

NORTHERN ELECTRIC DISTRIBUTION LIMITED

Registered Number: 2906593

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

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2007.

BUSINESS REVIEW OF THE YEAR

The Company serves an area of approximately 14,400 sq km in the north east of England with a resident population of 3.2 million, receives electricity from the National Grid transmission system and distributes it to the 1.6 million customers connected to its electricity distribution network of transformers, switchgear and overhead and underground cables, at voltages of up to 132kV. The Company is an authorised distributor under the Electricity Act 1989 and holds an electricity distribution licence granted by the Secretary of State. During the year, the Company distributed electricity to customers in its distribution services area and continued to improve the overall performance of its distribution network through its investment strategy being targeted at delivering improvements in an efficient and cost-effective manner.

The Company, as a holder of an electricity distribution licence, is subject to regulation by the Gas and Electricity Markets Authority, which acts through the Office of Gas and Electricity Markets ("Ofgem"). Most of the revenue of the electricity distribution licence holders is controlled by a distribution price control formula set out in the electricity distribution licence. The price control formula does not constrain profits from year to year, but is a control on revenue that operates independently of most of the electricity distribution licence holder's costs. It has been the practice of Ofgem to review and reset the formula at five-year intervals, although the formula has been, and may be, reviewed at other times at the discretion of Ofgem. The current five-year price control period became effective on 1 April 2005. A resetting of the formula requires the consent of the electricity distribution licence holder but licence modifications may be unilaterally imposed by Ofgem without such consent following review by the Competition Commission. During the term of the price control, changes in most categories of cost incurred by the Company will have a direct impact on the financial results of the Company.

Customer service and network performance

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

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

Ofgem has established the Quality of Service incentive scheme, by which distribution network operators ("DNOs"), such as the Company, 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 the Company to measure the quality of supply and system performance. CML measure the average number of supply minutes lost for every connected customer due to faults and planned outages that last for three minutes or longer. CI measure the average number of supply interruptions for every 100 connected customers due to faults and planned outages that last for three minutes or longer. Guaranteed standards, set for activities such as restoring supplies after unplanned interruptions, measure the level of customer service. Performance against these measures forms part of the Company's regular reporting to Ofgem.

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DIRECTORS' REPORT (CONTINUED)

Customer service and network performance (continued)

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

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

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

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

System investment and improvement

During the year, £128.2m was invested in the electricity distribution system, including the replacement of assets and continuing network improvements intended to increase the quality of the electricity supply provided to its customers.

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

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

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

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DIRECTORS' REPORT (CONTINUED)

Financial Review

Results and dividends

The Company made a profit after tax for the year of £56.2m. An interim dividend totalling £20.0m was paid during the year and the directors recommend that no final dividend be paid in respect of the year, leaving a profit of £36.2m to be transferred to reserves.

Share capital and debt structures

There were no changes to the Company's share capital during the year. On the 31 December 2007, the Company repaid a £100.0m loan at a rate of 4.75% from Yorkshire Electricity Group Plc ("YEG") and entered into two new loans. The first, £100.0m at a rate of 5.9% from YEG and the second £100.0m at a rate of 5.125% from Northern Electric Finance plc ("NEFL").

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 distribution business for at least the next year. In addition, the level of dividends is set to maintain sufficient equity in the Company so as not to jeopardise its investment grade issuer credit rating.

Taxation

Full details of the Company's taxation charge are provided in Note 8 to the accounts.

Generation and use of cash resources

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

Liquidity and maintenance of investment grade ratings

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

Financial derivatives

As at 31 December 2007 and during the year it was the Company's policy not to hold any derivative financial instruments.

Pensions

The Company is a participating company in the Northern Electric Group of the Electricity Supply Pension Scheme (the "Scheme"), a defined benefit scheme. Full details of the Scheme's pension commitments are provided in Note 23 to the accounts.

The Company also participates in the Northern Electric Money Purchase Scheme, a defined contribution scheme.

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DIRECTORS' REPORT (CONTINUED)

Financial Review (Continued)

Insurance

As part of its insurance and risk strategy, the CE Group has put in place a range of insurance policies covering it against risks, including damage to property and employer's third party motor and public liability. The CE Group carries appropriate excesses on those policies and is effectively self-insured up to the level of those excesses. Consequently, the risk management and health and safety programmes in place are viewed as extremely important elements of the business in the contribution they make to the elimination or reduction of exposure to such risks.

Income Statement commentary

Profit before tax at £67.3m was £0.8m lower than the previous year. Higher revenue arising from charges for the use of the Company's distribution network (£12.5m) primarily reflecting tariff increases in the year were offset by increased depreciation and amortisation charges (£4.0m) primarily reflecting the reduction in asset lives, higher finance costs due to higher net debt (£2.6m) throughout the year, increased maintenance costs (£2.6m) and other net adverse variances (£4.1m).

Cash Flow Statement Commentary

Cash flow from operating activities at £87.0m was £11.5m higher than the prior year mainly driven by a £5.9m increase in cash profits and a £10.2m favourable working capital movement, slightly offset by an increase in interest paid in the year (£3.8m).

Treasury policy

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

Interest rate risk

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

The Company is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 December 2007, 89% of the Company's borrowings were at fixed rates and the average maturity for these borrowings was 25 years.

Liquidity risk

The Company's primary financial objective is to ensure that it has access to sufficient liquidity to enable it to meet its obligations as they fall due and to provide adequately for contingencies.

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

Currency risk

No material currency risks are faced by the Company.

Trading risk

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

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DIRECTORS' REPORT (CONTINUED)

Supplier payment policy

The Company complies with the Better Payment Practice Code for the prompt payment of suppliers in accordance with the normal terms of trade. It is Company 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 Company's contractual and other legal obligations. The number of days purchases in trade payables for the Company at 31 December 2007 was 8 (2006: 10).

Principal risks and uncertainties facing the Company

Following a review during 2007, management systems were refined to provide further enhanced and more appropriately focused arrangements with regard to compliance assurance and risk management. A Compliance Assurance Programme Steering Group ("CAPSG") was established consisting of certain directors and senior managers of the CE Group in order to provide oversight at a strategic level and steering of the CE Group's performance in respect of governance and its key facets of compliance and risk management.

The Company operates a structured and disciplined approach to the management of risk, as part of the overall risk management approach of the CE Group. Those risks assessed to be significantly high are logged within a risk register that is reviewed regularly by the CAPSG and key indicators track the number of significant risks actively monitored by the CAPSG at any one time. As at 31 December 2007 a total of 20 significant risks were registered in this regard. The categories were financial (2), regulatory and legal (5), commercial (2), technical (6), safety and environment (2), and physical (3). Other principal categories of risk facing the CE Group are people, customer service, corporate reputation, economic and political.

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

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

The CE Group's strategy is to follow an appropriate risk policy, which is intended to effectively manage exposures related to the achievement of business objectives. The CE Group identifies and assesses risks associated with the achievement of its strategic objectives, including those of an environmental and social nature. Any key actions needed to further enhance the control environment are identified, along with the person responsible for the management of the specific risk. A quarterly review of the key risks, controls and action plans is undertaken. The Governance and Risk Manager oversees all aspects of risk and compliance, emphasising the CE Group's commitment to maintaining an appropriate risk and governance framework across the business.

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

A key element and requirement of the risk management process is that a written certificate is provided by the President and Chief Operating Officer of the CE Group confirming that the effectiveness of the system of internal controls has been reviewed during the year. A self-certification process is in place, in support of this review, whereby senior managers are required to confirm that the system of internal control in their area of the business is operating effectively.

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DIRECTORS' REPORT (CONTINUED)

Internal control

A rigorous internal control environment exists within the CE Group based on regular reporting, a series of operational and financial policy statements, investigations undertaken by internal audit and a stringent process for ensuring the implementation of any recommendations. MidAmerican Energy Holdings Company ("MidAmerican"), a parent company of the Company, requires a quarterly control risk self-assessment to be undertaken by all senior managers as part of its programme for compliance with the requirements of the Sarbanes-Oxley Act. During the year, an extensive programme to review the company-wide controls was completed and opportunities to enhance control arrangements, identified by that review, have been implemented.

The CE Group is committed to proper business conduct and, in common with the other affiliates of MidAmerican, has adopted a code of business ethics that emphasises the requirement for all staff to manage their activities to achieve the highest level of ethical conduct.

The CE Group has a "speaking up" policy in place for staff to raise any instances of unethical acts, malpractice or impropriety. An additional process is also available to all staff via an international, anonymous help line operated by an independent company.

Human resource policies focus on skills, motivation and excellence and the promotion of high standards of probity among staff. In addition, the appropriate organisational structure has been developed to control business units and to delegate authority and accountability, having regard to acceptable levels of risk.

The Company 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;
- To operate under the Occupational Health and Safety Assessment Series ("OHSAS") standard OHSAS 18001, which is subject to external certification and regular assessment;
- An external obligations programme, which provides a robust approach to, and compliance with, financial, legal and regulatory obligations;

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DIRECTORS' REPORT (CONTINUED)

Internal control (Continued)

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

Ofgem investigation

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

People

The Company has a clearly defined leadership team, in which clear roles are identified, so allowing more effective management of the CE Group's business and response to any control weaknesses that may become apparent, with single units being in place for field operations, customer operations, asset management and performance analysis and innovation. The information technology, human resources and finance functions are centralised in order to provide those services across the CE Group.

The Company employed 962 staff at the end of December 2007 at various locations throughout its distribution services area (2006: 952). Further details are provided in Note 6 to the accounts.

Disabled employees

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

Employee consultation

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

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

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DIRECTORS' REPORT (CONTINUED)

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 Company and there is a continuous drive for improvement in safety performance through the setting of challenging goals and the pursuit of a programme of on-site safety audits, which reflect the Company's fundamental objective that none of its staff should go home injured. The Company maintained its OHSAS 18001 certification and again received a gold award from the Royal Society for the Prevention of Accidents for occupational health and safety performance and provision. The gold status is awarded to recognise the achievement of continued or improving standards of health and safety over at least a four-year period.

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

	2007		2006	
	Target	Actual	Target	Actual
Lost time accidents	0	3	0	2
Medical treatment accidents	1	4	0	2
Operational incidents	4	8	4	5
Preventable vehicle accidents	9	18	18	12

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

Environmental Management

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

NEDL has operated a scheme under the environmental management systems ("EMS") standard ISO 14001 since the late 1990s and has been subjected to regular six-monthly surveillance assessments by an external certification body in order to retain United Kingdom Accreditation Service certification status.

The most recent visit was a full three-yearly re-assessment undertaken by Lloyd's Register Quality Assurance in February 2008 and was for the purpose of renewing the scheme's certificate. Four minor nonconformances were raised for action but the report into the visit concluded that there was clear and substantial evidence available that the environmental management system has been appropriately established, documented, implemented, maintained and continually improved such that continued certification to ISO 14001:2004 can be recommended.

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DIRECTORS' REPORT (CONTINUED)

Environmental Management (Continued)

Management improvement programmes in support of the CE Group's environmental policy objectives during the year included:

- A programme to enhance secondary containment provision for primary transformer sites to prevent oil leakage;
- A programme to enhance emergency response provision for primary transformer sites to mitigate oil leakage;
- Replacement of oil-filled circuit breakers with vacuum and SF6 units at outdoor substations;
- Enhanced monitoring and response measures with regard to the management of fluid-filled underground cable networks;
- Installation of additional engineering controls where required to improve pollution prevention in strategic primary substation sites; and
- Installation of underground cables using trenchless technology as opposed to open-cut excavations.

Measurements used to monitor environmental performance include the following categories:

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

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

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DIRECTORS' REPORT (CONTINUED)

Environmental Management (Continued)

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

Charitable and political donations

During the year, the Company made charitable donations of £63,508, principally to local charities serving the communities in which the Company operates. No donations were made to political organisations.

Corporate social responsibility

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

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

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

Research and development

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

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

NORTHERN ELECTRIC DISTRIBUTION LIMITED

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DIRECTORS' REPORT (CONTINUED)

Future developments

The Company will continue to operate an electricity distribution business, distributing electricity to customers in the north east of England and North Yorkshire and continue to operate that 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.

DIRECTORS AND THEIR INTERESTS

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

G E Abel
P E Connor
R Dixon
J M France
N M Gill
P A Jones
K Linge

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

AUDITORS

An elective resolution is in place dispensing with the need to appoint auditors annually. Deloitte & Touche LLP have indicated their willingness to continue in office.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

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

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DIRECTORS' REPORT (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS (CONTINUED)

Directors are also required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which complies with the requirements of the Companies Act 1985. The directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Audit of the accounts

Each of the directors, who is a director of the Company as at the date of this report, confirms that:

- a) so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- b) he has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

By order of the board



John Elliott
Company Secretary

20 June 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NORTHERN ELECTRIC DISTRIBUTION LIMITED

We have audited the financial statements of Northern Electric Distribution Limited for the year ended 31 December 2007 which comprise the income statement, the statement of recognised income and expenses, the balance sheet, the cash flow statement and the related notes 1 to 27. 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 ("IFRS") as adopted by the European Union are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. 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 circumstances of the Company, 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 DISTRIBUTION LIMITED (CONTINUED)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with those International Financial Reporting Standards as adopted by the European Union, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Separate opinion in relation to IFRS

The Company, in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended.



Deloitte & Touche LLP
Chartered Accountants & Registered Auditors
Newcastle upon Tyne, England

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June 2008

NORTHERN ELECTRIC DISTRIBUTION LIMITED**REGISTERED NUMBER 2906593****INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007**

	Notes	2007	2006 £m
Revenue	3	212.9	198.1
Cost of sales		<u>(6.1)</u>	<u>(6.1)</u>
Gross profit		206.8	192.0
Distribution costs		(64.4)	(54.2)
Administrative expenses		<u>(52.5)</u>	<u>(49.7)</u>
Operating profit	5	89.9	88.1
Finance costs	4	<u>(22.6)</u>	<u>(20.0)</u>
Profit before tax		67.3	68.1
Income tax expense	8	<u>(11.1)</u>	<u>(20.4)</u>
Profit from ordinary activities after tax	21	<u>56.2</u>	<u>47.7</u>

All activities relate to continuing operations.

STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2007

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

NORTHERN ELECTRIC DISTRIBUTION LIMITED

REGISTERED NUMBER 2906593

BALANCE SHEET AS AT 31 DECEMBER 2007

	Notes	2007 £m	2006 £m
Non-current assets			
Property, plant and equipment	10	1,211.9	1,121.4
Intangibles	11	6.7	6.2
		<u>1,218.6</u>	<u>1,127.6</u>
Current assets			
Inventories	13	8.3	7.0
Trade and other receivables	14	43.0	37.6
		<u>51.3</u>	<u>44.6</u>
Total assets		<u>1,269.9</u>	<u>1,172.2</u>
Current liabilities			
Trade and other payables	15	(51.6)	(39.2)
Current income tax liabilities	15	(8.2)	(8.2)
Borrowings	16	(43.0)	(208.4)
Deferred revenue	18	(10.3)	(9.4)
Provisions	19	(1.3)	(1.3)
		<u>(114.4)</u>	<u>(266.5)</u>
Net current liabilities		<u>(63.1)</u>	<u>(221.9)</u>
Non-current liabilities			
Borrowings	16	(347.4)	(147.4)
Deferred income tax liabilities	17	(126.3)	(136.2)
Deferred revenue	18	(350.6)	(327.3)
Provisions	19	(1.1)	(0.9)
		<u>(825.4)</u>	<u>(611.8)</u>
Total liabilities		<u>(939.8)</u>	<u>(878.3)</u>
Net assets		<u>330.1</u>	<u>293.9</u>
Equity			
Share capital	20	200.0	200.0
Retained earnings	21	130.1	93.9
Total equity	21	<u>330.1</u>	<u>293.9</u>

The financial statements were approved by the board of directors and authorised for issue on 20 June 2008 and were signed on its behalf by:



P A Jones
Director

NORTHERN ELECTRIC DISTRIBUTION LIMITED

REGISTERED NUMBER 2906593

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 £m	2006 £m
Net cash from operating activities	22	<u>87.0</u>	<u>75.5</u>
Investing activities			
Purchase of property, plant and equipment		(140.6)	(127.6)
Purchase of intangible assets		(2.0)	(3.5)
Receipt of customer contributions		41.0	33.3
Acquisition of assets and liabilities	26	<u>-</u>	<u>3.5</u>
Net cash used in investing activities		<u>(101.6)</u>	<u>(94.3)</u>
Financing activities			
Equity dividends paid		(20.0)	(25.0)
New borrowings		11.0	-
Repayment of borrowings		-	(6.0)
Movement in loans from Group undertaking		<u>23.6</u>	<u>49.8</u>
Net cash generated from financing activities		<u>14.6</u>	<u>18.8</u>
Net movement in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year		<u>-</u>	<u>-</u>

NORTHERN ELECTRIC DISTRIBUTION LIMITED

REGISTERED NUMBER 2906593

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007

1 GENERAL INFORMATION

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

The nature of the Company's operations and its principal activities are set out in Note 3 and in the business review of the year on page 1.

2 ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and with these parts of the Act that are applicable to companies reporting under IFRS.

The particular policies adopted by the directors are described below. The accounting policies have been applied consistently throughout the year and the preceding year.

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

Accounting convention

The accounts have been prepared under the historical cost convention. The Company has relied upon Section 228 of the Companies Act 1985 and has presented the accounts for the Company as an individual undertaking only and not as a Group undertaking.

Adoption of new or revised standards

In the current year, the Company has adopted IFRS 7 "Financial Instruments: Disclosures" which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 "Presentation of Financial Statements". The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Company's financial instruments and management of capital (Notes 14-16).

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

IAS 23	Borrowing Costs – Amendments to IAS 23
IFRIC 12	Service Concession Arrangements

The directors anticipate that the adoption of IAS 23 and IFRIC 12 in future periods will have no material impact on the financial statements of the Company.

The directors anticipate that the Company will adopt IAS 23 and IFRIC 12 on their effective dates.

NORTHERN ELECTRIC DISTRIBUTION LIMITED

REGISTERED NUMBER 2906593

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

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 Company's distribution network, amortisation of customer contributions, recharge of costs incurred on behalf of related parties 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 Company'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.

Customer contributions towards distribution system assets are included in deferred revenue. The Company's policy is to credit the customer contribution to revenue over 45 years (changed from 50 years from 1 January 2007) on a straight-line basis, in line with the useful life of the distribution system assets.

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 has been established.

Research costs

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

Operating profit

Operating profit is stated before investment income and finance costs.

Taxation

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in 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.

NORTHERN ELECTRIC DISTRIBUTION LIMITED

REGISTERED NUMBER 2906593

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or asset realised, based on tax rates and tax legislation enacted or substantively enacted at the balance sheet date.

Property, plant and equipment and depreciation

Property, plant and equipment is 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 using the straight-line basis:

Distribution system assets.....45 years (changed from 50 years from 1 January 2007)

Metering equipment included in distribution system assets up to 15 years

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

Non-operational assets:

Buildings – freehold.....up to 60 years

Buildings – leasehold.....lower of lease period or 60 years

Fixtures and equipment.....up to 10 years

Software development costsup 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 Company's investment in property, plant and equipment, variations between actual and estimated useful lives could impact operating results both positively and negatively.

The Company 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.

NORTHERN ELECTRIC DISTRIBUTION LIMITED

REGISTERED NUMBER 2906593

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Software development costs

Costs in respect of major developments are capitalised and amortised over the expected life of the software.

Capitalised software costs that are not an integral part of the related hardware are included in intangible assets on the balance sheet and amortised over the expected life of the software of up to 10 years.

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

Inventories

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

Raw materials and consumables are valued at purchase cost determined on an average price basis.

Work in progress is valued at 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 disposal.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that the Company 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.

Where the effect is significant, provisions in respect of material future liabilities are stated at their net present value and arrived at by discounting the anticipated future costs, at the market rate at the balance sheet date.

Leases

Leases are classified as finance leases wherever 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.

Operating lease rentals are charged to the income statement in equal annual amounts over the lease term.

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.

NORTHERN ELECTRIC DISTRIBUTION LIMITED

REGISTERED NUMBER 2906593

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Debt

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

Borrowing costs are allocated to the income statement as incurred.

Cash and cash equivalents

Loans advanced to the parent company are included within cash and cash equivalents, having a maturity of less than three months.

Financial instruments

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

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

For certain categories of financial assets, such as trade receivables, 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 could include the Company'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, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

Financial liabilities and equity

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

NORTHERN ELECTRIC DISTRIBUTION LIMITED

REGISTERED NUMBER 2906593

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Pensions

The Company contributes to the Northern Electric Group of the Electricity Supply Pension Scheme ("ESPS"). The ESPS is a defined benefit plan that shares risk between various entities under common control. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities and accordingly the Company accounts for the scheme as if it were a defined contribution scheme. Contributions to the scheme are charged to the income statement or capitalised as appropriate. The capital cost of ex-gratia and supplementary pensions are normally charged to the income statement in the period in which they are granted.

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

3 REVENUE

Revenue, profit before tax and net assets are attributable to electricity distribution. Revenue is all in respect of sales to United Kingdom customers.

Revenue represents charges made to customers for use of the distribution system, the recharge of costs incurred on behalf of related parties, amortisation of customer contributions and other services and is included net of value added tax.

4 FINANCE COSTS

	2007 £m	2006 £m
Interest payable on loans from Group undertakings	<u>22.6</u>	<u>20.0</u>

NORTHERN ELECTRIC DISTRIBUTION LIMITED

REGISTERED NUMBER 2906593

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

5 OPERATING PROFIT

	2007 £m	2006 £m
This is stated after charging/(crediting):		
Staff costs (Note 6)	34.7	33.5
Research costs	0.4	0.2
Depreciation of property, plant and equipment	38.7	31.4
Amortisation of deferred revenue	(9.5)	(7.2)
Amortisation of intangibles	1.5	2.5
	<u> </u>	<u> </u>
Analysis of auditors' remuneration is as follows:	£'000	£000
Audit fees		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	<u>96</u>	<u>112</u>

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

Auditors' remuneration in 2006 was borne by another group company.

6 STAFF COSTS

	2007 £m	2006 £m
Salaries	40.0	32.4
Social security costs	3.5	3.1
Pension costs	23.2	22.6
	<u> </u>	<u> </u>
	66.7	58.1
Less charged to property, plant and equipment	<u>(32.0)</u>	<u>(24.6)</u>
	<u>34.7</u>	<u>33.5</u>

The majority of the Company's employees are members of the ESPS, details of which are given in Note 23.

The average monthly number of employees during the year was:

	2007 No.	2006 No.
Technical	234	222
Industrial	450	419
Administration	217	209
Other	64	62
	<u>965</u>	<u>912</u>

NORTHERN ELECTRIC DISTRIBUTION LIMITED

REGISTERED NUMBER 2906593

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

7 DIRECTORS' & KEY PERSONNEL REMUNERATION

DIRECTORS' REMUNERATION	2007 £	2006 £
<u>Highest Paid</u>		
Short-term employee benefits	98,598	57,901
Compensation for loss of office	-	247,377
Post employment benefits	44,560	9,380
Other long-term benefits	108,714	(162,201)
	<u>251,872</u>	<u>152,457</u>
 <u>Total</u>		
Short-term employee benefits	438,739	406,225
Compensation for loss of office	-	247,377
Post employment benefits	130,883	77,698
Other long-term benefits	334,729	(31,280)
	<u>904,351</u>	<u>700,020</u>
 Directors who are members of the defined benefit scheme	<u>6</u>	<u>6</u>
 Accrued pension benefit relating to highest paid director	<u>47,270</u>	<u>89,623</u>

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

OTHER KEY PERSONNEL REMUNERATION	2007 £	2006 £
<u>Total</u>		
Short-term employee benefits	287,711	-
Post employment benefits	57,737	-
Other long-term benefits	100,137	-
	<u>445,585</u>	<u>-</u>

The Company's management reorganisation, which commenced in the final quarter of 2006, became effective from 1 January 2007. The new organisational structure includes a number of senior functional managers who, whilst not board directors, have authority and responsibility for planning, directing and controlling the activities of the Company.

NORTHERN ELECTRIC DISTRIBUTION LIMITED

REGISTERED NUMBER 2906593

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

8 INCOME TAX EXPENSE

	2007		2006	
	£m	£m	£m	£m
(a) Analysis of charge for the year:				
Corporation tax:				
Corporation tax charge for the year	13.8		11.2	
Payments for use of group losses	6.8		9.7	
Under/(over) provision for prior years	<u>0.4</u>		<u>(1.1)</u>	
Total current tax charge		21.0		19.8
Deferred tax		<u>(9.9)</u>		<u>0.6</u>
Tax on profit before tax		<u>11.1</u>		<u>20.4</u>
(b) Reconciliation of income tax expense:				
Profit on ordinary activities before tax		<u>67.3</u>		<u>68.1</u>
Tax on profit before tax at standard rate of corporation tax in United Kingdom of 30%		20.2		20.4
Factors affecting tax charge:				
Rate change reduction		<u>(9.1)</u>		<u>-</u>
Tax on profit before tax		<u>11.1</u>		<u>20.4</u>

(c) Factors that may affect future tax charge:

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

9 DIVIDENDS

	2007	2006	2007	2006
	Pence per share	Pence per share	£m	£m
Dividend paid	<u>10.0</u>	<u>12.5</u>	<u>20.0</u>	<u>25.0</u>

NORTHERN ELECTRIC DISTRIBUTION LIMITED

REGISTERED NUMBER 2906593

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

10 PROPERTY, PLANT AND EQUIPMENT

	Distribution system £m	Fixtures and equipment £m	Total £m
COST			
At 1 January 2006	1,120.4	15.7	1,136.1
Additions	118.8	1.1	119.9
Disposals	(1.7)	(0.2)	(1.9)
Transfers from Group undertakings (Note 26)	-	0.7	0.7
	<hr/>	<hr/>	<hr/>
At 31 December 2006	1,237.5	17.3	1,254.8
Additions	128.2	1.0	129.2
Disposals	(1.8)	(0.4)	(2.2)
	<hr/>	<hr/>	<hr/>
At 31 December 2007	<u>1,363.9</u>	<u>17.9</u>	<u>1,381.8</u>
ACCUMULATED DEPRECIATION			
At 1 January 2006	92.4	11.5	103.9
Charge for the year	29.7	1.7	31.4
Disposals	(1.7)	(0.2)	(1.9)
	<hr/>	<hr/>	<hr/>
At 31 December 2006	120.4	13.0	133.4
Charge for the year	36.9	1.8	38.7
Disposals	(1.8)	(0.4)	(2.2)
	<hr/>	<hr/>	<hr/>
At 31 December 2007	<u>155.5</u>	<u>14.4</u>	<u>169.9</u>
Net book value at 31 December 2007	<u>1,208.4</u>	<u>3.5</u>	<u>1,211.9</u>
Net book value at 31 December 2006	<u>1,117.1</u>	<u>4.3</u>	<u>1,121.4</u>
Assets in the course of construction included above:			
At 1 January 2006	64.8	-	64.8
Additions	118.8	1.1	119.9
Available for use	(93.7)	(1.1)	(94.8)
	<hr/>	<hr/>	<hr/>
At 31 December 2006	89.9	-	89.9
Additions	128.2	1.0	129.2
Available for use	(130.8)	(1.0)	(131.8)
	<hr/>	<hr/>	<hr/>
At 31 December 2007	<u>87.3</u>	<u>-</u>	<u>87.3</u>

The Company has entered into contractual commitments in relation to property, plant and equipment of £23.5m (2006: £10.6m).

NORTHERN ELECTRIC DISTRIBUTION LIMITED**REGISTERED NUMBER 2906593****NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)****11 INTANGIBLES**

	Software Development Costs £m
COST	
At 1 January 2006	11.1
Additions	3.5
Transfers from Group undertakings (Note 26)	0.1
	<hr/>
At 31 December 2006	14.7
Additions	2.0
	<hr/>
At 31 December 2007	16.7
 AMORTISATION	
At 1 January 2006	6.0
Charge for the year	2.5
	<hr/>
At 31 December 2006	8.5
Charge for the year	1.5
	<hr/>
At 31 December 2007	10.0
	<hr/>
Net book value at 31 December 2007	6.7
	<hr/>
Net book value at 31 December 2006	6.2

12 INVESTMENTS

Details of the principal investments of the Company at 31 December 2007 are listed below:

Name of Company	Country of Registration	Holding of Ordinary Shares	Proportion	Nature of Business
Electralink Limited	England and Wales	619 at 10p	6.7%	Data transfer network operator
Gemserv Limited	England and Wales	1 at £1	1.7%	Meter point registration
MRA Service Company Limited	England and Wales	1 at £1	1.0%	Governance of the electricity industry's Master Registration Agreement
DCUSA Limited	England and Wales	1 at £1	5.6%	Management and governance of the Distribution Connection and Use of System Agreement
Northern Electric Finance plc	England and Wales	50,000 at £1	100%	Finance company

The above investments are unlisted. The cost and net book value of the investments are Electralink Limited £62 (2006: £62), Gemserv Limited £1 (2006: £1), MRA Service Company Limited £1 (2006: £1), DCUSA Limited £1 (2006: £1) and Northern Electric Finance plc £50,000 (2006: £50,000).

NORTHERN ELECTRIC DISTRIBUTION LIMITED**REGISTERED NUMBER 2906593****NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)****13 INVENTORIES**

	2007 £m	2006 £m
Raw materials and consumables	7.9	6.9
Work in progress	0.4	0.1
	<u>8.3</u>	<u>7.0</u>

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

	2007 £m	2006 £m
Distribution use of system receivables	33.9	30.5
Amounts receivable from sale of goods and services	5.5	4.4
Prepayments and accrued income	3.5	2.7
Treasury instruments	0.1	-
	<u>43.0</u>	<u>37.6</u>

The directors consider that 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.

Distribution use of system receivables

The Company's distribution customers are concentrated in a small number of electricity supply businesses with RWE NPower plc accounting for approximately 40% of distribution revenues in 2007 (2006: 42%). Ofgem has determined a framework which sets credit limits for each supply business based on its credit rating or payment history and requires them to provide credit cover if their 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 parent company guarantee, letter of credit or an escrow account. Included within other payables are customer deposits of £1.6m as at December 2007 (2006: £nil). Ofgem has indicated that, provided the Company has implemented credit control, billing and collection 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. The Company has made no provision (2006: £0.1m) for bad debts in relation to these receivables at the balance sheet date.

Amounts receivable for sale of goods and services

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

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £0.6m (2006: £2.2m) which are past due at the reporting date and for which the Company has provided an irrecoverable amount of £0.3m (2006: £0.9m) based on past experience. The Company does not hold any collateral over these balances. The average age of these receivables is 557 days (2006: 382 days).

NORTHERN ELECTRIC DISTRIBUTION LIMITED**REGISTERED NUMBER 2906593****NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)****14 OTHER FINANCIAL ASSETS (CONTINUED)****Amounts receivable for sale of goods and services (Continued)**

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £0.6m (2006: £nil) which are past due at the reporting date and for which the Company has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances. The average age of these receivables is 88 days (2006: nil).

Ageing of past due but not impaired receivables

	2007 £m	2006 £m
30-60 days	0.2	-
60-120 days	0.3	-
120-210 days	0.1	-
Total	<u>0.6</u>	<u>-</u>

Movement in the allowance for doubtful debts

	£m
At 1 January 2007	1.0
Amounts utilised/written off in the year	(1.0)
Amounts recognised in income statement	<u>0.3</u>
At 31 December 2007	<u>0.3</u>

In determining the recoverability of the trade and other receivables, the Company considers any change in the credit quality of the trade and other receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk, other than in relation to distribution use of system receivables, is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are specific trade receivables with a balance of £nil (2006: £0.5m), which have been placed in liquidation. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

NORTHERN ELECTRIC DISTRIBUTION LIMITED

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NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

15 OTHER FINANCIAL LIABILITIES

Trade and other payables

	2007 £m	2006 £m
Payments received on account	16.1	6.8
Trade payables	2.9	3.8
Amounts owed to Group undertakings	3.9	5.3
Other taxes and social security costs	2.9	2.1
Accruals	22.4	18.2
Other payables	3.4	3.0
	<u>51.6</u>	<u>39.2</u>

Current income tax liabilities

	2007 £m	2006 £m
Corporation Tax	8.2	4.7
Group relief	-	3.5
	<u>8.2</u>	<u>8.2</u>

The directors consider that the carrying amount of other financial liabilities approximates their fair value, calculated by discounting future cash flows at market rate at the balance sheet date.

The following tables detail the remaining contractual maturities for the non-derivative financial liabilities included in Notes 15 and 16. The tables have been drawn up based on the discounted cash flows of financial liabilities based on the earliest possible date on which the Company can be required to pay. The tables includes both interest and principal cash flows.

	Less than 3 months £m	3 months To 1 year £m	1 to 5 years £m	5+ years £m	Total £m
2007:					
Non-interest bearing	32.8	6.9	15.7	-	55.4
Variable interest rate liability	43.0	-	-	-	43.0
Fixed interest rate liability	-	22.4	89.6	755.2	867.2
	<u>75.8</u>	<u>29.3</u>	<u>105.3</u>	<u>755.2</u>	<u>965.6</u>
2006:					
Non-interest bearing	28.0	3.1	7.1	-	38.2
Variable interest rate liability	108.4	-	-	-	108.4
Fixed interest rate liability	-	116.2	45.6	291.6	453.4
	<u>136.4</u>	<u>119.3</u>	<u>52.7</u>	<u>291.6</u>	<u>600.0</u>

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NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

16 BORROWINGS

	Book value		Fair value	
	2007 £m	2006 £m	2007 £m	2006 £m
Loans	11.0	-	11.0	-
Amounts owed to Group undertakings	379.4	355.8	405.4	389.9
	<u>390.4</u>	<u>355.8</u>	<u>416.4</u>	<u>389.9</u>
The borrowings are repayable as follows:				
On demand or within one year	43.0	208.4	43.0	207.4
After five years	347.4	147.4	373.4	182.5
	<u>390.4</u>	<u>355.8</u>	<u>416.4</u>	<u>389.9</u>
Analysis of borrowings:				
Short term loan	11.0	-	11.0	-
Inter-company working capital loan	32.0	108.4	32.0	108.4
Yorkshire Electricity Group plc 2007 – 4.75%	-	100.0	-	99.0
Northern Electric Finance plc 2020 – 8.875%	100.0	100.0	127.4	129.8
Northern Electric Finance plc 2035 - £50m 5.125%	47.4	47.4	47.0	52.7
Yorkshire Electricity Group plc 2037 – 5.9%	100.0	-	105.1	-
Northern Electric Finance plc 2037 – 5.125%	100.0	-	93.9	-
	<u>390.4</u>	<u>355.8</u>	<u>416.4</u>	<u>389.9</u>

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

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

The loans are non-secured.

The covenants associated with the 2035 bonds include restrictions on the issuance of new indebtedness and the making of distributions dependent on the scale of the ratio of Senior Total Net Debt to Regulatory Asset Value ("RAV"). The definition of Senior Total Net Debt excludes any subordinated debt and any debt incurred on a non-recourse basis. In addition, it excludes any fair value and accounting adjustments.

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NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

16 BORROWINGS (CONTINUED)

The Company's Senior Total Net Debt as at 31 December 2007 totalled £393.0m. Using the RAV value as at March 2008, as outlined by Ofgem in its Final Proposals for Distribution Prices published in November 2004, and up rating for the effects of movements in the value of the Retail Price Index gives an approximation for the RAV value as at December 2007 of £807m. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 49%.

At 31 December 2007, the Company had available £41.0m (2006: £52.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

17 DEFERRED TAX

	Accelerated Tax Depreciation £m	Other £m	Total £m
At 1 January 2006	136.1	(0.5)	135.6
Charge/(credit) to income	0.7	(0.1)	0.6
At 31 December 2006	136.8	(0.6)	136.2
(Credit)/charge to income	(10.1)	0.2	(9.9)
At 31 December 2007	126.7	(0.4)	126.3

18 DEFERRED REVENUE

	Customer Contributions £m	
At 1 January 2006	312.4	
Additions	31.5	
Amortisation	(7.2)	
At 31 December 2006	336.7	
Additions	33.7	
Amortisation	(9.5)	
At 31 December 2007	360.9	
	2007 £m	2006 £m
Included in current liabilities	10.3	9.4
Included in non-current liabilities	350.6	327.3
	360.9	336.7

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NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

19 PROVISIONS

	Claims £m	Other £m	Total £m
At 1 January 2007	1.4	0.8	2.2
Utilised/paid in the year	(0.5)	(0.2)	(0.7)
Charged to the income statement	0.5	0.4	0.9
At 31 December 2007	1.4	1.0	2.4
		2007 £m	2006 £m
Included in current liabilities		1.3	1.3
Included in non-current liabilities		1.1	0.9
		2.4	2.2

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

Other: Primarily consists of a provision for future safe disposal of transformers which contain oil contaminated with Polychlorinated biphenyls (PCBs) and for an amount to cover claims made under section 74 of the New Road and Street Works Act 1991.

20 SHARE CAPITAL

	2007 No./£	2006 No./£
Ordinary shares of £1 each		
Authorised	300,000,000	300,000,000
Allotted, called up and fully paid	200,000,100	200,000,100

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

21 MOVEMENT ON RESERVES AND RECONCILIATION OF MOVEMENTS IN TOTAL EQUITY

	Share Capital £m	Retained Reserves £m	Total Equity £m
At 1 January 2006	200.0	71.2	271.2
Profit for the year	-	47.7	47.7
Dividends paid	-	(25.0)	(25.0)
At 31 December 2006	200.0	93.9	293.9
Profit for the year	-	56.2	56.2
Dividends paid	-	(20.0)	(20.0)
At 31 December 2007	200.0	130.1	330.1

NORTHERN ELECTRIC DISTRIBUTION LIMITED**REGISTERED NUMBER 2906593****NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)****22 NET CASH FROM OPERATING ACTIVITIES**

	2007 £m	2006 £m
Operating profit	89.9	88.1
Depreciation and amortisation	40.2	33.9
Amortisation of deferred revenue	(9.5)	(7.2)
Increase in provisions	0.2	0.1
	<hr/>	<hr/>
Operating cash flows before movements in working capital	120.8	114.9
(Increase)/decrease in inventories	(1.3)	0.8
(Increase)/decrease in receivables	(3.4)	0.3
Increase/(decrease) in payables	15.7	(0.3)
	<hr/>	<hr/>
Cash generated by operations	131.8	115.7
Income taxes paid	(10.5)	(5.4)
Group relief paid	(10.5)	(14.8)
Interest paid	(23.8)	(20.0)
	<hr/>	<hr/>
Net cash from operating activities	87.0	75.5

23 PENSION COMMITMENTS

The Company has two retirement benefit schemes.

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

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

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

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

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

NORTHERN ELECTRIC DISTRIBUTION LIMITED

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NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

23 PENSION COMMITMENTS (CONTINUED)

The CE Group 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 annual payments £21.9m will be paid by the Company. These payments aim to remove the shortfall of £95.1m by December 2010 subject to actuarial assumptions adopted for the triennial valuation as at 31 March 2007 being borne out in practice.

The ESPS is a defined benefit plan that shares the risk between various entities under common control. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities and accordingly the Company accounts for the scheme as if it were a defined contribution scheme.

The ESPS contribution rates in addition to the deficit repair contributions mentioned above for 2007 were 60.7% for certain senior management and 20.6% for other employees. The agreed ESPS contribution rates for 2008 are 44.7% (60.7% to March 2008) for certain senior management and 26.3% (20.6% to March 2008) for other employees.

The money purchase pension scheme is also accounted for as a defined contribution scheme.

The Company defined contribution pension cost for the year ended 31 December 2007 was £23.2m (2006: £22.6m).

Disclosures in relation to the Group:

Principal assumptions:

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

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

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

For closed schemes under the projected unit method the current service cost will increase as the members of the scheme approach retirement.

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NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

23 PENSION COMMITMENTS (CONTINUED)

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

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

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

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

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

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

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

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

NORTHERN ELECTRIC DISTRIBUTION LIMITED**REGISTERED NUMBER 2906593****NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)****24 OPERATING LEASE ARRANGEMENTS**

	2007 £m	2006 £m
Minimum lease payments under operating leases recognised in the year	<u>6.0</u>	<u>6.0</u>

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

	2007 £m	2006 £m
Within one year	4.3	3.8
In the second to fifth year inclusive	13.4	12.5
After five years	<u>20.9</u>	<u>22.6</u>
	<u>38.6</u>	<u>38.9</u>

Leases consist of rent payable in respect of operational sub station sites and vehicle leases both primarily from related parties.

25 RELATED PARTY TRANSACTIONS

The Company has received loans from companies in the CE Group. The total interest included in finance costs in the income statement for the year ended 31 December 2007 was £22.6m (2006: £20.0m). Included within borrowings is £379.4m as at 31 December 2007 (2006: £355.8m) and within trade and other payables £3.6m as at 31 December 2007 (2006: £4.8m) in respect of these loans.

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

NORTHERN ELECTRIC DISTRIBUTION LIMITED**REGISTERED NUMBER 2906593****NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)****25 RELATED PARTY TRANSACTIONS (CONTINUED)**

In addition to the transaction referred to in Note 26, the Company entered into transactions, in the ordinary course of business, with other CE Group companies. Transactions entered into and trading balances outstanding were as follows:

Related Party	Sales to Related Party £m	Purchases from Related Party £m	Amounts Owed to Related Party (Note 15) £m
2007:			
CE Insurance Services Limited	-	0.6	-
Integrated Utility Services Limited (registered in Eire)	0.1	1.1	-
Northern Electric plc	0.2	6.2	-
Northern Electric Properties Limited	-	0.9	-
Yorkshire Electricity Distribution plc	9.3	5.8	-
Vehicle Lease and Service Limited	-	3.0	0.3
2006:			
CE Insurance Services Limited	-	0.6	-
Integrated Utility Services Limited	0.4	8.6	-
Northern Electric plc	0.6	4.2	0.1
Northern Electric Properties Limited	-	0.8	0.1
Yorkshire Electricity Distribution plc	6.2	4.9	-
Vehicle Lease and Service Limited	-	3.2	0.3

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

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NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

26 ACQUISITION OF ASSETS AND LIABILITIES

With effect from 1 April 2006, the Company entered into an agreement with Integrated Utility Services Limited ("IUSL"), a member of the CE Group, to purchase the assets and liabilities of IUSL comprising the provision of connections services and work on and services for the improvement and repair of the Company's electricity distribution network for a cash inflow of £3.5m.

Net liabilities acquired were:

	£m
Property, plant and equipment	0.7
Intangibles	0.1
Inventories	0.1
Trade and other payables	(4.3)
Provisions	(0.1)
	<hr/>
Total cash consideration received	(3.5)

The directors do not believe any fair value adjustments are required on acquisition.

27 ULTIMATE HOLDING COMPANY

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

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