NORTHERN ELECTRIC plc
Report & Accounts
to December
2007

NORTHERN ELECTRIC

MIDAMERICAN
ENERGY HOLDINGS COMPANY
A Berkshire Hathaway Company

Contents

Directors' Report

The directors present their report together with the consolidated accounts of Northern Electric plc and its subsidiary undertakings (the "Group") for the year ended 31 December 2007.

BUSINESS REVIEW OF THE YEAR

Northern Electric plc (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").

Electricity distribution

NEDL serves an area of approximately 14,400 sq km in the north east of England with a resident population of 3.2 million, receives electricity from the National Grid transmission system and distributes it to the 1.6 million customers connected to its electricity distribution network of transformers, switchgear and overhead and underground cables, at voltages of up to 132kV. NEDL is an authorised distributor under the Electricity Act 1989 and holds an electricity distribution licence granted by the Secretary of State. 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, as a holder of an electricity distribution licence, is subject to regulation by the Gas and Electricity Markets Authority, which acts through the Office of Gas and Electricity Markets ("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. 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.

Customer service and network performance

During the year, NEDL continued to make improvements to the services provided to its customers by taking action to:

- Improve under-performing parts of the distribution system by identifying "hot spots" and taking specific action to address the issues in those areas; and
- Reduce the average length of time taken to restore supplies in fault situations.

Ofgem has established the Quality of Service incentive scheme, by which distribution network operators ("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 minutes lost ("CML") and customer interruptions ("CI") are the key performance indicators used by NEDL 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. Guaranteed standards, set for activities such as restoring supplies after unplanned interruptions, measure the level of customer service. Performance against these measures forms part of NEDL's regular reporting to Ofgem.

NEDL is continuing with its initiatives to reduce the time taken to restore supplies following faults on the network. Those initiatives include "Power in an Hour", which aims to restore the supplies of as many customers as possible within an hour of the start of an interruption, and the use of the latest mobile phone technology to locate and contact the nearest persons able to deal with faults.

In respect of the key customer service performance indicators, NEDL's CML performance for the regulatory year ended 31 March 2007 was 78.2, compared with the Ofgem target of 70.4, whilst CI performance was 74.0, compared with the Ofgem target of 74.5. Consequently, NEDL achieved the CI target, but not the CML target.

NEDL has continued to put a great deal of effort into improving its satisfaction rating from customers using its call centre and, during the regulatory year ended 31 March 2007, achieved a cumulative customer satisfaction score of 88.8%, thus narrowly missing the Ofgem target of 90%.

In addition to the above, NEDL and Yorkshire Electricity Distribution plc ("YEDL"), an associated company in the CE Group, made a successful submission during the year to the Ofgem customer service award scheme, being outright winner in the "wider communication" category (which covered its arrangements for communicating with ethnic communities) and joint first in the "customer care" category (which covered its arrangements for helping infirm or vulnerable customers). NEDL and YEDL were awarded a total of £0.7m in respect of that submission, of which £0.3m is attributable to NEDL.

System investment and improvement

During the year, £125.8m was invested in the electricity distribution system, including the replacement of assets and continuing network improvements intended to increase the quality of the electricity supply provided to its customers.

As part of the investment strategy to deliver improvements in an efficient and cost-effective manner, the major projects undertaken during the year included:

- Replacement of two 132/33kV grid transformers at Scarborough Grid substation;
- Refurbishment of the Stella North to Dunston 132kV double circuit tower line;
- Installation of a third 132/33kV grid transformer at Melrosegate substation in York;
- Completion of phase one of a two stage refurbishment of the Spennymoor to Skernside 66kV wood pole overhead line;
- Replacement of 48 units of high voltage outdoor switchgear;
- Replacement of 37 high voltage distribution substations;
- Replacement of 39 units of high voltage indoor switchgear;
- Refurbishment or rebuilding of 88km of high voltage overhead line;
- Refurbishment or rebuilding of 122km of low voltage overhead line; and
- The installation of 81 sites with remote control facilities.

In order to deliver its investment strategy, NEDL used a mix of its own staff and contractors to undertake its activities.

Directors' Report (continued)

BUSINESS REVIEW OF THE YEAR (CONTINUED)

Engineering contracting

IUS provided engineering contracting services to a range of clients during the year, including E-on (formerly Central Networks), Network Rail, Northumbrian Water and Yorkshire Water, continued to develop its contract with E-on and expanded its activities in the provision of a "Multi Utility" service to house builders throughout the North East and Yorkshire, operating as an independent connections provider. A contract to deliver contestable connections on behalf of Scottish Water commenced during the year and has created the opportunity to develop further business within Southern Scotland. The UK contracting element of the business is expanding across the United Kingdom with an increase in contract awards for delivery in 2008. IUS will also be developing its services to the rail market with particular focus in the South of England.

FINANCIAL REVIEW

Results and dividends

The Group made a profit after tax for the year of £86.0m. The directors recommend that no final dividend be paid in respect of the year, leaving a profit of £86.0m to be transferred to reserves.

Share capital and debt structures

There were no changes to the Company's share capital or debt structure 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 Group 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.

Taxation

Full details of the Group's taxation charge are provided in Note 9 to the accounts.

Generation and use of cash resources

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

Liquidity and maintenance of investment grade ratings

The Company has access to short-term borrowing facilities provided by YE and to committed revolving credit facilities provided by Lloyds TSB Bank plc and Royal Bank of Scotland plc. The Company continues to maintain its investment grade issuer credit rating.

Financial derivatives

As at 31 December 2007 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, and, in March 2008, reached agreement with the Group Trustees to repair the Scheme deficit. The agreement comprises monthly cash payments of £2.4m (£28.4m per annum) backdated to April 2007. Of the annual payment of £28.4m, £5.7m will be recovered by the Group from other participating employers in the Scheme within the CE Group. These payments aim 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 Company also participates in the Northern Electric Money Purchase Scheme, a defined contribution scheme.

Full details of the Scheme's pension commitments are provided in Note 28 to the accounts.

Insurance

As part of its insurance and risk strategy, the 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 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.

INCOME STATEMENT COMMENTARY

Profit before tax at £109.0m was £3.3m lower than the previous year. Higher margins (£15.3m) due to distribution tariff increases implemented during the year and additional gains (£0.5m) were offset by higher depreciation and amortisation charges (£6.0m) reflecting the reduction in asset lives, higher maintenance costs (£2.6m), other operating cost increases (£6.7m) and higher net finance costs (£3.8m).

CASH FLOW STATEMENT COMMENTARY

Net cash inflow from operating activities

The net cash inflow from operating activities at £67.0m was £10.7m lower than 2006. The prior year benefited from lower inventory balances following the restructuring of the distribution business.

Investing activities

Net cash generated from investing activities at £23.1m was £113.1m higher than the prior year reflecting the sale of long term securites (£100.0m).

Financing activities

The net cash generated by financing activities at £7.6m represented a favourable variance of £62.7m compared with the cash outflow of £55.1m in the prior year. The prior year included a £50.0m dividend. No dividend was paid in 2007.

TREASURY POLICY

The main risks arising from the Company's financial instruments are interest rate risk and liquidity risk.

Interest rate risk

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

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 2007, 94% of the Company's borrowings were at fixed rates and the average maturity for these borrowings was 25 years.

Directors' Report (continued)

TREASURY POLICY (CONTINUED)

Liquidity risk

The Company's primary 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.

Currently, committed revolving credit facilities are provided by Lloyds TSB Bank plc and Royal Bank of Scotland plc. In addition, short-term borrowing facilities are provided by YE. Such borrowings are on normal commercial terms, are on an arm's length basis and are reflective of an entity with an investment grade issuer credit rating.

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 instruments should be undertaken.

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 Company at 31 December 2007 was 17 (2006: 18).

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

Following a review during 2007, management systems were refined to provide further enhanced and more appropriately focused arrangements with regard to compliance assurance and risk management. A Compliance Assurance Programme Steering Group ("CAPSG") was established 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. As at 31 December 2007 a total of 20 significant risks were registered in this regard. The categories were financial (2), regulatory and legal (5), commercial (2), technical (6), safety and environment (2), and physical (3). Other principal categories of risk facing the CE Group are people, customer service, corporate reputation, economic and political.

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 main financial risks facing the Company are outlined under Treasury policy, above.

The CE Group's strategy is to follow an appropriate risk policy, which is intended to effectively manage exposures related to the achievement of 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 quarterly review of the key risks, controls and action plans is undertaken. The Governance and Risk Manager oversees all aspects of risk and compliance, 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, an 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 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;

Directors' Report (continued)

INTERNAL CONTROL (CONTINUED)

- 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.

OFGEM INVESTIGATION

After an investigation undertaken by Ofgem found that NEDL and YEDL had misreported performance data and had each breached the condition of their electricity distribution licences requiring them to provide information on the quality of aspects of their services, Ofgem announced on 6 June 2007 that it required a total reduction of £2.1m in the future price control revenues of NEDL and YEDL. Of the total reduction of £2.1m, £0.9m is attributable to NEDL. Ofgem stated that the decision took into account the voluntary disclosure that NEDL and YEDL had misreported data and may have breached their licences and the action taken by the companies. The reduction of £0.9 million was factored into NEDL's tariff change, effective from 1 July 2007 to 31 March 2008.

PEOPLE

The CE Group has a clearly defined leadership team, in which clear 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 and performance analysis and innovation. The information technology, human resources, procurement and finance functions are centralised in order to provide those services across the CE Group.

The Group employed 1,346 staff at the end of December 2007 (2006: 1,362).

Disabled employees

The Company is an equal opportunities employer and is committed to the criteria underpinning the Employment Service disability symbol. It is the Company'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

In line with the Information and Consultation Regulations, the Company has introduced a constitutional framework and agreed that framework with trade union representatives. In addition, the Company communicates directly, and through the management structure, with personal contract holders and keeps them informed and involved as appproriate in any developments that may impact on them now or in the future.

The Company 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 newsletters and a quarterly employee magazine.

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 Group and 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 Group's fundamental objective that none of its staff should go home injured. NEDL maintained its OHSAS 18001 certification and both NEDL and IUS again received a gold award from the Royal Society for the Prevention of Accidents for occupational health and safety performance and provision. The gold status is awarded to recognise the achievement of continued or improving standards of health and safety over at least a four-year period.

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

	2007		2006	
	Target	Actual	Target	Actual
Lost time accidents	0	3	0	3
Medical treatment accidents	3	5	1	2
Operational incidents	8	9	4	5
Preventable vehicle accidents	18	21	24	24

Safety performance against target was somewhat disappointing during 2007 and a number of initiatives arising from the continuing evaluation of the lessons to be learned from all safety related incidents have been incorporated into the annual safety improvement plan, which focuses on operating a safe environment in both the workplace and on the road.

ENVIRONMENTAL MANAGEMENT

A comprehensive policy and strategy, and subordinate operational control procedures and systems, are in place, aimed at ensuring compliance with all environmental requirements. The CE Group promotes environmental awareness, best practice and legal compliance amongst its staff and contractors and requires strict compliance with its environmental policy.

The CE Group has operated a scheme under the international environmental management systems standard ISO 14001 since the late 1990s. The scheme has been subjected to regular six-monthly surveillance assessments by an external certification body in order to retain United Kingdom Accreditation Service certification status. The most recent visit was a full three-yearly re-assessment undertaken by Lloyd's Register Quality Assurance in February 2008 and was for the purpose of renewing the scheme's certificate. Four minor nonconformances were raised for action but the report into the visit concluded that there was clear and substantial evidence available that the environmental management system has been appropriately established, documented, implemented, maintained and continually improved such that continued certification to ISO 14001:2004 can be recommended.

Directors' Report (continued)

ENVIRONMENTAL MANAGEMENT (CONTINUED)

Management improvement programmes 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 SF6 units at outdoor substations;
- Enhanced monitoring and response measures with regard to the management of fluid-filled underground cable networks;
- Installation of additional engineering controls where required to improve pollution prevention in strategic primary substation sites;
- Installation of underground cables using trenchless technology as opposed to open-cut excavations;
- The evaluation of waste management provision and minimisation options together with systematic verification of the legal duty of care in connection with waste management activities;
- Monthly monitoring and management of fuel consumption by fleet vehicles;
- Environmental awareness training for new employees and contractors, complemented by periodic refresher training for all staff;
- Introduction of new printer technology to reduce paper and toner waste; and
- Monthly monitoring of energy consumption at all premises.

Measurements used by the CE Group to monitor environmental performance include the following categories:

- An annual internal environmental management systems audit programme: (38 audits completed) (2006: 26);
- Internal environmental management systems non-conformances: (6 reported and addressed) (2006: 6);
- Continual improvement programmes: (7 underway with 6 performing to target and 1 temporarily delayed) (2006: 7 underway and performing to target);
- Environmental incidents log: (37 investigated and remedial action taken, including 10 reported to the Environment Agency) (2006: 29 investigated and remedial action taken, including 10 with related Environment Agency contact);
- Cable fluid losses: (an average annual rate of 26.2 litres per kilometre);
- Primary transformer oil losses: (57 litres);
- Secondary transformer oil losses: (2,441 litres);
- All other oil losses: (69 litres);
- SF6 switch-gear losses: (0.6 kg) (2006: 0.3kg); and
- Environmental customer communications: (307, mainly substation related, regarding graffiti, weeds and fly-tipping) (2006: 288).

Actual key performance is provided monthly to MidAmerican, as part of a group-wide monitoring process, and is also made available for scrutiny during six-monthly external environmental management system assessments.

The environmental key performance indicators are used in order to give a clear indication of how the environmental management system is performing and to measure delivery of the system evaluation and continual improvement programmes, as well as detected non-conformances, reported incidents and the significance of environmental impacts. Performance targets are selected on the basis of their environmental significance, measurability and achievability and are subject to on-going monitoring as part of the CE Group's continual improvement programme.

CHARITABLE AND POLITICAL DONATIONS

During the year, charitable donations of £65,119 were made, principally to local charities serving the communities in which the Group operates. No contributions were made to political organisations.

CORPORATE SOCIAL RESPONSIBILITY

The Group values its relationship with its customers and their communities, recognising the importance to communities of a secure power supply, and aims to enhance its relationship through a wider involvement in the activities of 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. It 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 Group is an active member of Business in the Community.

RESEARCH AND DEVELOPMENT

NEDL 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:

- Continuing to support the development of a novel (super-conducting) fault current limiter to reduce prospective short-circuit currents. The resultant lower stress on switchgear, if the project succeeds, will permit the connection of more rotating plant (including generation) with lower levels of reinforcement and/or replacement;
- Commencement of a project at Durham University to assess electrical network risk with the objective of improving decision making on network reinforcement and operation;
- Development of a network planning tool to assist in the assessment of network performance improvement initiatives;
- Continuing to support, in collaboration with other DNOs, a range of incremental improvements to tools and equipment that, if successful, will further add to overall efficiency improvements; and
- Continuing to support, in collaboration with universities and other network operators, a programme of longer-range research that will, if successful, lay the foundation for the development of a wide range of improved products and processes to improve customer service, environmental performance and overall efficiency.

FUTURE DEVELOPMENTS

The directors intend to develop the 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 its electricity distribution system with the aim of improving the quality of supply provided to its 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.

Directors' Report (continued)

DIRECTORS AND THEIR INTERESTS

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

David L Sokol	*resigned 1 June 2007*
Gregory E Abel	*Chief Executive Officer*
P Eric Connor	
Ron Dixon	
John M France	
Patrick J Goodman	
Brian K Hankel	
Philip A Jones	*appointed 20 April 2007*

In accordance with the Articles of Association, Dr P A Jones, Mr P J Goodman and Mr B K Hankel will retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election.

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

AUDITORS

A resolution to reappoint the auditors, Deloitte & Touche 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 56 to 59 of this report.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare financial statements for the Group 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;
- 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; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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.

The Company has no ordinary shares listed on the London Stock Exchange. Accordingly, it has availed itself of the exemption from the London Stock Exchange requirements to make corporate governance and directors' remuneration disclosures and for auditor review thereof.

GOING CONCERN

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

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, Secretary

18 April 2008

Directors' Biographies

GREGORY E ABEL

Appointed in January 1997, Mr Abel, 45, is chief executive officer of MidAmerican Energy Holdings Company ("MidAmerican"), based in Des Moines, Iowa. He also serves as the chief executive officer of the CE Group, which distributes electricity to approximately 3.7 million customers in England, and as chairman and chief executive officer of PacifiCorp, which provides electricity services to six states and approximately 1.6 million customers in the west of the United States. 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 Gas Transmission Company operates 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 Electric UK distribution businesses, CalEnergy Generation's operations as an independent power producer; and the Kern River Gas Transmission Company and Northern Natural Gas Company 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 Company, Inc.

P ERIC CONNOR

Appointed in March 1998, Mr Connor, 59, is senior vice president and chief procurement officer for MidAmerican. He is responsible for maximising the value of goods and services purchased by the MidAmerican group across all of its energy business platforms. Previously, Mr Connor was president and chief operating officer of CE Electric UK and was responsible for overseeing all of the CE Group's business including its electricity distribution business. Mr Connor joined Northern Electric plc in 1992 as a director of resources, was named as president and chief operating officer in April 1999 and moved to his current position in June 2003. Mr Connor is a chartered engineer and, prior to joining Northern Electric plc, was a director at NEI Reyrolle Limited. His previous appointments include engineering and management posts with National Nuclear Corporation, NEI and Marconi Space and Defence.

RON DIXON

Appointed in October 1997, Mr Dixon, 70, 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 and Northern Electric Distribution Limited.

JOHN M FRANCE

Appointed in January 2000, Dr France, 50, is Regulation Director for the CE Electric UK group of companies. 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.

PATRICK J GOODMAN

Appointed in May 1999, Mr Goodman, 41, is senior vice president and chief financial officer of MidAmerican and is responsible for managing all aspects of the company's financial operations. Mr Goodman supports the negotiation and closing of the company's international and domestic project financings along with supporting future acquisitions and project developments and manages all accounting, financial reporting, tax, budgeting and long-range financial planning functions for the MidAmerican group. After joining the company 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 Pricewaterhouse.

BRIAN K HANKEL

Appointed in June 2003, Mr Hankel, 45, joined CalEnergy Company, Inc. in February of 1992 as a treasury analyst and served in that position through December 1995. He was appointed Assistant Treasurer in January 1996 and was appointed to his current position of Vice President and Treasurer in January 1997. A graduate of the University of Nebraska-Lincoln Mr Hankel was previously a Money Position Analyst at FirsTier Bank of Lincoln from 1988 to 1992 and Senior Credit Analyst at FirsTier from 1987 to 1988.

PHILIP A JONES

Appointed in April 2007, Dr Jones, 39, 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 is president and a director of the Institute of Asset Management and has also been, until recently, a director 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 group and parent company financial statements (the "financial statements") of Northern Electric plc for the year ended 31 December 2007 which comprise the Group income statement, the consolidated statement of recognised income and expense, the consolidated and individual company balance sheets, the consolidated and individual company cash flow statements and the related notes 1 to 31. 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 and Article 4 of the IAS Regulation. 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 as described in the contents section 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 Group's and 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.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

SEPARATE OPINION IN RELATION TO IFRSs

The Group, in addition to complying with its legal obligations to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Newcastle upon Tyne

21 April 2008

Group Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	**2007 £m**	2006 £m
Revenue	3	**282.0**	280.3
Cost of sales		**(64.3)**	(77.9)
Gross profit		**217.7**	202.4
Distribution costs		**(64.4)**	(54.2)
Administrative expenses		**(22.1)**	(17.0)
Operating profit	4	**131.2**	131.2
Share of profit after tax of joint venture accounted for using the equity method		**0.4**	0.4
Other gains/(losses)		**0.2**	(0.3)
Investment income	5	**14.9**	16.2
Finance costs	6	**(37.7)**	(35.2)
Profit before tax		**109.0**	112.3
Income tax expense	9	**(23.0)**	(35.9)
Profit from ordinary activities after tax attributed to equity shareholders of the Company	24	**86.0**	76.4

All activities relate to continuing operations.

Statement of Recognised Income and Expense

FOR THE YEAR ENDED 31 DECEMBER 2007

There is no other income or expense for the Group for 2007 and 2006, other than the profits reported above.

Balance Sheets

AT 31 DECEMBER 2007

	Notes	GROUP **2007 £m**	GROUP 2006 £m	COMPANY **2007 £m**	COMPANY 2006 £m
Non-current assets					
Property, plant and equipment	11	**1,181.3**	1,092.1	**1.6**	1.5
Intangibles	12	**6.5**	6.0	**-**	-
Investments in joint venture	13	**3.2**	3.2	**-**	-
Investments in other companies	13	**0.1**	0.1	**328.1**	328.1
Retirement benefit asset	28	**44.7**	4.8	**-**	-
Trade and other receivables	17	**4.7**	4.6	**-**	-
		1,240.5	1,110.8	**329.7**	329.6
Current assets					
Inventories	15	**21.7**	17.2	**-**	-
Trade and other receivables	17	**59.5**	55.6	**0.2**	0.8
Short-term securities	17	**-**	100.0	**-**	-
Cash and cash equivalents	17	**176.8**	79.1	**76.1**	61.7
		258.0	251.9	**76.3**	62.5
Total assets		**1,498.5**	1,362.7	**406.0**	392.1
Current liabilities					
Trade and other payables	18	**(83.1)**	(66.4)	**(9.2)**	(11.4)
Current income tax liabilities	18	**(16.1)**	(12.6)	**(5.2)**	(3.3)
Deferred revenue	21	**(10.2)**	(9.4)	**-**	-
Borrowings	19	**(21.9)**	(114.3)	**(10.9)**	(14.3)
Provisions	22	**(3.2)**	(3.7)	**-**	-
		(134.5)	(206.4)	**(25.3)**	(29.0)
Net current assets		**123.5**	45.5	**51.0**	33.5
Non-current liabilities					
Borrowings	19	**(347.0)**	(246.9)	**(1.1)**	(1.1)
Deferred income tax liabilities	20	**(164.1)**	(166.3)	**(33.6)**	(36.9)
Retirement benefit obligations	28	**(1.4)**	(1.3)	**(1.4)**	(1.3)
Deferred revenue	21	**(350.7)**	(327.3)	**-**	-
Provisions	22	**(1.2)**	(0.9)	**-**	-
		(864.4)	(742.7)	**(36.1)**	(39.3)
Total liabilities		**(998.9)**	(949.1)	**(61.4)**	(68.3)
Net assets		**499.6**	413.6	**344.6**	323.8
EQUITY					
Share capital	23	**72.2**	72.2	**72.2**	72.2
Share premium	24	**158.8**	158.8	**158.8**	158.8
Retained earnings	24	**262.4**	176.4	**107.4**	86.6
Other reserves	24	**6.2**	6.2	**6.2**	6.2
Total equity	24	**499.6**	413.6	**344.6**	323.8

The financial statements were approved by the board of directors and authorised for issue on 18 April 2008 and were signed on its behalf by:

P A JONES, *Director*

Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2007

		GROUP		COMPANY	
		2007	2006	**2007**	2006
	Note	**£m**	£m	**£m**	£m
Net cash from operating activities	25	**67.0**	77.7	**17.6**	28.6
Investing activities					
Dividends received from joint venture		**0.4**	0.6	**-**	-
Payments from disposal of business unit/subsidiary		**-**	(6.7)	**-**	-
Sale of long term securities		**100.0**	-	**-**	-
Proceeds from disposal of property, plant and equipment		**0.8**	0.6	**0.4**	0.5
Purchases of property, plant and equipment		**(117.9)**	(114.4)	**(0.2)**	-
Purchases of intangible assets		**(2.0)**	(3.3)	**-**	-
Receipt of customer contributions		**41.8**	33.2	**-**	-
Net cash from/(used in) investing activities		**23.1**	(90.0)	**0.2**	0.5
Financing activities					
Equity dividends paid		**-**	(50.0)	**-**	(50.0)
Movement in borrowings from parent/subsidiary undertaking		**(3.4)**	0.9	**(3.4)**	1.0
Repayment of borrowings		**-**	(6.0)	**-**	-
New borrowings raised		**11.0**	-	**-**	-
Net cash from/(used in) financing activities		**7.6**	(55.1)	**(3.4)**	(49.0)
Net increase/(decrease) in cash and cash equivalents		**97.7**	(67.4)	**14.4**	(19.9)
Cash and cash equivalents at beginning of year		**79.1**	146.5	**61.7**	81.6
Cash and cash equivalents at end of year		**176.8**	79.1	**76.1**	61.7

Notes to the Accounts

FOR THE YEAR ENDED 31 DECEMBER 2007

1 GENERAL INFORMATION

Northern Electric 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 Group's operations and its principal activities are set out in the principal activity and review of the business 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, as adopted by the European Union, ("IFRS") and with those parts of 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 230 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.

Critical accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. For the Group and Company the critical accounting policies relate to revenue, property, plant and equipment, pensions and provisions. Where such judgments are made they are detailed within the accounting polices below.

The particular policies adopted by the directors are described below.

Adoption of new or revised standards

In the current year, the Group has adopted IFRS 7 "Financial Instruments: Disclosures" which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 "Presentation of Financial Statements". The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (Note 17).

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 Group and Company in future periods.

IAS 1	Presentation of Financial Statements – "Amendments to IAS 1"
IAS 23	Borrowing Costs – "Amendments to IAS 23"
IFRS 8	Operating Segments
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The directors anticipate that with the exception of IFRIC 14, the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group or the Company.

The impact on the adoption of IFRIC 14 is currently being evaluated.

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

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 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 overrecovery of allowed distribution network revenues as prescribed by Ofgem is not provided for in the financial statements.

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 (changed from 50 years from 1 January 2007) on a straight-line basis, in line with the useful life of the distribution system assets.

Notes to the Accounts (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Revenue (continued)

Income from credit sales 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, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. 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.

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 noted above, 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 after charging restructuring costs but before the share of results of joint venture, 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.

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
(changed from 50 years from 1 January 2007)

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.

Investments

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

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of joint ventures and associates are incorporated in these financial statements using the equity method of accounting except when classified as held for sale. Investments in joint ventures and associates 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 and associate, less any impairment in the value of individual investments. Losses of the joint venture and associates in excess of the Group's interest in those joint venture and associates 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.

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.

Notes to the Accounts (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Trade payables

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

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. Issue costs are amortised over the period of the related loan.

Other borrowing costs are recognised on an accruals basis and allocated to the income statement as incurred.

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.

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 contact debts, where the carrying amount is reduced through the use of an allowance account. When a trade receivable or construction contract debt is considered uncollectible, 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.

Pensions

The Group contributes to the Electricity Supply Pension Scheme, 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 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 Group's 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 28.

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

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

	Distribution 2007 £m	Engineering Contracting 2007 £m	Other 2007 £m	Total 2007 £m
Revenue				
External sales	**212.7**	**63.2**	**6.1**	**282.0**
Inter-segment sales	**0.3**	**-**	**(0.3)**	**-**
Total revenue	**213.0**	**63.2**	**5.8**	**282.0**
Segments results				
Operating profit	**90.3**	**1.2**	**39.7**	**131.2**
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**	**(2.8)**	**129.3**
Depreciation and amortisation	**40.3**	**0.1**	**(0.9)**	**39.5**
Amortisation of deferred revenue	**(9.5)**	**-**	**-**	**(9.5)**
Balance sheet				
Segment assets	**1,271.8**	**26.6**	**23.3**	**1,321.7**
Unallocated corporate assets				**176.8**
Total assets				**1,498.5**
Segment liabilities	**(418.9)**	**(14.2)**	**(9.9)**	**(443.0)**
Unallocated corporate liabilities				**(555.9)**
Total liabilities				**(998.9)**
Net assets by segment	**852.9**	**12.4**	**13.4**	**878.7**
Unallocated net corporate liabilities				**(379.1)**
Total net assets				**499.6**

"Other" comprises business support units and consolidation adjustments.

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

Notes to the Accounts (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

3 REVENUE AND SEGMENTAL ANALYSIS (CONTINUED)

	Distribution 2006 £m	Engineering Contracting 2006 £m	Other 2006 £m	Total 2006 £m
Revenue				
External sales	196.4	78.1	5.8	280.3
Inter-segment sales	1.6	8.9	(10.5)	-
Total revenue	198.0	87.0	(4.7)	280.3
Segments results				
Operating profit	88.0	6.4	36.8	131.2
Share of profit after tax of joint venture accounted for using the equity method				0.4
Other losses				(0.3)
Investment income				16.2
Finance costs				(35.2)
Profit before tax				112.3
Other information				
Capital additions	123.3	0.2	(5.6)	117.9
Depreciation and amortisation	33.9	0.2	(0.6)	33.5
Amortisation of deferred revenue	(7.2)	-	-	(7.2)
Balance sheet				
Segment assets	1,172.5	20.5	(12.5)	1,180.5
Unallocated corporate assets				182.2
Total assets				1,362.7
Segment liabilities	(377.0)	(9.9)	(15.1)	(402.0)
Unallocated corporate liabilities				(547.1)
Total liabilities				(949.1)
Net assets/(liabilities) by segment	795.5	10.6	(27.6)	778.5
Unallocated net corporate liabilities				(364.9)
Total net assets				413.6

"Other" comprises business support units and consolidation adjustments.

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

4 OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2007 £m	2006 £m
Staff costs (Note 7)	**16.0**	15.6
Research costs	**0.4**	0.1
Depreciation of property, plant and equipment	**38.0**	32.1
Amortisation of deferred revenue	**(9.5)**	(7.2)
Amortisation of intangibles	**1.5**	1.4

	2007 £000	2006 £000
The analysis of auditors' remuneration is as follows:		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**25**	30
Fees payable to the Company's auditors for the audit of the Company's subsidiaries pursuant to legislation	**149**	202
Total audit fees	**174**	232

There were no fees payable in relation to non-audit services in 2007 or 2006.

	2007 £000	2006 £000
Fees payable to the Company's auditors and their associates in respect of the audit of associated pension schemes	**7**	7

Prior to 2007 the auditors' remuneration, initially incurred by the Company, was recharged to other companies in the Group.

5 INVESTMENT INCOME

	2007 £m	2006 £m
Dividends received	**-**	1.5
Interest receivable	**14.9**	14.7
Total investment income	**14.9**	16.2

6 FINANCE COSTS

	2007 £m	2006 £m
Dividends on non-equity preference shares	**9.0**	9.0
Interest payable on other borrowings	**28.7**	26.2
Total finance costs	**37.7**	35.2

Notes to the Accounts (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

7 STAFF COSTS

	GROUP		COMPANY	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Salaries	**47.0**	46.1	**3.8**	2.8
Social security costs	**5.0**	4.2	**0.4**	0.2
Pension (credit)/cost (Note 28)	**(14.7)**	(15.2)	**1.7**	1.4
Defined contribution pension scheme costs	**0.1**	0.1	**-**	-
	37.4	35.2	**5.9**	4.4
Less: charged as capital expenditure	**(21.4)**	(19.6)	**-**	-
	16.0	15.6	**5.9**	4.4

The average monthly number of employees:

	2007 Number	2006 Number	**2007 Number**	2006 Number
Distribution	**974**	935	**-**	-
Engineering contracting	**310**	423	**-**	-
Other	**60**	44	**60**	44
	1,344	1,402	**60**	44

8 DIRECTORS AND KEY PERSONNEL

a) EMOLUMENTS

	Highest paid director		All	
	2007 £000	2006 £000	**2007 £000**	2006 £000
Short-term employee benefits	**69**	101	**250**	193
Compensation for loss of office	**-**	248	**-**	248
Post retirement benefits	**30**	16	**59**	52
Other long-term benefits	**74**	(167)	**186**	(65)
	173	198	**495**	428

The directors are remunerated for their services to the CE Group, of which Northern Electric plc is a subsidiary. The figures above represent the share of the costs borne by Northern Electric plc.

Other long-term benefits in 2006 include credits for amounts previously accrued under the Long Term Incentive Plan.

	Other key personnel	
	2007 £000	2006 £000
Short-term employee benefits	**511**	9
Post retirement benefits	**162**	1
Other long-term benefits	**240**	-
	913	10

The Group's management reorganisation, which commenced in the final quarter of 2006, became effective from 1 January 2007. The new organisational structure 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 figures for the prior year represent the share of the costs of the President & Chief Operating Officer following his appointment on 1 November 2006.

b) PENSIONS

Pension contributions relate to defined benefit schemes only. At 31 December 2007, 4 directors were members of defined benefit schemes (2006 - 4 directors).

The accrued pension benefit relating to the highest paid director is £52,725 (2006 - £89,623).

Notes to the Accounts (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

9 INCOME TAX EXPENSE

	2007		2006	
	£m	£m	£m	£m
(a) Analysis of charge for the year:				
Current tax:				
Corporation tax charge for the year	**10.0**		11.4	
Provision for payment for group relief	**14.5**		14.3	
Under/(over) provision for prior years	**0.7**		(1.2)	
Total current tax charge		**25.2**		24.5
Deferred tax (Note 20)		**(2.2)**		11.4
Tax charge on profit before tax		**23.0**		35.9
(b) Reconciliation of tax charge:				
Profit before tax		**109.0**		112.3
Tax on profit before tax at standard rate of corporation tax in the United Kingdom of 30%		**32.7**		33.7
Factors affecting charge:				
Permanent differences		**2.7**		2.3
Tax effect of results of joint venture		**(0.1)**		(0.1)
Rate change reduction		**(11.3)**		-
Adjustment to prior years		**(1.0)**		-
Tax charge on profit before tax		**23.0**		35.9

(c) Factors that may affect future tax charge:

The UK Government has announced its intention to phase out and withdraw from 2011 capital allowances on qualifying buildings and include these changes in the Finance Act 2008. This proposal, when enacted, will lead to an increase in the deferred tax provision required for accelerated tax depreciation in the region of £7m and this will give rise to a one off deferred tax charge for this amount in the year of enactment.

10 DIVIDENDS

	2007 Pence per share	2006 Pence per share	2007 £m	2006 £m
Ordinary dividend for year	**-**	39.16	**-**	50.0

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 2006	1,473.3	6.8	49.6	1,529.7
Additions	113.1	-	1.5	114.6
Transfer to Group undertakings (Note 27)	-	-	(0.2)	(0.2)
Disposals	(4.7)	-	(1.7)	(6.4)
At 31 December 2006	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**
DEPRECIATION:				
At 1 January 2006	471.6	4.2	44.2	520.0
Provided during the year	30.2	-	1.9	32.1
Transfer to Group undertakings (Note 27)	-	-	(0.1)	(0.1)
Disposals	(4.7)	-	(1.7)	(6.4)
At 31 December 2006	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**
Net book value at December 2007	**1,174.5**	**2.6**	**4.2**	**1,181.3**
Net book value at December 2006	1,084.6	2.6	4.9	1,092.1
Assets in the course of construction included above:				
At 1 January 2006	65.5	-	0.8	66.3
Additions	113.1	-	-	113.1
Available for use	(88.7)	-	(0.8)	(89.5)
At 31 December 2006	89.9	-	-	89.9
Additions	125.8	-	-	125.8
Available for use	(128.4)	-	-	(128.4)
At 31 December 2007	**87.3**	**-**	**-**	**87.3**

Notes to the Accounts (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	COMPANY		
	Distribution System £m	Fixtures and equipment £m	Total £m
COST:			
At 1 January 2006 and 31 December 2006	1.3	3.5	4.8
Additions	-	0.1	0.1
At 31 December 2007	**1.3**	**3.6**	**4.9**
DEPRECIATION:			
At 1 January 2006 and 31 December 2007	**-**	**3.3**	**3.3**
Net book value at 31 December 2007	**1.3**	**0.3**	**1.6**
Net book value at 31 December 2006	1.3	0.2	1.5

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

	2007 £m	2006 £m
Freehold	**1.9**	1.9
Long leasehold	**0.6**	0.6
Short leasehold	**0.1**	0.1
	2.6	2.6

12 GROUP INTANGIBLES

	Software Development Costs £m
COST:	
At 1 January 2006	21.0
Additions	3.3
At 31 December 2006	24.3
Additions	2.0
At 31 December 2007	**26.3**
AMORTISATION:	
At 1 January 2006	16.9
Charge for the year	1.4
At 31 December 2006	18.3
Charge for the year	1.5
At 31 December 2007	**19.8**
Net book value at 31 December 2007	**6.5**
Net book value at 31 December 2006	6.0

The Company had no intangible assets at 31 December 2007 (2006 - £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 1 January 2006	3.4	13.6	17.0	327.1	1.0	328.1
Share of joint venture's results less dividends received	(0.2)	-	(0.2)	-	-	-
Disposals	-	(13.5)	(13.5)	-	-	-
At 31 December 2006	3.2	0.1	3.3	327.1	1.0	328.1
Share of joint venture's results less dividends received	-	-	-	-	-	-
At 31 December 2007	**3.2**	**0.1**	**3.3**	**327.1**	**1.0**	**328.1**

Notes to the Accounts (continued)
FOR THE YEAR ENDED 31 DECEMBER 2007

13 INVESTMENTS (CONTINUED)

Details of the principal investments of the Group at 31 December 2007 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 Genco	2 at £1	100%	Holding company
Northern Electric & Gas Limited	84,785,000 at £1	100%	Electrical and gas appliance retailing (discontinued)
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
UK Distribution Limited	1 at £1	100%	Holding company
Held by Northern Electric subsidiaries:			
Northern Electric Finance plc	50,000 at £1	100%	Finance company
Northern Electric Generation (Peaking) Limited	1,500,000 at £1	100%	Generation of electricity
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:

	2007 £m	2006 £m
Long-term assets	**11.5**	10.5
Current assets	**12.9**	10.9
Long-term liabilities	**(10.7)**	(8.5)
Current liabilities	**(7.3)**	(6.5)
Net assets	**6.4**	6.4
Group's share of joint venture's net assets	**3.2**	3.2
Revenue	**11.5**	11.4
Profit for the year	**0.8**	0.8
Group's share of joint venture's profit for the year	**0.4**	0.4

15 INVENTORIES

	GROUP 2007 £m	GROUP 2006 £m
Raw materials and consumables	**7.8**	6.9
Work in progress	**13.5**	9.8
Goods for resale	**0.4**	0.5
	21.7	17.2

The Company had no inventories at 31 December 2007 (2006: £nil).

16 GROUP CONSTRUCTION CONTRACTS

	2007 £m	2006 £m
Contracts in progress at balance sheet date:		
Amounts due from customers included in inventories	**13.5**	9.8
Contract costs incurred plus recognised profits less recognised losses to date	**78.5**	67.8
Less: Progress billings	**(65.0)**	(58.0)
	13.5	9.8

At 31 December 2007, retentions held by customers for contract work amounted to £0.1m (2006: £0.1m).

Advances received from customers for contract work amounted to £nil (2006: £nil).

Notes to the Accounts (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

17 OTHER FINANCIAL ASSETS

Short-term securities

	GROUP			
	Book value		Fair value	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Guaranteed investment contract matured 27 December 2007 (4.75%)	**-**	100.0	**-**	99.5

The directors' estimate of the fair value was calculated by discounting the future cash flows at the market rate.

Trade and other receivables

	GROUP		COMPANY	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Non-current:				
Finance lease receivables	**4.7**	4.6	**-**	-
Current:				
Distribution use of system receivables	**34.6**	31.2	**-**	-
Amounts receivable for sale of goods or services	**1.3**	2.8	**-**	-
Construction contract customers	**13.2**	10.4	**-**	-
Finance lease receivables	**2.8**	3.1	**-**	-
Amounts owed by parent undertakings	**-**	-	**-**	0.2
Amounts due from joint ventures	**0.3**	-	**-**	-
Other receivables	**3.4**	4.9	**-**	0.4
Prepayments and accrued income	**3.9**	3.2	**0.2**	0.2
	59.5	55.6	**0.2**	0.8

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.

17 OTHER FINANCIAL ASSETS (CONTINUED)

Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Amounts receivable under finance leases:				
Within one year	**3.1**	3.4	**2.8**	3.1
In the second to fifth years inclusive	**5.1**	5.0	**4.7**	4.6
	8.2	8.4	**7.5**	7.7
Less: unearned finance income	**(0.7)**	(0.7)	**-**	-
	7.5	7.7	**7.5**	7.7

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% (2006: 6.5%) per annum.

Distribution use of system receivables

The Group's distribution customers are concentrated in a small number of electricity supply businesses with RWE NPower plc accounting for approximately 40% of distribution revenues in 2007 (2006: 42%). 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 £1.6m as at December 2007 (2006: £nil). Ofgem has indicated that, provided 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 supplier default will be recovered through an increase in future allowed income. Losses incurred to date have not been material.

Notes to the Accounts (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

17 OTHER FINANCIAL ASSETS (CONTINUED)

Amounts receivable for sale of goods and services

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 £0.6m (2006: £2.2m) which are past due at the reporting date for which the Group has provided for an irrecoverable amount of £0.4m (2006: £0.5m) based on past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 557 days (2006: 382 days).

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £0.6m (2006: £nil) 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 88 days (2006: nil).

Ageing of past due but not impaired receivables

	2007 £m	2006 £m
30-60 days	**0.2**	-
60-120 days	**0.3**	-
120-210 days	**0.1**	-
Total	**0.6**	-

Construction contracts

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. Trade receivables between 30 days and 1 year are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Included in the Group's construction contracts balance are debtors with a carrying amount of £4.4m (2006: £5.7m) which are past due at the reporting date for which the Group has provided for an irrecoverable amount of £0.3m (2006: £0.4m) based on past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 101 days (2006: 84 days).

Included in the Group's construction contracts balance are debtors with a carrying amount of £1.7m (2006: £1.2m) 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 46 days (2006: 37 days).

Ageing of past due but not impaired receivables

	2007 £m	2006 £m
30-90 days	**1.5**	1.1
90-180 days	**-**	0.1
180-365 days	**0.2**	-
Total	**1.7**	1.2

17 OTHER FINANCIAL ASSETS (CONTINUED)

Movement in the allowance for doubtful debts

	£m
At 1 January 2007	1.7
Amounts utilised/written off in the year	(1.5)
Amounts recognised in income statement	0.5
At 31 December 2007	0.7

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 distribution use of system 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 £nil (2006: £0.5m) for the Group and £nil (2006: £nil) for the Company, which have been placed in liquidation. 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

Cash and cash equivalents comprise loans advanced to the parent company/subsidiary undertakings, having a maturity of less than three months. The carrying amount of these assets approximates their fair value.

18 OTHER FINANCIAL LIABILITIES

Trade and other payables

	GROUP		**COMPANY**	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Payments received on account	**16.2**	6.8	**-**	-
Trade payables	**11.4**	7.1	**0.6**	1.3
Amounts due to parent undertakings	**0.2**	1.4	**0.1**	0.4
Amounts due to joint ventures	**1.2**	0.4	**-**	-
Other taxes and social security	**7.5**	3.2	**2.7**	2.6
Accruals	**35.6**	26.5	**2.4**	1.9
Interest payable	**6.8**	7.0	**-**	0.1
Other payables	**4.2**	14.0	**3.4**	5.1
	83.1	66.4	**9.2**	11.4

Current income tax liabilities

	GROUP		**COMPANY**	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Corporation tax	**7.1**	4.8	**-**	-
Group relief	**9.0**	7.8	**5.2**	3.3
	16.1	12.6	**5.2**	3.3

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.

Notes to the Accounts (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

18 OTHER FINANCIAL LIABILITIES (CONTINUED)

The following tables detail the remaining contractual maturities for the 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
2007:					
Non-interest bearing	**61.1**	**6.9**	**15.7**	**-**	**83.7**
Variable interest rate liability	**21.9**	**-**	**-**	**-**	**21.9**
Fixed interest rate liability	**-**	**22.5**	**89.9**	**857.0**	**969.4**
	83.0	**29.4**	**105.6**	**857.0**	**1,075.0**
2006:					
Non-interest bearing	53.0	3.1	7.1	-	63.2
Variable interest rate liability	14.3	-	-	-	14.3
Fixed interest rate liability	-	121.3	66.3	626.1	813.7
	67.3	124.4	73.4	626.1	891.2

COMPANY

	Less than 3 months £m	3 months to 1 year £m	1 to 5 years £m	5+ years £m	Total £m
2007:					
Non-interest bearing	**9.2**	**-**	**-**	**-**	**9.2**
Variable interest rate liability	**10.9**	**-**	**-**	**-**	**10.9**
Fixed interest rate liability	**-**	**-**	**-**	**111.7**	**111.7**
	20.1	**-**	**-**	**111.7**	**131.8**
2006:					
Non-interest bearing	11.3	-	-	-	11.3
Variable interest rate liability	14.3	-	-	-	14.3
Fixed interest rate liability	-	-	-	111.7	111.7
	25.6	-	-	111.7	137.3

Included within the Group and Company numbers 5+ years is £111.7m for both 2007 and 2006 in relation to the cumulative preference shares (Note 19).

19 BORROWINGS

GROUP

	Book value 2007 £m	Book value 2006 £m	Fair value 2007 £m	Fair value 2006 £m
Loans	**256.9**	245.8	**279.4**	287.9
Amounts owed to Group undertakings	**110.9**	114.3	**116.0**	113.3
Preference shares	**1.1**	1.1	**131.8**	150.2
	368.9	361.2	**527.2**	551.4

The borrowings are repayable as follows:

	Book value 2007 £m	Book value 2006 £m	Fair value 2007 £m	Fair value 2006 £m
On demand or within one year	**21.9**	114.3	**21.9**	113.3
After five years	**347.0**	246.9	**505.3**	438.1
	368.9	361.2	**527.2**	551.4

Analysis of borrowings:

	Book value 2007 £m	Book value 2006 £m	Fair value 2007 £m	Fair value 2006 £m
Short term treasury loans	**11.0**	-	**11.0**	-
Working capital loan from Group undertakings	**10.9**	14.3	**10.9**	14.3
2007 - 4.75% loan from Group undertaking	**-**	100.0	**-**	99.0
2020 - 8.875%	**98.4**	98.4	**127.5**	129.8
2035 - 5.125%	**147.5**	147.4	**140.9**	158.1
2037 - 5.9% loan from Group undertakings	**100.0**	-	**105.1**	-
Cumulative preference shares	**1.1**	1.1	**131.8**	150.2
	368.9	361.2	**527.2**	551.4

COMPANY

	Book value 2007 £m	Book value 2006 £m	Fair value 2007 £m	Fair value 2006 £m
Working capital loan from Group undertakings	**10.9**	14.3	**10.9**	14.3
Cumulative preference shares	**1.1**	1.1	**131.8**	150.2
	12.0	15.4	**142.7**	164.5

The borrowings are repayable as follows:

	Book value 2007 £m	Book value 2006 £m	Fair value 2007 £m	Fair value 2006 £m
On demand or within one year	**10.9**	14.3	**10.9**	14.3
After five years	**1.1**	1.1	**131.8**	150.2
	12.0	15.4	**142.7**	164.5

Notes to the Accounts (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

19 BORROWINGS (CONTINUED)

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

Interest on the working capital loan is charged at a floating rate of interest, thus exposing the Group and Company to cash flow interest rate risk. All other loans are at fixed interest rate and expose the Group and Company to fair value interest rate risk.

The loans are non-secured.

The Company has authorised 115,000,000 non-equity cumulative preference shares of 1p each as at 31 December 2007 and 31 December 2006. As at 31 December 2007 and 31 December 2006, 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 2007, the Group had available £46.0m (2006: £57.0m) 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 2007, 94% (2006: 96%) of the Group's borrowings were at fixed rates and the average maturity for these borrowings was 25 years (2006: 21 years).

20 DEFERRED TAX

GROUP

	Accelerated tax depreciation £m	Rollover relief £m	Retirement benefit (obligations)/ asset £m	Other £m	Total £m
At 1 January 2006	127.4	37.3	(11.1)	1.3	154.9
(Credit)/charge to income	(0.7)	1.5	12.2	(1.6)	11.4
At 31 December 2006	126.7	38.8	1.1	(0.3)	166.3
(Credit)/charge to income	(10.0)	(3.7)	11.3	0.2	(2.2)
At 31 December 2007	**116.7**	**35.1**	**12.4**	**(0.1)**	**164.1**

COMPANY

	Accelerated tax depreciation £m	Rollover relief £m	Retirement benefit obligations £m	Total £m
At 1 January 2006	(0.2)	36.2	(0.3)	35.7
Charge/(credit) to income	-	1.3	(0.1)	(1.2)
At 31 December 2006	(0.2)	37.5	(0.4)	36.9
Charge/(credit) to income	0.1	(3.5)	0.1	(3.3)
At 31 December 2007	**(0.1)**	**34.0**	**(0.3)**	**33.6**

Notes to the Accounts (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

21 DEFERRED REVENUE

	Customer contributions £m
At 1 January 2006	312.4
Additions	31.5
Amortisation	(7.2)
At 31 December 2006	336.7
Additions	33.7
Amortisation	(9.5)
At 31 December 2007	**360.9**

	2007 £m	2006 £m
Included in current liabilities	**10.2**	9.4
Included in non-current liabilities	**350.7**	327.3
	360.9	336.7

The Company had no deferred revenue at 31 December 2007 (2006: £nil).

22 PROVISIONS FOR LIABILITIES AND CHARGES

	GROUP			
	Claims £m	Onerous contracts £m	Other £m	Total £m
At 1 January 2007	2.0	1.8	0.8	4.6
Utilised/paid in year	(1.0)	(0.3)	(0.3)	(1.6)
Transferred from income statement	0.7	0.3	0.4	1.4
At 31 December 2007	**1.7**	**1.8**	**0.9**	**4.4**

	GROUP	
	2007 £m	2006 £m
Included in current liabilities	**3.2**	3.7
Included in non-current liabilities	**1.2**	0.9
	4.4	4.6

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 contracts: Relates to former retail business property leases, which were settled in April 2008.

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

The Company had no provision for liabilities and charges (2006: £nil).

23 SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	Number (millions)	£m	Number (millions)	£m
At 31 December 2006 and 2007				
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 carry no right to fixed income.

Details of the cumulative non-equity preference shares are contained within Note 19.

Notes to the Accounts (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

24 MOVEMENT ON RESERVES AND RECONCILIATION OF TOTAL EQUITY

GROUP

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Total equity at 1 January 2006	72.2	158.8	6.2	150.0	387.2
Profit for the year	-	-	-	76.4	76.4
Dividends	-	-	-	(50.0)	(50.0)
Total equity at 31 December 2006	72.2	158.8	6.2	176.4	413.6
Profit for the year	**-**	**-**	**-**	**86.0**	**86.0**
Total equity at 31 December 2007	**72.2**	**158.8**	**6.2**	**262.4**	**499.6**

COMPANY

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Total equity at 1 January 2006	72.2	158.8	6.2	106.3	343.5
Profit for the year	-	-	-	30.3	30.3
Dividends	-	-	-	(50.0)	(50.0)
Total equity at 31 December 2006	72.2	158.8	6.2	86.6	323.8
Profit for the year	**-**	**-**	**-**	**20.8**	**20.8**
Total equity at 31 December 2007	**72.2**	**158.8**	**6.2**	**107.4**	**344.6**

At the Group'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 263(3) (b) of the Companies Act 1985 this reserve is treated as an undistributable reserve.

25 NET CASH FROM OPERATING ACTIVITIES

	GROUP		COMPANY	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Operating profit	**131.2**	131.2	**1.8**	1.3
Depreciation and amortisation	**39.5**	33.5	**-**	-
Amortisation of deferred revenue	**(9.5)**	(7.2)	**-**	-
Increase in retirement benefit asset/obligation	**(36.8)**	(35.9)	**0.1**	0.1
Decrease in provisions	**(0.2)**	(0.2)	**-**	(0.1)
Operating cash flows before movements in working capital	**124.2**	121.4	**1.9**	1.3
(Increase)/decrease in inventories	**(4.5)**	10.7	**-**	-
(Increase)/decrease in receivables	**(3.1)**	(2.5)	**0.3**	(0.3)
Decrease in payables	**(3.1)**	(2.7)	**(2.4)**	(0.6)
Cash generated by/(used in) operations	**109.5**	126.9	**(0.2)**	0.4
Income taxes paid	**(7.0)**	(17.2)	**-**	(11.8)
Group relief (paid)/received	**(14.7)**	(11.0)	**0.7**	9.8
Dividends received	**-**	1.6	**24.0**	37.7
Interest received	**18.1**	14.6	**7.6**	8.0
Interest paid	**(38.9)**	(37.2)	**(14.5)**	(15.5)
Net cash from operating activities	**67.0**	77.7	**17.6**	28.6

Notes to the Accounts (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

26 OPERATING LEASE ARRANGEMENTS

	GROUP	
	2007	2006
	£m	£m
Minimum lease payments under operating leases recognised in the year	**4.7**	5.0

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

	2007	2006
	£m	£m
Within one year	**2.8**	2.2
In the second to fifth year inclusive	**6.2**	5.1
After five years	**1.4**	3.3
	10.4	10.6

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.

The Company had no obligations under hire agreements (2006 - £nil).

27 DISPOSAL TO YORKSHIRE ELECTRICITY DISTRIBUTION PLC

On 1 April 2006, the Group entered into an agreement with Yorkshire Electricity Distribution plc (YEDL), a member of the CE Group, for YEDL to purchase certain assets and liabilities of the Group, at book value, comprising the provision of connections services and work on and services for the improvement and repair of its electricity distribution network.

Net liabilities at date of disposal:

	£m
Property, plant and equipment	**0.1**
Trade and other payables	**(4.6)**
Provisions	**(0.1)**
Total cash consideration paid	**(4.6)**

28 PENSION COMMITMENTS

The Electricity Supply Pension Scheme ("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 Scheme are held in a separate trustee administered fund. The Northern Electric Group of the ESPS (the Northern Group) was closed to staff commencing employment on or after 23 July 1997. The Northern Electric Money Purchase Scheme was made available to new employees from that date.

The last full actuarial valuation of the Northern Group's share 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 Group at the date of actuarial valuation was £926.7m.

For the Northern Group 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 aim to remove the shortfall of £95.1m by December 2010 subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2007 being borne out in practice.

At the Group's request the actuary has carried out a separate formal review of the Group's future pension costs using the assumptions set out below, which the actuary has confirmed facilitate a reasonable best estimate of those costs. This review has been based on the same membership and other data as at 31 March 2007. 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.

Notes to the Accounts (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

28 PENSION COMMITMENTS (CONTINUED)

Principal assumptions:

	2007	2006
Valuation method	**Projected unit**	Projected unit
Discount rate	**5.90%**	5.20%
Inflation rate	**3.20%**	3.00%
Increase to pensions	**3.20%**	3.00%
Increase to deferred benefits	**3.20%**	3.00%
Salary increases	**3.45%**	3.25%

The mortality assumptions are based on the recent actual mortality experience of members within the 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 they are male and for a further 27 years if they are female.

For members who retire in 2027 at age 60, the assumptions are that they will live on average for a further 29 years after retirement if they are male and a further 28 years after retirement if they are female.

For closed schemes 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:

	2007 £m	2006 £m
Present value of funded defined benefit obligations	**(917.2)**	(925.9)
Fair value of plan assets	**956.6**	912.8
	39.4	(13.1)
Unrecognised actuarial losses	**5.3**	17.9
Net surplus	**44.7**	4.8
Deferred tax liability	**(12.5)**	(1.4)
Net asset recognised on the balance sheet	**32.2**	3.4

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

	2007 £m	2006 £m
Current service cost	**11.9**	10.0
Interest cost on obligations	**47.2**	42.2
Expected return on plan assets	**(63.9)**	(57.5)
	(4.8)	(5.3)
Recovered from other CE Group undertakings	**(9.9)**	(9.9)
	(14.7)	(15.2)

The actual return on plan assets was £44.3m (2006: £89.9m)

28 PENSION COMMITMENTS (CONTINUED)

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

	2007 £m	2006 £m
Opening defined benefit obligation	**925.9**	906.0
Current service cost	**11.9**	10.0
Interest cost	**47.2**	42.2
Contributions from employees	**3.5**	3.4
Actuarial (gains)/losses	**(32.0)**	2.1
Benefits paid	**(39.3)**	(37.8)
Closing defined benefit obligation	**917.2**	925.9

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

	2007 £m	2006 £m
Opening fair value of plan assets	**912.8**	821.6
Expected returns	**63.9**	57.5
Actuarial (losses)/gains	**(19.6)**	32.4
Contributions by employer	**35.3**	35.7
Contributions from employees	**3.5**	3.4
Benefits paid	**(39.3)**	(37.8)
Closing fair value of plan assets	**956.6**	912.8

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

	Long term rates of return expected at		**Value**	
	2007 %	2006 %	**2007 £m**	2006 £m
Equities	**8.9**	8.7	**388.7**	473.6
Gilts	**5.1**	4.5	**445.3**	334.4
Cash	**6.0**	4.5	**23.3**	3.0
Property	**7.9**	7.7	**99.3**	101.8
Total fair value of plan assets			**956.6**	912.8

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 Group.

Notes to the Accounts (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

28 PENSION COMMITMENTS (CONTINUED)

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

	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligation	**(917.2)**	(925.9)	(906.0)	(819.0)
Fair value of plan assets	**956.6**	912.8	821.6	708.4
Surplus/(deficit)	**39.4**	(13.1)	(84.4)	(110.6)
Experience gains/(losses) on plan liabilities	**32.0**	(2.1)	(70.1)	(56.9)
Experience (losses)/ gains on plan assets	**(19.6)**	32.4	66.5	12.4

The Group expects to contribute approximately £47.7m to its defined benefit plan in 2008.

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 2007	1.3
Utilised/paid in the year	(0.1)
Transferred from income statement	0.2
At 31 December 2007	**1.4**

29 CAPITAL AND OTHER COMMITMENTS

The Group has entered into contractual commitments in relation to capital investment of £23.5m (2006 - £10.6m).

30 RELATED PARTY TRANSACTIONS

GROUP

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

Loans

The Group has made loans to companies in the CE Group. The total interest included in investment income in the income statement for the year ended 31 December 2007 was £10.2m (2006: £10.2m). Included within cash and cash equivalents is £176.8m as at 31 December 2007 (2006: £79.1m) in respect of these loans.

The Group has received loans from companies in the CE Group. The total interest included in finance costs in the income statement for the year ended 31 December 2007 was £11.8m (2006: £8.9m). Included within borrowings is £110.9m as at 31 December 2007 (2006: £114.3m) and within trade and other payables £nil as at 31 December 2007 (2006: £1.0m) in respect of these loans.

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

Trading transactions

During the year, 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**
2007:				
CE Insurance Services Limited	**-**	**0.6**	**-**	**-**
CE UK Gas Holdings Limited	**0.2**	**-**	**-**	**-**
Integrated Utility Serivces 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**	**-**	**-**
2006:				
CE Insurance Services Limited	-	0.6	-	-
CE UK Gas Holdings Limited	0.2	-	-	-
Integrated Utility Serivces Limited (Registered in Eire)	-	0.1	-	0.1
Vehicle Lease and Service Limited	-	4.1	-	0.4
Yorkshire Electricity Distribution plc	16.5	4.9	-	-

Notes to the Accounts (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

30 RELATED PARTY TRANSACTIONS (CONTINUED)

GROUP (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 2007, 3 directors (2006: 3) and 8 key personnel (2006: 1) 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 (2006: £0.1m) in respect of non-current and £0.1m (2006: £nil) 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 to companies in the CE Group. The total interest included in investment income in the income statement for the year ended 31 December 2007 was £7.7m (2006: £7.7m). Included within cash and cash equivalents is £76.1m as at 31 December 2007 (2006: £61.7m) in respect of these loans.

The Company has received loans from companies in the CE Group. The total interest included in finance costs in the income statement for the year ended 31 December 2007 was £5.7m (2006: £6.3m). Included within borrowings is £10.9m as at 31 December 2007 (2006: £14.3m) in respect of these loans.

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

30 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
2007:			
CE UK Gas Holdings Limited	**0.2**	**-**	**-**
Integrated Utility Services Limited	**0.7**	**-**	**3.6**
Northern Electric & Gas Limited	**-**	**-**	**-**
Northern Electric Distribution Limited	**6.2**	**0.2**	**20.0**
Northern Electric Properties Limited	**0.1**	**0.2**	**-**
Northern Transport Finance Limited	**-**	**-**	**-**
Vehicle Lease and Service Limited	**-**	**-**	**0.4**
Yorkshire Electricity Distribution plc	**4.7**	**-**	**-**
2006:			
CE UK Gas Holdings Limited	0.2	-	-
Integrated Utility Services Limited	0.5	-	8.5
Northern Electric & Gas Limited	-	-	2.2
Northern Electric Distribution Limited	4.8	0.6	25.0
Northern Electric Properties Limited	-	0.2	1.0
Northern Transport Finance Limited	-	-	0.4
Vehicle Lease and Service Limited	-	-	0.6
Yorkshire Electricity Distribution plc	4.5	-	-

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

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

Details of dividends paid can be found in Note 10.

The Company has received £1.2m (2006: £2.6m) of group relief from other companies in the CE Group. Payment at the UK statutory rate of 30% (2006: 30%) will be made for the use of these tax losses.

31 PARENT UNDERTAKINGS

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 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.

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 9 July 2008 at 10.00 am for the following purposes:

ORDINARY BUSINESS

Resolution 1

To receive and consider the directors' and auditors' reports and the Group accounts for the year ended 31 December 2007.

Resolution 2

To declare that no final dividend be paid for the year ended 31 December 2007.

Resolution 3

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

Resolution 4

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

Resolution 5

To re-elect Mr B K Hankel as a director.

Resolution 6

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

SPECIAL BUSINESS

Resolution 7

That the directors be generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 (the "Act") to exercise all or any of the powers of the Company to allot relevant securities (as defined in the said Section 80) up to an aggregate nominal amount of £27,827,000 at any time or times during the period of five years from the date of this resolution save that the Company may before such expiry make an offer or agreement which would or might require the relevant securities to be allotted after such expiry and the directors may allot the relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired. This authority shall be in substitution for all previous authorities conferred upon the directors pursuant to the said Section 80.

Special Resolution 8

Subject to the passing of and pursuant to the general authority conferred by the resolution numbered 7 in the notice convening this meeting, the directors be given power pursuant to section 95 of the Act to allot equity securities (within section 94 of the Act) for cash pursuant to the authority so conferred or where the equity securities are held by the Company as qualifying shares (to which sections 162A to 162G of the Act apply), in each case as if section 89(1) of the Act did not apply to any such allotment. This power shall expire on the expiry of the period of five years from the date of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

SPECIAL BUSINESS (CONTINUED)

Special Resolution 9

To amend the Articles of Association as follows:-

The addition of the following new Article 105(1)(B):

"With effect from the date that section 175 of the Companies Act 2006 comes into force:-

(a) The directors may authorise any matter where any director (or former director if that former director is still subject to the statutory duty to avoid conflicts of interest) has or may have a direct or indirect interest and/or duty that conflicts or possibly may conflict with the interests and/or duties of the Company provided that:-

(i) the director concerned and any other interested director are not counted towards any requirement as to quorum; and

(ii) the matter is agreed without such director or other director voting (or would have been agreed to if their votes had not counted).

(b) For the avoidance of doubt, no authorisation is required under Article 105(1)(B)(a) in relation to a transaction or arrangement with the Company.

(c) The authorising directors may impose any limits or conditions on their authorisation under Article 105(1)(B)(a) at the time when such authorisation is given or subsequently as they in their discretion consider appropriate including the following:-

(i) limiting or preventing the disclosure of information to the director who has or may have the interest that is the subject of the authorisation;

(ii) limiting or preventing the attendance of such director at any board meeting or discussion; and

(iii) limiting or preventing the availability of board or briefing papers to such director

in each case to the extent the authorising directors consider appropriate to protect that director from being in breach of his statutory duty to avoid conflicts of interest.

(d) Provided he has declared to the directors the nature and extent of any interest of his, a director, notwithstanding his office and subject to Article 105(1)(B)(a):-

(i) may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise interested;

(ii) may be a director or other officer of, or employed by or otherwise interested in any body corporate promoted by the Company or in which the Company is otherwise interested; and

(iii) may be a party to, or otherwise interested in, any transaction or arrangement with any such body corporate.

(e) Such director shall not, by reason of his office, be accountable to the Company for any benefit which he derives from any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate and no such transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit. In particular a director may act by himself or through his firm in a professional capacity for the Company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a director."

Notice of Annual General Meeting (continued)

SPECIAL BUSINESS (CONTINUED)

Special Resolution 9 (continued)

The addition of the following words at the end of the existing Article 105(1):

"This Article 105(1) shall cease to apply from the date that section 175 of the Companies Act 2006 comes into force."

In Article 113:

- The addition of the following words in Article 113(1) after the words "a matter in which he has, directly or indirectly":

  "an interest which (together with any interest of any person connected with him within the meaning of section 252 of the Companies Act 2006) is to his knowledge"

- The addition of the following words immediately prior to Article 113(a) after the words "the following sub-paragraph":

  "and provided that the director has duly declared his interest in accordance with the Companies Act 1985 or 2006 as the case may be"

- The deletion in Article 113(1)(f) of the words "is interested, directly or indirectly" and the rest of that sentence and their replacement with the following:

  "and any persons connected with him (within the meaning of section 252 of the Companies Act 2006) do not to his knowledge hold any interest (as that term is used in sections 820 and 822-824 of that Act) representing one percent or more of either any class of the equity share capital or the voting rights of that company"

By order of the board
John Elliott
Secretary
18 April 2008

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

Note:

All the issued ordinary shares in the Company are held by or on behalf of CE Electric UK Limited. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

Holders of preference shares have the right to receive notice of, attend and speak at the Annual General Meeting but are only entitled to vote if, at the date of the notice of the meeting, payment of the dividend to which they are entitled is six months or more in arrears or if a resolution is to be considered at the meeting for the winding up of the Company or abrogating, varying or modifying any of the special rights attaching to the preference shares. As none of these circumstances apply to this Annual General Meeting, preference shareholders should note that they do not have the right to vote on any of the business to be considered.

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

Explanatory Note

Resolution 7

The Companies Act 1985 provides that directors may only allot unissued shares if authorised to do so by the shareholders in general meeting. This resolution replaces the resolution passed by the shareholders on 8 July 2003.

Special Resolution 8

This special resolution empowers the directors for the duration of the authority conferred by Resolution 7 to allot equity shares for cash without regard to the pre-emption provisions to which the ordinary shareholders would otherwise be entitled under section 89 of the Companies Act 1985.

Special Resolution 9

This special resolution seeks to amend the Articles of Association to take into account changes made, or to be made in October 2008, by the Companies Act 2006. The amendments to Articles 105 and 113 incorporate changes to reflect the conflicts of interest provisions brought in by this Act.

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