

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

**REPORT & ACCOUNTS
TO 31 DECEMBER 2008**

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REGISTERED NUMBER 2366942

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

DIRECTORS' REPORT

Cautionary statement regarding forward-looking statements

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

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

The directors present the annual report and accounts of Northern Electric plc (the "Company") and its subsidiary companies (together the "Group") for the year ended 31 December 2008, which includes the business review and audited financial statements for that year. Pages 1 to 19 inclusive of this annual report comprise a directors' report that has been drawn up and presented in accordance with the Companies Act 1985.

PRINCIPAL ACTIVITIES

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

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

NEDL serves an area of approximately 14,400 sq km in the north east of England with a resident population of 3.2 million, is an authorised distributor under the Electricity Act 1989 and holds an electricity distribution licence granted by the Secretary of State. NEDL's role is to receive electricity from the National Grid's transmission system and distribute 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.

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

The Group operates a business model and strategy based on its six core principles, the main elements of which are:

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

DIRECTORS' REPORT (CONTINUED)

PRINCIPAL ACTIVITIES (continued)

Customer service	Delivering reliability, fair prices and exceptional service.	Improving network resilience and performance, measured by: Customer minutes lost; Customer interruptions; and Customer satisfaction.
Operational excellence	Setting high standards for the Group's operations and system investment, operation and maintenance.	Effective asset management. Managing commercial risk. Improving network resilience and performance.
Employee commitment	Equipping employees with the resources and skills they need to operate successfully and in a safe and rewarding environment.	Leading safety performer. Engaging employees. Effective leadership.
Environmental respect	Using natural resources wisely and effectively protecting the environment, where it is impacted by the Group's operations.	Reducing environmental impact. Promoting and pursuing long-term sustainability.
Regulatory integrity	Adhering to a policy of strict compliance with appropriate standards, policies and legislation.	Strong internal controls. Regulatory engagement. Industry influence.

The Group continually puts plans in place to deliver its objectives against the strategy based on its core principles. The Group executes on those plans across a range of activities, measures its progress against those plans and introduces corrective action wherever required. Adherence to its strategy and core principles enabled the Group to deliver a high standard of performance against the challenges faced during 2008.

BUSINESS REVIEW

Review of the year

The Group's progress during the year was pleasing, with the highlights being a strong underlying financial performance, improved customer service performance in the call centre and a significant improvement in the lead times for producing high volume quotations for connections to the distribution network. There were also general reductions in accident rates, oil leakages from fluid-filled cables and guaranteed standards of performance failures. These highlights were achieved while managing a sustained period of industrial action.

Issues identified as being central to delivery of the core principles in the future include further improvements in safety performance, distribution network availability and reliability and the usefulness and accuracy of information provided to customers during distribution network outages. In addition, the process of negotiating Distribution Price Control Review 5 ("DPCR5") will be a critical area of focus during 2009 as the outcome will set a significant proportion of the Group's income through to March 2015.

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

DIRECTORS' REPORT (CONTINUED)

BUSINESS REVIEW (CONTINUED)

Review of the year (continued)

IUS continued to deliver its contract with E.on and operated as an independent connections provider providing connections to the electricity distribution networks owned by the distribution network operators ("DNOs"). The contract to deliver contestable connections on behalf of Scottish Water, which commenced during 2007, has provided a base to create further business opportunities within Southern Scotland. The UK contracting element of the business continued to expand across the United Kingdom and saw a pleasing improvement in performance in the industrial and commercial sector with growth of 27% over 2007. IUS also continued to look to develop its services to the rail market with particular focus in the south of England. However, difficult trading conditions were experienced, particularly in respect of the multi-utility service, with volumes reducing in common with the contraction of the house building market and a reduction in revenue from the contract with E.on. Overall revenue reduced by £13.3m in comparison to 2007.

Strategic objectives

The Group's strategic objectives, based on its core principles, are to build a business, which:

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

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

Principal risks and uncertainties

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

Financial strength:

The main financial risks facing the Group are outlined in the Treasury section on page 8 below.

As the holder of an electricity distribution licence, NEDL 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.

DIRECTORS' REPORT (CONTINUED)**Principal risks and uncertainties (continued)**

It has been the practice of Ofgem to review and reset the formula at five-year intervals, although the formula has been, and may be, reviewed at other times at the discretion of Ofgem. The current five-year price control period became effective on 1 April 2005 and has set NEDL's revenue through to 31 March 2010. A resetting of the formula requires the consent of the electricity distribution licence holder but licence modifications may be unilaterally imposed by Ofgem without such consent following review by the Competition Commission. During the term of the price control, changes in costs incurred will have a direct impact on the financial results of NEDL.

During 2009, NEDL will be fully engaged with Ofgem in the DPCR5 process, which will culminate in Ofgem making its final proposals in respect of the price control formula that will take effect for the five-year period commencing 1 April 2010. That process involved submission of NEDL's detailed business plans in February 2009, triggering an assessment by Ofgem that will result in an initial set of proposals to be published in mid-2009. Dialogue between the Group and Ofgem will take place throughout the second half of 2009 such that the final proposals are then expected prior to the end of the year.

Other:

The principal risks in respect of the other core principles include:

<u>Risk</u>	<u>Issue</u>	<u>Mitigation</u>
Counter-party security	A counter-party with which the Group trades may go bankrupt causing loss of invested funds or amounts owing.	The treasury function has strict controls in respect of the counter-parties with which it deals, including the use of credit ratings and appropriate limits. Credit cover arrangements are in place with the electricity suppliers, which would allow recovery of defaulted payments through the price control mechanism, if good debt control practices continue to be followed.
Potential flooding and other weather related events.	Recent weather patterns suggest a heightened risk of flooding of 'at risk areas' and the potential for increased occurrence of damage to the overhead network.	A robust major incident management plan is in place. The Group's critical property unit plan assesses those properties most at risk and a flood mitigation plan is in place, including the erection of permanent and temporary defences.
Supply chain interfaces	The various operational areas of the Group may overlap or have gaps in the supply chain. Current economic conditions are placing suppliers under pressure.	Roles and responsibilities of the interfacing departments are being better defined. Payment for goods and services provided is within agreed terms, after due scrutiny.
BT ESP analogue circuits	Potential withdrawal of service puts existing communication arrangements at risk.	Options include retaining the equivalent service, potentially at higher than current cost or utilising an alternative solution.

DIRECTORS' REPORT (CONTINUED)

Principal risks and uncertainties (continued)

Other (continued):

Network risk posed by cables through the Tyne Tunnel	The 66kV fluid-filled cables in the tunnel are aging with increased risk of failure, leading to a requirement for the substantial use of generating units and potential guaranteed standards failures and incentive penalties.	The Group's Primary Engineering Projects team is developing a solution but has assessed the potential for simultaneously losing all circuits as being remote.
Motor accident management	Any significant road traffic accident involving a Group vehicle may create a liability, which the Group has to meet, and involve injury to employees and/or third parties.	The Safety Improvement Plan has a substantial focus on road risk and the reduction of preventable vehicle accidents. A dedicated road risk manager has been appointed.
Electricity, Safety, Quality and Continuity Regulations 2002	The regulations impose various statutory obligations, non-compliance with which could lead to incidents, prosecution and claims.	A full site inspection and risk assessment regime is in place designed to ensure compliance.
Shortage of supply and increased demand for copper	The global demand for copper has impacted the availability and cost of a number of core products and increased the risk of theft.	Improved and more efficient procurement processes have been introduced and security at all sites where copper products are stored has been reviewed and enhanced where required.

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

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

Risks are assessed with due regard to probability and impact and the risk environment is reviewed continually in order that new or emerging potential risks are identified. Risk mitigation and loss control plans are prepared in response to strategic risks in order that the directors can be assured that appropriate mitigating actions are in place and being implemented. These plans are monitored through to implementation and reviewed to determine whether the level of residual, mitigated risk is within an acceptable level of tolerance.

The CE Group's strategy is to follow an appropriate risk policy, which is intended to effectively manage exposures related to the achievement of 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 Section 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.

DIRECTORS' REPORT (CONTINUED)

Principal risks and uncertainties (continued)

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 CE Group, 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;
- Processes and procedures to operate under the Occupational Health and Safety Assessment Series ("OHSAS") standard OHSAS 18001, which is subject to external certification and regular assessment;

DIRECTORS' REPORT (CONTINUED)

Internal control (continued)

- An external obligations programme, which provides a robust approach to, and compliance with, financial, legal and regulatory obligations;
- Centralised treasury operations that operate within defined limits and are subject to regular reporting requirements and audit reviews; and
- Established procedures for planning, approving and monitoring major capital expenditure, major projects and the development of new business which includes short and long-term budgets, risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews.

Financial strength

During 2008, the Group introduced improvements in its management of routine financial performance by identifying clearer lines of accountability, implementing tighter expenditure controls, improving management information and emphasising the culture of continuous financial improvement in all areas of operation.

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

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

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

Revenue

The Group's revenue at £271.2m was £10.8m lower than the prior year. NEDL's revenue was £2.0m higher than the prior year as a result of increased deferred revenue amortisation and higher sales to affiliate companies. IUS' revenue was £13.3m lower than the prior year as a result of a reduction in major contracts activities in the year.

Operating profit

The Group's operating profit at £133.7m was £2.5m higher than the previous year primarily due to lower pension costs and higher contracting profits.

Finance costs and investment income

Finance costs, net of investment income, at £24.8m were £2.0m higher than the prior year as a result of higher net borrowings offset by lower floating interest rates.

Taxation

The Group's taxation charge has been affected by changes in tax legislation and tax rates and the settlement of prior period capital gains. Details are provided in Note 9 to the accounts.

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DIRECTORS' REPORT (CONTINUED)

Financial strength (continued)

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. No shareholder has agreed to waive future dividends.

Share capital and debt structures

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

Dividend policy

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

Cash flow

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

Movements in cash flows were as follows:

- *Net cash inflow from operating activities:* The net cash inflow from operating activities at £83.8m was £16.8m higher than 2007, mainly due to favourable working capital movements offset by higher pensions payments in the year.
- *Investing activities:* Net cash used in investing activities at £103.2m was £126.3m higher than the prior year reflecting higher net capital expenditure (£26.3m) and the fact that in the prior year the Group benefitted from the sale of long-term securities to the value of £100m.
- *Financing activities:* The net cash generated by financing activities at £24.6m was £17.0m higher than the prior year reflecting new borrowings raised in the year.

Treasury

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

The main risks are liquidity and interest rate risk.

Liquidity risk

The Group has access to short-term borrowing facilities provided by YEG and NEDL has access to £50m in committed revolving credit facilities provided by Lloyds TSB Bank plc and Royal Bank of Scotland plc and an additional overdraft facility of up to £2m provided by Lloyds TSB Bank plc, which is renewed on an annual basis. The revolving credit facilities are due to expire in April 2010, at which point, the Group expects to raise further facilities as required. The directors do not consider there to be any doubt over the Group's ability to raise such finance given the investment grade issuer credit rating held by several of its subsidiary companies and the fundamental financial strength and nature of its business. Further details are contained within the going concern note on page 18.

DIRECTORS' REPORT (CONTINUED)

Financial strength (continued)

Interest rate risk

The Group is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 December 2008, 89% of the Group's borrowings were at fixed rates and the average maturity for these borrowings was 23 years.

Currency risk

There are no material currency risks faced by the Group.

Trading risk

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

Financial derivatives

As at 31 December 2008 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 were designed to remove the Scheme deficit of £95.1m by December 2010, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2007 being borne out in practice. The next triennial valuation will take place as at 31 March 2010, as part of which the Scheme deficit will be re-assessed.

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.

Customer service

During the year, NEDL distributed electricity to customers in its distribution services areas and continued to improve the overall performance of its distribution network through an investment strategy being targeted at delivering improvements in an efficient and cost-effective manner. NEDL is focused on delivering a reliable and dependable supply of electricity and a high standard of service to its customers and, in the first full year of operation since the launch of the "customer promises", a significant number of tangible improvements have been identified and delivered, as part of the overall goal to improve customer satisfaction with the service provided, including:

- improving under-performing parts of the distribution system by identifying "hot spots" and taking specific action to address the issues in those areas;
- undertaking a programme to reduce the number of instances by one third, in which NEDL fails to meet an electricity guaranteed standard of performance;

DIRECTORS' REPORT (CONTINUED)

Customer service (continued)

- advancing the community care programme for the most vulnerable customers by ensuring that the needs of those customers are understood and responded to as effectively as possible, making available dedicated customer support vehicles and providing a 'language line' to facilitate conversations between customers and staff; and
- taking action to reduce the average length of time taken to restore supplies in fault situations.

NEDL continued with its initiatives to reduce the time taken to restore supplies following faults on the networks. 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.

The main achievements in 2008 were the overall reduction in failures against the guaranteed standards of performance, significant improvement in the quotation performance of the connections business and the naming of the customer relations centre as North East Contact Centre of the Year in its class. However, it is recognised that further effort is required to bring the customer satisfaction scores to greater than 90% and the installation of a replacement telephone system that takes advantage of the latest developments in automatic messaging is expected to improve performance in this respect.

Ofgem has established an incentive scheme for quality of service, 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 measures the average number of supply minutes lost for every connected customer due to faults and planned outages that last for three minutes or longer. CI measure the average number of supply interruptions for every 100 connected customers due to faults and planned outages that last for three minutes or longer. DNOs' performance against guaranteed standards, set for activities such as restoring supplies after unplanned interruptions, provides a measure of the level of customer service. Performance against these measures forms part of NEDL's regular reporting to Ofgem.

In respect of the key customer service performance indicators, NEDL's performance for the year ended 31 March 2008 showed that it achieved the Ofgem CI target but missed the CML and customer satisfaction targets, as follows:

	Actual	Target
CML:	70.5 (2007: 78.2)	69.5 (2007: 70.4)
CI:	66.3 (2007: 74.0)	74.5 (2007: 74.5)
Customer satisfaction:	88.6% (2007: 88.8%)	90% (2007: 90%)

DIRECTORS' REPORT (CONTINUED)

Operational excellence

The Group's core business continues to be providing and maintaining an efficient distribution network that delivers electricity effectively. During the year, £140.4m was invested in the improvement of the distribution system, including the replacement of assets and continuing network improvements intended to increase the quality of the electricity supply provided to customers.

The investment strategy is designed to deliver improvements in an efficient and cost-effective manner by minimising the number of faults that occur, reducing the average number of customers affected by a fault and providing a quicker restoration service in the event of a fault. Such actions are expected to have a positive impact on future CI and CML performance. The focus in 2008 was on delivering the core operational programmes, in particular the installation of remote control units and improving the lead times for fault repair work-in-progress.

The major projects undertaken as part of the investment strategy included:

- The completion of a project to establish a new 66/11kV primary substation at Scarborough;
- The completion of a project to establish a new 66/11kV primary substation at Breamish Street in Newcastle;
- The completion of a 132kV reinforcement project in the Richmond area and the establishment of a single transformer 132kV substation at Skeeby;
- Completion of the overhead line refurbishment works associated with phase two of the refurbishment of the Spennymoor to Skernside 66kV circuit;
- The continuation of a major 33kV reinforcement project in Newcastle designed to meet demand growth and provide further system security in the area;
- Replacement of 60 units of high voltage outdoor switchgear;
- Replacement of 35 high voltage distribution substations;
- Replacement of 40 units of high voltage indoor switchgear;
- Refurbishment or rebuilding of 68km of high voltage overhead line;
- Refurbishment or rebuilding of 22km of low voltage overhead line;
- The upgrade and reinforcement of 2.1km of overhead line to address the quality of supply performance issues relating to those circuits; and
- The installation and commissioning of 300 sites with remote control facilities.

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

DIRECTORS' REPORT (CONTINUED)**Operational excellence (continued)**

In order to help it decide on the priorities for its investment plan, NEDL consulted with a wide range of interested parties during the year about its proposals through the publication of a consultation document, which included information about its activities and current priorities and posed a range of questions about its options for the future. The results of that consultation exercise will be considered as part of the discussions regarding the DPCR5 process, which the Group will be conducting with Ofgem throughout 2009.

2008 was the third year in succession to present significant weather-related problems for the distribution network, to which NEDL's emergency response process was again effective, particularly in terms of the most severe flooding seen in the Morpeth area for almost 40 years.

Managing commercial risk in the context of the difficult economic and financial trading conditions was and will continue to be of key importance and has seen increased attention being paid by the Group in ensuring that its policies for credit checking, payment terms, payment performance tracking and debt management are strictly adhered to.

The main customers of NEDL are the electricity suppliers who pay Use of System ("UoS") charges for the use of the distribution network, in respect of which it is necessary to ensure that credit cover arrangements in line with Ofgem's guidance remain in place. The principal electricity suppliers that use the network are RWE Npower, British Gas, EdF Energy, E.on, Scottish and Southern Energy and Scottish Power.

Employee commitment**Health and safety**

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

NEDL received its seventh consecutive Gold Award and IUS its fifth consecutive Gold Award from the Royal Society for the Prevention of Accidents, for occupational health and safety performance and provision, to recognise the achievement of continued or improving standards of health and safety over a sustained period. The Group continued to maintain its OHSAS 18001 certification.

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

	2008		2007	
	Target	Actual	Target	Actual
Lost time accidents	0	3	0	3
Medical treatment accidents	4	2	3	5
Operational incidents	4	11	8	9
Preventable vehicle accidents	14	19	18	21

DIRECTORS' REPORT (CONTINUED)

Employee commitment (continued)

Health and safety (continued)

Safety performance against target was reasonable in certain areas during 2008 but continued to be somewhat disappointing in others and, following certain events at other platforms in the MidAmerican group, a wide-ranging audit of operational activity was undertaken, aimed at identifying any underlying procedural concerns in respect of operational performance. A number of initiatives arising from that exercise and the continuing evaluation of the lessons to be learned from all safety related incidents have been incorporated into the annual safety improvement plan for 2009, together with an enhanced number of site audits aimed at increasing the focus on operating a safe environment in both the workplace and on the road.

Management structure

The Group has a clearly defined leadership team, in which specific roles are identified, so allowing more effective management of the 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 Group. IUS has its own, dedicated management team.

Employees

2008 was a particularly challenging year due to the significant industrial relations issues, with which the Group had to deal. Having come through that period with new agreements and understandings in place, the priority for 2009 and beyond will be to constructively engage with the Group's employees through the existing trade union relationships and management structures. The Group will also continue to emphasise the importance of the application of high standards of performance in pursuit of its core principles and will ensure that a level of consistency is adopted in doing so.

The Group employed 1,370 staff at the end of December 2008 at various locations in the United Kingdom. (2007: 1,346).

Disabled employees

The Group is an equal opportunities employer and is committed to the criteria underpinning the Employment Service disability symbol. It is the Group's policy to provide disabled people with equal opportunities for employment, training, career development and promotion, having regard to their aptitudes and abilities. Should any member of staff become disabled during their employment, that member of staff would be retrained and redeployed, wherever possible.

Employee consultation

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

The Group is committed to maintaining and improving effective communication with employees, principally through regular staff briefs on current issues, meetings with staff and their representatives and the issue of newsletters and a quarterly employee magazine.

DIRECTORS' REPORT (CONTINUED)

Environmental respect

The CE Group's approach to environmental compliance is governed by its RESPECT policy of Responsibility, Efficiency, Stewardship, Performance, Evaluation, Communication and Training, which includes the promotion of environmental awareness, best practice and legal compliance amongst its staff and contractors.

The CE Group has operated a scheme under the environmental management systems ("EMS") standard ISO 14001 since the late 1990s and is subject to regular six-monthly assessments by an external certification body in order to retain that status. Lloyd's Register for Quality Assurance visited the CE Group in September 2008.

That visit concluded that the four minor non-conformances identified in February 2008 could be closed and raised one new minor non-conformance in respect of depot related operational control issues and noted a minor finding regarding the oil testing programme to verify the polychlorinated byphenyls content of oil in certain categories of transformer assets. The report in respect of the visit concluded that "based on the evidence presented, ... the company is able to demonstrate a sound approach to the implementation, maintenance and improvement of a mature EMS conforming to ISO 14001".

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

- A programme to enhance secondary containment provision for primary transformer sites to prevent oil leakage;
- A programme to enhance emergency response provision for primary transformer sites to mitigate oil leakage;
- Replacement of oil-filled circuit breakers with vacuum and SF6 units at outdoor substations;
- Improved 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 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 all new start personnel and contractors, complemented by periodic refresher training for all staff; and
- Monthly monitoring of energy consumption at all premises.

Measurements used to monitor environmental performance include the following categories:

- An annual internal environmental management systems audit programme: (29 audits completed) (2007: 38);
- Internal environmental management systems non-conformances: (10 reported and addressed) (2007: 6);

DIRECTORS' REPORT (CONTINUED)

Environmental respect (continued)

- Continual improvement programmes: (10 underway and performing to target) (2007: 7 underway, with 6 performing to target and 1 temporarily delayed);
- Environmental incidents log: (37 investigated and remedial action taken, including 12 reported to the Environment Agency) (2007: 37 investigated and remedial action taken, including 10 reported to the Environment Agency);
- Cable fluid losses: (an average annual rate of 26.7 litres per kilometre) (2007: 26.2 litres per kilometre);
- Primary transformer oil losses: (zero litres) (2007: 57 litres);
- Secondary transformer oil losses: (1,248 litres) (2007: 2,441 litres);
- All other oil losses: (30 litres) (2007: 69 litres);
- SF6 switch-gear losses: (1.6 kg) (2007: 0.6 kg); and
- Environmental customer communications: (235, mainly substation related, regarding graffiti, weeds and fly-tipping) (2007: 307).

The environmental key performance indicators are made available for scrutiny during the six-monthly external assessments and used by senior management to determine how the system is performing. They measure the delivery of system evaluation and continual improvement programmes, as well as detected non-conformances, reported incidents and the significance of environmental impacts and are subject to on-going monitoring as part of the CE Group's continual improvement programme.

Regulatory integrity

The CE Group manages its business to the highest behavioural standards and adheres to a policy of strict compliance with all relevant standards, legislation and regulatory conditions. The CAPSG continued to monitor and manage performance in risk-related and compliance areas and met on four occasions throughout the year.

The benefits associated with upgrading the Group's financial systems continued to be seen in terms of improvements in financial reporting and control and the controls in respect of the UoS process were subject to scrutiny by an internal audit. In addition, the regulatory compliance process was embedded in NEDL and includes the provision of quarterly reports to the board of NEDL. Focus on the accuracy of regulatory returns has continued and positive comments were received from the external consultants who reviewed the systems for PAS 55 accreditation.

The regulatory framework across the energy industry in the UK is undergoing a wholesale review, which could result in fundamental changes to the way the industry is regulated in the future. A significant part of that process is Ofgem's "RPI-X@20" project, which is specifically considering the way in which energy networks are regulated. This review is running alongside the DPCR5 process and the Group has and will continue to take an active part in the debate, which ranges from the potential for new technologies, such as "smart" metering, and the increased use of micro and distributed generation to the low carbon agenda insofar as it applies to electricity distribution networks.

DIRECTORS' REPORT (CONTINUED)

OTHER DIRECTORS' REPORT REQUIREMENTS

Corporate social responsibility

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

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

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

Charitable and political donations

During the year, charitable donations of £69,298 were made (2007: £130,328), principally to local charities serving the communities in which the Group operates. No contributions were made to political organisations (2007: nil).

Research and development

The CE Group supports a programme of research that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. The main areas of activity during the year were:

- Active participation in programmes of national significance in collaboration with other DNOs and academic institutions to make significant technological progress for utilisation by the industry as a whole;
- Continuing to support collaboration with other DNOs, both through industry associations and on a multilateral basis, on a range of incremental improvements to tools and equipment that, if successful, will further add to overall efficiency improvements;
- 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;
- Taking a key role in the set-up and successful start up of the Energy Innovation Centre to provide a portal for technologies and suppliers new to the DNO industry;
- The development of a technology roadmap to provide a fund of potential technical improvement projects that represent state of the art thinking and technology;
- Continuing to support a project at Durham University to assess electrical network risk with the objective of improving decision making on network reinforcement and operation;
- The development of options for automatic voltage control on the LV network; and
- The development of several different fault passage indicator systems to improve reaction time to network faults and minimise customer impact.

DIRECTORS' REPORT (CONTINUED)

Supplier payment policy

The Group complies with the Better Payment Practice Code for the prompt payment of suppliers in accordance with the normal terms of trade. It is Group policy with respect to its suppliers to settle the terms of payment with those suppliers when agreeing the terms of each transaction, to ensure that those suppliers are aware of the terms of payment and to pay in accordance with the Group's contractual and other legal obligations. The number of days purchases in trade creditors for the Company at 31 December 2008 was 65 (2007: 17).

Future Developments

The financial position of the Group, as at the year end, is shown in the balance sheet on page 26 and there have been no significant events since the year end.

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

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

IUS will look to further develop its engineering contracting business by delivering a high standard of service to its existing clients and pursuing opportunities in the health, education, industrial, chemical and manufacturing sectors.

Directors

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

Gregory E Abel	President, MidAmerican Energy Holdings Company
P Eric Connor	Senior Vice President & Chief Procurement Officer, MidAmerican Energy Holdings Company
Ron Dixon	Non-Executive Director
John M France	Regulation Director, CE Electric UK
Patrick J Goodman	Senior Vice President and Chief Financial Officer, MidAmerican Energy Holdings Company
Brian K Hankel	Vice President and Treasurer, MidAmerican Energy Holdings Company
Philip A Jones	President and Chief Operating Officer, CE Electric UK

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

Auditors

On 1 December 2008, Deloitte & Touche LLP changed its name to Deloitte LLP. A resolution to reappoint Deloitte LLP and to authorise the directors to determine their remuneration will be proposed at the Annual General Meeting.

Annual General Meeting

Full details of the Annual General Meeting appear on page 71 of this report.

DIRECTORS' REPORT (CONTINUED)

Going Concern

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

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

- a) The Group's main subsidiary, NEDL, is a stable electricity distribution business operating an essential public service and is regulated by the Gas and Electricity Markets Authority ("GEMA"). In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance their activities. In response to an information request issued by GEMA as part of its review of the financial position of all electricity distribution licence holders, NEDL has certified that it has adequate financial facilities and/or resources to meet its obligations until 31 December 2009.
- b) The Group is profitable with strong underlying cash flows resulting in lower gearing. The Company and NEDL hold investment grade credit ratings.
- c) The Group is financed by long-term borrowings with an average maturity of 23 years and has access to borrowing facilities provided by Lloyds TSB Bank plc and Royal Bank of Scotland. No repayments of long-term debt are due until 2020. The directors therefore consider that the Group has sufficient liquidity to meet its current requirements and, based on recent discussions with certain financial institutions, will continue to have access to short-term working capital facilities and the capital markets as necessary to meet its ongoing financing needs.

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

Vote Holder and Issuer Notification

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

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

DIRECTORS' REPORT (CONTINUED)

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.

A handwritten signature in black ink, appearing to read 'J Elliott', is written over the printed name of the Company Secretary.

By order of the board
John Elliott
Company Secretary

29 April 2009

RESPONSIBILITY OF DIRECTORS FOR THE PREPARATION OF THE REPORT AND ACCOUNTS

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare financial statements for the Company and the Group in accordance with International Financial Reporting Standards ("IFRS") and have also elected to prepare financial statements for the Company and the Group in accordance with IFRS. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 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 and the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

Directors are also required to:

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

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

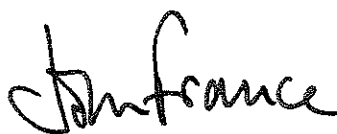
The Company has no ordinary shares listed on the London Stock Exchange. Accordingly, it has availed itself of the exemption from the London Stock Exchange requirements to make corporate governance and directors' remuneration disclosures and for auditor review thereof.

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

Each of the directors as at the date of the Annual Report, whose names and functions are set out on page 17 of the Directors' Report confirms that, to the best of their knowledge:

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

This responsibility statement was approved by the Board of Directors on 28 April 2009 and signed on its behalf by:



J M France
Regulation Director

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

DIRECTORS' BIOGRAPHIES

GREGORY E ABEL

Appointed in January 1997, Mr Abel, 46, is president and chief executive officer of MidAmerican Energy Holdings Company ("MidAmerican"), based in Des Moines, Iowa. He also serves as chairman and chief executive officer of PacifiCorp, which provides electric service to six Western states and approximately 1.6 million customers. He serves as the chief executive officer of the CE Group, which distributes electricity to approximately 3.8 million customers in England. Additionally, he is chief executive officer of MidAmerican Funding, LLC, the holding company for an integrated utility providing natural gas and electricity to 1.4 million customers in the Midwestern United States. Mr Abel also is a director of Kern River Gas Transmission Company and Northern Natural Gas Company. Kern River is a 1,700 mile interstate pipeline transporting Rocky Mountain and Canadian natural gas to markets in California, Nevada and Utah. Northern Natural Gas Company operates 16,400 miles of pipeline extending from the Permian Basin in Texas to the Upper Midwest. Mr Abel has more than 20 years of experience in senior management related to the energy industry. His responsibilities at MidAmerican are the operation and management of the holdings company; PacifiCorp's and MidAmerican Energy Company's supply and marketing and delivery services businesses; the CE Group's distribution businesses; CalEnergy's operations as an independent power producer; and the Kern River and Northern Natural Gas pipeline operations. Furthermore, he is responsible for the evaluation of opportunities relating to acquisitions and project development. Previously, as executive vice president, Mr Abel was responsible for engineering, construction and administrative functions for CalEnergy.

P ERIC CONNOR

Appointed in March 1998, Mr Connor, 60, 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 the CE Group 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, 71, 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, 51, is Regulation Director for the CE Group. After leaving university he joined the British Gas Corporation where he held a number of posts before becoming a member of the team that handled the privatisation of British Gas in 1986. He joined Northern Electric plc as its Regulation Manager in 1989 and has been involved with all the distribution (and supply) price control reviews that have affected the Company since privatisation. He was a member of the team that negotiated the acquisition of the distribution business of Yorkshire Electricity Group plc and the sale of the Northern Electric plc supply businesses in 2001.

DIRECTORS' BIOGRAPHIES (CONTINUED)

PATRICK J GOODMAN

Appointed in May 1999, Mr Goodman, 42, is senior vice president and chief financial officer of MidAmerican and is responsible for managing all aspects of MidAmerican's financial operations. Mr Goodman supports the negotiation and closing of MidAmerican's international and domestic project financings along with supporting future acquisitions and project developments. Additionally, Mr Goodman manages all accounting, financial reporting, tax, budgeting and long-range financial planning functions for MidAmerican. Since joining MidAmerican in 1995, Mr Goodman has served in various financial positions including chief accounting officer. Prior to joining MidAmerican, he served as a financial manager for National Indemnity Company and was a senior associate at PricewaterhouseCoopers.

BRIAN K HANKEL

Appointed in June 2003, Mr Hankel, 46, 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 FirstTier Bank of Lincoln from 1988 to 1992 and Senior Credit Analyst at FirstTier from 1987 to 1988.

PHILIP A JONES

Appointed in April 2007, Dr Jones, 40, is President and Chief Operating Officer of the CE Group, the UK platform in the global portfolio of MidAmerican. Prior to his appointment as President and Chief Operating Officer in November 2006, he was Strategy & Investment Director and, as such, was responsible for technical, economic and regulatory strategy within the organisation. Dr Jones is a chartered electrical engineer and has been working in the UK power distribution sector since completing his PhD in Electronic & Electrical Engineering in 1993. He has held a range of technical and managerial roles, mostly in the engineering field. He is also actively involved in a range of other industry bodies. He has been a director of the Institute of Asset Management and of the Energy Networks Association, the trade association that represents the power transmission and distribution companies.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NORTHERN ELECTRIC plc

We have audited the group and parent company financial statements (the "financial statements") of Northern Electric plc ("the Company") for the year ended 31 December 2008 which comprise the Group Income Statement, the Group Statement of Total Recognised Gains and Losses, the Group and Company Balance Sheets and the Group and Company Cash Flow Statement and the related notes 1 to 30. 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, as regards the Group financial statements, 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 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.

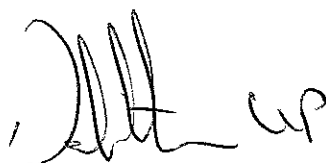
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

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

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 2008 and of its profit for the year then ended;
- the parent company's 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 2008;
- 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.



Deloitte LLP

Chartered Accountants and Registered Auditors
Newcastle upon Tyne

29 April 2009

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****GROUP INCOME STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008 £m	2007 £m
Revenue	3	271.2	282.0
Cost of sales		<u>(49.9)</u>	<u>(64.3)</u>
Gross profit		221.3	217.7
Distribution costs		<u>(66.7)</u>	<u>(64.4)</u>
Administrative expenses		<u>(20.9)</u>	<u>(22.1)</u>
Operating profit	4	133.7	131.2
Share of profit after tax of joint venture accounted for using the equity method		0.4	0.4
Other gains		0.4	0.2
Investment income	5	11.1	14.9
Finance costs	6	<u>(35.9)</u>	<u>(37.7)</u>
Profit before tax		109.7	109.0
Income tax expense	9	<u>(23.7)</u>	<u>(23.0)</u>
Profit for the year	24	<u>86.0</u>	<u>86.0</u>

All activities relate to continuing operations.

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

There is no other income or expense for the Group for 2008 and 2007, other than the profits reported above.

NORTHERN ELECTRIC plc

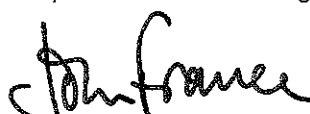
REGISTERED NUMBER 2366942

BALANCE SHEETS

AT 31 DECEMBER 2008

		GROUP		COMPANY	
	Note	2008	2007 Restated Note 2	2008	2007 Restated Note 2
		£m	£m	£m	£m
Non-current assets					
Property, plant and equipment	11	1,283.9	1,181.3	1.6	1.6
Intangibles	12	5.7	6.5	-	-
Investments in joint venture	13	3.2	3.2	-	-
Investments in other undertakings	13	0.1	0.1	-	-
Investments in subsidiaries	13	-	-	328.1	328.1
Retirement benefit asset	27	95.9	44.7	-	-
Trade and other receivables	17	4.3	4.7	-	-
		<u>1,393.1</u>	<u>1,240.5</u>	<u>329.7</u>	<u>329.7</u>
Current assets					
Inventories	15	20.0	21.7	-	-
Trade and other receivables	17	47.8	59.5	1.0	0.2
Cash and cash equivalents	17	182.0	176.8	113.6	76.1
		<u>249.8</u>	<u>258.0</u>	<u>114.6</u>	<u>76.3</u>
Total assets		<u>1,642.9</u>	<u>1,498.5</u>	<u>444.3</u>	<u>406.0</u>
Current liabilities					
Trade and other payables	18	(67.3)	(74.0)	(6.0)	(6.9)
Current income tax liabilities	18	(15.5)	(16.1)	(8.9)	(5.2)
Deferred revenue	21	(12.5)	(10.2)	-	-
Borrowings	19	(55.7)	(31.0)	(17.4)	(13.2)
Provisions	22	(2.1)	(3.2)	-	-
		<u>(153.1)</u>	<u>(134.5)</u>	<u>(32.3)</u>	<u>(25.3)</u>
Net current assets		<u>96.7</u>	<u>123.5</u>	<u>82.3</u>	<u>51.0</u>
Non-current liabilities					
Borrowings	19	(347.1)	(347.0)	(1.1)	(1.1)
Deferred income tax liabilities	20	(169.3)	(164.1)	(17.6)	(33.6)
Retirement benefit obligations	28	(1.4)	(1.4)	(1.4)	(1.4)
Deferred revenue	21	(385.6)	(350.7)	-	-
Provisions	22	(0.8)	(1.2)	-	-
		<u>(904.2)</u>	<u>(864.4)</u>	<u>(20.1)</u>	<u>(36.1)</u>
Total liabilities		<u>(1,057.3)</u>	<u>(998.9)</u>	<u>(52.4)</u>	<u>(61.4)</u>
Net assets		<u>585.6</u>	<u>499.6</u>	<u>391.9</u>	<u>344.6</u>
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	348.4	262.4	154.7	107.4
Other reserves	24	6.2	6.2	6.2	6.2
Total equity	24	<u>585.6</u>	<u>499.6</u>	<u>391.9</u>	<u>344.6</u>

The financial statements were approved by the board of directors and authorised for issue on 28 April 2009 and were signed on its behalf by:



J M France
Director

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	GROUP		COMPANY	
		2008 £m	2007 £m	2008 £m	2007 £m
Net cash from operating activities	25	83.8	67.0	33.3	17.6
Investing activities					
Dividends received from joint venture		0.4	0.4	-	-
Sale of long-term securities		-	100.0	-	-
Proceeds from disposal of property, plant and equipment		0.5	0.8	-	0.4
Purchases of property, plant and equipment		(151.0)	(117.9)	-	(0.2)
Purchases of intangible assets		(0.9)	(2.0)	-	-
Receipt of customer contributions		47.8	41.8	-	-
Net cash (used in)/ from investing activities		(103.2)	23.1	-	0.2
Financing activities					
Movement in borrowings from Group undertaking		7.6	(3.4)	4.2	(3.4)
New borrowings raised		17.0	11.0	-	-
Net cash from/(used in) financing activities		24.6	7.6	4.2	(3.4)
Net increase in cash and cash equivalents		5.2	97.7	37.5	14.4
Cash and cash equivalents at beginning of year		176.8	79.1	76.1	61.7
Cash and cash equivalents at end of year		182.0	176.8	113.6	76.1

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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

2 PRINCIPAL ACCOUNTING POLICIES

Accounting convention and basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have also been prepared in accordance with IFRSs as adopted by the European Union, and with those parts of the 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.

Going Concern

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

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

- The Group's main subsidiary, NEDL, is a stable electricity distribution business operating an essential public service and is regulated by the Gas and Electricity Markets Authority ("GEMA"). In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance their activities. In response to an information request issued by GEMA as part of its review of the financial position of all electricity distribution licence holders, NEDL has certified that it has adequate financial facilities and/or resources to meet its obligations until 31 December 2009.
- The Group is profitable with strong underlying cash flows resulting in lower gearing. The Company and NEDL hold investment grade credit ratings.
- The Group is financed by long-term borrowings with an average maturity of 23 years and has access to borrowing facilities provided by Lloyds TSB Bank plc and Royal Bank of Scotland. No repayments of long-term debt are due until 2020. The directors therefore consider that the Group has sufficient liquidity to meet its current requirements and, based on recent discussions with certain financial institutions, will continue to have access to short-term working capital facilities and the capital markets as necessary to meet its ongoing financing needs.

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

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Judgments in applying accounting policies and key sources of estimation uncertainty

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

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

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

Critical accounting policies

The critical accounting policies adopted by the directors relate to property, plant and equipment, taxation, pensions, revenue and construction contracts and are described below. The accounting policies have been applied consistently throughout the year and the preceding year, with the exception of interest on borrowings as highlighted below.

Prior year restatement

A prior year restatement has been made in respect of accrued and pre-paid interest on borrowings. These balances have been reclassified from trade and other payables to short-term borrowings on the face of the balance sheet and in the related notes to the accounts in line with IAS 39 "Financial Instruments: Recognition and Measurement". The effect of this adjustment is to increase borrowings and decrease trade and other payables in the prior year by £9.1m and £2.3m for the Group and Company respectively. The adjustment has no impact on the prior year profit.

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NOTES TO THE ACCOUNTS (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2008**

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Adoption of new or revised standards

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
IFRS 7	Financial Instruments Disclosures – Amendments to IFRS 7
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.
IFRIC 18	Transfer of Assets from Customers

The directors have concluded that IFRIC 14 will have no impact on these financial statements, on the basis that it is believed that the Company has the right to recognise defined benefit scheme assets in line with the rules of the Northern Electric Group of the Electricity Supply Pension Scheme (the “Northern Electric Group of the ESPS”).

The directors anticipate that the adoption of the amendments to IAS 1, IFRS 8, IFRIC 12 and IFRIC 18 in future periods will have no material impact on the financial statements of the Group or the Company. The amendments to IFRS 7, which are effective for periods beginning on or after 1 January 2009, will require enhanced disclosures in relation to fair value measurements and liquidity risk. The amendments to IAS 23, which are effective for periods beginning on or after 1 January 2009, will require borrowing costs relating to qualifying assets to be capitalised. The impact of the adoption of IAS 23 in the Group’s financial statements for the year ended 31 December 2009 is expected to be approximately £1m.

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

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

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

Revenue

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

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

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

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

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

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

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

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

Construction contracts

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

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

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

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Research costs

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

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

Operating profit

Operating profit is stated before profit on disposals, the share of 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 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.

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NOTES TO THE ACCOUNTS (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2008**

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

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

Distribution system assets.....45 years

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

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

Non-operational assets:

Buildings - freeholdup to 60 years

- leasehold..... lower of lease period or 60 years

Fixtures and equipmentup 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.

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Investments

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

The results and assets and liabilities of joint ventures are incorporated in these financial statements using the equity method of accounting. Investments in joint ventures are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of the joint venture in excess of the Group's interest in those joint 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.

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

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

Provisions

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

Leases

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

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

Trade receivables

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

Trade payables

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

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Borrowings

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

Cash and cash equivalents

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

Derivatives

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

Financial Instruments

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

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

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

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

Financial liabilities and equity

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

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Pensions

The Group contributes to the Northern Electric Group of the ESPS, a defined benefit scheme.

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

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

The asset or liability recognised in the balance sheet represents the present value of the defined benefit obligation less the fair value of the scheme assets on a bid value basis, together with adjustments for unrecognised actuarial gains and losses and past service costs.

The 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 27.

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

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2008**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	Engineering Contracting	Other	Consolidation Adjustments	Total
	2008 £m	2008 £m	2008 £m	2008 £m	2008 £m
REVENUE					
External sales	214.7	49.9	6.6	-	271.2
Inter-segment sales	0.4	-	7.2	(7.6)	-
Total revenue	<u>215.1</u>	<u>49.9</u>	<u>13.8</u>	<u>(7.6)</u>	<u>271.2</u>
SEGMENTS RESULTS					
Operating profit	<u>82.4</u>	<u>2.3</u>	<u>2.1</u>	<u>46.9</u>	133.7
Share of profit after tax of joint venture accounted for using the equity method					0.4
Other gains					0.4
Investment income					11.1
Finance costs					<u>(35.9)</u>
Profit before tax					<u>109.7</u>
OTHER INFORMATION					
Capital additions	147.8	0.2	-	(5.1)	142.9
Depreciation and amortisation	41.9	0.1	0.1	(1.0)	41.1
Amortisation of deferred revenue	<u>(10.6)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10.6)</u>
BALANCE SHEET					
Segment assets	<u>1,381.6</u>	<u>21.8</u>	<u>217.9</u>	<u>(160.4)</u>	1,460.9
Unallocated corporate assets					<u>182.0</u>
Total assets					<u>1,642.9</u>
Segment liabilities	<u>(451.0)</u>	<u>(10.0)</u>	<u>(5.9)</u>	<u>(2.7)</u>	(469.6)
Unallocated corporate liabilities					<u>(587.7)</u>
Total liabilities					<u>(1,057.3)</u>
Net assets/(liabilities) by segment	<u>930.6</u>	<u>11.8</u>	<u>212.0</u>	<u>(163.1)</u>	991.3
Unallocated net corporate liabilities					<u>(405.7)</u>
Total net assets					<u>585.6</u>

"Other" comprises business support units. Consolidation Adjustments includes pensions accounting adjustments.

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

Segment assets in "Other" include investments in the Distribution and Engineering Contracting activities, which are eliminated in Consolidation Adjustments.

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

NORTHERN ELECTRIC plc

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

3 REVENUE AND SEGMENTAL ANALYSIS (CONTINUED)

	Distribution	Engineering Contracting	Other	Consolidation Adjustments	Total
	2007 £m	2007 £m	2007 £m	2007 £m	2007 £m
REVENUE					
External sales	212.7	63.2	6.1	-	282.0
Inter-segment sales	0.3	-	8.4	(8.7)	-
Total revenue	213.0	63.2	14.5	(8.7)	282.0
SEGMENTS RESULTS					
Operating profit	90.3	1.2	2.0	39.7	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	0.3	(3.1)	129.3
Depreciation and amortisation	40.3	0.1	0.1	(1.0)	39.5
Amortisation of deferred revenue	(9.5)	-	-	-	(9.5)
BALANCE SHEET					
Segment assets	1,271.8	26.6	217.8	(194.5)	1,321.7
Unallocated corporate assets					176.8
Total assets					1,498.5
Segment liabilities	(418.9)	(14.2)	(10.3)	0.4	(443.0)
Unallocated corporate liabilities					(555.9)
Total liabilities					(998.9)
Net assets/(liabilities) by segment	852.9	12.4	207.5	(194.1)	878.7
Unallocated net corporate liabilities					(379.1)
Total net assets					499.6

"Other" comprises business support units. "Consolidation Adjustments" includes pensions accounting adjustments.

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

Segment assets in "Other" include investments in the Distribution and Engineering Contracting activities, which are eliminated in Consolidation Adjustments.

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

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2008**4 OPERATING PROFIT**

Operating profit is stated after charging/(crediting):

	2008 £m	2007 £m
Staff costs (Note 7)	15.4	16.0
Research costs	0.5	0.4
Depreciation of property, plant and equipment	39.4	38.0
Amortisation of deferred revenue	(10.6)	(9.5)
Amortisation of intangibles	1.7	1.5
Impairment loss/(gain) on trade and other receivables	0.3	(0.3)

The analysis of auditors' remuneration is as follows :

	2008 £000	2007 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	35	25
Fees payable to the Company's auditors for the audit of the Company's subsidiaries pursuant to legislation	156	149
Total audit fees	191	174

There were no fees payable in relation to non-audit services in 2008 or 2007.

	2008 £000	2007 £000
Fees payable to the Company's auditors and their associates in respect of the audit of associated pension schemes	8	7

5 INVESTMENT INCOME

	2008 £m	2007 £m
Dividends received	0.1	-
Interest receivable	11.0	14.9
Total investment income	11.1	14.9

6 FINANCE COSTS

	2008 £m	2007 £m
Dividends on non-equity preference shares	9.0	9.0
Interest payable on other borrowings	26.9	28.7
Total finance costs	35.9	37.7

NORTHERN ELECTRIC plc

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

7 STAFF COSTS

	GROUP		COMPANY	
	2008 £m	2007 £m	2008 £m	2007 £m
Salaries	51.1	47.0	3.6	3.8
Social security costs	4.6	5.0	0.5	0.4
Defined benefit pension scheme (credit)/cost (Note 27)	(17.2)	(14.7)	1.8	1.7
Defined contribution pension scheme costs	0.1	0.1	-	-
	38.6	37.4	5.9	5.9
Less: charged to work in progress	(1.2)	-	-	-
Less: charged as capital expenditure	(22.0)	(21.4)	-	-
	15.4	16.0	5.9	5.9

The average monthly number of employees during the year was:

	2008 Number	2007 Number	2008 Number	2007 Number
Distribution	965	974	-	-
Engineering contracting	329	310	-	-
Other	60	60	60	60
	1,354	1,344	60	60

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2008**8 DIRECTORS AND KEY PERSONNEL****a) EMOLUMENTS**

	Highest paid director		All	
	2008	2007	2008	2007
	£000	£000	£000	£000
Short-term employee benefits	106	69	296	250
Post-retirement benefits	10	30	68	59
Other long-term benefits	104	74	263	186
	220	173	627	495

	Other Key Personnel	
	2008	2007
	£000	£000
Short-term employee benefits	425	511
Post-retirement benefits	127	162
Other long-term benefits	181	240
	733	913

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

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

b) PENSIONS

Pension contributions relate to defined benefit schemes only. At 31 December 2008, 4 directors were members of defined benefit schemes (2007: 4 directors).

The accrued pension benefit relating to the highest paid director is £nil (2007: £52,275).

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

9 INCOME TAX EXPENSE

	2008		2007	
	£m	£m	£m	£m
Tax expense comprises:				
Current tax expense:				
Corporation tax charge for the year	5.3		10.0	
Payment for use of group losses @ 28.5% (2007: 30%)	13.0		14.5	
Under provision for prior years	0.2		0.7	
Total current tax charge		18.5		25.2
Deferred tax expense/(income) (Note 20):				
Deferred tax expense relating to the origination and reversal of temporary differences	14.6		9.1	
Settlement of prior period capital gains claims	(16.0)		-	
Effect of changes in tax rates	-		(11.3)	
Effect of changes in tax legislation	6.6		-	
		5.2		(2.2)
Tax charge on profit before tax		23.7		23.0
The total tax charge can be reconciled to the accounting profit as follows:				
Profit before tax		109.7		109.0
Tax on profit before tax at standard rate of corporation tax in the United Kingdom of 28.5% (2007: 30%)		31.3		32.7
Dividends on non-equity preference shares	2.6		2.7	
Tax effect of results of joint venture	(0.1)		(0.1)	
Effect of changes in tax rates	(0.3)		(11.3)	
Effect of changes in tax legislation	6.6		-	
Settlement of prior period capital gains claims	(16.0)		-	
Adjustment to prior years	(0.4)		(1.0)	
Tax charge on profit before tax		23.7		23.0

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

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

10 DIVIDENDS

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

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

11 PROPERTY, PLANT AND EQUIPMENT

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

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2008**11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	Distribution System £m	COMPANY Fixtures And Equipment £m	Total £m
COST:			
At 1 January 2007	1.3	3.5	4.8
Additions	-	0.1	0.1
	<u>1.3</u>	<u>3.6</u>	<u>4.9</u>
At 31 December 2007 and 31 December 2008			
	<u>1.3</u>	<u>3.6</u>	<u>4.9</u>
DEPRECIATION:			
At 31 December 2007 and 31 December 2008	-	3.3	3.3
	<u>-</u>	<u>3.3</u>	<u>3.3</u>
Net book value at 31 December 2007 and 31 December 2008	1.3	0.3	1.6
	<u>1.3</u>	<u>0.3</u>	<u>1.6</u>

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

	2008 £m	2007 £m
Freehold	1.9	1.9
Long leasehold	0.5	0.6
Short leasehold	0.1	0.1
	<u>2.5</u>	<u>2.6</u>

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

12 GROUP INTANGIBLES

	Software Development Costs £m
COST:	
At 1 January 2007	24.3
Additions	2.0
	<hr/>
At 31 December 2007	26.3
Additions	0.9
	<hr/>
At 31 December 2008	27.2
	<hr/>
AMORTISATION:	
At 1 January 2007	18.3
Charge for the year	1.5
	<hr/>
At 31 December 2007	19.8
Charge for the year	1.7
	<hr/>
At 31 December 2008	21.5
	<hr/>
Net book value at 31 December 2008	5.7
	<hr/>
Net book value at 31 December 2007	6.5
	<hr/>

The Company had no intangible assets at 31 December 2008 (2007: £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 2007, 31 December 2007 and 31 December 2008	3.2	0.1	3.3	327.1	1.0	328.1
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2008**13 INVESTMENTS (CONTINUED)**

Details of the principal investments of the Group at 31 December 2008 are listed below:

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

All the above companies are registered in England and Wales.

14 INTEREST IN JOINT VENTURE

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

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

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2008**15 INVENTORIES**

	GROUP	
	2008 £m	2007 £m
Raw materials and consumables	8.0	7.8
Work in progress	11.7	13.5
Goods for resale	0.3	0.4
	<u>20.0</u>	<u>21.7</u>

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

16 GROUP CONSTRUCTION CONTRACTS

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

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

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

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

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

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

17 OTHER FINANCIAL ASSETS

Trade and other receivables

	GROUP		COMPANY	
	2008 £m	2007 £m	2008 £m	2007 £m
Non-current:				
Finance lease receivables	<u>4.3</u>	<u>4.7</u>	<u>-</u>	<u>-</u>
Current:				
Distribution use of system receivables	26.4	34.6	-	-
Amounts receivable for sale of goods or services	4.2	1.3	-	-
Construction contract customers	8.9	13.2	-	-
Finance lease receivables	3.6	2.8	-	-
Amounts due from joint ventures	-	0.3	-	-
Other receivables	0.6	3.4	0.7	-
Prepayments and accrued income	<u>4.1</u>	<u>3.9</u>	<u>0.3</u>	<u>0.2</u>
	<u>47.8</u>	<u>59.5</u>	<u>1.0</u>	<u>0.2</u>

The directors consider the carrying amount of trade and other receivables approximates their fair value, calculated by discounting the future cash flows at the market rate at the balance sheet date. The maximum risk exposure is the book value of these debts.

Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2008 £m	2007 £m	2008 £m	2007 £m
Amounts receivable under finance leases:				
Within one year	3.9	3.1	3.6	2.8
In the second to fifth years inclusive	<u>4.7</u>	<u>5.1</u>	<u>4.3</u>	<u>4.7</u>
	8.6	8.2	7.9	7.5
Less: unearned finance income	<u>(0.7)</u>	<u>(0.7)</u>	<u>-</u>	<u>-</u>
	<u>7.9</u>	<u>7.5</u>	<u>7.9</u>	<u>7.5</u>

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

The interest rate inherent in the agreements is fixed at the contract date for all of the term of the agreement. The average effective interest rate contracted is approximately 6.5% (2007: 6.5%) per annum.

None of these debts are past due and there are no indicators of impairment.

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

17 OTHER FINANCIAL ASSETS (CONTINUED)**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 36% of distribution revenues in 2008 (2007: 40%). Ofgem has determined a framework which sets credit limits for each supply business based on its credit rating or payment history and requires it to provide credit cover if its value at risk (measured as being equivalent to 45 days usage) exceeds the credit limit. Acceptable credit typically is provided in the form of a customer deposit, a parent company guarantee, letter of credit or an escrow account. Included within other payables (Note 18) are customer deposits of £1.6m as at December 2008 (2007: £1.6m).

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. Included in the Group's use of system ("UoS") receivables are debtors with a carrying value of £0.4m, which have been placed into administration and have therefore been provided in full at the year end (2007: £nil).

Amounts receivable for sale of goods and services

Sales of goods and services comprise all income streams which are not classified as UoS income or construction contracts. Examples of non-UoS income streams would be customer contributions in relation to distribution system assets and recovery of amounts for damage caused by third parties to the distribution system.

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

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £0.3m (2007: £0.6m) which are past due at the reporting date for which the Group has provided for an irrecoverable amount of £0.1m (2007: £0.4m) based on past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 640 days (2007: 557 days).

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £1.0m (2007: £0.6m), 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 90 days (2007: 88 days).

Ageing of past due but not impaired receivables

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

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

17 OTHER FINANCIAL ASSETS (CONTINUED)**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 for UK contracting debts and all receivables over 6 months for multi-utility debts. Trade receivables between 30 days and these predetermined provision dates are provided for based on estimated irrecoverable amounts, determined by reference to past default experience.

Included in the Group's construction contracts balance are debtors with a carrying amount of £3.1m (2007: £4.4m), which are past due at the reporting date for which the Group has provided for an irrecoverable amount of £0.5m (2007: £0.3m) based on past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 111 days (2007: 101 days).

Included in the Group's construction contracts balance are debtors with a carrying amount of £2.1m (2007: £1.7m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 49 days (2007: 46 days).

Ageing of past due but not impaired receivables:

	2008 £m	2007 £m
30-90 days	1.9	1.5
90-180 days	0.2	-
180-365 days	-	0.2
Total	<u>2.1</u>	<u>1.7</u>

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

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

17 OTHER FINANCIAL ASSETS (CONTINUED)**Movement in the allowance for doubtful debts**

	£m
At 1 January 2008	0.7
Amounts utilised/written off in the year	-
Amounts recognised in income statement	<u>0.3</u>
At 31 December 2008	<u>1.0</u>

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 £0.4m (2007: £nil) for the Group and £nil (2007: £nil) for the Company, which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

Cash and cash equivalents

	GROUP		COMPANY	
	2008 £m	2007 £m	2008 £m	2007 £m
Cash at bank	5.2	-	-	-
Amounts owed by Group undertakings	<u>176.8</u>	<u>176.8</u>	<u>113.6</u>	<u>76.1</u>
	<u>182.0</u>	<u>176.8</u>	<u>113.6</u>	<u>76.1</u>

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

Amounts owed by Group undertakings represent surplus cash remitted to YEG and invested to generate a market rate of return for the Group. This is repayable on demand with YEG having access to facilities as described in the going concern note in Note 2.

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

18 OTHER FINANCIAL LIABILITIES**Trade and other payables**

	GROUP		COMPANY	
	2008	2007	2008	2007
	£m	Restated Note 2 £m	£m	Restated Note 2 £m
Payments received on account	15.9	16.2	-	-
Trade payables	12.4	11.4	0.8	0.6
Amounts due to parent undertakings	1.5	0.2	1.3	0.1
Amounts due to joint ventures	0.2	1.2	-	-
Other taxes and social security	6.1	7.5	2.5	2.7
Accruals	29.4	35.6	1.2	2.4
Other payables	1.8	1.9	0.2	1.1
	67.3	74.0	6.0	6.9

Current income tax liabilities

	GROUP		COMPANY	
	2008	2007	2008	2007
	£m	£m	£m	£m
Corporation tax	5.1	7.1	-	-
Group relief	10.4	9.0	8.9	5.2
	15.5	16.1	8.9	5.2

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

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

18 OTHER FINANCIAL LIABILITIES (CONTINUED)

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

	GROUP				
	Less than 3 months £m	3 months To 1 year £m	1 to 5 Years £m	5+ Years £m	Total £m
2008:					
Non-interest bearing	53.7	-	-	-	53.7
Variable interest rate liability	46.5	-	-	-	46.5
Fixed interest rate liability	-	22.5	89.9	837.9	950.3
	100.2	22.5	89.9	837.9	1,050.5
2007:					
Non-interest bearing	57.8	-	-	-	57.8
Variable interest rate liability	21.9	-	-	-	21.9
Fixed interest rate liability	-	22.5	89.9	857.0	969.4
	79.7	22.5	89.9	857.0	1,049.1
	COMPANY				
	Less than 3 months £m	3 months To 1 year £m	1 to 5 Years £m	5+ Years £m	Total £m
2008:					
Non-interest bearing	6.0	-	-	-	6.0
Variable interest rate liability	15.2	-	-	-	15.2
Fixed interest rate liability	-	-	-	111.7	111.7
	21.2	-	-	111.7	132.9
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

Included within the Group and Company other financial liabilities of 5+ years is £111.7m for both 2008 and 2007 in relation to the cumulative preference shares (Note 19).

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

19 BORROWINGS

	GROUP			
	Book value 2008	2007 Restated Note 2	Fair value 2008	2007 Restated Note 2
	£m	£m	£m	£m
Loans	280.9	263.7	273.1	286.2
Amounts owed to Group undertakings	118.5	110.9	123.6	116.0
Cumulative preference shares	3.4	3.4	115.0	131.8
	402.8	378.0	511.7	534.0
The borrowings are repayable as follows:				
On demand or within one year	55.7	31.0	55.7	31.0
After five years	347.1	347.0	456.0	503.0
	402.8	378.0	511.7	534.0
Analysis of borrowings:				
Short-term treasury loans	28.0	11.0	28.0	11.0
Short-term loan from Group undertakings	18.5	10.9	18.5	10.9
2020 – 8.875%	100.3	100.2	118.0	129.3
2035 – 5.125%	152.6	152.5	127.1	145.9
2037 – 5.9% loan from Group undertakings	100.0	100.0	105.1	105.1
Cumulative preference shares	3.4	3.4	115.0	131.8
	402.8	378.0	511.7	534.0

	COMPANY			
	Book value 2008	2007 Restated Note 2	Fair value 2008	2007 Restated Note 2
	£m	£m	£m	£m
Short-term loan from Group undertakings	15.1	10.9	15.1	10.9
Cumulative preference shares	3.4	3.4	115.0	131.8
	18.5	14.3	130.1	142.7
The borrowings are repayable as follows:				
On demand or within one year	17.4	13.2	17.4	13.2
After five years	1.1	1.1	112.7	129.5
	18.5	14.3	130.1	142.7

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

19 BORROWINGS (CONTINUED)

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

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

The loans are non-secured and denominated in sterling.

The Company has authorised 115,000,000 non-equity cumulative preference shares of 1p each as at 31 December 2008 and 31 December 2007. As at 31 December 2008 and 31 December 2007, 111,662,378 were allotted, called up and fully paid.

The terms of the cumulative preference shares:

- i) entitle holders, in priority to holders of all other classes of shares, to a fixed cumulative preferential dividend of 8.061p (net) per share per annum payable half-yearly in equal amounts on 31 March and 30 September;
- ii) on a return of capital on a winding up, or otherwise, will carry the right to repayment of capital together with a premium of 99p per share and a sum equal to any arrears or accruals of dividend; this right is in priority to the rights of ordinary shareholders;
- iii) carry the right to attend a general meeting of the Company, and vote if, at the date of the notice convening the meeting, payment of the dividend to which they are entitled is six months or more in arrears, or if a resolution is to be considered at the meeting for winding-up the Company or abrogating, varying or modifying any of the special rights attaching to them; and
- iv) are redeemable in the event of the revocation by the Secretary of State of the Company's Public Electricity Supply Licence at the value given in (ii) above.

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

At 31 December 2008, the Group had available £29.0m (2007: £46.0m) 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 2008, 89% (2007: 94%) of the Group's borrowings were at fixed rates and the average maturity for these borrowings was 23 years (2007: 25 years).

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

20 DEFERRED TAX

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

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

	Accelerated Tax Depreciation £m	Rollover/ Holdover Relief £m	COMPANY Retirement Benefit Obligations £m	Total £m
At 1 January 2007	(0.2)	37.5	(0.4)	36.9
Charge/(credit) to income statement	0.1	(3.5)	0.1	(3.3)
At 31 December 2007	(0.1)	34.0	(0.3)	33.6
Credit to income statement	-	(15.9)	(0.1)	(16.0)
At 31 December 2008	(0.1)	18.1	(0.4)	17.6

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

21 DEFERRED REVENUE

	£m	
At 1 January 2007		336.7
Additions		33.7
Amortisation		(9.5)
		<hr/>
At 31 December 2007		360.9
Additions		47.8
Amortisation		(10.6)
		<hr/>
At 31 December 2008		398.1
		<hr/>
	2008	2007
	£m	£m
Included in current liabilities	12.5	10.2
Included in non-current liabilities	385.6	350.7
	<hr/>	<hr/>
	398.1	360.9
	<hr/>	<hr/>

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

The Company had no deferred revenue at 31 December 2008 (2007: £nil).

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

22 PROVISIONS FOR LIABILITIES AND CHARGES

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

	GROUP	
	2008 £m	2007 £m
Included in current liabilities	2.1	3.2
Included in non-current liabilities	0.8	1.2
	2.9	4.4

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

Onerous contacts: Related to former retail business property leases.

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

The Company had no provision for liabilities and charges (2007: £nil).

23 SHARE CAPITAL

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

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

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

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

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 2007	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
Profit for the year	-	-	-	86.0	86.0
Total equity at 31 December 2008	72.2	158.8	6.2	348.4	585.6

	COMPANY				
	Share Capital £m	Share Premium Account £m	Capital Redemption Reserve £m	Retained Earnings £m	Total Equity £m
Total equity at 1 January 2007	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
Profit for the year	-	-	-	47.3	47.3
Total equity at 31 December 2008	72.2	158.8	6.2	154.7	391.9

At the Company's Annual General Meeting in August 1994, the shareholders gave approval to on-market purchases of up to 10% of its shares and this was given effect on 21 September 1994 when 12,370,400 shares were purchased. This transaction resulted in the creation of a capital redemption reserve of £6.2m. Under section 263(3) (b) of the Companies Act 1985 this reserve is treated as an undistributable reserve.

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

25 NET CASH FROM OPERATING ACTIVITIES

	GROUP		COMPANY	
	2008 £m	2007 £m	2008 £m	2007 £m
Operating profit	133.7	131.2	1.6	1.8
Depreciation and amortisation	41.1	39.5	-	-
Amortisation of deferred revenue	(10.6)	(9.5)	-	-
Difference in retirement benefit contributions and amounts charged to operating profit	(46.2)	(36.8)	-	0.1
Decrease in provisions	(1.5)	(0.2)	-	-
Operating cash flows before movements in working capital	116.5	124.2	1.6	1.9
Decrease/(increase) in inventories	1.7	(4.5)	-	-
Decrease/(increase) in receivables	11.5	(7.1)	(0.8)	0.3
Decrease in payables	(2.1)	(3.1)	(0.9)	(2.4)
Cash generated by/(used in) operations	127.6	109.5	(0.1)	(0.2)
Income taxes paid	(7.3)	(7.0)	-	-
Group relief (paid)/received	(11.8)	(14.7)	2.5	0.7
Dividends received	0.1	-	37.1	24.0
Interest received	11.1	18.1	8.6	7.6
Interest paid	(35.9)	(38.9)	(14.8)	(14.5)
Net cash from operating activities	83.8	67.0	33.3	17.6

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

26 OPERATING LEASE ARRANGEMENTS

	GROUP		COMPANY	
	2008 £m	2007 £m	2008 £m	2007 £m
Minimum lease payments under operating leases recognised in the year	<u>4.1</u>	<u>4.7</u>	<u>0.2</u>	<u>0.2</u>

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

	GROUP		COMPANY	
	2008 £m	2007 £m	2008 £m	2007 £m
Within one year	2.9	2.8	0.2	0.2
In the second to fifth year inclusive	7.0	6.2	0.8	0.8
After five years	<u>1.4</u>	<u>1.4</u>	<u>1.0</u>	<u>1.2</u>
	<u>11.3</u>	<u>10.4</u>	<u>2.0</u>	<u>2.2</u>

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.

NORTHERN ELECTRIC plc

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NOTES TO THE ACCOUNTS (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2008**

27 PENSION COMMITMENTS

The Company has two retirement benefit schemes.

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

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

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

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

For the Northern Electric Group of the ESPS, the actuarial valuation showed that the value of the assets represented 90.7% of the actuarial value of the accrued benefits. This represents a shortfall of assets compared to the value of accrued benefits of £95.1m. The accrued benefits include all benefits for pensioners and other former members as well as benefits based on service completed to date for active members, and allows for an estimate of future salary increases.

The Company reached agreement during March 2008 with the Group Trustees to repair this deficit. The agreement comprises monthly cash payments of £2.4m (£28.4m per annum) backdated to commence in April 2007. Of these payments, £0.5m per month (£5.7m per annum) is recovered by the Group from other participating employers in the scheme within the CE Group. These payments were designed to remove the shortfall of £95.1m by December 2010 subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2007 being borne out in practice. The next triennial valuation will take place as at 31 March 2010, as part of which the Scheme deficit will be re-assessed.

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

The contribution rates to the Northern Electric Group of the ESPS, in addition to the deficit repair contributions mentioned above, for 2008 were 44.7% (60.7% to March 2008) for certain senior management and 26.3% (20.6% to March 2008) for other employees. These rates will remain in place until 31 March 2010.

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

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2008**27 PENSION COMMITMENTS (CONTINUED)**

Principal assumptions:

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

The mortality assumptions are based on the recent actual mortality experience of members within the CE Group and the assumptions also allow for future mortality improvements. The assumption is that a member currently aged 60 will live for a further 26 years, if he is male, and for a further 27 years if she is female.

Life expectancy at age 60 for non-pensioners (currently aged 45) is assumed to be 28 years, if they are male, and 28 years, if they are female.

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

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

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

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

	2008	2007
	£m	£m
Current service cost	10.3	11.9
Interest cost on obligations	53.0	47.2
Expected return on plan assets	(66.2)	(63.9)
	(2.9)	(4.8)
Charged to other CE Group undertakings	(14.3)	(9.9)
	(17.2)	(14.7)
Allocated to income statement	(20.3)	(18.2)
Allocated to property, plant and equipment	3.1	3.5

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

27 PENSIONS COMMITMENTS (CONTINUED)

The pension costs incurred are allocated between active members and pensioner/deferred members. Of the total amount allocated to the active members, 53% is capitalised in line with the work carried out by those members (2007: 56%). All of the amounts allocated to pensioner/deferred members are expensed.

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

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

The actual return on plan assets was a £165.2m loss (2007: £44.3m gain)

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

	2008 £m	2007 £m
Opening defined benefit obligation	917.2	925.9
Current service cost	10.3	11.9
Interest cost	53.0	47.2
Contributions from employees	3.1	3.5
Actuarial gains	(87.3)	(32.0)
Benefits paid	(41.0)	(39.3)
Closing defined benefit obligation	855.3	917.2

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

	2008 £m	2007 £m
Opening fair value of plan assets	956.6	912.8
Expected returns	66.2	63.9
Actuarial losses	(231.4)	(19.6)
Contributions by employer	47.9	35.3
Contribution from employees	3.1	3.5
Benefits paid	(41.0)	(39.3)
Closing fair value of plan assets	801.4	956.6

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

27 PENSIONS COMMITMENTS (CONTINUED)

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

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

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

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

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligation	(855.3)	(917.2)	(925.9)	(906.0)	(819.0)
Fair value of plan assets	801.4	956.6	912.8	812.6	708.4
(Deficit)/surplus	(53.9)	39.4	(13.1)	(93.4)	(110.6)
Experience gains/(losses) on plan liabilities:					
Amount (£m)	87.3	32.0	(2.1)	(70.1)	(56.9)
Percentage of scheme liabilities (%)	10.2	3.5	(0.2)	(7.7)	(6.9)
Experience (losses)/gains on plan assets:					
Amount (£m)	(231.4)	(19.6)	32.4	66.5	12.4
Percentage of scheme assets (%)	(28.9)	(2.0)	3.5	8.2	1.8

The Group expects to contribute approximately £44.1m to its defined benefit plan in 2009.

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

	£m
At 1 January 2008	1.4
Utilised/paid in the year	(0.1)
Transferred from income statement	0.1
At 31 December 2008	1.4

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

28 CAPITAL AND OTHER COMMITMENTS

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

29 RELATED PARTY TRANSACTIONS

GROUP

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

Loans

The Group has made loans repayable on demand to companies in the CE Group. The total interest included in investment income in the income statement for the year ended 31 December 2008 was £10.3m (2007: £10.2m). Included within cash and cash equivalents is £176.8m as at 31 December 2008 (2007: £176.8m) 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 2008 was £24.6m (2007: £11.8m). Included within borrowings is £118.5m as at 31 December 2008 (2007: £110.9m) in respect of these loans.

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

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2008**29 RELATED PARTY TRANSACTIONS (CONTINUED)****Trading transactions**

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

Related Party	Sales to Related Party £m	Purchases from Related Party £m	Amounts Owed by Related Party (Note 17) £m	Amounts Owed to Related Party (Note 18) £m
2008:				
CE Insurance Services Limited	-	0.7	-	-
CE UK Gas Holdings Limited	0.3	-	-	-
Integrated Utility Services Limited (Registered in Eire)	-	1.0	-	0.2
Vehicle Lease and Service Limited	0.2	5.5	-	0.2
Yorkshire Electricity Distribution plc	15.6	6.7	-	-
2007:				
CE Insurance Services Limited	-	0.6	-	-
CE UK Gas Holdings Limited	0.2	-	-	-
Integrated Utility Services Limited (Registered in Eire)	-	1.0	-	-
Vehicle Lease and Service Limited	0.2	4.8	0.3	1.2
Yorkshire Electricity Distribution plc	14.0	5.9	-	-

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 2008, 3 directors (2007: 3) and 8 key personnel (2007: 8) utilised the services provided by NTFI.

The amounts included in finance lease receivables (Note 17) owed by these directors and key personnel total £0.1m (2007: £0.1m) in respect of non-current and £0.1m (2007: £0.1m) in respect of current receivables.

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

29 RELATED PARTY TRANSACTIONS (CONTINUED)

COMPANY

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

Loans

The Company has made loans repayable on demand to companies in the CE Group. The total interest included in investment income in the income statement for the year ended 31 December 2008 was £8.6m (2007: £7.7m). Included within cash and cash equivalents is £113.6m as at 31 December 2008 (2007: £76.1m) 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 2008 was £8.6m (2007: £5.7m). Included within borrowings is £15.2m as at 31 December 2008 (2007: £10.9m) in respect of these loans.

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

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2008**29 RELATED PARTY TRANSACTIONS (CONTINUED)****COMPANY (CONTINUED)****Trading transactions**

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

Related Party	Sales to Related Party £m	Purchases from Related Party £m	Dividends received from Related Party £m
2008:			
CE UK Gas Holdings Limited	0.3	-	-
Integrated Utility Services Limited	0.7	-	1.7
Northern Electric and Gas Limited	-	-	6.5
Northern Electric Distribution Limited	4.8	0.3	20.0
Northern Electric Genco	-	-	2.4
Northern Electric Properties Limited	0.1	0.2	3.7
UK Distribution Limited	-	-	2.4
Vehicle Lease and Service Limited	-	-	0.4
Yorkshire Electricity Distribution plc	3.1	-	-
2007:			
CE UK Gas Holdings Limited	0.2	-	-
Integrated Utility Services Limited	0.7	-	3.6
Northern Electric Distribution Limited	6.2	0.2	20.0
Northern Electric Properties Limited	0.1	0.2	-
Vehicle Lease and Service Limited	-	-	0.4
Yorkshire Electricity Distribution plc	4.7	-	-

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

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

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

The Company has received £4.5m (2007: £1.2m) of group relief from other companies in the CE Group. Payment at the UK statutory rate of 28.5% (2007: 30%) will be made for the use of these tax losses. The tax rates used are the UK corporate rate of 30% until 31 March 2008 and 28% from 1 April 2008, time apportioned for 2008.

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

30 PARENT UNDERTAKINGS AND CONTROLLING PARTY

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

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

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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 7 July 2009 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 2008.

Resolution 2

To declare that no final dividend be paid for the year ended 31 December 2008.

Resolution 3

To re-elect Mr G E Abel as a director.

Resolution 4

To re-elect Mr P E Connor as a director.

Resolution 5

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

By order of the board
John Elliott
Secretary
28 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.