risk (continued):

Risk	Issue	Mitigation
Potential flooding and other weather related events. (Operational Excellence and Customer Service)	Recent weather patterns suggest a heightened risk of flooding of 'at risk areas' and the potential for increased occurrence of damage to the overhead network.	A robust major incident management plan is in place. The CE Group's critical property unit plan assesses those properties most at risk and a flood mitigation plan is in place, including the erection of permanent and temporary defences.
BT ESP analogue circuits (Operational Excellence)	Potential withdrawal of service puts existing communication arrangements at risk.	The CE Group is represented on the Energy Networks Association's working group, which is working with BT, the Cabinet Office, Ofgem and Ofcom to consider the issues. Options include retaining the equivalent service, potentially at higher than current cost or utilising an alternative solution.
Network risk posed by cables through the Tyne Tunnel (Operational Excellence and Environmental Respect)	The 66kV fluid-filled cables in the tunnel are aging with increased risk of failure, leading to a requirement for the substantial use of generating units and potential guaranteed standards failures and incentive penalties.	NEDL's Primary Engineering Projects team has implemented a solution and the new configuration is due to be commissioned in mid-2010.
Motor accident management (Employee Commitment and Regulatory Integrity)	Any significant road traffic accident involving a Group vehicle may create a liability, which the Group has to meet, and involve injury to employees and/or third parties.	The inclusion of road risk related issues in the CE Group's Safety Improvement Plan and the appointment of a dedicated road risk manager, together with improved reporting routines, has increased the focus on road safety.
Electricity Safety, Quality and Continuity Regulations 2002 (Employee Commitment and Regulatory Integrity)	The regulations impose various statutory obligations, non-compliance with which could lead to incidents, prosecution and claims.	A full site inspection and risk assessment regime is in place designed to ensure compliance.

Principal risks and uncertainties (continued)

Risk	Issue	Mitigation
Shortage of supply and increased demand for copper (Operational Excellence)	The global demand for copper has impacted the availability and cost of a number of core products and increased the risk of theft.	Improved and more efficient procurement processes have been introduced and security at all sites where copper products are stored has been reviewed and enhanced where required.
Influenza pandemic (Employee Commitment and Operational Excellence)	A pandemic may occur, substantially impacting on normal business operations.	A pandemic group was established and an action plan incorporated into the CE Group's existing crisis management and business continuity plans, which included information and practice obtained from liaison with government agencies, health professionals and occupational health experts.

A Compliance Assurance Programme Steering Group ("CAPSG") is in place, consisting of certain directors and senior managers of the CE Group, in order to provide oversight at a strategic level and steering of the CE Group's performance in respect of governance and its key facets of compliance and risk management.

The Company operates a structured and disciplined approach to the management of risk, as part of the overall risk management approach of the CE Group. Those risks assessed to be significantly high are logged within a risk register that is reviewed regularly by the CAPSG and key indicators track the number of significant risks actively monitored by the CAPSG at any one time.

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. 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 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's strategy is to follow an appropriate risk policy, which is intended to effectively manage exposures related to the achievement of its business objectives. 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. The Governance and Risk Section co-ordinates the risk and compliance activity, emphasising the CE Group's commitment to maintaining an appropriate risk and governance framework across the business.

The use of a well-defined risk management methodology allows a consistent and co-ordinated approach to risk reporting and mitigation.

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 Energy Holdings Company ("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 the other affiliates of 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.

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, and 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.

Financial strength

During 2009, the Group continued to improve its management of routine financial performance, implemented tighter expenditure controls through a 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.

In addition, representations were made to Ofgem, in accordance with the provisions set out in the electricity distribution licence, regarding certain categories of cost not fully taken into account when the current price control was set, effective from 1 April 2005, due to uncertainties at that time regarding the amount and materiality of those costs. After a due process of review Ofgem generally accepted those representations and agreed that NEDL was able to recover approximately £18m, in addition to the otherwise agreed principles for calculating its allowed revenue, over the three regulatory years starting on 1 April 2009 and ending on 31 March 2012. The price control was adjusted accordingly to enable recovery of the £18 million in future periods.

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

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

Revenue

The Group's revenue at £276.6m was £5.4m higher than the prior year representing an increase in income from the electricity distribution network as a result of tariff increases partly offset by lower units distributed. There was also a reduction in IUS' revenue of £4.0m as a result of a reduction in activity on its major contracts in the year.

Operating profit

The Group's operating profit at £123.9m was £9.8m lower than the previous year mainly due to higher electricity distribution revenue which was offset by an increase in pension costs of £17.4m.

Financial strength (continued)

Finance costs and investment income

Finance costs, net of investment income, at £29.4m were £4.6m higher than the prior year as a result of lower interest receivable on variable rate loans made to companies within the CE Group.

Taxation

The effective tax rate in the current year is 28.7%. The Group's taxation charge in the prior year was affected by changes in tax legislation and tax rates and the settlement of prior period capital gains. Details are provided in Note 9 to the accounts.

Results and dividends

The Group made a profit after tax for the year of £67.8m. The directors recommend that no final dividend be paid in respect of the year. An interim dividend was not paid during the year. No shareholder has agreed to waive future dividends.

Share capital and debt structures

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

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.

Cash flow

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

Movements in cash flows were as follows:

- *Operating activities*: Cash flow from operating activities at £74.0m was £9.8m lower than 2008, mainly due to an adverse variance on working capital and increases in tax and net interest paid compared to the prior year.
- *Investing activities*: Net cash used in investing activities at £102.9m was broadly in line with the prior year and reflects the net effect of a reduction in both capital additions and receipts of capital contributions from customers. This reflects a downturn in new connections to the network compared to 2008.
- *Financing activities*: The net cash used in financing activities at £11.7m represents a £36.3m adverse variance on the prior year, reflecting the repayment of short-term borrowings during the year.

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.

Financial strength (continued)

Liquidity risk

The Group has access to short-term borrowing facilities provided by YEG. NEDL has access to a £50m committed revolving credit facility provided by Lloyds TSB Bank plc and Royal Bank of Scotland plc and an additional overdraft facility of £2m provided by Lloyds TSB Bank plc, which is renewed on an annual basis. Although the revolving credit facilities are due to expire in April 2010, the Group has commitments in place to increase those facilities to £75m with Lloyds TSB Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc, part of the Banco Santander group, for a three year period.

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 2009, 90% of the Group's borrowings were at fixed rates and the average maturity for these borrowings was 22 years.

Currency risk

There are no material currency risks 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 2009 and during the year it was the Company's policy not to hold any derivative financial instruments.

Pensions

The Company is the Principal Employer in 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 27 to the accounts. During 2010, the Company will be engaged with the Group Trustees in the triennial actuarial valuation process, which is to take place as at 31 March 2010, in order to determine the funding position of the Scheme and the associated deficit repair arrangements.

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. That review included the issue of three consultation documents and the holding of three seminars for interested parties and, as a result, Ofgem confirmed that the DNOs would be allowed to recover the full value of the deficits attributable to the licensee's distribution business that were in existence as at 31 March 2010, via their 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 its sponsoring employer, 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.

Pensions (continued)

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 put 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 its distribution network through its investment strategy being 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. During the year, a significant number of tangible improvements have been identified and delivered as part of the overall goal to improve customer satisfaction with the service provided, including:

- implementing a new interactive voice response system into NEDL's front line call centre, which takes advantage of the latest developments in automatic messaging, in order to assist in the handling of customer loss of supply calls;
- improving the accuracy of network fault estimated restoration times inputted to the trouble management system and, consequently, communicated to customers;
- implementing a new complaint handling process to ensure robust compliance with the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008 and to meet the target of in excess of 90% of complaints being resolved at the initial point of contact;
- continuing to improve under-performing parts of the distribution system by identifying "hot spots" and taking specific action to address the issues in those areas;
- extending 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; and
- undertaking a programme to reduce the number of instances by 5%, in which NEDL fails to meet an electricity guaranteed standard of performance.

NEDL's customer service satisfaction scores continued to show an improving trend through the year and in excess of 97% of complaints were resolved at the first time of asking. In that respect, developing the new telephony system for other customer facing processes will form a significant part of NEDL's customer service improvement plan in order to meet the target of a customer satisfaction score of greater than 90%.

Ofgem has established an incentive scheme for quality of service, by which DNOs, such as NEDL, are provided with financial incentives based upon targets set by Ofgem for each of the DNOs 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 service (continued)

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 NEDL's regular reporting to Ofgem.

In respect of the key customer service performance indicators, NEDL's performance for the regulatory year ended 31 March 2009 showed that it achieved the target for customer interruptions but failed on customer minutes lost, whilst narrowly failing to achieve the customer satisfaction target, as follows:

	Actual	Target
CML:	76.3 (2008: 70.5)	68.4 (2008: 69.5)
CI:	64.2 (2008: 66.3)	74.5 (2008: 74.5)
Customer satisfaction:	89.2% (2008: 88.6%)	90% (2008: 90%)

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 4 settlement. The customer service targets were not adjusted to take account of the effects of the representations made by NEDL and accepted by Ofgem, which are noted on page 8. Instead, the benefits arising from that decision were reflected in a favourable adjustment to NEDL's base allowed revenue. That position will continue until 31 March 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, £118.8m 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 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. Such actions are expected to have a positive impact on future CI and CML performance. The focus in 2009 was on delivering the core operational programmes, in particular the installation of remote control units and improving the lead times for fault repair work-in-progress.

That focus was designed to support the CE Group's goals in the area of operational excellence and to ensure that the distribution network is operated as well as possible. To that end, NEDL's priorities are to deliver an underlying improvement in the network's resilience, deal appropriately with any risks as and when they arise, plan its operational activity so as to operate within the planning assumptions for pre-arranged system unavailability and, while doing so, to pay close attention to the underlying cost. Consequently, NEDL has established five targets to enhance its performance in terms of operational excellence:

- Deliver enhancements to the network by adding intelligent reconfiguration capability, which includes the commissioning of additional rural and urban remote control units on the high voltage system and auto-sectionalisers in rural areas;
- Minimise abnormal running arrangements by maintaining a routine service level for fault repair work-in-progress on the high voltage network, building on the success in that respect during 2009;

Operational excellence (continued)

- Minimise the impact on costs and customer service by pursuing a "fix-first-time" approach on the low voltage network, which will further improve the level of fault repair work-in-progress;
- Enhance the operational availability of the installed remote control units by improving the level of work-in-progress of failure investigations, which will have a consequential benefit in respect of the successful operation of those units; and
- Complete the capital and maintenance work programmes, along with repair, connection and diversion work, within the pre-arranged interruption target.

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

- The completion of a project to replace existing 66kV and 11kV switchgear and reinforce the existing 66/11kV primary substation at Amberton Road in Hartlepool;
- The completion of a project to establish a new 66/11kV primary substation at Melrosegate in York;
- The completion of a project to replace the 66kV transformers at Carville substation in Newcastle;
- The completion of a project to reinforce system security at Bedale substation by undertaking 33kV circuit modifications and connecting a new 33kV outlet at Leeming Bar in North Yorkshire;
- The completion of the underground cables works associated with the final stage of the refurbishment of the Spennymoor to Skernside 66kV circuit in Durham;
- The completion of a major 33kV reinforcement project in Newcastle designed to meet demand growth and provide further system security in the area;
- The initiation of a major 132kV switchgear replacement project at Tynemouth in North Tyneside;
- Replacement of 35 units of high voltage outdoor switchgear;
- Replacement of 38 high voltage distribution substations;
- Replacement of 80 units of high voltage indoor switchgear;
- Refurbishment or rebuilding of 55km of high voltage overhead line;
- Refurbishment or rebuilding of 33km of low voltage overhead line;
- The upgrade and reinforcement of 5.3km of overhead line to address the quality of supply performance issues relating to those circuits; and
- The installation and commissioning of 300 new remote control sites.

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

Enduring Operating Model

During the year, a significant project was undertaken by the senior Field Operations team to reorganise NEDL's operating structure within that area of its business in order to provide the best possible foundation for optimum operational performance into the future. The management structure within Field Operations is based on seven individual business units, as follows:

Operational excellence (continued)

Enduring Operating Model (continued)

- 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;

- Operational Services includes contract management, business controls and administration and supply chain management; and

- Field Standards provides training, quality assurance, services standards and health and safety services across Field Operations.

Commercial risk

Managing commercial risk in the context of the difficult economic and financial trading conditions, which continued throughout 2009, was and will continue to be of key importance to the Group's operations. In that respect, the Group has, throughout the year, focused on ensuring strict adherence to the CE Group's policies for credit checking, payment terms, payment performance tracking and debt management.

During 2009, the CE Group completed the process of putting in place contracts in the commercially significant areas of IT facilities management and cable engineering services. A number of major IT suppliers responded to the tender for IT facilities management services and, following an extensive evaluation process, the new contract was awarded to Logica and will be effective from 1 April 2010 until 31 March 2015.

Following a similar tender exercise, contracts for the provision of cable engineering services were awarded to Balfour Beatty Utility Solutions, Clancy Docwra, the Freedom group of companies, J Murphy & Sons, Morrison Utility Services and Murphy Limited and are effective for the five year period to June 2014.

NEDL's relationship with its main customers is governed by a distribution connection and use of system agreement ("DCUSA"), which is place with each of those customers. Those customers are the electricity suppliers who, under the terms of the DCUSA with NEDL, pay charges for the use of the 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.

Employee commitment (continued)

Health and safety (continued)

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 fourth successive Gold Medal and IUS received its second consecutive 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:

	2009		2008	
	Target	Actual	Target	Actual
Lost time accidents	0	1	0	2
Medical treatment accidents	4	5	3	1
Operational incidents	4	5	3	8
Preventable vehicle accidents	13	20	10	18

Although safety performance against target was disappointing in certain areas during 2009, the Group is not complacent and continues to rigorously implement, review and adjust the safety improvement plan accordingly to deliver continuous improvement. In terms of preventable vehicle accidents the performance has been unacceptable and focus continues heavily on this area with implementation of a robust assessment and training plan aimed at changing behaviour and improving concentration skills. It is expected that this, together with the zero tolerance approach, should continue to deliver improvements in safety performance.

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

2009 was a particularly challenging year, given the external economic environment. In response, the CE Group introduced a programme of cost mitigation which was extended to the control of headcount and salary cost allocation.

Employee commitment (continued)

Employees (continued)

The CE Group has and will continue to place significant emphasis on the importance and application of high standards of management and performance in pursuit of its Core Principles and ensures that a level of consistency is adopted in doing so. In respect of emloyee relations, the CE Group and the trades unions continue to build 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 NEDL's 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.

The Group employed 1,322 staff at the end of December 2009 at various locations in the United Kingdom. (2008: 1,370).

Disabled employees

The Company is an equal opportunities employer and is committed to the criteria underpinning the Employment Service disability symbol. It is the CE Group's policy to provide disabled people with equal opportunities for employment, training, career development and promotion, having regard to their aptitudes and abilities. Should any member of staff become disabled during their employment, that member of staff would be retrained and redeployed, 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 2009, the CE Group introduced an additional means of communication in the form of regular broadcast briefings by the President and Chief Operating Officer using telephone conference call facilities. The broadcast briefings were used to provide employees with updates such as on the performance of the CE Group, progress in respect of DPCR5, organisational restructures and safety issues and performance.

Environmental respect

The 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 legal compliance, pollution prevention and continual improvement, and also the promotion of environmental awareness and best practice amongst the Group's staff and contractors.

NEDL has operated a United Kingdom Accreditation Service accredited scheme to the environmental management systems ("EMS") standard ISO 14001 since the late 1990s that is subject to regular six-monthly assessments by an external certification body in order to retain that status. The 2009 asessment was carried out by Lloyd's Register Quality Assurance in September with no major or significant non-conformances raised. The report concluded that a sound approach to the implementation, maintenance and improvement of a mature EMS had been demonstrated.

Environmental respect (continued)

NEDL delivered its targeted improvement in the key area of fluid-filled cable leakage, was compliant against the required streetworks performance standards under the Traffic Management Act and was fully compliant with all required Environmental Agency reporting obligations.

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

- A programme to enhance secondary containment provision for primary transformer sites to prevent oil leakage;
- A programme to enhance emergency response provision for primary transformer sites to mitigate oil leakage;
- Replacement of oil-filled circuit breakers with vacuum and sulphur hexafluoride (SF6) gas filled units at outdoor substations to reduce gas leakage;
- Improved monitoring and response measures with regard to the management of fluid-filled underground cable networks and the reduction of leakages;
- Installation of additional engineering controls where required to improve pollution prevention at strategic sites;
- Installation of underground cables using trenchless technology as opposed to open-cut excavations; and
- Environmental awareness training for all new start personnel and contractors, complemented by periodic refresher training for all staff.

Environmental respect (continued)

Sustainability

The CE 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 CE 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 NEDL's electricity distribution network.

The CE Group measures and publishes its own carbon footprint and has set a target of a reduction in its carbon footprint of 20 per cent by 2020. Actions taken during the course of the year to assist in meeting this target include fitting speed limiters to about a third of its vehicle fleet, the procurement of building energy management systems for its major office sites and a pilot project to recycle office waste at one of its non-operational sites.

In addition, Ofgem will be looking to NEDL to contribute to the sustainability agenda through more detailed reporting on the carbon footprint of its business, considering the use of better demand side management techniques to address network constraints and by the provision of simpler information to those parties interested in connecting local, embedded generation to the network.

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 CAPSG continued to monitor and manage 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, NEDL operates a regulatory compliance affirmation process, under which ownership of the approximately 1,170 regulatory obligations contained within the compliance database is currently assigned to some 49 owners in the CE Group. 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. NEDL's Regulation Manager reports to NEDL's board of directors on the outcome of each quarter's exercise.

The regulatory framework across the energy industry in the UK is undergoing a wholesale review, which could result in fundamental changes to the way the industry is regulated in the future. A significant part of that process is Ofgem's "RPI-X@20" project, which is specifically considering the way in which energy networks are regulated. NEDL has and will continue to take an active part in the debate, which ranges from the potential for new technologies, such as "smart" metering, and the increased use of micro and distributed generation to the low carbon agenda insofar as it applies to electricity distribution networks.

Other directors' report requirements

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 economy and aims to enhance its relationship through a wider involvement in the activities of and dialogue with the communities it serves.

As part of its customer service strategy, the Group engages directly with the communities it serves to create a dialogue on quality of supply issues, actions and investment planned to improve quality of supply, environmental and social implications of its operations and other opportunities to assist and engage in the life of the community. Where appropriate, this may include financial support for community projects. The Group has a targeted donations programme, focusing on its key priorities of support for youth, education and the environment, using both its own funds and income from trusts established with Community Foundations in Tyne and Wear, County Durham and Cleveland.

The CE Group is an active member of Business in the Community.

Charitable and political donations

During the year, charitable donations of £50,301 were made (2008: £34,649), principally to local charities serving the communities in which the Group operates. No contributions were made to political organisations (2008: nil).

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 were:

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

- 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;

- Contributing to the ongoing development of eligibility for and governance of the new Low Carbon Networks Fund, initiated by Ofgem, as a part of DPCR5. The Low Carbon Networks fund is intended to encourage innovation in terms of the technology used and the commercial and operational environments, in which the DNOs undertake their activities in order to contribute towards achieving a low or zero carbon position in the industry. NEDL will, therefore, be looking to develop its programme of research and development in order to provide opportunities to access that fund;

- Initial field trials of newly developed superconducting fault limiters have been successfully undertaken;

- The network deployment of a fault passage indicator system, reducing reaction time to network faults and minimising customer impact;

- Further developing a suite of health indices, for improved asset management, completing EHV cables and commencing work on poles and substations; and

- Continuing to support a project at Durham University to assess electrical network risk with the objective of improving decision making on network reinforcement and operation. A follow up project, investigating demand side management impacts on network risk, has also been developed.

DIRECTORS' REPORT (CONTINUED)

Supplier payment policy

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 2009 was 47 (2008: 65).

Future Developments

The financial position of the Group, as at the year end, is shown in the balance sheet on page 35 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 engineering contracting business by delivering a high standard of service to its existing clients and pursuing opportunities in the health, education, industrial, chemical and manufacturing sectors, while mitigating the risk associated with the loss of the E.ON contract.

Directors

The directors who served during the year and since the year end were as follows:

Gregory E Abel	President, MidAmerican Energy Holdings Company
P Eric Connor	Senior Vice President and Chief Procurement Officer, MidAmerican Energy Holding Company (resigned 16 October 2009)
Ronald Dixon	Non-Executive Director
Thomas E Fielden	Finance Director, CE Electric UK (appointed 16 October 2009)
John M France	Regulation Director, CE Electric UK
Patrick J Goodman	Senior Vice President and Chief Financial Officer, MidAmerican Energy Holdings Company
Brian K Hankel	Vice President and Treasurer, MidAmerican Energy Holdings Company
Philip A Jones	President and Chief Operating Officer, CE Electric UK

During and as at the end of the financial year, none of the directors was materially interested in any contract which was significant in relation to the business of the Group.

Mr B K Hankel has resigned as a director with effect from 15 March 2010.

Auditors

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

Annual General Meeting

Full details of the Annual General Meeting appear on pages 83 and 84 of this report.

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 1I 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 22 years and has access to £50m borrowing facilities provided by Lloyds TSB Bank plc and Royal Bank of Scotland. Those facilities have recently been renewed and an extended £75m facility will be provided by Lloyds TSB Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc, part of the Banco Santander group, for a three year period; and

d) No repayments of long term debt are due until 2020.

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.

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).

Audit of the accounts

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.

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 set out 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.

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 hold board meetings as required and the President and Chief Operating Officer of the CE Group participates in weekly performance review meetings with Mr Abel, the President of MidAmerican, and other senior managers of the MidAmerican group, including Mr Goodman, 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 CE Group are discussed.

Mr Abel also receives weekly, monthly and quarterly reports on the CE Group's performance from the CE Group's President and Chief Operating Officer. Mr Goodman holds a similar weekly review meeting in respect of MidAmerican's financial performance, at which Mr Fielden presents his weekly report. MidAmerican's General Counsel also holds a similar weekly review meeting in respect of MidAmerican's legal function, at which the CE Group's General Counsel presents his weekly report.

The board meets as required to consider relevant issues and met on five occasions in total during the year ended 31 December 2009, with the attendance of those directors, who were directors as at 31 December 2009, being as follows:

G E Abel	President, MidAmerican	0
R Dixon	Non-Executive Director	5
T E Fielden	Finance Director, CE Electric UK	1
J M France	Regulation Director, CE Electric UK	4
P J Goodman	Senior Vice President and Chief Financial Officer, MidAmerican	0
B K Hankel	Vice President and Treasurer, MidAmerican	0
P A Jones	President and Chief Operating Officer, CE Electric UK	5

Mr Fielden attended the one board meeting held during his period of induction and prior to his formal appointment to the board.

Operational management of NEDL's business (and that of its affiliate, Yorkshire Electricity Distribution plc) 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.

Corporate Governance Statement (continued)

Principle A1: The Board (continued):

The directors have overall responsibilty 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 2009, 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 business review of the year.

Details of the management structure of the CE Group are provided 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. The committees in operation during the year 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, CE Electric UK
J M France	Regulation Director, CE Electric UK
N M Gill	Field Operations Director, CE Electric UK
P A Jones	President and Chief Operating Officer, CE Electric UK
A J MacLennan	Managing Director, IUS and
P McCormick	Director of Health, Safety and Environment, CE Electric UK

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.

Treasury Committee

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

G E Abel	President, MidAmerican
P Ainsley	Financial Controller, CE Electric UK
D Brady	Treasurer, CE Electric UK
T E Fielden	Finance 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
R D McHaddan	Assistant Treasurer, CE Electric UK and
O Sutherland	Investor Reporting Manager, CE Electric UK.

Corporate Governance Statement (continued)

A Directors (continued)

Principle A1: The Board (continued):

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, CE Electric UK
T E Fielden	Finance Director, CE Electric UK
J M France	Regulation Director, CE Electric UK
K A Mawson	Head of Finance Development and Systems, CE Electric UK
A J Patterson	Director of Human Resources; CE Electric UK
N Dawson	Pensions Manager, CE Electric UK and
L Taylor	Director of Business Systems, CE Electric UK.

Compliance Assurance Programme Steering Group ("CAPSG")

As mentioned in the business review of the year, the CAPSG 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 CAPSG monitors and reviews the strategic risk environment, ensuring the continued suitability, adequacy and effectiveness of risk management arrangements. The CAPSG comprises:

J P Barnett	Director of Customer Operations, CE Electric UK
R Dixon	Non-Executive Director
M Drye	Director of Asset Management, CE Electric UK
J Elliott	Company Secretary, CE Electric UK
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 and
L Taylor	Director of Business Systems, CE Electric UK.

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 attends meetings of the CAPSG 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 business review of the year in the directors' report.

As explained in Principles A4 and B1, the Company does not have a remuneration committee or a nomination committee.

Principle A2: Chairman and Chief Executive

The Company does not have a formally appointed Chairman or Chief Executive. However, that division of responsibility is effectively achieved with the President and Chief Operating Officer of the CE Group chairing the board meetings, being responsible for the operation and management of the CE Group and reporting directly to the President of MidAmerican.

Corporate Governance Statement (continued)

A Directors (continued)

Principle A3: Board balance and independence

The board comprises five executive directors who, collectively, bring a range of skills and experience to the board. Consequently, the board believes that it possesses the skills and experience necessary to provide effective leadership, stewardship and control of the Company. During the year, Mr Connor resigned as a director and Mr Fielden was appointed a director of the Company. The directors of the Company, as at the date of approval of the annual accounts, were as follows:

G E Abel	President, MidAmerican
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 and
P A Jones	President and Chief Operating Officer, CE Electric UK.

Principle A4: Appointments to the Board

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

Principle A5: Information and professional development

Directors receive monthly reports outlining progress against the CE Group's goals and targets, enabling financial performance against budget and operational performance against a number of indicators to be reviewed, and also 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. A briefing programme continued to run throughout the year for the directors in respect of the changes introduced by the phased implementation of the Companies Act 2006, including the procedural requirements in respect of the authorisation of potential conflicts of interest. 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.

Mr Fielden joined the CE Group on 27 July 2009 and was appointed a director of the Company on 16 October 2009. During that period Mr Fielden worked closely with the previous Finance Director and the senior management team of the CE Group as part of his induction as a director, which included exposure to all aspects of the operation of the CE Group's business.

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. The CE Group 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 the CE Group's goals.

Principle A7: Re-election

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

Corporate Governance Statement (continued)

B Remuneration

Principle B1: The level and make-up of remuneration

The CE Group 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 CE Group's President and Chief Operating Officer. The Company has only preference shares listed on the London Stock Exchange. Accordingly, it has availed itself of the exemption from the requirements to make directors' remuneration disclosures and for auditor review thereof.

Principle B2: Procedure

As mentioned under Principle B1, the 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 CE Group's President and Chief Operating Officer. Mr Fielden, Dr France, 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.

C Accountability and Audit

Principle C1: Financial Reporting

The board believes that the directors' report and business review of the year included in the annual accounts provides a balanced and understandable assessment of the Company's position and prospects. The directors have explained, at page 28 their responsibility for preparing the annual accounts and reported, at page 21 in the directors' report, that the Company is a going concern.

Principle C2: Internal control

The principal risks and uncertainties facing the Company and the key features of the CE Group's internal control system, together with details of the issues addressed by the Company and the CE Group during the year, can be found in the business review of the year in the directors' report.

Principle C3: Audit committee and auditors

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 and receiving an annual report 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. DTR 7 requires an audit committee to have at least one independent member and a member with competence in accounting and/or auditing, although these requirements could be satisfied by one and the same person. However, 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 is the CE Group's sole independent non-executive director, the Audit Committee comprises

R Dixon	Non-Executive Director; and
T E Fielden	Finance Director, CE Electric UK.

The CE Group also operates under the oversight of the MidAmerican Audit Committee, which is comprised of Mr. Marc D. Hamburg who, the MidAmerican board of directors has determined, qualifies as an "audit committee financial expert," as defined by the rules of the Securities and Exchange Commission, based on his education, experience and background. The MidAmerican Audit Committee is attended, from time to time, by the Senior Vice President and Chief Financial Officer and the Vice President and Chief Accounting Officer of MidAmerican, the Director of Internal Auditing of Berkshire Hathaway, Inc. and the Heads of Internal Audit of the various MidAmerican business platforms.

Corporate Governance Statement (continued)

B Remuneration

Principle B1: The level and make-up of remuneration

The CE Group 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 CE Group's President and Chief Operating Officer. The Company has only preference shares listed on the London Stock Exchange. Accordingly, it has availed itself of the exemption from the requirements to make directors' remuneration disclosures and for auditor review thereof.

Principle B2: Procedure

As mentioned under Principle B1, the 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 CE Group's President and Chief Operating Officer. Mr Fielden, Dr France, 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.

C Accountability and Audit

Principle C1: Financial Reporting

The board believes that the directors' report and business review of the year included in the annual accounts provides a balanced and understandable assessment of the Company's position and prospects. The directors have explained, at page 28 their responsibility for preparing the annual accounts and reported, at page 21 in the directors' report, that the Company is a going concern.

Principle C2: Internal control

The principal risks and uncertainties facing the Company and the key features of the CE Group's internal control system, together with details of the issues addressed by the Company and the CE Group during the year, can be found in the business review of the year in the directors' report.

Principle C3: Audit committee and auditors

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 and receiving an annual report 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. DTR 7 requires an audit committee to have at least one independent member and a member with competence in accounting and/or auditing, although these requirements could be satisfied by one and the same person. However, 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 is the CE Group's sole independent non-executive director, the Audit Committee comprises

R Dixon	Non-Executive Director; and
T E Fielden	Finance Director, CE Electric UK.

The CE Group also operates under the oversight of the MidAmerican Audit Committee, which is comprised of Mr. Marc D. Hamburg who, the MidAmerican board of directors has determined, qualifies as an "audit committee financial expert," as defined by the rules of the Securities and Exchange Commission, based on his education, experience and background. The MidAmerican Audit Committee is attended, from time to time, by the Senior Vice President and Chief Financial Officer and the Vice President and Chief Accounting Officer of MidAmerican, the Director of Internal Auditing of Berkshire Hathaway, Inc. and the Heads of Internal Audit of the various MidAmerican business platforms.

Corporate Governance Statement (continued)

Principle C3: Audit committee and auditors (continued)

The directors confirm that no fees were payable by the Company to Deloitte LLP in relation to non-audit services during the year. The internal control section on page 7 of the directors' report contains details of the CE Group's "speaking up" policy.

D Relations with shareholders

Principle D1: Dialogue with Institutional Shareholders

This principle of the Combined Code is not applicable to the Company, as its ordinary share capital is wholly-owned by a privately held group of companies and, therefore it has no institutional ordinary shareholders.

Principle D2: Constructive use of the AGM

Due to the privately held nature of the Company's ordinary share capital, this principle of the Combined Code is not applicable to the Company. Holders of preference shares have the right to receive notice of, attend and speak at the AGM 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 have applied to previous AGMs or will apply to the 2010 AGM, preference shareholders do not have the right to vote on any of the business to be considered at that AGM.

Compliance statement

Set out above and in the business 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 Company's circumstances, given that it includes regular reporting to and meetings with the President and senior management of MidAmerican, the presence of an independent non-executive director on the board 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 the ownership structure of the Company.

By order of the board

John Elliott
Company Secretary

19 March 2010

RESPONSIBILITY OF DIRECTORS FOR THE PREPARATION OF THE REPORT AND ACCOUNTS

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare financial statements for the Company and the Group in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union, and have also elected to prepare financial statements for the Company and the Group in accordance with IFRS. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 2006 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's and the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

Directors are also required to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which complies with the requirements of the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 20 of the Directors' Report 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 Management Report (which is comprised of the Directors' Report and the Business Review) 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 19 March 2010 and signed on its behalf by:

P A Jones
President and Chief Operating Officer

DIRECTORS' BIOGRAPHIES

GREGORY E ABEL

Appointed in January 1997, Mr Abel, 47, 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.

RONALD DIXON

Appointed in October 1997, Mr Dixon, 72, 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, 52, 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 CE Electric UK 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, 39, 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.

DIRECTORS' BIOGRAPHIES (CONTINUED)

PATRICK J GOODMAN

Appointed in May 1999, Mr Goodman, 43, 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, 41, 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NORTHERN ELECTRIC plc

We have audited the financial statements of Northern Electric plc (the "Company") for the year ended 31 December 2009 which comprise the Group Income Statement, the Group Statements of Comprehensive Income, the Group Statement of Changes in Equity, the Group and Parent Company Balance Sheets and the Group and Parent Company Cash Flow Statements and the related notes 1 to 30. 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 and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 an auditors' report 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 Directors' Responsibilities Statement, 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 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 (APB'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 of the parent company's affairs as at 31 December 2009 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 and, as regards the group financial statements, Article 4 of the IAS Regulation.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NORTHERN ELECTRIC plc (CONTINUED)

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report 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:

Under the Companies Act 2006 we are required 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.

John Charlton (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne, England
23 March 2010

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

GROUP INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009	2008
		£m	£m
Revenue	3	276.6	271.2
Cost of sales		(47.8)	(49.9)
Gross profit		228.8	221.3
Distribution costs		(71.4)	(66.7)
Administrative expenses		(33.5)	(20.9)
Operating profit	4	123.9	133.7
Share of profit after tax of joint venture accounted for using the equity method		0.3	0.4
Other gains		0.3	0.4
Investment income	5	3.6	11.1
Finance costs	6	(33.0)	(35.9)
Profit before tax		95.1	109.7
Income tax expense	9	(27.3)	(23.7)
Profit for the year		67.8	86.0

All activities relate to continuing operations.

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

There is no other comprehensive income for the Group for 2009 and 2008, other than the profits reported above.

GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	Share Capital	Share Premium Account	Capital Redemption Reserve	Retained Earnings	Total Equity
	£m	£m	£m	£m	£m
Balance at 1 January 2007	72.2	158.8	6.2	176.4	413.6
Comprehensive income for the year	-	-	-	86.0	86.0
Balance at 31 December 2007	72.2	158.8	6.2	262.4	499.6
Comprehensive income for the year	-	-	-	86.0	86.0
Balance at 31 December 2008	72.2	158.8	6.2	348.4	585.6
Comprehensive income for the year	-	-	-	67.8	67.8
Balance at 31 December 2009	**72.2**	**158.8**	**6.2**	**416.2**	**653.4**

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	Share Capital	Share Premium Account	Capital Redemption Reserve	Retained Earnings	Total Equity
	£m	£m	£m	£m	£m
Balance at 31 December 2007	72.2	158.8	6.2	107.4	344.6
Comprehensive income for the year	-	-	-	47.3	47.3
Balance at 31 December 2008	72.2	158.8	6.2	154.7	391.9
Comprehensive income for the year	-	-	-	17.6	17.6
Balance at 31 December 2009	**72.2**	**158.8**	**6.2**	**172.3**	**409.5**

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

BALANCE SHEETS
AT 31 DECEMBER 2009

	Note	GROUP 2009	GROUP 2008	GROUP 2007	COMPANY 2009	COMPANY 2008
		£m	£m	£m	**£m**	£m
Non-current assets						
Property, plant and equipment	11	**1,361.5**	1,283.9	1,181.3	**1.6**	1.6
Intangibles	12	**4.7**	5.7	6.5	**-**	-
Investments in joint venture	13	**3.2**	3.2	3.2	**-**	-
Investments in other undertakings	13	**0.1**	0.1	0.1	**-**	-
Investments in subsidiaries	13	**-**	-	-	**328.1**	328.1
Retirement benefit asset	27	**128.4**	95.9	44.7	**-**	-
Trade and other receivables	17	**5.4**	4.3	4.7	**-**	-
		1,503.3	1,393.1	1,240.5	**329.7**	329.7
Current assets						
Inventories	15	**13.7**	20.0	21.7	**-**	-
Trade and other receivables	17	**58.0**	47.8	59.5	**0.6**	1.0
Cash and cash equivalents	17	**141.4**	182.0	176.8	**111.8**	113.6
		213.1	249.8	258.0	**112.4**	114.6
Total assets		**1,716.4**	1,642.9	1,498.5	**442.1**	444.3
Current liabilities						
Trade and other payables	18	**(66.0)**	(67.3)	(74.0)	**(7.6)**	(6.0)
Current income tax liabilities	18	**(10.4)**	(15.5)	(16.1)	**(2.4)**	(8.9)
Deferred revenue	21	**(13.8)**	(12.5)	(10.2)	**-**	-
Borrowings	19	**(41.6)**	(55.7)	(31.0)	**(2.3)**	(17.4)
Provisions	22	**(1.0)**	(2.1)	(3.2)	**-**	-
		(132.8)	(153.1)	(134.5)	**(12.3)**	(32.3)
Net current assets		**80.3**	96.7	123.5	**100.1**	82.3
Non-current liabilities						
Borrowings	19	**(349.5)**	(347.1)	(347.0)	**(1.1)**	(1.1)
Deferred income tax liabilities	20	**(179.9)**	(169.3)	(164.1)	**(17.7)**	(17.6)
Retirement benefit obligations	27	**(1.5)**	(1.4)	(1.4)	**(1.5)**	(1.4)
Deferred revenue	21	**(397.6)**	(385.6)	(350.7)	**-**	-
Provisions	22	**(1.7)**	(0.8)	(1.2)	**-**	-
		(930.2)	(904.2)	(864.4)	**(20.3)**	(20.1)
Total liabilities		**(1,063.0)**	(1,057.3)	(998.9)	**(32.6)**	(52.4)
Net assets		**653.4**	585.6	499.6	**409.5**	391.9
EQUITY						
Share capital	23	**72.2**	72.2	72.2	**72.2**	72.2
Share premium		**158.8**	158.8	158.8	**158.8**	158.8
Retained earnings		**416.2**	348.4	262.4	**172.3**	154.7
Other reserves	24	**6.2**	6.2	6.2	**6.2**	6.2
Total equity		**653.4**	585.6	499.6	**409.5**	391.9

A 2007 balance sheet and supporting notes has been prepared in accordance with IAS 1(revised), Presentation of Financial Statements.

The financial statements were approved by the board of directors and authorised for issue on 19 March 2010 and were signed on its behalf by:

P A Jones
Director

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	GROUP 2009 £m	GROUP 2008 £m	COMPANY 2009 £m	COMPANY 2008 £m
Net cash from operating activities	25	**74.0**	83.8	**13.4**	33.3
Investing activities					
Dividends received from joint venture		**0.3**	0.4	-	-
Proceeds from disposal of property, plant and equipment		**0.2**	0.5	-	-
Purchases of property, plant and equipment		**(130.2)**	(151.0)	-	-
Purchases of intangible assets		**(0.4)**	(0.9)	-	-
Receipt of customer contributions		**27.2**	47.8	-	-
Net cash used in investing activities		**(102.9)**	(103.2)	-	-
Financing activities					
Movement in borrowings from Group undertaking		**(19.4)**	7.6	**(15.2)**	4.2
Borrowings repaid		**7.7**	-	-	-
New borrowings raised		-	17.0	-	-
Net cash (used in)/from financing activities		**(11.7)**	24.6	**(15.2)**	4.2
Net (decrease)/increase in cash and cash equivalents		**(40.6)**	5.2	**(1.8)**	37.5
Cash and cash equivalents at beginning of year		**182.0**	176.8	**113.6**	76.1
Cash and cash equivalents at end of year		**141.4**	182.0	**111.8**	113.6

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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 Business Review in the Directors' Report and in Note 3.

2 PRINCIPAL 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 Directors Report on page 21.

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.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

IAS 1	Presentation of Financial Statements – Amendments to IAS 1
IFRS 8	Operating Segments
IFRS 7	Financial Instrument Disclosures – Amendments to IFRS 7

IAS 1 has introduced a number of changes in the format of the financial statements. In addition, the revised Standard has required the presentation of a third balance sheet as at 31 December 2007 because the Group has applied certain changes in accounting policies retrospectively. There is no third balance sheet presented for the Company as there have been no such changes in accounting policy and hence no impact on the balance sheet or disclosures.

IFRS 8 is a disclosure Standard that has redefined the process for measuring segmental information in the notes to the accounts, and is the reason for the third balance sheet as mentioned above. In practice however, the reporting segments shown in note 3 to these financial statements have not been affected by this change in methodology and remain comparable with the prior year.

The amendments to IFRS 7 expand the disclosures required in respect of fair value measurement and liquidity risk. In practice these amendments have had no material effect on these financial statements.

Standards affecting the reported results and the financial position

IAS 23	Borrowing Costs – Amendments to IAS 23

The principal change to IAS 23 was to eliminate the option to expense all borrowing costs when incurred. From 1st January 2009, all borrowing costs relating to qualifying assets have therefore been capitalised. The effect of this adjustment in 2009 has been less than £0.1m.

Standards and Interpretations approved but not yet effective

At the date of authorisation of these financial statements there are a number of Standards and Interpretations in issue but not yet effective, which have therefore not yet been applied. The directors consider that the adoption of the following Interpretation may be relevant to the Group in future periods.

IFRIC 18 Transfer of Assets from Customers

The directors anticipate that the Group will adopt this Interpretation at the point at which it is endorsed by the European Union, which will be reflected in the annual report for the year ended 31 December 2010. The potential impact of IFRIC 18 is being considered by the directors and is currently unclear.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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 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.

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

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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 below, the Group and Company do not carry out any other development activity that would give rise to an intangible asset.

Operating profit

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

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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment are 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 on a straight-line basis:

Distribution system assets..45 years

Metering equipment included in distribution system assets....................................up to 15 years

Information technology equipment included in distribution system assets.................. up to 10 years

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

Software development costs..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 judgment 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 Group'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.

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.

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.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Raw materials and goods for resale 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.

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.

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.

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.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Borrowings

Borrowings are held on the balance sheet 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.

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 Group and the Company after deducting all of its liabilities.

2 PRINCIPAL 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 intitially 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 27.

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.

3 REVENUE AND SEGMENTAL ANALYSIS

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the President and Chief Operating Officer to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required the Group to identify two sets of segments (business and geographical), using a risk and returns approach, with the Group's system of internal financial reporting to key management personnel serving only as the starting point for identification of such segments.

In practice however, the segments previously reported by the Group under IAS 14 already meet the requirements of IFRS 8. This is because the business segments identified below reflect the format of the information presented to the President and Chief Operating Officer for the purpose of strategic resource allocation and decision making. The adoption of IFRS 8 therefore has had no impact on the disclosures made in these financial statements in respect of segmental analysis.

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

3 REVENUE AND SEGMENTAL ANALYSIS (CONTINUED)

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

	Distribution	Engineering Contracting	Other	Consolidation Adjustments	Total
	2009	2009	2009	2009	2009
	£m	£m	£m	£m	£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
SEGMENTS RESULTS					
Operating profit	89.7	1.1	3.0	30.1	123.9
Share of profit after tax of joint venture accounted for using the equity method					0.3
Other gains					0.3
Investment income					3.6
Finance costs					(33.0)
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.

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 totaling £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 the Distribution and Engineering Contracting divisions 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.

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

3 REVENUE AND SEGMENTAL ANALYSIS (CONTINUED)

	Distribution	Engineering Contracting	Other	Consolidation Adjustments	Total
	2008 £m	2008 £m	2008 £m	2008 £m	2008 £m
REVENUE					
External sales	214.7	49.9	6.6	-	271.2
Inter-segment sales	0.4	-	7.2	(7.6)	-
Total revenue	215.1	49.9	13.8	(7.6)	271.2
SEGMENTS RESULTS					
Operating profit	82.4	2.3	2.1	46.9	133.7
Share of profit after tax of joint venture accounted for using the equity method					0.4
Other gains					0.4
Investment income					11.1
Finance costs					(35.9)
Profit before tax					109.7
OTHER INFORMATION					
Capital additions	147.8	0.2	-	(5.1)	142.9
Depreciation and amortisation	41.9	0.1	0.1	(1.0)	41.1
Amortisation of deferred revenue	(10.6)	-	-	-	(10.6)
BALANCE SHEET					
Segment assets	1,381.6	21.8	217.9	(160.4)	1,460.9
Unallocated corporate assets					182.0
Total assets					1,642.9
Segment liabilities	(451.0)	(10.0)	(5.9)	(2.7)	(469.6)
Unallocated corporate liabilities					(587.7)
Total liabilities					(1,057.3)
Net assets/(liabilities) by segment	930.6	11.8	212.0	(163.1)	991.3
Unallocated net corporate liabilities					(405.7)
Total net assets					585.6

"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 totaling £203.1m, which are eliminated in Consolidation Adjustments. Consolidation Adjustments also include an adjustment of £95.9m to recognise the retirement benefit asset and a £39.9m reduction of capitalised costs as the Distribution and Engineering Contracting divisions account 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 £79.9m are included within the Distribution segment. External sales of £29.4m to E.ON are included within the Engineering Contracting segment.

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

3 REVENUE AND SEGMENTAL ANALYSIS (CONTINUED)

	Distribution	Engineering Contracting	Other	Consolidation Adjustments	Total
	2007 £m	2007 £m	2007 £m	2007 £m	2007 £m
REVENUE					
External sales	212.7	63.2	6.1	-	282.0
Inter-segment sales	0.3	-	8.4	(8.7)	-
Total revenue	213.0	63.2	14.5	(8.7)	282.0
SEGMENTS RESULTS					
Operating profit	90.3	1.2	2.0	39.7	133.2
Share of profit after tax of joint venture accounted for using the equity method					0.4
Other gains					0.2
Investment income					14.9
Finance costs					(37.7)
Profit before tax					109.0
OTHER INFORMATION					
Capital additions	132.0	0.1	0.3	(3.1)	129.3
Depreciation and amortisation	40.3	0.1	0.1	(1.0)	39.5
Amortisation of deferred revenue	(9.5)	-	-	-	(9.5)
BALANCE SHEET					
Segment assets	1,271.8	26.6	217.8	(194.5)	1,321.7
Unallocated corporate assets					176.8
Total assets					1,498.5
Segment liabilities	(418.9)	(14.2)	(10.3)	0.4	(443.0)
Unallocated corporate liabilities					(555.9)
Total liabilities					(998.9)
Net assets/(liabilities) by segment	852.9	12.4	207.5	(194.1)	878.7
Unallocated net corporate liabilities					(379.1)
Total net assets					499.6

"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 totaling £203.1m, which are eliminated in Consolidation Adjustments. Consolidation Adjustments also include an adjustment of £44.7m to recognise the retirement benefit asset and a £36.5m reduction of capitalised costs as the Distribution and Engineering Contracting divisions account 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 £85.1m are included within the Distribution segment. External sales of £36.0m to E.ON are included within the Engineering Contracting segment.

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

4 OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2009 £m	2008 £m
Staff costs (Note 7)	**28.2**	15.4
Research and development costs	**0.4**	0.5
Depreciation of property, plant and equipment	**43.1**	39.4
Amortisation of deferred revenue	**(11.6)**	(10.6)
Amortisation of intangibles	**1.5**	1.7
Impairment (gain)/loss on trade and other receivables	**(0.2)**	0.3

The analysis of auditors' remuneration is as follows :

	2009 £000	2008 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**35**	35
Fees payable to the Company's auditors for the audit of the Company's subsidiaries pursuant to legislation	**162**	156
Total audit fees	**197**	191

There were no fees payable in relation to non-audit services in 2009 or 2008.

	2009 £000	2008 £000
Fees payable to the Company's auditors and their associates in respect of the audit of associated pension schemes	**5**	8

5 INVESTMENT INCOME

	2009 £m	2008 £m
Dividends received	**-**	0.1
Interest receivable	**3.6**	11.0
Total investment income	**3.6**	11.1

6 FINANCE COSTS

	2009 £m	2008 £m
Dividends on non-equity preference shares	**9.0**	9.0
Interest payable on other borrowings	**24.0**	26.9
Total finance costs	**33.0**	35.9

7 STAFF COSTS

	GROUP		COMPANY	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Salaries	**52.6**	51.1	**4.2**	3.6
Social security costs	**4.8**	4.6	**0.5**	0.5
Defined benefit pension scheme (credit)/cost (Note 27)	**(1.9)**	(17.2)	**1.7**	1.8
Defined contribution pension scheme costs	**0.1**	0.1	**-**	-
	55.6	38.6	**6.4**	5.9
Less: charged to work in progress	**(1.2)**	(1.2)	**-**	-
Less: charged as capital expenditure	**(26.2)**	(22.0)	**-**	-
	28.2	15.4	**6.4**	5.9

The average monthly number of employees during the year was:

	2009	2008	**2009**	2008
	Number	Number	**Number**	Number
Distribution	**960**	965	**-**	-
Engineering contracting	**327**	329	**-**	-
Other	**60**	60	**60**	60
	1,347	1,354	**60**	60

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

8 DIRECTORS AND KEY PERSONNEL

a) EMOLUMENTS

	Highest paid director		All	
	2009	2008	**2009**	2008
	£000	£000	**£000**	£000
Short-term employee benefits	**134**	106	**340**	296
Post-retirement benefits	**11**	10	**65**	68
Other long-term benefits	**61**	104	**134**	263
	206	220	**539**	627

	Other Key Personnel	
	2009	2008
	£000	£000
Short-term employee benefits	**407**	425
Post-retirement benefits	**123**	127
Other long-term benefits	**50**	181
	580	733

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.

b) PENSIONS

Pension contributions relate to defined benefit schemes only. At 31 December 2009, 3 directors were members of defined benefit schemes (2008: 4 directors).

The accrued pension benefit relating to the highest paid director is £nil (2008: £nil).

9 INCOME TAX EXPENSE

	2009		2008	
	£m	£m	£m	£m
Tax expense comprises:				
Current tax expense:				
Corporation tax charge for the year	**8.5**		5.3	
Payment for use of group losses @ 28% (2008: 28.5%)	**9.7**		13.0	
(Over)/under provision for prior years	**(1.5)**		0.2	
Total current tax charge		**16.7**		18.5
Deferred tax expense/(income) (Note 20):				
Deferred tax expense relating to the origination and reversal of temporary differences	**10.6**		14.6	
Settlement of prior period capital gains claims	**-**		(16.0)	
Effect of changes in tax legislation	**-**		6.6	
		10.6		5.2
Tax charge on profit before tax		**27.3**		23.7
The total tax charge can be reconciled to the accounting profit as follows:				
Profit before tax		**95.1**		109.7
Tax on profit before tax at standard rate of corporation tax in the United Kingdom of 28% (2008: 28.5%)		**26.6**		31.3
Dividends on non-equity preference shares		**2.5**		2.6
Tax effect of results of joint venture		**(0.1)**		(0.1)
Effect of changes in tax rates		**-**		(0.3)
Effect of changes in tax legislation		**-**		6.6
Settlement of prior period capital gains claims		**-**		(16.0)
Adjustment to prior years		**(1.7)**		(0.4)
Tax charge on profit before tax		**27.3**		23.7

The tax rates used are the UK corporate rate of 30% until 31 March 2008 and 28% from 1 April 2008, time apportioned for 2008.

There was an increase in the deferred tax liability in 2008 due to the cessation of capital allowances on qualifying industrial buildings from 2011, as a result of changes in legislation introduced by the Finance Act 2008.

10 DIVIDENDS

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

11 PROPERTY, PLANT AND EQUIPMENT

	GROUP			
	Distribution System £m	Non-operational land and buildings £m	Fixtures and equipment £m	Total £m
COST:				
At 1 January 2007	1,581.7	6.8	49.2	1,637.7
Additions	125.8	0.2	1.3	127.3
Disposals	(5.0)	(0.2)	(1.0)	(6.2)
At 31 December 2007	1,702.5	6.8	49.5	1,758.8
Additions	140.4	-	1.6	142.0
Disposals	(4.0)	-	(0.2)	(4.2)
At 31 December 2008	1,838.9	6.8	50.9	1,896.6
Additions	118.8	-	1.9	120.7
Disposals	(4.8)	-	(0.1)	(4.9)
At 31 December 2009	1,952.9	6.8	52.7	2,012.4
DEPRECIATION:				
At 1 January 2007	497.1	4.2	44.3	545.6
Provided during the year	35.8	0.2	2.0	38.0
Disposals	(4.9)	(0.2)	(1.0)	(6.1)
At 31 December 2007	528.0	4.2	45.3	577.5
Provided during the year	37.6	0.1	1.7	39.4
Disposals	(4.0)	-	(0.2)	(4.2)
At 31 December 2008	561.6	4.3	46.8	612.7
Provided during the year	41.4	0.1	1.6	43.1
Disposals	(4.8)	-	(0.1)	(4.9)
At 31 December 2009	598.2	4.4	48.3	650.9
Net book value at 31 December 2009	**1,354.7**	**2.4**	**4.4**	**1,361.5**
Net book value at 31 December 2008	1,277.3	2.5	4.1	1,283.9
Net book value at 31 December 2007	1,174.5	2.6	4.2	1,181.3
Assets in the course of construction included above:				
At 1 January 2007	89.9	-	-	89.9
Additions	125.8	-	-	125.8
Available for use	(128.4)	-	-	(128.4)
At 31 December 2007	87.3	-	-	87.3
Additions	140.4	-	-	140.4
Available for use	(148.5)	-	-	(148.5)
At 31 December 2008	79.2	-	-	79.2
Additions	118.8	-	-	118.8
Available for use	(151.0)	-	-	(151.0)
At 31 December 2009	**47.0**	**-**	**-**	**47.0**

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	COMPANY		
	Distribution System £m	Fixtures and equipment £m	Total £m
COST:			
At 1 January 2007	1.3	3.5	4.8
Additions	-	0.1	0.1
At 31 December 2007, 2008 and 2009	**1.3**	**3.6**	**4.9**
DEPRECIATION:			
At 31 December 2007, 2008 and 2009	**-**	**3.3**	**3.3**
Net book value at 31 December 2007, 2008 and 2009	**1.3**	**0.3**	**1.6**

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

	2009 £m	2008 £m	2007 £m
Freehold	**1.9**	1.9	1.9
Long leasehold	**0.4**	0.5	0.6
Short leasehold	**0.1**	0.1	0.1
	2.4	2.5	2.6

12 GROUP INTANGIBLES

	Software Development Costs £m
COST:	
At 1 January 2007	24.3
Additions	2.0
At 31 December 2007	26.3
Additions	0.9
At 31 December 2008	27.2
Additions	0.5
At 31 December 2009	**27.7**
AMORTISATION:	
At 1 January 2007	18.3
Charge for the year	1.5
At 31 December 2007	19.8
Charge for the year	1.7
At 31 December 2008	21.5
Charge for the year	1.5
At 31 December 2009	**23.0**
Net book value at 31 December 2009	**4.7**
Net book value at 31 December 2008	**5.7**
Net book value at 31 December 2007	**6.5**

The Company had no intangible assets at 31 December 2009 (2008: £nil).

13 INVESTMENTS

	GROUP			COMPANY		
	Shares of joint venture's net assets £m	Shares in other undertakings £m	Total £m	Shares in subsidiary undertakings £m	Shares in other undertakings £m	Total £m
SHARE OF NET ASSETS/COST:						
At 31 December 2007, 31 December 2008 and 31 December 2009	3.2	0.1	3.3	327.1	1.0	328.1

13 INVESTMENTS (CONTINUED)

Details of the principal investments of the Group at 31 December 2009 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 Company:			
Vehicle Lease and Service Limited	950,000 at £1	50%	Transport services

All the above companies are registered in England and Wales.

14 INTEREST IN JOINT VENTURE

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

	2009 £m	2008 £m	2007 £m
Long-term assets	**16.1**	14.8	11.5
Current assets	**13.3**	14.7	12.9
Long-term liabilities	**(13.5)**	(13.9)	(10.7)
Current liabilities	**(9.5)**	(9.2)	(7.3)
Net assets	**6.4**	6.4	6.4
Group's share of joint venture's net assets	**3.2**	3.2	3.2
Revenue	**14.4**	13.0	11.5
Profit for the year	**0.6**	0.8	0.8
Group's share of joint venture's profit for the year	**0.3**	0.4	0.4

15 INVENTORIES

	GROUP		
	2009	2008	2007
	£m	£m	£m
Raw materials and consumables	**7.0**	8.0	7.8
Work in progress (note 16)	**6.5**	11.7	13.5
Goods for resale	**0.2**	0.3	0.4
	13.7	20.0	21.7

The Company had no inventories at 31 December 2009 (2008 - £nil, 2007 - £nil).

16 GROUP CONSTRUCTION CONTRACTS

	2009	2008	2007
Contracts in progress at balance sheet date:	**£m**	£m	£m
Amounts due from customers included in inventories	**6.5**	11.7	13.5
Contract costs incurred plus recognised profits less recognised losses to date	**62.9**	77.7	78.5
Less: Progress billings	**(56.4)**	(66.0)	(65.0)
	6.5	11.7	13.5

At 31 December 2009, retentions held by customers for contract work amounted to £0.4m (2008: £0.3m, £2007: £0.1m).

Advances received from customers for contract work amounted to £nil (2008: £nil, 2007: £nil).

Within amounts due from customers included in inventories is £3.0m (2008: £8.2m, 2007; £8.9m) due from a key customer, E.ON, which has accounted for approximately 52% of construction contract revenue in the year (2008: 59%. 2007: 57%).

The Company had no construction contracts at 31 December 2009 (2008: £nil, 2007: £nil).

17 OTHER FINANCIAL ASSETS

Trade and other receivables

	GROUP			COMPANY	
	2009	2008	2007	**2009**	2008
	£m	£m		**£m**	£m
Non-current:					
Finance lease receivables	**5.4**	4.3	4.7	**-**	-
Current:					
Distribution use of system receivables	**34.5**	26.4	34.6	**-**	-
Amounts receivable for sale of goods or services	**7.5**	4.2	1.3	**-**	-
Construction contract customers	**9.4**	8.9	13.2	**-**	-
Finance lease receivables	**3.1**	3.6	2.8	**-**	-
Amounts due from joint ventures	**-**	-	0.3	**-**	-
Other receivables	**-**	0.6	3.4	**0.3**	0.7
Prepayments and accrued income	**3.5**	4.1	3.9	**0.3**	0.3
	58.0	47.8	59.5	**0.6**	1.0

The directors consider 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 risk exposure is the book value of these debts.

Finance lease receivables

	Minimum lease payments			Present value of minimum lease payments		
	2009	2008	2007	**2009**	2008	2007
	£m	£m	£m	**£m**	£m	£m
Amounts receivable under finance leases:						
Within one year	**3.5**	3.9	3.1	**3.1**	3.6	2.8
In the second to fifth years inclusive	**5.8**	4.7	5.1	**5.4**	4.3	4.7
	9.3	8.6	8.2	**8.5**	7.9	7.5
Less: unearned finance income	**(0.8)**	(0.7)	(0.7)	**-**	-	-
	8.5	7.9	7.5	**8.5**	7.9	7.5

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% (2008: 6.5%, 2007: 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.

17 OTHER FINANCIAL ASSETS (CONTINUED)

Distribution use of system receivables

The customers served by NEDL's distribution network are supplied predominantly by a small number of electricity supply businesses with RWE NPower plc accounting for approximately 32% of distribution revenues in 2009 (2008: 36%, 2007: 40%). Ofgem has determined a framework which sets credit limits for each supply business based on its credit rating or payment history and requires it to provide credit cover if its 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 customer deposit, a parent company guarantee, letter of credit or an escrow account. Included within other payables (Note 18) are customer deposits of £1.5m as at December 2009 (2008: £1.6m, 2007: £1.6m).

Ofgem has indicated that, provided Northern Electric Distribution Limited ("NEDL") 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 customer default will be recovered through an increase in future allowed income. Losses incurred to date have not been material. Included in the Group's use of system ("UoS") receivables are debtors with a carrying value of £nil, which have been placed into administration and have therefore been provided in full at the year end (2008: £0.4m, 2007: £nil).

Amounts receivable for sale of goods and services

Sales of goods and services comprise all income streams which are not classified as UoS income or construction contracts. Examples of non-UoS income streams would be customer contributions in relation to distribution system assets 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 £1.2m (2008: £0.3m) which are past due at the reporting date for which the Group has provided for an irrecoverable amount of £0.4m (2008: £0.1m) based on past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 347 days (2008: 640 days).

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £0.3m (2008: £1.0m), 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 60 days (2008: 90 days).

Ageing of past due but not impaired receivables

	2009 £m	2008 £m	2007 £m
30-60 days	**0.2**	0.5	0.2
60-120 days	**0.1**	0.2	0.3
120-210 days	**-**	0.3	0.1
Total	**0.3**	1.0	0.6

17 OTHER FINANCIAL ASSETS (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 £4.4m (2008: £3.1m, £2007: £4.4m), which are past due at the reporting date for which the Group has provided for an irrecoverable amount of £0.3m (2008: £0.5m, 2007: £0.3m) based on past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 105 days (2008: 111 days, 2007: 101 days).

Included in the Group's construction contracts balance are debtors with a carrying amount of £2.0m (2008: £2.1m, 2007: £1.7m) 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 (2008: 49 days, 2007: 46 days).

Ageing of past due but not impaired receivables:

	2009	2008	2007
	£m	£m	£m
30-90 days	**2.0**	1.9	1.5
90-180 days	-	0.2	-
180-365 days	-	-	0.2
Total	**2.0**	2.1	1.7

E.ON accounted for approximately 52% of construction contract revenues in 2009 (2008: 59%, 2007: 57%) and £2.1m of the construction contract debt outstanding as at 31 December 2009 (2008: £5.0m, 2007: £7.4m).

The existing E.ON contract is due to expire in March 2010 and will not be renewed.

17 OTHER FINANCIAL ASSETS (CONTINUED)

Movement in the allowance for doubtful debts

	£m
At 1 January 2008	**0.7**
Amounts utilised/written off in the year	**-**
Amounts recognised in income statement	**0.3**
At 1 January 2009	1.0
Amounts utilised/written off in the year	(0.3)
Amounts recognised in income statement	0.2
At 31 December 2009	0.9

In determining the recoverability of the trade and other receivables, the Group 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 £0.2m (2008: £0.4m, 2007: £nil) for the Group and £nil (2008: £nil, 2007: £nil) for the Company, 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.

Cash and cash equivalents

	GROUP			COMPANY	
	2009	2008	2007	**2009**	2008
	£m	£m	£m	**£m**	£m
Cash at bank	**-**	5.2	-	**-**	-
Amounts owed by Group undertakings	**141.4**	176.8	176.8	**111.8**	113.6
	141.4	182.0	176.8	**111.8**	113.6

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 to YEG.

17 OTHER FINANCIAL ASSETS (CONTINUED)

Categories of financial assets

GROUP

	2009 £m	2008 £m	2007 £m
Cash and cash equivalents	**141.4**	182.0	176.8
Loans and receivables	**59.9**	48.0	60.3
Designated as fair value through profit and loss	**3.3**	3.3	3.3
Total financial assets	**204.6**	233.3	240.4
Non current assets	**1,366.2**	1,289.6	1,187.8
Retirement benefit asset	**128.4**	95.9	44.7
Inventories	**13.7**	20.0	21.7
Prepayments and accrued income	**3.5**	4.1	3.9
Total non-financial assets	**1,511.8**	1,409.6	1,258.1
Total Assets	**1,716.4**	1,642.9	1,498.5

COMPANY

	2009 £m	2008 £m
Cash and cash equivalents	**111.8**	113.6
Loans and receivables	**0.3**	0.7
Total financial assets	**112.1**	114.3
Non current assets	**1.6**	1.6
Prepayments and accrued income	**0.3**	0.3
Investments held in subsidiaries and joint ventures	**328.1**	328.1
Total non-financial assets	**330.0**	330.0
Total Assets	**442.1**	444.3

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

18 OTHER FINANCIAL LIABILITIES

Trade and other payables

	GROUP			COMPANY	
	2009	2008	2007	**2009**	2008
	£m	£m	£m	**£m**	**£m**
Payments received on account	**21.9**	15.9	16.2	-	-
Trade payables	**8.1**	12.4	11.4	**0.8**	0.8
Amounts due to parent undertakings	**-**	1.5	0.2	**-**	1.3
Amounts due to joint ventures	**0.2**	0.2	1.2	-	-
Amounts due to group undertakings	**0.1**	-	-	-	-
Other taxes and social security	**8.0**	6.1	7.5	**3.6**	2.5
Accruals	**25.1**	29.4	35.6	**1.2**	1.2
Other payables	**2.6**	1.8	1.9	**2.0**	0.2
	66.0	67.3	74.0	**7.6**	6.0

Current income tax liabilities

	GROUP			COMPANY	
	2009	2008	2007	**2009**	2008
	£m	£m		**£m**	£m
Corporation tax	**7.1**	5.1	7.1	-	-
Group relief	**3.4**	10.4	9.0	**2.4**	8.9
	10.4	15.5	16.1	**2.4**	8.9

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

18 OTHER FINANCIAL LIABILITIES (CONTINUED)

The following tables detail the remaining contractual maturity for the Group's non-derivative financial liabilities included in Notes 18 and 19. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest possible date on which the Group or Company can be required to pay. The tables include both interest and principal cash flows.

	GROUP				
	Less than 3 months £m	3 months to 1 year £m	1 to 5 years £m	5+ years £m	Total £m
2009:					
Non-interest bearing	**44.1**	-	-	-	**44.1**
Variable interest rate liability	**34.8**	-	-	-	**34.8**
Fixed interest rate liability	-	**31.5**	**125.9**	**773.9**	**931.3**
	78.9	**31.5**	**125.9**	**773.9**	**1,010.2**
2008:					
Non-interest bearing	51.4	-	-	-	51.4
Variable interest rate liability	46.5	-	-	-	46.5
Fixed interest rate liability	-	31.5	125.9	792.9	950.3
	97.9	31.5	125.9	792.9	1,048.2
2007:					
Non-interest bearing	57.8	-	-	-	57.8
Variable interest rate liability	21.9	-	-	-	21.9
Fixed interest rate liability	-	31.5	125.9	832.2	989.6
	79.7	31.5	125.9	832.2	1,069.3

	COMPANY				
	Less than 3 months £m	3 months to 1 year £m	1 to 5 years £m	5+ years £m	Total £m
2009:					
Non-interest bearing	**7.6**	-	-	-	**7.6**
Fixed interest rate liability	-	**9.0**	**36.0**	**73.5**	**118.5**
	7.6	**9.0**	**36.0**	**73.5**	**126.1**
2008:					
Non-interest bearing	6.0	-	-	-	6.0
Variable interest rate liability	15.2	-	-	-	15.2
Fixed interest rate liability	-	9.0	36.0	70.0	115.0
	21.2	9.0	36.0	70.0	136.2

Included within the Group and Company other financial liabilities of 5+ years is £118.5m (2008: £115.0m; 2007: £131.8m) in relation to the cumulative preference shares (Note 19).

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

18 OTHER FINANCIAL LIABILITIES (CONTINUED)

Categories of financial liabilities

GROUP	2009 £m	2008 £m	2007 £m
Loans and payables	**402.1**	418.7	392.7
Total financial liabilities	**402.1**	418.7	392.7
Payments received on account	**21.9**	15.9	16.2
Income tax liabilities	**190.3**	184.8	180.2
Other taxes and social security	**8.0**	6.1	7.5
Accruals	**25.1**	29.4	35.6
Deferred Revenue	**411.4**	398.1	360.9
Provisions	**2.7**	2.9	4.4
Retirement benefit liability	**1.5**	1.4	1.4
Total non-financial liabilities	**660.9**	638.6	606.2
Total liabilities	**1,063.0**	1,057.3	998.9

COMPANY	2009 £m	2008 £m
Loans and payables	**6.2**	20.7
Total financial liabilities	**6.2**	20.7
Income tax liabilities	**20.1**	26.5
Other taxes and social security	**3.6**	2.5
Retirement benefit liability	**1.5**	1.5
Accruals	**1.2**	1.2
Total non-financial liabilities	**26.4**	31.7
Total liabilities	**32.6**	52.4

19 BORROWINGS

The Directors consideration of liquidity, interest rate and foreign currency risk are described in detail in the Directors Report on page 10.

	GROUP					
	Book value			Fair value		
	2009	2008	2007	**2009**	2008	2007
	£m	£m	£m	**£m**	£m	£m
Loans	**287.7**	280.9	263.7	**298.3**	281.3	286.2
Amounts owed to Group undertakings	**100.0**	118.5	110.9	**100.5**	112.7	116.0
Cumulative preference shares	**3.4**	3.4	3.4	**118.5**	115.0	131.8
	391.1	402.8	378.0	**517.3**	509.0	534.0

The borrowings are repayable as follows:

On demand or within one year	**41.6**	55.7	31.0	**41.7**	55.7	31.0
After five years	**349.5**	347.1	347.0	**475.6**	453.3	503.0
	391.1	402.8	378.0	**517.3**	509.0	534.0

Analysis of borrowings:						
Short-term treasury loans	**34.8**	28.0	11.0	**34.8**	28.0	11.0
Short-term loan from Group undertakings	**-**	18.5	10.9	**-**	18.5	10.9
2020 – 8.875%	**100.3**	100.3	100.2	**123.6**	122.7	129.3
2035 – 5.125%	**152.6**	152.6	152.5	**139.9**	130.6	145.9
2037 – 5.9% loan from Group undertakings	**100.0**	100.0	100.0	**100.5**	94.2	105.1
Cumulative preference shares	**3.4**	3.4	3.4	**118.5**	115.0	131.8
	391.1	402.8	378.0	**517.3**	509.0	534.0

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

19 BORROWINGS (CONTINUED)

	COMPANY			
	Book value		Fair value	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Short-term loan from Group undertakings	-	15.1	-	15.1
Cumulative preference shares	**3.4**	3.4	**118.5**	115.0
	3.4	18.5	**118.5**	130.1
The borrowings are repayable as follows:				
On demand or within one year	**2.3**	17.4	**2.3**	17.4
After five years	**1.1**	1.1	**116.2**	112.7
	3.4	18.5	**118.5**	130.1

19 BORROWINGS (CONTINUED)

The fair value of the 2020 and 2035 external borrowings and the preference shares are 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.

Interest on the inter-company working capital and short-term loans is charged at a floating rate of interest at LIBOR plus 0.25%, thus exposing the Group to cash flow interest rate risk. A 1% movement in interest rates would subject the Group to an approximate change in interest costs of £0.5m per year. This is considered to be an acceptable level of risk. All other loans are at fixed interest rates and expose the Company to fair value interest rate risk.

The loans are non-secured and denominated in sterling.

The Company had authorised 115,000,000 non-equity cumulative preference shares of 1p each as at 31 December 2009, 2008 and 2007. As at 31 December 2009, 2008 and 2007 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 2009, the Group had available £15.2m (2008: £29.0m) 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 2009, 90% (2008: 89%) of the Group's borrowings were at fixed rates and the average maturity for these borrowings was 22 years (2008: 23 years).

20 DEFERRED TAX

GROUP

	Accelerated Tax Depreciation £m	Rollover / Holdover Relief £m	Retirement Benefit (Obligations)/ Asset £m	Other £m	Total £m
At 1 January 2007	126.7	38.8	1.1	(0.3)	166.3
Charge/(credit) to income statement	(10.0)	(3.7)	11.3	0.2	(2.2)
At 1 January 2008	116.7	35.1	12.4	(0.1)	164.1
Charge/(credit) to income statement	7.0	(15.8)	14.1	(0.1)	5.2
At 31 December 2008	123.7	19.3	26.5	(0.2)	169.3
Charge to income statement	1.5	-	9.0	0.1	10.6
At 31 December 2009	**125.2**	**19.3**	**35.5**	**(0.1)**	**179.9**

Other comprises provisions and employee expenses deductible for tax on a paid basis.

COMPANY

	Accelerated Tax Depreciation £m	Rollover/ Holdover Relief £m	Retirement Benefit Obligations £m	Total £m
At 1 January 2008	(0.1)	34.0	(0.3)	33.6
Credit to income statement	-	(15.9)	(0.1)	(16.0)
At 31 December 2008	(0.1)	18.1	(0.4)	17.6
Charge to income statement	**-**	**0.1**	-	**0.1**
At 31 December 2009	**(0.1)**	**18.2**	**(0.4)**	**17.7**

21 DEFERRED REVENUE

	£m
At 1 January 2007	336.7
Additions	33.7
Amortisation	(9.5)
At 1 January 2008	360.9
Additions	47.8
Amortisation	(10.6)
At 31 December 2008	398.1
Additions	24.9
Amortisation	(11.6)
At 31 December 2009	**411.4**

	2009 £m	2008 £m	2007 £m
Included in current liabilities	**13.8**	12.5	10.2
Included in non-current liabilities	**397.6**	385.6	350.7
	411.4	398.1	360.9

Deferred revenue represents contributions from customers made in advance towards distribution system assets. This income is released to the income statement over 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 2009 (2008: £nil).

22 PROVISIONS FOR LIABILITIES AND CHARGES

	GROUP			
	Claims £m	**Onerous contracts £m**	**Other £m**	**Total £m**
At 1 January 2008	1.7	1.8	0.9	4.4
Utilised/paid in year	(1.0)	(1.8)	(0.1)	(2.9)
Transferred from Income Statement	0.9	-	0.5	1.4
At 1 January 2009	1.6	-	1.3	2.9
Utilised/paid in year	(0.9)	-	-	(0.9)
Transferred from income statement	0.7	-	-	0.7
At 31 December 2009	**1.4**	**-**	**1.3**	**2.7**

	GROUP		
	2009 £m	2008 £m	2007 £m
Included in current liabilities	**1.7**	2.1	3.2
Included in non-current liabilities	**1.0**	0.8	1.2
	2.7	2.9	4.4

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

Onerous contacts: Related to former retail business property leases.

Other: Relates primarily to environmental liabilities, wayleave disputes and holidays in suspense. Settlement is expected substantially after the next 12 months.

The Company had no provision for liabilities and charges (2008: £nil).

23 SHARE CAPITAL

	Authorised		**Allotted, called up and fully paid**	
	Number (millions)	£m	Number (millions)	£m
At 31 December 2007, 2008 and 2009				
Equity – ordinary shares of 56 12/23p each	**176.9**	**100.0**	**127.7**	**72.2**

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 within Note 19.

24 NOTE TO THE STATEMENT OF CHANGES IN EQUITY

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.

25 NET CASH FROM OPERATING ACTIVITIES

	GROUP		COMPANY	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Operating profit	**123.9**	133.7	**2.5**	1.6
Depreciation and amortisation	**44.6**	41.1	**-**	-
Amortisation of deferred revenue	**(11.6)**	(10.6)	**-**	-
Difference in retirement benefit contributions and amounts charged to operating profit	**(29.2)**	(46.2)	**-**	-
Decrease in provisions	**(0.2)**	(1.5)	**-**	-
Operating cash flows before movements in working capital	**127.5**	116.5	**2.5**	1.6
Decrease in inventories	**6.3**	1.7	**-**	-
(Increase)/decrease in receivables	**(9.7)**	11.5	**0.4**	(0.8)
Increase/(decrease) in payables	**0.8**	(2.1)	**1.9**	(0.9)
Cash generated by/(used in) operations	**124.9**	127.6	**4.8**	(0.1)
Income taxes (paid)/received	**(5.0)**	(7.3)	**1.5**	-
Group relief (paid)/received	**(16.7)**	(11.8)	**(7.6)**	2.5
Dividends received	**-**	0.1	**21.5**	37.1
Interest received	**3.6**	11.1	**3.2**	8.6
Interest paid	**(32.8)**	(35.9)	**(10.0)**	(14.8)
Net cash from operating activities	**74.0**	83.8	**13.4**	33.3

26 OPERATING LEASE ARRANGEMENTS

	GROUP			COMPANY	
	2009 £m	2008 £m	2007 £m	2009 £m	2008 £m
Minimum lease payments under operating leases recognised in the year	3.8	4.1	4.7	0.2	0.2

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

	GROUP			COMPANY	
	2009 £m	2008 £m	2007 £m	**2009 £m**	2008 £m
Within one year	**2.3**	2.9	2.8	**0.2**	0.2
In the second to fifth year inclusive	**5.2**	7.0	6.2	**1.0**	0.8
After five years	**0.9**	1.4	1.4	**0.6**	1.0
	8.4	11.3	10.4	**1.8**	2.0

The lease commitments represent obligations in relation to property and transport facilities. The transport facilities are provided by Vehicle Lease and Service Limited, a joint venture company.

27 PENSION COMMITMENTS

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 the Company 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 projected unit method was used for the 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 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 Company reached agreement during March 2008 with the Group Trustees to repair this deficit. The agreement comprises monthly cash payments of £2.4m (£28.4m per annum) backdated to commence in April 2007. Of these payments, £0.5m per month (£5.7m per annum) is recovered by the Group from other participating employers in the scheme within the CE Group. These payments were designed 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. The next triennial valuation will take place as at 31 March 2010, as part of which the Scheme deficit will be re-assessed.

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 such 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 tri-annual valuation process.

The Northern Electric Money Purchase Scheme is accounted for as a defined contribution scheme.

27 PENSION COMMITMENTS (CONTINUED)

Principal assumptions:

	2009	2008	2007
Valuation method	**Projected unit**	Projected unit	Projected unit
Discount rate	**5.70%**	6.40%	5.90%
Inflation rate	**3.20%**	3.00%	3.20%
Increase to pensions	**3.20%**	3.00%	3.20%
Increase to deferred benefits	**3.20%**	3.00%	3.20%
Salary increases	**2.75***	3.25%	3.45%

*2.75% p.a. for 10 years then 3.20% thereafter

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 26 years, if he is male, and for a further 27 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 28 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:

	2009 £m	2008 £m	2007 £m
Present value of funded defined benefit obligations	**(1,021.9)**	(855.3)	(917.2)
Fair value of plan assets	**938.4**	801.4	956.6
	(83.5)	(53.9)	39.4
Unrecognised actuarial losses	**211.9**	149.8	5.3
Net surplus recognised on the balance sheet	**128.4**	95.9	44.7

27 PENSIONS COMMITMENTS (CONTINUED)

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

	2009 £m	2008 £m	2007 £m
Current service cost	**7.5**	10.3	11.9
Interest cost on obligations	**53.7**	53.0	47.2
Expected return on plan assets	**(54.6)**	(66.2)	(63.9)
Amortisation of actuarial loss	**4.6**	-	-
	11.2	(2.9)	(4.8)
Charged to other CE Group undertakings	**(13.1)**	(14.3)	(9.9)
	(1.9)	(17.2)	(14.7)
Allocated to income statement	**(2.9)**	(20.3)	(18.2)
Allocated to property, plant and equipment	**1.0**	3.1	3.5

27 PENSIONS COMMITMENTS (CONTINUED)

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 (2008: 56%). 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 (2008: 33.6%)

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

The actual return on plan assets was £133.2m (2008: £165.2m loss)

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

	2009 **£m**	2008 £m	2007 £m
Opening defined benefit obligation	**855.3**	917.2	925.9
Current service cost	**7.5**	10.3	11.9
Interest cost	**53.7**	53.0	47.2
Contributions from employees	**3.0**	3.1	3.5
Actuarial losses/(gains)	**145.7**	(87.3)	(32.0)
Benefits paid	**(43.3)**	(41.0)	(39.3)
Closing defined benefit obligation	**1,021.9**	855.3	917.2

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

	2009 **£m**	2008 £m	2007 £m
Opening fair value of plan assets	**801.4**	956.6	912.8
Expected returns	**54.6**	66.2	63.9
Actuarial gains/(losses)	**78.6**	(231.4)	(19.6)
Contributions by employer	**44.1**	47.9	35.3
Contribution from employees	**3.0**	3.1	3.5
Benefits paid	**(43.3)**	(41.0)	(39.3)
Closing fair value of plan assets	**938.4**	801.4	956.6

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

27 PENSIONS COMMITMENTS (CONTINUED)

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

	Long-term rates of return expected at			Value		
	2009	2008	2007	**2009**	2008	2007
	%		%	**£m**	£m	£m
Equities	**8.50**	8.90	8.90	**340.5**	322.2	388.7
Gilts	**5.10**	5.35	5.10	**516.0**	404.7	445.3
Other	**4.50**	3.25	6.00	**0.5**	(4.8)	23.3
Property	**8.50**	7.90	7.90	**81.4**	79.3	99.3
Total fair value of plan assets				**938.4**	801.4	956.6

The 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.

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

	2009	2008	2007	2006	2005
	£m	£m	£m	£m	£m
Present value of defined benefit obligation	**(1,021.9)**	(855.3)	(917.2)	(925.9)	(906.0)
Fair value of plan assets	**938.4**	801.4	956.6	912.8	812.6
(Deficit)/surplus	**(83.5)**	(53.9)	39.4	(13.1)	(93.4)
Experience (losses)/gains on plan liabilities:					
Amount (£m)	**(145.7)**	87.3	32.0	(2.1)	(70.1)
Percentage of scheme liabilities (%)	**(14.3)**	10.2	3.5	(0.2)	(7.7)
Experience gains/(losses)on plan assets:					
Amount (£m)	**78.6**	(231.4)	(19.6)	32.4	66.5
Percentage of scheme assets (%)	**8.4**	(28.9)	(2.0)	3.5	8.2

The Group expects to contribute approximately £44.6m to its defined benefit plan in 2010.

27 PENSIONS COMMITMENTS (CONTINUED)

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 2008	1.4
Utilised/paid in the year	(0.1)
Transferred from income statement	0.1
At 1 January 2009	1.4
Utilised/paid in the year	(0.1)
Transferred from income statement	0.2
At 31 December 2009	**1.5**

28 CAPITAL AND OTHER COMMITMENTS

The Group has entered into contractual commitments in relation to capital investment of £13.0m (2008: £6.7m, 2007: £23.5m).

29 RELATED PARTY TRANSACTIONS

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 2009 was £3.5m (2008: £10.3m). Included within cash and cash equivalents is £141.4m as at 31 December 2009 (2008: £176.8m) in respect of these loans (Note 17).

The Group 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 2009 was £6.3m (2008: £24.6m). Included within borrowings is £100.0m as at 31 December 2009 (2008: £118.5m) in respect of these loans (Note 19).

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

29 RELATED PARTY TRANSACTIONS (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 by Related Party (Note 17) £m	Amounts Owed to Related Party (Note 18) £m
2009:				
CE Insurance Services Limited	-	**0.7**	-	-
CE UK Gas Holdings Limited	**0.2**	-	-	-
Integrated Utility Services Limited (Registered in Eire)	-	**1.0**	-	**0.1**
Vehicle Lease and Service Limited	**0.2**	**3.2**	-	**0.2**
Yorkshire Electricity Distribution plc	**12.7**	**7.9**	-	-
2008:				
CE Insurance Services Limited	-	0.7	-	-
CE UK Gas Holdings Limited	0.3	-	-	-
Integrated Utility Services Limited (Registered in Eire)	-	1.0	-	0.2
Vehicle Lease and Service Limited	0.2	5.5	-	0.2
Yorkshire Electricity Distribution plc	15.6	6.7	-	-
2007				
CE Insurance Services Limited	-	0.6	-	-
CE UK Gas Holdings Limited	0.2	-	-	-
Integrated Utility Services Limited (Registered in Eire)	-	1.0	-	-
Vehicle Lease and Service Limited	0.2	4.8	0.3	1.2
Yorkshire Electricity Distribution plc	14.0	5.9	-	-

29 RELATED PARTY TRANSACTIONS (CONTINUED)

Trading transactions (continued)

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 2009, 3 directors (2008: 3) and 8 key personnel (2008: 8) utilised the services provided by NTFL. The amounts included in finance lease receivables (Note 17) owed by these directors and key personnel total £0.1m (2008: £0.1m) in respect of non-current and £0.1m (2008: £0.1m) 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 2009 was £1.8m (2008: £8.6m). Included within cash and cash equivalents is £111.8m as at 31 December 2009 (2008: £113.6m) 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 year ended 31 December 2009 was £0.3m (2008: £8.6m). Included within borrowings is £nil as at 31 December 2009 (2008: £15.2m) 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)
FOR THE YEAR ENDED 31 DECEMBER 2009

29 RELATED PARTY TRANSACTIONS (CONTINUED)

COMPANY (CONTINUED)

Trading transactions

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

Related Party	Sales to Related Party £m	Purchases from Related Party £m	Dividends received from Related Party £m
2009:			
CE UK Gas Holdings Limited	**0.2**	**-**	**-**
Integrated Utility Services Limited	**0.2**	**-**	**1.2**
Northern Electric Distribution Limited	**5.5**	**0.2**	**20.0**
Northern Electric Properties Limited	**0.1**	**0.2**	**-**
Vehicle Lease and Service Limited	**-**	**-**	**0.3**
Yorkshire Electricity Distribution plc	**3.3**	**-**	**-**
2008:			
CE UK Gas Holdings Limited	0.3	-	-
Integrated Utility Services Limited	0.7	-	1.7
Northern Electric and Gas Limited	-	-	6.5
Northern Electric Distribution Limited	4.8	0.3	20.0
Northern Electric Genco	-	-	2.4
Northern Electric Properties Limited	0.1	0.2	3.7
UK Distribution Limited	-	-	2.4
Vehicle Lease and Service Limited	-	-	0.4
Yorkshire Electricity Distribution plc	3.1	-	-

29 RELATED PARTY TRANSACTIONS (CONTINUED)

COMPANY (CONTINUED)

2007:	Sales to Related Party	Purchases from Related Party	Dividends received from Related Party
	£m	£m	£m
CE UK Gas Holdings Limited	0.2	-	-
Integrated Utility Services Limited	0.7	-	3.6
Northern Electric Distribution Limited	6.2	0.2	20.0
Northern Electric Properties Limited	0.1	0.2	-
Vehicle Lease and Service Limited	-	-	0.4
Yorkshire Electricity Distribution plc	4.7	-	-

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 £3.9m (2008: £4.5m) of group relief from other companies in the CE Group. Payment at the UK statutory rate of 28% (2008: 28.5%) will be made for the use of these tax losses. The tax rates used are the UK corporate rate of 30% until 31 March 2008 and 28% from 1 April 2008, time apportioned for 2008.

30 PARENT UNDERTAKINGS AND CONTROLLING PARTY

The immediate parent undertaking of Northern Electric plc 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., which include Northern Electric plc and the group accounts of CE Electric UK Funding Company, the next 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.

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 2010 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 2009.

Resolution 2
To declare that no final dividend be paid for the year ended 31 December 2009.

Resolution 3
To re-elect Dr J M France as a director.

Resolution 4
To re-elect Mr T E Fielden as a director.

Resolution 5
To re-appoint Deloitte LLP as auditors and to authorise the directors to determine their remuneration.

SPECIAL RESOLUTION

Resolution 6

That

(A) the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of section 28 Companies Act 2006, are to be treated as provisions of the Company's Articles of Association; and

(B) the Articles of Association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

By order of the board
John Elliott
Secretary
19 March 2010

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.

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

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.