

NORTHERN ELECTRIC FINANCE plc

Registered Number: 3070482

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 Finance plc (the "Company") for the year ended 31 December 2008, which includes the business review and audited financial statements for that year. Pages 1 to 4 inclusive of this annual report comprise a directors' report that has been drawn up and presented in accordance with the Companies Act 1985.

BUSINESS REVIEW

Principal activities

The Company is a subsidiary of Northern Electric Distribution Limited, part of the CE Electric UK Funding Company group of companies (the "CE Group"), and was established in August 1995 to raise finance, including the issue of long-term bonds, on behalf of the Northern Electric group of companies, which is also part of the CE Group. During the year, the Company continued to be the issuer of long-term bonds.

Given that the sole purpose of the Company is to raise finance on behalf of Northern Electric Distribution Limited ("NEDL"), the objective of the Company is to ensure that it has sufficient funds to cover its interest charges as they fall due. Details of key performance indicators used in the CE Group can be found in the Business Review in the CE Electric UK Funding Company directors' report.

Details of the key risks faced by the Company in respect of its borrowings can be found in Notes 2 and 9 to the accounts.

Financial review

Results and dividends

The Company made a loss after tax for the year of £0.1m (2007: loss £0.1m). No dividends were paid during the year and the directors recommend that no final dividend be paid in respect of the year.

Share capital

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

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DIRECTORS' REPORT (CONTINUED)

Financial review (continued)

Taxation

Full details of the Company's taxation charge are provided in Note 6 to the accounts.

Income statement commentary

The loss before tax at £0.1m was comparable with the prior year.

Net cash inflow from operating activities

The net cash inflow from operating activities at £0.3m was £2.6m lower than the prior year mainly due to lower interest received.

Principal risks and uncertainties facing the Company

Liquidity risk

The principal risk facing the Company is not having sufficient liquidity to enable the Company to meet its liabilities as they fall due and to provide adequately for contingencies. In this respect, borrowing facilities are made available to the Company by other companies in the CE Group, if required. The Company continues to maintain its investment grade issuer credit rating.

Interest rate risk

The Company 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 2008, 100% of the Company's borrowings were at fixed rates and the average maturity for these borrowings was 21 years.

Currency risk

No material currency risks are faced by the Company.

Trading risk

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

Financial derivatives

As at 31 December 2008 and during the year it was the Company's policy not to hold any derivative financial instruments.

Research and development

Given that the sole purpose of the Company is to raise finance on behalf of NEDL, the Company does not undertake research and development.

Future developments

The financial position of the Company, as at the year end, is shown in the balance sheet on page 8. There have been no significant events since the year end and it is the intention of the directors that the Company will continue to raise finance, as required, in the future.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS

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

G E Abel	President, MidAmerican Energy Holdings Company
P Ainsley	Financial Controller, CE Electric UK
P E Connor	Senior Vice President and Chief Procurement Officer, MidAmerican Energy Holdings Company
K Linge	Finance Director, CE Electric UK

Throughout the year, none of the directors was materially interested in any contract in relation to the business of the Company.

AUDITORS

On 1 December 2008 Deloitte & Touche LLP changed its name to Deloitte LLP. Accordingly, a resolution to re-appoint Deloitte LLP as the Company's auditors and authorise the directors to determine their remuneration will be proposed at the Annual General Meeting.

Going concern

The Company'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 Company'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 Business Review 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 account of a number of factors that arise due to the Company being a wholly-owned subsidiary of NEDL, including the following:

- a) In accordance with standard condition 31 of NEDL's electricity distribution licence, Berkshire Hathaway, Inc., the ultimate controlling party of the Company, has provided an undertaking that it will and it will procure that any person (including a corporate body), which is a subsidiary of or is controlled by it, will refrain from any action, which would cause NEDL to breach any of its obligations under the Electricity Act 1989 or under its electricity distribution licence. NEDL's electricity distribution licence includes the obligation in standard condition 40 to maintain an investment grade issuer credit rating;
- b) Explicit support has been made available to MidAmerican Energy Holdings Company (a parent company of the CE Group) by Berkshire Hathaway Inc., which consists of a \$3.5 billion equity commitment that expires on 28 February 2011 and to which NEDL has access, if necessary. No amounts were outstanding on that facility as of the date of approval of the Company's accounts to 31 December 2008;
- c) As part of a review of electricity distribution licensees' financing requirements, on 15 January 2009 Ofgem issued an information request to all such licensees under standard licence condition 6 relating to the financial resources each licensee has available in the 24 months ended 31 December 2009. After making enquiries and taking account of several factors, the directors of NEDL approved the submission to Ofgem of a certificate confirming their reasonable expectation that NEDL has, or will have available to it, sufficient financial resources and/or financial facilities to enable NEDL to carry on its regulated business for a period of two years since the date of the last statutory accounts; and

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DIRECTORS' REPORT (CONTINUED)

Going concern (continued)

- d) Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000.

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

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 s234ZA of the Companies Act 1985.

By order of the board



John Elliott
Company Secretary

31 March 2009

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 in accordance with International Financial Reporting Standards ("IFRS") and have also elected to prepare financial statements for the Company in accordance with IFRS. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company'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.

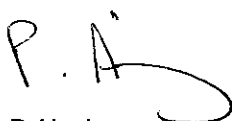
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which complies with the requirements of the Companies Act 1985. 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 as at the date of the Annual Report, whose names and functions are set out on page 3 of the Directors' Report confirms that, to the best of their knowledge:

- a) the Company 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
- b) the Management Report (which is comprised of the Director's Report and the Business Review) includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties it faces.

This responsibility statement was approved by the Board of Directors on 31 March 2009 and signed on its behalf by:


P Ainsley
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NORTHERN ELECTRIC FINANCE plc

We have audited the financial statements of Northern Electric Finance plc (the 'Company') for the year ended 31 December 2008 which comprise the Income Statement, the Statement of Recognised Income and Expense, the Balance Sheet and the Cash Flow Statement and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

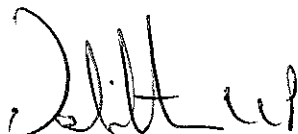
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



Deloitte LLP

Chartered Accountants and Registered Auditors
Newcastle, United Kingdom

31 March 2009

NORTHERN ELECTRIC FINANCE plc

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INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 £m	2007 £m
Investment income	4	17.1	16.7
Finance costs	5	<u>(17.2)</u>	<u>(16.9)</u>
Loss before tax		(0.1)	(0.2)
Income tax credit	6	<u>-</u>	<u>0.1</u>
Loss for the financial year	12	<u>(0.1)</u>	<u>(0.1)</u>

All activities relate to continuing operations.

STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2008

There has been no other income or expense for the Company other than the losses reported above in the current or the prior year.

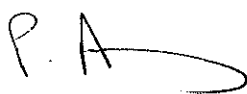
NORTHERN ELECTRIC FINANCE plc

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BALANCE SHEET AS AT 31 DECEMBER 2008

	Notes	2008 £m	2007 As restated (Note 2) £m
Non-current assets			
Trade and other receivables	7	<u>247.5</u>	<u>247.4</u>
		<u>247.5</u>	<u>247.4</u>
Current assets			
Trade and other receivables	7	<u>3.5</u>	<u>3.9</u>
Cash and cash equivalents		<u>1.7</u>	<u>1.4</u>
		<u>5.2</u>	<u>5.3</u>
Total assets		<u>252.7</u>	<u>252.7</u>
Current liabilities			
Borrowings	9	<u>(6.9)</u>	<u>(6.9)</u>
		<u>(6.9)</u>	<u>(6.9)</u>
Net current liabilities		<u>(1.7)</u>	<u>(1.6)</u>
Non-current liabilities			
Borrowings	9	<u>(246.0)</u>	<u>(245.9)</u>
Deferred tax	10	<u>(0.4)</u>	<u>(0.4)</u>
		<u>(246.4)</u>	<u>(246.3)</u>
Total liabilities		<u>(253.3)</u>	<u>(253.2)</u>
Net liabilities		<u>(0.6)</u>	<u>(0.5)</u>
Equity			
Share capital	11	-	-
Retained earnings	12	<u>(0.6)</u>	<u>(0.5)</u>
Total deficit	12	<u>(0.6)</u>	<u>(0.5)</u>

The financial statements were approved by the board of directors and authorised for issue on 31 March 2009 and were signed on its behalf by:



P Ainsley
Director

NORTHERN ELECTRIC FINANCE plc

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CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 £m	2007 £m
Net cash from operating activities	13	<u>0.3</u>	<u>2.9</u>
Investing activities			
Purchase of long-term securities		-	(100.0)
Maturity of short-term securities		<u>-</u>	<u>100.0</u>
Net cash used in investing activities		<u>-</u>	<u>-</u>
Financing activities			
Movement in loans from Group undertakings		<u>-</u>	<u>(1.5)</u>
Net cash used in financing activities		<u>-</u>	<u>(1.5)</u>
Net increase in cash and cash equivalents		0.3	1.4
Cash and cash equivalents at beginning of year		<u>1.4</u>	<u>-</u>
Cash and cash equivalents at end of year		<u>1.7</u>	<u>1.4</u>

NORTHERN ELECTRIC FINANCE plc

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NOTES TO THE ACCOUNTS - 31 DECEMBER 2008

1 GENERAL INFORMATION

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

The nature of the Company's operations and its principal activities are set out in the Business Review in the directors' report on page 1.

2 ACCOUNTING POLICIES

Accounting convention and basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Act that are applicable to companies reporting under IFRS.

The accounts have been prepared under the historical cost convention.

Going Concern

The Company'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 Company'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 Business Review 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 account of a number of factors that arise due to the Company being a wholly-owned subsidiary of NEDL, including the following:

- a) In accordance with standard condition 31 of NEDL's electricity distribution licence, Berkshire Hathaway, Inc., the ultimate controlling party of the Company, has provided an undertaking that it will and it will procure that any person (including a corporate body), which is a subsidiary of or is controlled by it, will refrain from any action, which would cause NEDL to breach any of its obligations under the Electricity Act 1989 or under its electricity distribution licence. NEDL's electricity distribution licence includes the obligation in standard condition 40 to maintain an investment grade issuer credit rating;
- b) Explicit support has been made available to MidAmerican Energy Holdings Company (a parent company of the CE Group) by Berkshire Hathaway Inc., which consists of a \$3.5 billion equity commitment that expires on 28 February 2011 and to which NEDL has access, if necessary. No amounts were outstanding on that facility as of the date of approval of the Company's accounts to 31 December 2008;
- c) As part of a review of electricity distribution licensees' financing requirements, on 15 January 2009 Ofgem issued an information request to all such licensees under standard licence condition 6 relating to the financial resources each licensee has available in the 24 months ended 31 December 2009. After making enquiries and taking account of several factors, the directors of NEDL approved the submission to Ofgem of a certificate confirming their reasonable expectation that NEDL has, or will have available to it, sufficient financial resources and/or financial facilities to enable NEDL to carry on its regulated business for a period of two years since the date of the last statutory accounts; and

NOTES TO THE ACCOUNTS - 31 DECEMBER 2008 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Going Concern (continued)

- d) Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000.

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

Critical accounting policies

The particular policies adopted by the directors are described below. The accounting policies have been applied consistently throughout the year and the preceding year, with the exception of interest on borrowings, as highlighted below.

Adoption of new or revised standards

In the current year, the Company has adopted the following interpretation:

IFRS 7 Financial Instruments: Disclosures – “Amendments to IFRS 7”

The amendments to IFRS 7 require enhanced disclosures about fair value measurement and liquidity risk, which are illustrated in notes 14 to 16 to the accounts.

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

IAS 1 Presentation of Financial Statements – “Amendments to IAS 1”

The directors anticipate that the adoption of this Standard in future periods will have no material impact on the financial statements of the Company.

The IASB project “2008 Annual Amendments to IFRSs” was published on 22 May 2008. This project will require presentational changes in the financial statements of the Company for annual periods beginning on or after 1 January 2009.

The directors anticipate that the Company will adopt these Standards on their effective dates.

Revenue

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

Taxation

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

NOTES TO THE ACCOUNTS - 31 DECEMBER 2008 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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 Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that 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 year when the liability is settled or asset realised, based on tax rates and tax legislation enacted or substantively enacted at the balance sheet date.

Borrowings

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

Prior year restatement

A prior year restatement has been made in respect of accrued interest on borrowings. These balances have been reclassified from trade and other payables to short term borrowings on the face of the balance sheet and in the related notes to the accounts in line with IAS 39 "Financial Instruments: Recognition and Measurement". The effect of this adjustment is to increase borrowings in the prior year by £6.9m and to decrease trade and other payables by £6.9m. The adjustment has no impact on the prior year profit.

Trade payables

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

Cash and cash equivalents

Loans advanced to the parent company are included within cash and cash equivalents, having a maturity of less than three months on the basis that they are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

NOTES TO THE ACCOUNTS - 31 DECEMBER 2008 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

Financial assets and financial liabilities are recognised on the balance sheet when the 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.

Financial liabilities and equity

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

3 DIRECTORS', KEY PERSONNEL AND AUDITORS' REMUNERATION

No directors' or key personnel remuneration was charged for the year (2007: £nil). There are no directors' emoluments that are required to be disclosed under the Act (2007: £nil). There were no employees of the Company during the year (2007: nil).

Auditors' remuneration of £6,000 was charged to the Company for the year (2007: £6,000) in relation to the audit of the Company. There was no fees payable in relation to non-audit services in 2008 or 2007.

4 INVESTMENT INCOME

	2008 £m	2007 £m
Interest receivable on loans to Group undertakings	17.1	12.0
Interest receivable on securities	-	4.7
Total investment income	<u>17.1</u>	<u>16.7</u>

5 FINANCE COSTS

	2008 £m	2007 £m
Interest payable on loans from Group undertakings	0.1	0.1
Interest payable on other loans	<u>17.1</u>	<u>16.8</u>
Total finance costs	<u>17.2</u>	<u>16.9</u>

NOTES TO THE ACCOUNTS - 31 DECEMBER 2008 (CONTINUED)**6 INCOME TAX CREDIT**

	£m	£m
Income tax credit comprises:		
Deferred tax credit relating to the origination or reversal of temporary differences	-	0.1
Tax on loss before tax	-	0.1
The total credit can be reconciled to the accounting loss as follows:		
Loss on ordinary activities before tax	(0.1)	(0.2)
Tax on loss before tax at standard rate of corporation tax in United Kingdom of 28.5% (2007: 30%)	-	0.1

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.

7 OTHER FINANCIAL ASSETS**Trade and other receivables**

	Book value		Fair value	
	2008 £m	2007 £m	2008 £m	2007 £m
Non-current:				
Amounts owed by Group undertakings	247.5	247.4	246.7	268.3
Current:				
Amounts owed by Group undertakings	3.5	3.9	3.5	3.9

The directors' estimate of the fair value is calculated by discounting the future cash flows at the market rate at the balance sheet date.

Loans to Group undertakings are made to Northern Electric Distribution Limited, the Company's immediate parent, and are at fixed rates of interest. The maximum exposure to risk to the Company is the book value of these loans.

Cash and cash equivalents

Cash and cash equivalents represent amounts owed from Yorkshire Electricity Group plc, a company within the CE Electric UK Funding Company Group, which have a maturity date of less than three months and which are subject to an insignificant risk of changes in value. The fair value of cash and cash equivalents is equal to their book value.

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NOTES TO THE ACCOUNTS - 31 DECEMBER 2008 (CONTINUED)

8 OTHER FINANCIAL LIABILITIES

The following tables detail the remaining contractual maturities for the non-derivative financial liabilities included in Notes 9. 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.

	Less than 3 months £m	3 months To 1 year £m	1 to 5 Years £m	5+ Years £m	Total £m
2008:					
Fixed interest rate liability	-	16.6	66.3	491.5	574.4
2007:					
Fixed interest rate liability	-	16.6	66.3	497.8	580.7

9 BORROWINGS

	Book value		Fair value	
	2008	2007 As restated (note 2)	2008	2007
	£m	£m	£m	£m
The borrowings are repayable as follows:				
On demand or within one year	6.9	6.9	6.9	6.9
After five years	246.0	245.9	246.4	261.5
	<u>252.9</u>	<u>252.8</u>	<u>253.3</u>	<u>268.4</u>
Analysis of borrowings:				
2035 – 5.125%	152.6	152.6	127.4	140.9
2020 – 8.875%	100.3	100.2	125.9	127.5
	<u>252.9</u>	<u>252.8</u>	<u>253.3</u>	<u>268.4</u>

The directors' estimates of the fair value of the Company's borrowings are calculated by discounting their future cash flows at the market rate at the balance sheet date.

All loans are at fixed interest rates and expose the Company to fair value interest rate risk.

The Company's loans are guaranteed by Northern Electric Distribution Limited, its parent company.

The covenants associated with the 2035 bonds issued by the Company include restrictions on the issuance of new indebtedness and the making of distributions dependent on the scale of the ratio of Senior Total Net Debt to Regulatory Asset Value ("RAV") of Northern Electric Distribution Limited. The definition of Senior Total Net Debt excludes any subordinated debt and any debt incurred on a non-recourse basis. In addition, it excludes interest payable, any fair value adjustments and unamortised issue costs.

All borrowings are denominated in sterling. The Company has no undrawn committed borrowing facilities.

NORTHERN ELECTRIC FINANCE plc

REGISTERED NUMBER 3070482

NOTES TO THE ACCOUNTS - 31 DECEMBER 2008 (CONTINUED)

10 DEFERRED TAX

	£m
At 31 December 2006	0.5
Credit to income	<u>(0.1)</u>
At 31 December 2007 and 31 December 2008	<u>0.4</u>

The balance represents deferred tax on unamortised debt issue costs.

11 SHARE CAPITAL

	2008 £	2007 £
Authorised		
50,000 ordinary shares of £1 each	50,000	50,000
Issued and fully paid		
50,000 ordinary shares of £1 each fully paid	<u>50,000</u>	<u>50,000</u>

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

12 MOVEMENT ON RESERVES AND RECONCILIATION OF MOVEMENTS IN TOTAL EQUITY

	Share Capital £m	Retained Reserves £m	Total Equity £m
At 1 January 2007	-	(0.4)	(0.4)
Loss for the year	<u>-</u>	<u>(0.1)</u>	<u>(0.1)</u>
At 31 December 2007	-	(0.5)	(0.5)
Loss for the year	<u>-</u>	<u>(0.1)</u>	<u>(0.1)</u>
At 31 December 2008	<u>-</u>	<u>(0.6)</u>	<u>(0.6)</u>

NORTHERN ELECTRIC FINANCE plc

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NOTES TO THE ACCOUNTS - 31 DECEMBER 2008 (CONTINUED)

13 NET CASH FROM OPERATING ACTIVITIES

	2008 £m	2007 £m
Interest received	17.5	19.8
Interest paid	(17.2)	(16.9)
Net cash from operating activities	<u>0.3</u>	<u>2.9</u>

14 RELATED PARTY TRANSACTIONS

The Company has advanced loans to Northern Electric Distribution Limited, its immediate parent company. The total interest included in investment income for the year ended 31 December 2008 was £17.1m (2007: £12.0m). Included within trade and other receivables is £251.0m as at 31 December 2008 (2007: £251.3m) in respect of these loans.

The Company has received loans from other companies in the CE Electric UK Funding Company Group. The total interest included in finance costs in the income statement for the year ended 31 December 2008 was £0.1m (2007: £0.1m). Included within borrowings is £nil as at 31 December 2008 (2007: £nil) in respect of these loans.

Interest on loans to/from group companies is charged at a commercial rate.

15 IMMEDIATE PARENT UNDERTAKING AND CONTROLLING PARTY

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

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