

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

**REPORT & ACCOUNTS
TO 31 DECEMBER 2007**

CE ELECTRIC UK FUNDING COMPANY

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**REPORT AND ACCOUNTS TO 31 DECEMBER 2007
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DIRECTORS' REPORT

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

BUSINESS REVIEW

The Company is the ultimate parent undertaking incorporated in the United Kingdom to prepare group accounts for the year ended 31 December 2007.

The Group includes CE Electric UK Holdings, CE Electric UK Limited, CE UK Gas Holdings Limited and its subsidiaries ("CE Gas"), Northern Electric plc ("NE") and its subsidiaries and Yorkshire Power Group Limited and its subsidiaries.

The Company, CE Electric UK Holdings, CE Electric UK Limited, NE and Yorkshire Power Group Limited act as holding and investment companies within the Group. The main operating companies in the Group are:

- Northern Electric Distribution Limited ("NEDL") and Yorkshire Electricity Distribution plc ("YEDL"), which distribute electricity to industrial, commercial, agricultural and domestic customers in their distribution services areas, as defined in each company's electricity distribution licence;
- Integrated Utility Services Limited ("IUS"), which, during the year, provided engineering contracting services to a range of clients, including E-on (formerly Central Networks), Network Rail, Northumbrian Water and Yorkshire Water; and
- CalEnergy Gas (Australia) Limited, which holds investments in gas assets in the Bass Strait and Perth basin in Australia, as part of its hydrocarbon exploration and development activities.

Electricity distribution

NEDL serves an area of approximately 14,400 sq km in the north east of England and YEDL serves an area of approximately 10,700 sq km encompassing the counties of West Yorkshire, East Yorkshire and almost all of South Yorkshire, together with parts of North Yorkshire, Derbyshire, Nottinghamshire, Lincolnshire and Lancashire. NEDL and YEDL receive electricity from the National Grid transmission system and distribute it to the 3.8 million customers connected to their electricity distribution networks of transformers, switchgear and overhead and underground cables, at voltages of up to 132kV. NEDL and YEDL are authorised distributors under the Electricity Act 1989 and each company holds an electricity distribution licence granted by the Secretary of State. During the year, NEDL and YEDL distributed electricity to customers in their distribution services areas and continued to improve the overall performance of their distribution networks through an investment strategy being targeted at delivering improvements in an efficient and cost-effective manner.

NEDL and YEDL, as holders of an electricity distribution licence, are 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 NEDL and YEDL will have a direct impact on the financial results of NEDL and YEDL.

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DIRECTORS' REPORT (CONTINUED)

Electricity distribution (continued)

Customer service and network performance

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

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

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

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

In respect of the key customer service performance indicators, NEDL's CML performance for the regulatory year ended 31 March 2007 was 78.2, compared with the Ofgem target of 70.4, whilst CI performance was 74.0, compared with the Ofgem target of 74.5. YEDL's CML performance for the regulatory year ended 31 March 2007 was 81.7, compared with the Ofgem target of 66.8, whilst CI performance was 84.8, compared with the Ofgem target of 68.6. Consequently, NEDL achieved the CI target, but not the CML target, and YEDL significantly failed to achieve either target.

NEDL and YEDL have continued put a great deal of effort into improving their satisfaction rating from customers using their call centre and, during the regulatory year ended 31 March 2007, NEDL achieved a cumulative customer satisfaction score of 88.8% and YEDL achieved a cumulative customer satisfaction score of 87.6%, thus missing the Ofgem target of 90%.

In addition to the above, NEDL and YEDL made a successful submission during the year to the Ofgem customer service award scheme, being outright winner in the "wider communication" category (which covered its arrangements for communicating with ethnic communities) and joint first in the "customer care" category (which covered its arrangements for helping infirm or vulnerable customers). NEDL and YEDL were awarded a total of £0.7m in respect of that submission, of which £0.3m is attributable to NEDL and £0.4m to YEDL.

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DIRECTORS' REPORT (CONTINUED)

System investment and improvement

During the year, £296.0m 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 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;
- Continuation of work on a major reinforcement scheme for the Leeds city area to meet the growth in demand being created by ongoing economic development;
- Continuation of major replacement of 33kV and 66kV oil-filled cables in Scunthorpe, Leeds, Bradford and Sheffield;
- Continuation of reinforcement of the Kirkstall - Horsforth 132kV and 33kV infrastructure;
- Construction of 33/11kV substations to provide increased capacity to Doncaster city centre, Sheffield and Selby;
- Completion of the reconstruction of the Elland 132kV grid supply point;
- Reinforcement of Wold Newton 132/33kV substation to provide increased capacity in North Lincolnshire;
- 132/33kV reinforcement schemes for Bradford and Scunthorpe;
- 132/66kV reinforcement scheme for Doncaster;
- Replacement of 78 units of high voltage outdoor switchgear;
- Replacement of 89 high voltage distribution substations;
- Replacement of 48 units of high voltage indoor switchgear;
- Refurbishment or rebuilding of 165km of high voltage overhead line;
- Refurbishment or rebuilding of 144km of low voltage overhead line;
- Upgrade and reinforcement of 26km of overhead line to address the quality of supply performance issues relating to those circuits; and
- The installation of 153 new sites with remote control facilities and commissioning of an additional 140 remote control units.

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

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DIRECTORS' REPORT (CONTINUED)

Engineering contracting

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

Hydrocarbon exploration and development

CE Gas has developed a portfolio of hydrocarbon exploration, construction and producing assets in Australia, Poland and the United Kingdom. 2007 saw the first full year of production from the Yolla gas field in Australia and the Zaniemysl gas field in Poland. However, start-up of the Otway Gas Project in Australia was troubled by commissioning issues resulting in revenue being delayed until early 2008.

During the year, CE Gas benefited from higher product prices. However, primarily due to the delay to the start-up of the Otway Gas Project, total sales volumes targets for the year were missed although the Zaniemysl field in Poland performed significantly above expectations.

2007 saw CE Gas return to the United Kingdom sector of the North Sea to drill an exploration well. While the well on the Emu prospect in block 48/1a did not result in the discovery of economically viable quantities of gas, other prospects within block 48/1a are being evaluated.

Financial Review

Results and dividends

The Group made a profit after tax for the year of £148.1m. The directors recommend that no final dividend be paid in respect of the year, leaving a profit of £148.1m to be transferred to reserves.

Share capital and debt structures

There were no changes to the Company's share capital during the year. On 31 December 2007, the Company utilised the funds received from a matured guaranteed investment contract to repay in full the Company's \$237 million 6.995% Senior Notes. On 25 February 2008, the Group utilised the funds received from a matured guaranteed investment contract to repay in full the Yorkshire Power Finance Limited \$281 million 6.496% bonds.

Dividend policy

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

Taxation

Full details of the Group's taxation charge are provided in Note 10 to the accounts.

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DIRECTORS' REPORT (CONTINUED)

Financial Review (continued)

Generation and use of cash resources

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

Liquidity and maintenance of investment grade ratings

The Group has access to committed borrowing facilities totalling £112.0m. Various companies in the Group held and maintained investment grade issuer credit ratings throughout the year. The Company, NEDL and YEDL have access to committed revolving credit facilities provided by Lloyds TSB Bank plc and Royal Bank of Scotland plc.

Financial derivatives

Exposure to liquidity, credit and market price risk arises as a result of the day to day business activities of the Group and the financing of those activities. Derivative financial instruments are used to hedge exposures to fluctuations in interest rates, foreign exchange rates and commodity prices. Full details of the Group's derivative financial instruments is outlined in Note 18 to the accounts.

Pensions

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

Full details of the Scheme's pension commitments are provided in Note 29 to the accounts.

The Group also participates in the Northern Electric Money Purchase Scheme and the Yorkshire Electricity Pension Plan, which are defined contribution schemes.

Insurance

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

Income Statement commentary

Profit before tax at £173.1m was £36.4m lower than the previous year. Higher distribution margins (£24.1m) due to tariff increases implemented during the year were offset by the impact of the change in asset lives (£14.0m), a non-recurring gain on the deconsolidation of investments in the prior year (£22.0m), lower gains from asset disposals (£9.7m), higher borrowing costs (£5.0m), higher distribution maintenance costs (£4.3m) and other net adverse variances (£5.5m).

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DIRECTORS' REPORT (CONTINUED)

Cash Flow Statement Commentary

Net cash inflow from operating activities

The net cash inflow from operating activities at £181.6m was £22.4m higher than 2006 reflecting the cash impact of distribution tariff increases implemented in the year.

Investing activities

Net cash used in investing activities at £100.3m was £107.5m lower than the prior year reflecting the settlement of long term securities (£100.0m).

Financing activities

The net cash used by financing activities at £103.0m represented an adverse variance of £179.2m compared with the cash inflow of £76.2m in the prior year, mainly due to the redemption of the \$237.0m, 6.995% senior loan notes.

Treasury policy

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

Interest rate risk

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

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 2007, 96% of the Group's borrowings were at fixed rates and the average maturity for these borrowings was 21 years.

Liquidity risk

The Group'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 to the Group by LloydsTSB Bank plc and Royal Bank of Scotland plc. 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

As the majority of the Group's dollar denominated debt is hedged, no material currency risks are 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.

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 Company had no trade payables as at 31 December 2007.

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DIRECTORS' REPORT (CONTINUED)

Principal risks and uncertainties facing the Group

Following a review during 2007, management systems were refined to provide further enhanced and more appropriately focused arrangements with regard to compliance assurance and risk management. A Compliance Assurance Programme Steering Group ("CAPSG") was established consisting of certain directors and senior managers of the Group in order to provide oversight at a strategic level and steering of the 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. 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 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 Group are outlined under Treasury policy, above.

The 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 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 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 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 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 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 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 and YEDL have appropriate controls in place directed at ensuring compliance with the conditions in their licences 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;
- 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.

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DIRECTORS' REPORT (CONTINUED)

Ofgem investigation

After an investigation undertaken by Ofgem found that NEDL and YEDL had misreported performance data and had each breached the condition of their electricity distribution licences requiring them to provide information on the quality of aspects of their services, Ofgem announced on 6 June 2007 that it required a total reduction of £2.1m in the future price control revenues of NEDL and YEDL. Of the total reduction of £2.1m, £0.9m is attributable to NEDL and £1.2 million to YEDL. Ofgem stated that the decision took into account the voluntary disclosure that NEDL and YEDL had misreported data and may have breached their licences and the action taken by the companies. The appropriate reductions were factored into NEDL and YEDL's tariff changes, effective from 1 July 2007 to 31 March 2008.

People

The Group has a clearly defined leadership team, in which clear 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 and finance functions are centralised in order to provide those services across the Group.

The Group employed 2,467 staff at the end of December 2007 (2006: 2,477).

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

In line with the Information and Consultation Regulations, the Group has introduced a constitutional framework and 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 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.

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

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

	2007		2006	
	Target	Actual	Target	Actual
Lost time accidents	0	4	0	4
Medical treatment accidents	4	9	2	4
Operational incidents	12	21	6	9
Preventable vehicle accidents	30	39	33	37

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 Group promotes environmental awareness, best practice and legal compliance amongst its staff and contractors and requires strict compliance with its environmental policy.

NEDL, YEDL and IUS have operated under the environmental management systems ("EMS") standard ISO 14001 since the late 1990s and have 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 to NEDL and YEDL was a full three-yearly reassessment undertaken by Lloyd's Register Quality Assurance in February 2008 and was for the purpose of renewing the scheme's certificate. Four minor non-conformances were raised for action but the visit report concluded 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.

The most recent surveillance assessment of IUS was carried out by Lloyds Register Quality Assurance between July and September 2007, which confirmed compliance with standard ISO 14001:2004.

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DIRECTORS' REPORT (CONTINUED)

Environmental Management (continued)

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

- A programme to enhance secondary containment provision for primary transformer sites to prevent oil leakage;
- A programme to enhance emergency response provision for primary transformer sites to mitigate oil leakage;
- Replacement of oil-filled circuit breakers with vacuum and SF6 units at outdoor substations;
- Enhanced monitoring and response measures with regard to the management of fluid-filled underground cable networks;
- Installation of additional engineering controls where required to improve pollution prevention in strategic primary substation sites;
- Installation of underground cables using trenchless technology as opposed to open-cut excavations;
- The evaluation of waste management provision and minimisation options together with systematic verification of the legal duty of care in connection with waste management activities;
- Monthly monitoring and management of fuel consumption by company fleet vehicles;
- Environmental awareness training for new start personnel and contractors, complemented by periodic refresher training for all staff;
- Introduction of new IT printer technology to reduce paper and toner waste; and
- Monthly monitoring of energy consumption at all premises.

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DIRECTORS' REPORT (CONTINUED)

Environmental Management (continued)

Measurements used to monitor environmental performance include the following categories:

- An annual internal environmental management systems audit programme: (60 audits completed) (2006: 52);
- Internal environmental management systems non-conformances: (12 reported and addressed) (2006: 6);
- Continual improvement programmes: (10 underway; with 9 performing to target and 1 temporarily delayed) (2006: 10 underway and performing to target);
- Environmental incidents log: (86 investigated and remedial action taken, including 39 reported to the Environment Agency) (2006: 45 investigated and remedial action taken, including 18 reported to the Environment Agency);
- Cable fluid losses: (an average annual rate of 66.8 litres per kilometre);
- Primary transformer oil losses: (329 litres);
- Secondary transformer oil losses: (14,062 litres);
- All other oil losses: (69 litres);
- SF6 switch-gear losses: (7.4 kg) (2006: 1.5kg); and
- Environmental customer communications: (735, mainly substation related, regarding graffiti, weeds and fly-tipping) (2006: 743).

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

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

Charitable and Political donations

During the year, charitable donations of £130,238 were made, principally to local charities serving the communities in which the Group operates. No contributions were made to political organisations.

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DIRECTORS' REPORT (CONTINUED)

Corporate social responsibility

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

As part of its customer service strategy, the Group engages directly with the communities it serves to create a dialogue on quality of supply issues, the actions and investment planned to improve the quality of supply, the 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 Group is an active member of Business in the Community.

Research and development

The 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:

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

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DIRECTORS' REPORT (CONTINUED)

Future Developments

The Company intends to continue to act as a holding and investment company.

The directors intend to develop the Group's business in a manner that concentrates on its core skills of electricity distribution, engineering contracting and investment in hydrocarbon projects.

NEDL and YEDL will continue to operate their businesses with the goal of out-performing the allowances in the respective distribution price controls, while efficiently investing in the electricity distribution systems 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.

CE Gas will continue to build value through the management of its existing portfolio of hydrocarbon projects in Australia, Poland and the United Kingdom. Selective new projects in these areas may be considered.

DIRECTORS AND THEIR INTERESTS

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

David L Sokol	resigned 1 June 2007
Gregory E Abel	
Douglas L Anderson	
Ron Dixon	
John M France	
Patrick J Goodman	

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.

No director holds any non-beneficial interest in the share capital 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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

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

Directors are also required to:

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

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

Going concern

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

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

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

6 June 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CE ELECTRIC UK FUNDING COMPANY

We have audited the group and individual company financial statements (the "financial statements") of CE Electric UK Funding Company for the year ended 31 December 2007 which comprise the Group income statement, the consolidated and individual company statements of recognised income and expense, the consolidated and individual company balance sheets, the consolidated and individual company cash flow statements, and the related notes 1 to 32. 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 United Kingdom 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 as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

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

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CE ELECTRIC UK FUNDING COMPANY
(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 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Separate opinion in relation to IFRS

The Group, 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 Group's affairs as at 31 December 2007 and of its profit for the year then ended.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne

9 June 2008

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 £m	2006 £m
Revenue	3	575.0	538.3
Cost of sales		(81.6)	(82.0)
Gross profit		493.4	456.3
Distribution costs		(171.7)	(140.0)
Administrative expenses		(48.9)	(44.7)
Operating profit	3 & 4	272.8	271.6
Share of profit after tax of joint venture entities accounted for using the equity method		0.6	0.8
Other income	5	5.7	37.4
Investment income	6	17.0	17.7
Finance costs	7	(123.0)	(118.0)
Profit before tax	3	173.1	209.5
Income tax expense	10	(25.0)	(56.3)
Profit from ordinary activities		148.1	153.2
Attributable to:			
Equity holder of the parent		146.5	151.8
Minority interest		1.6	1.4
		148.1	153.2

All activities relate to continuing operations.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 DECEMBER 2007

	GROUP		COMPANY	
	2007 £m	2006 £m	2007 £m	2006 £m
Profit from ordinary activities	148.1	153.2	0.7	0.8
Movement in merger reserve	(1.2)	-	-	-
Movement in cash flow hedges	2.3	3.8	0.9	1.3
Total recognised income and expense	149.2	157.0	1.6	2.1
Attributable to:				
Equity holder of the parent	147.6	155.6	1.6	2.1
Minority interest	1.6	1.4	-	-
Total recognised income and expense	149.2	157.0	1.6	2.1

CE ELECTRIC UK FUNDING COMPANY

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BALANCE SHEETS

AT 31 DECEMBER 2007

		GROUP		COMPANY	
	Note	2007 £m	2006 £m	2007 £m	2006 £m
Non-current assets					
Property, plant and equipment	11	3,205.2	3,016.0	-	-
Intangibles	12	268.7	273.8	-	-
Investments in joint venture entities	13	3.5	3.7	-	-
Investments in other undertakings	13	0.1	0.1	376.3	376.3
Long-term securities	17	-	200.0	264.2	264.2
Derivative financial instruments	18	0.1	0.2	-	-
Retirement benefit asset	29	44.7	4.8	-	-
Trade and other receivables	17	4.7	4.6	-	-
		3,527.0	3,503.2	640.5	640.5
Current assets					
Inventories	15	22.7	18.0	-	-
Trade and other receivables	17	137.1	119.1	-	0.9
Short-term securities	17	200.0	100.0	-	142.4
Cash and cash equivalents	17	7.9	29.6	0.1	-
		367.7	266.7	0.1	143.3
Total assets		3,894.7	3,769.9	640.6	783.8
Current liabilities					
Trade and other payables	19	(170.0)	(150.1)	(1.2)	(1.0)
Derivative financial instruments	18	(55.5)	(26.3)	-	(22.6)
Current income tax liabilities	19	(27.7)	(18.5)	(0.3)	(0.4)
Deferred revenue	22	(29.3)	(26.4)	-	-
Borrowings	20	(163.6)	(125.1)	(31.1)	(154.1)
Provisions	23	(5.2)	(7.0)	-	-
		(451.3)	(353.4)	(32.6)	(178.1)
Net current liabilities		(83.6)	(86.7)	(32.5)	(34.8)
Non-current liabilities					
Trade and other payables	19	(74.8)	(54.8)	-	-
Borrowings	20	(1,433.5)	(1,556.8)	(192.5)	(192.2)
Derivative financial instruments	18	-	(54.9)	-	-
Deferred income tax liabilities	21	(392.8)	(419.8)	-	0.4
Retirement benefit obligations	29	(1.4)	(1.3)	-	-
Deferred revenue	22	(927.9)	(868.3)	-	-
Provisions	23	(6.1)	(4.4)	-	-
		(2,836.5)	(2,960.3)	(192.5)	(191.8)
Total liabilities		(3,287.8)	(3,313.7)	(225.1)	(369.9)
Net assets		606.9	456.2	415.5	413.9

CE ELECTRIC UK FUNDING COMPANY

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BALANCE SHEETS (CONTINUED)

AT 31 DECEMBER 2007

		GROUP		COMPANY	
	Note	2007 £m	2006 £m	2007 £m	2006 £m
EQUITY					
Share capital	25	354.6	354.6	354.6	354.6
Merger reserve	26	1.2	-	-	-
Other reserves	26	0.8	0.5	-	-
Hedging reserve	26	(0.6)	(2.9)	-	(0.9)
Retained earnings	26	241.1	95.8	60.9	60.2
		597.1	448.0	415.5	413.9
Minority interest	24	9.8	8.2	-	-
Total equity		606.9	456.2	415.5	413.9

The financial statements were approved by the board of directors and authorised for issue on 6 June 2008 and were signed on its behalf by:



J M France
Director

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	GROUP		COMPANY	
		2007	2006	2007	2006
		£m	£m	£m	£m
Net cash from operating activities	27	181.6	159.2	2.0	0.6
Investing activities					
Dividends received from joint venture entities		0.8	1.3	-	-
Proceeds/(payments) from disposal of business unit/subsidiary		0.1	(1.1)	-	-
Acquisition of subsidiary		3.4	-	-	-
Sale of long-term securities		100.0	-	142.4	-
Proceeds from disposal of property, plant and equipment		1.9	15.0	-	-
Purchases of property, plant and equipment		(298.5)	(302.5)	-	-
Purchases of intangible assets		(6.5)	(5.0)	-	-
Receipt of customer contributions		98.5	84.5	-	-
Net cash (used in)/from investing activities		(100.3)	(207.8)	142.4	-
Financing activities					
Movement in borrowings from parent undertaking		18.4	74.2	-	-
Movement in borrowings from subsidiary undertakings		-	-	(1.9)	(0.6)
Repayment of borrowings		(142.4)	(6.0)	(142.4)	-
New borrowings raised		21.0	8.0	-	-
Net cash (used in)/from financing activities		(103.0)	76.2	(144.3)	(0.6)
Net (decrease)/increase in cash and cash equivalents		(21.7)	27.6	0.1	-
Cash and cash equivalents at beginning of year		29.6	2.0	-	-
Cash and cash equivalents at end of year		7.9	29.6	0.1	-

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

1 GENERAL INFORMATION

CE Electric UK Funding Company 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"), 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 Company. The financial statements have been prepared under the historical cost convention. A summary of the more important Group accounting policies is set out below.

Critical accounting policies

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

The particular policies adopted by the directors are described below.

Adoption of new or revised standards

In the current year, the Group has adopted IFRS 7, "Financial Instruments: Disclosures", which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1, "Presentation of Financial Statements". The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (Notes 17 and 19).

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

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

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Adoption of new or revised standards (continued)

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

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

Basis of consolidation

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

Revenue

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

Revenue represents charges for the use of the Group's distribution network, amortisation of customer contributions, income from construction contracts, hydrocarbon sales 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.

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

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

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

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

Construction contracts

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

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Construction contracts (continued)

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

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

Operating profit

Operating profit is stated after charging restructuring costs but before profit on disposals, the share of results of joint venture entities, investment income and finance costs.

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

Taxation

The tax expense represents the sum of the tax currently payable, Petroleum Revenue Tax ("PRT") 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.

PRT is treated as an income tax and deferred PRT is accounted for under the temporary difference method. Current UK PRT is charged as a tax expense on chargeable field profits included in the income statement and is deductible for UK corporation tax.

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 venture entities, 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.

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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, based on tax rates and tax legislation enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment and depreciation

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

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

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

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

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

Non-operational assets:

Buildings - freeholdup to 60 years

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

Fixtures and equipmentup to 10 years

Software development costs.....up to 15 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.

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

2 PRINCIPAL 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 15 years.

Oil and gas assets

Exploration and appraisal costs are accounted for on the successful efforts basis. All costs relating to licence and data acquisition, geological and geophysical activity and exploration and appraisal drilling are initially capitalised as intangible oil and gas assets pending determination of the commercial potential of the relevant oil and gas properties. Exploration costs, which are not incurred under a specific licence, are written off in the year incurred. If prospects are subsequently deemed to be unsuccessful on completion of evaluation, the associated costs are charged to the income statement in the year in which that determination is made. If the prospects are deemed to be commercially viable, such costs are transferred to tangible oil and gas assets under property, plant and equipment.

Depreciation, depletion and amortisation for oil and gas properties is calculated on a unit-of-production basis, using the ratio of oil and gas production in the period to the estimated quantities of proven and probable reserves at the end of the period plus production in the period, on a field-by-field basis. Proven and probable reserve estimates are based on a number of underlying assumptions including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain. Management uses established industry techniques to generate its estimates and regularly references its estimates against those of joint venture partners or external consultants. However, the amount of reserves that will ultimately be recovered from any field cannot be known with certainty until the end of the field's life.

Commercial Reserves of Oil and Gas

Commercial reserves used in the unit of production calculations are proven and probable reserves. Reserves are based on estimates provided by the operators.

Abandonment Costs

Provisions for decommissioning costs are recorded at the present value of the expenditures expected to be required to settle the Group's future obligation, to the extent any damage has been caused to date taking risks and uncertainties into account in reaching the best estimates and, where available, operator's estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability.

A decommissioning asset is also established, since the future cost of decommissioning is regarded as part of the total investment to gain access to future economic benefit. The decommissioning asset is then depleted by field on a unit-of-production basis.

Provisions are reviewed at each balance sheet date to reflect the current best estimate of the cost at present value. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

It is assumed that certain abandonment costs will be allowable for PRT and corporation tax purposes when incurred.

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Effect of Changing Estimates

The effects of changes in estimated costs or other factors affecting oil and gas unit of production calculations for depreciation and abandonment costs are dealt with prospectively over the estimated remaining commercial reserves of each field.

Impairment Test of Oil and Gas Assets

Where there has been a change in economic or commercial conditions that indicates a possible impairment in a field, the recoverability of the net book value relating to that field, less any provisions for decommissioning costs, is assessed by comparison with the estimated discounted future net cash flows based on management's expectations of future gas and oil prices and future costs. Any impairment identified is charged to the income statement as additional depreciation. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement.

Gas Joint Venture operations

Exploration, development and production activities are conducted as co-licensee in joint ventures with other similar companies. The accounts reflect the relevant proportions of production, capital expenditure, operating costs and current assets and liabilities applicable to the Group's interests.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent year.

On disposal of a subsidiary or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Investments

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

The results and assets and liabilities of joint venture entities are incorporated in these financial statements using the equity method of accounting except when classified as held for sale. Investments in joint venture entities 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 entities, 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 entities are not recognised.

Fixed asset investments are stated at cost less provision or amounts written off for impairment in value.

Inventories

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

Raw materials and goods for resale are valued at purchase cost 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.

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 Payables

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

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.

Debt

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

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

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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 trade 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 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.

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.

Pensions

The Group contributes to the Electricity Supply Pension Scheme, a defined benefit scheme.

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

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Pensions (continued)

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 29.

The Group also participates in defined contribution schemes. Contributions payable to the schemes 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.

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.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

The results of overseas operations are translated at the average rates of exchange during the year and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in the statement of recognised income and expense. All other exchange differences are included in the income statement.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk, interest rate movements and commodity risk. The Group does not hold derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the board of directors.

Changes in the fair value of derivative financial instruments that are designated as effective hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. Amounts deferred to equity are recognised in the income statement, or as adjustments to the carrying amount of property, plant and equipment, only when the hedged transaction itself has been recognised in the accounts.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transition occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement under the applicable heading depending on the nature of the instrument as they arise.

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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.

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 cost.

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

3 REVENUE AND SEGMENTAL ANALYSIS

The Group operates in three principal areas of activity, being the distribution of electricity, engineering contracting and hydrocarbon exploration and development. Hydrocarbon exploration and development is predominantly carried out in Australia with the remainder of operations of the Group being predominantly carried out in the United Kingdom.

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

	Distribution 2007 £m	Engineering Contracting 2007 £m	Hydrocarbon Exploration and Development 2007 £m	Other 2007 £m	Total 2007 £m
REVENUE					
External sales	493.3	63.1	17.0	1.6	575.0
Inter-segment sales	0.3	-	-	(0.3)	-
Total revenue	<u>493.6</u>	<u>63.1</u>	<u>17.0</u>	<u>1.3</u>	<u>575.0</u>
SEGMENTS RESULTS					
Operating profit	<u>228.6</u>	<u>2.8</u>	<u>1.6</u>	<u>39.8</u>	<u>272.8</u>
Share of profit after tax of joint venture entities accounted for using the equity method					0.6
Other income					5.7
Investment income					17.0
Finance costs					(123.0)
Profit before tax					<u>173.1</u>
OTHER INFORMATION					
Capital additions	303.5	0.1	11.1	(3.6)	311.1
Depreciation and amortisation	115.3	-	9.3	(1.2)	123.5
Amortisation of deferred revenue	(27.2)	-	-	-	(27.2)
BALANCE SHEET					
Segment assets	<u>3,317.1</u>	<u>26.5</u>	<u>86.0</u>	<u>250.4</u>	<u>3,680.0</u>
Unallocated corporate assets					214.7
Total assets					<u>3,894.7</u>
Segment liabilities	<u>(1,096.4)</u>	<u>(13.8)</u>	<u>(9.2)</u>	<u>(54.8)</u>	<u>(1,174.2)</u>
Unallocated corporate liabilities					(2,113.6)
Total liabilities					<u>(3,287.8)</u>
Net assets by segment	<u>2,220.7</u>	<u>12.7</u>	<u>76.8</u>	<u>195.6</u>	<u>2,505.8</u>
Unallocated net corporate liabilities					(1,898.9)
Total net assets					<u>606.9</u>

"Other" comprises business support units and consolidation adjustments.

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

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

3 REVENUE AND SEGMENTAL ANALYSIS (CONTINUED)

	Distribution 2006 £m	Engineering Contracting 2006 £m	Hydrocarbon Exploration and Development 2006 £m	Other 2006 £m	Total 2006 £m
REVENUE					
External sales	462.2	67.9	7.4	0.8	538.3
Inter-segment sales	3.6	19.1	-	(22.7)	-
Total revenue	<u>465.8</u>	<u>87.0</u>	<u>7.4</u>	<u>(21.9)</u>	<u>538.3</u>
SEGMENTS RESULTS					
Operating profit	<u>227.5</u>	<u>4.9</u>	<u>2.0</u>	<u>37.2</u>	271.6
Share of profit after tax of joint venture entities accounted for using the equity method					0.8
Other income					37.4
Investment income					17.7
Finance costs					(118.0)
Profit before tax					<u>209.5</u>
OTHER INFORMATION					
Capital additions	290.1	0.2	22.3	(6.7)	305.9
Depreciation and amortisation	92.8	0.2	2.3	(1.0)	94.3
Amortisation of deferred revenue	<u>(21.2)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21.2)</u>
BALANCE SHEET					
Segment assets	<u>3,099.7</u>	<u>20.5</u>	<u>84.6</u>	<u>226.1</u>	3,430.9
Unallocated corporate assets					339.0
Total assets					<u>3,769.9</u>
Segment liabilities	<u>(989.8)</u>	<u>(10.7)</u>	<u>(10.6)</u>	<u>(65.5)</u>	(1,076.6)
Unallocated corporate liabilities					(2,237.1)
Total liabilities					<u>(3,317.7)</u>
Net assets by segment	<u>2,109.9</u>	<u>9.8</u>	<u>74.0</u>	<u>160.6</u>	2,354.3
Unallocated net corporate liabilities					(1,898.1)
Total net assets					<u>456.2</u>

"Other" comprises business support units and consolidation adjustments.

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

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2007**4 OPERATING PROFIT**

Operating profit is stated after charging/(crediting):

	2007 £m	2006 £m
Staff costs (Note 8)	38.1	35.8
Research costs	0.8	0.3
Depreciation of property, plant and equipment	115.3	85.2
Amortisation of deferred revenue	(27.2)	(21.2)
Amortisation of intangibles	8.2	9.1
Movement in fair value of commodity hedges	0.7	6.7

The analysis of auditor remuneration is as follows:

	2007 £000	2006 £000
Audit Fees		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	50	56
Fees payable to the Company's auditors for the audit of the Company's subsidiaries pursuant to legislation	391	441
Total audit fees	441	497

	2007 £000	2006 £000
Non-Audit Fees		
Fees payable to the Company's auditors for information technology Services	-	1
Fees payable to the Company's auditors for other services pursuant to legislation	5	13
Total non-audit fees	5	14

5 OTHER INCOME

	2007 £m	2006 £m
Loss on disposal of investments	-	(1.1)
Profit on deconsolidation of investment (Note 13)	-	22.0
Profit on part disposal of Yolla interest	0.1	13.8
Profit on disposal of other property, plant and equipment	5.6	2.7
Total other income	5.7	37.4

6 INVESTMENT INCOME

	2007 £m	2006 £m
Dividends received	-	1.5
Interest receivable	17.0	16.2
Total investment income	17.0	17.7

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

7 FINANCE COSTS

	2007 £m	2006 £m
Unwinding of discount on abandonment provision	0.1	0.1
Interest payable on non-equity preference shares	2.7	2.7
Interest payable on other borrowings	120.2	115.2
	<hr/>	<hr/>
Total finance costs	123.0	118.0
	<hr/>	<hr/>

8 STAFF COSTS

	GROUP	
	2007 £m	2006 £m
Salaries	88.7	85.9
Social security costs	9.1	7.6
Defined benefit pension scheme credit (Note 29)	(4.8)	(5.3)
Defined contribution pension scheme costs	0.2	0.2
	<hr/>	<hr/>
	93.2	88.4
Less: charged to property, plant and equipment	(55.1)	(52.6)
	<hr/>	<hr/>
	38.1	35.8
	<hr/>	<hr/>

The average monthly number of employees:

	2007 Number	2006 Number
Distribution	2,090	1,990
Engineering contracting	310	423
Hydrocarbon exploration and development	10	11
Other	60	44
	<hr/>	<hr/>
	2,470	2,468
	<hr/>	<hr/>

The Company had no employees in the years ended 31 December 2007 and 31 December 2006.

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

9 DIRECTORS AND KEY PERSONNEL

a) EMOLUMENTS

	Highest paid director		All	
	2007	2006	2007	2006
	£000	£000	£000	£000
Short-term employee benefits	141	122	156	137
Post retirement benefits	62	60	62	60
Other long-term benefits	151	132	164	132
	354	314	382	329
	Other Key Personnel			
	2007	2006		
	£000	£000		
Short-term employee benefits	1,125	178		
Compensation for loss of office	-	495		
Post retirement benefits	248	27		
Other long-term benefits	579	(402)		
	1,952	298		

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

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

b) PENSIONS

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

The accrued pension benefit relating to the highest paid director is £52,725 (2006: £47,839).

c) CONTRACTS

During the year, 1 director (2006: 1) and 9 key personnel (2006: 1) utilised the services provided by Northern Transport Finance Limited ("NTFL"), a subsidiary company.

The amounts included in finance lease receivables (Note 17) owed by these directors and key personnel total £67,600 (2006: £11,913) in respect of non-current receivables and £66,574 (2006: £15,326) in respect of current receivables.

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

10 INCOME TAX EXPENSE

	2007		2006	
	£m	£m	£m	£m
(a) Analysis of charge for the year:				
Current tax:				
Corporation tax charge for the year	50.1		44.7	
Under / (over) provision for prior years	1.3		(1.5)	
Total current tax charge		51.4		43.2
Petroleum revenue tax		1.5		1.1
Deferred tax (Note 21)		(27.9)		12.0
Tax charge on profit before tax		25.0		56.3
(b) Reconciliation of tax charge:				
Profit before tax		173.1		209.5
Tax on profit before tax at standard rate of corporation tax in the United Kingdom of 30%		51.9		62.9
Factors affecting charge:				
Permanent differences		0.8		1.4
Imputed interest		-		(0.2)
Deconsolidation of subsidiary (Note 13)		-		(6.6)
Dividends received		-		(0.5)
Tax effect of results of joint venture entities		(0.2)		(0.2)
Tax effect of PRT		0.7		0.6
Rate charge reduction		(27.7)		-
Foreign exchange impact		0.6		-
Over provision for prior years		(1.1)		(1.1)
Tax charge on profit before tax		25.0		56.3

(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 £21m and will give rise to a one off deferred tax charge for this amount in the year of enactment.

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

11 PROPERTY, PLANT AND EQUIPMENT

	Distribution System £m	Oil & Gas Assets £m	GROUP Non- operational land and buildings £m	Fixtures and equipment £m	Total £m
COST:					
At 1 January 2006	3,248.6	56.3	9.7	32.2	3,348.8
Transfer from intangible assets (Note 12)	-	3.0	-	-	3.0
Additions	277.1	18.5	0.1	5.2	300.9
Disposals	(10.2)	-	(0.5)	(2.7)	(13.4)
At 31 December 2006	3,515.5	77.8	9.3	34.7	3,637.3
Additions	296.0	5.7	0.1	2.8	304.6
Disposals	(39.4)	-	(0.2)	(1.9)	(41.5)
At 31 December 2007	3,774.5	83.5	9.2	35.6	3,900.4
DEPRECIATION:					
At 1 January 2006	520.1	0.3	2.4	26.4	549.2
Provided during the year	79.8	1.1	0.3	4.0	85.2
Disposals	(10.2)	-	(0.2)	(2.7)	(13.1)
At 31 December 2006	589.7	1.4	2.5	27.7	621.3
Provided during the year	106.6	4.8	0.2	3.7	115.3
Disposals	(39.3)	-	(0.2)	(1.9)	(41.4)
At 31 December 2007	657.0	6.2	2.5	29.5	695.2
Net book value at 31 December 2007	3,115.1	77.3	6.7	6.1	3,205.2
Net book value at 31 December 2006	2,925.8	76.4	6.8	7.0	3,016.0
Assets in the course of construction included above:					
At 1 January 2006	168.3	44.3	-	-	212.6
Additions	277.1	18.5	-	-	295.6
Available for use	(264.1)	(39.5)	-	-	(303.6)
At 31 December 2006	181.3	23.3	-	-	204.6
Additions	296.0	5.7	-	-	301.7
Available for use	(257.9)	(2.8)	-	-	(260.7)
At 31 December 2007	219.4	26.2	-	-	245.6

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NOTES TO THE ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	2007 £m	2006 £m
Freehold	4.3	4.4
Long leasehold	2.3	2.3
Short leasehold	0.1	0.1
	<u>6.7</u>	<u>6.8</u>

The Company had no property, plant and equipment assets at 31 December 2007 (2006: £nil).

12 GROUP INTANGIBLES

	Goodwill £m	Oil & Gas Assets £m	Software Development Costs £m	Total £m
COST:				
At 1 January 2006	252.2	11.1	55.9	319.2
Transfer to property, plant and equipment (Note 11)	-	(3.0)	-	(3.0)
Additions	-	1.4	3.6	5.0
	<u>252.2</u>	<u>9.5</u>	<u>59.5</u>	<u>321.2</u>
At 31 December 2006	252.2	9.5	59.5	321.2
Adjustments to consideration paid	(3.4)	-	-	(3.4)
Additions	-	4.5	2.0	6.5
	<u>-</u>	<u>4.5</u>	<u>2.0</u>	<u>6.5</u>
At 31 December 2007	<u>248.8</u>	<u>14.0</u>	<u>61.5</u>	<u>324.3</u>
AMORTISATION:				
At 1 January 2006	-	5.3	33.0	38.3
Charge for the year	-	1.2	7.9	9.1
	<u>-</u>	<u>6.5</u>	<u>40.9</u>	<u>47.4</u>
At 31 December 2006	-	6.5	40.9	47.4
Charge for the year	-	4.6	3.6	8.2
	<u>-</u>	<u>11.1</u>	<u>44.5</u>	<u>55.6</u>
At 31 December 2007	<u>-</u>	<u>11.1</u>	<u>44.5</u>	<u>55.6</u>
 Net book value at 31 December 2007	<u>248.8</u>	<u>2.9</u>	<u>17.0</u>	<u>268.7</u>
Net book value at 31 December 2006	<u>252.2</u>	<u>3.0</u>	<u>18.6</u>	<u>273.8</u>

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

All of the goodwill arose on the acquisition of Yorkshire Power Group Limited prior to the adoption of IFRS by the Group. In accordance with the transitional rules on first time adoption, the allocation of goodwill to income generating units ("IGU") has not been reassessed from that used in the previous UK GAAP accounts.

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

12 GROUP INTANGIBLES (CONTINUED)

Goodwill and the carrying value of property, plant and equipment is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

If the fair value less costs to sell or the value in use of the IGU is less than the carrying value of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the IGU and then to the property, plant and equipment assets of the IGU. An impairment loss recognised for goodwill is not reversed in a subsequent period.

During the year, impairment testing has been carried out based on the fair value less costs to sell or on the value in use, using the Group's ten year long term plans based on pre-tax discounted cash flows using a nominal discount rate of 9.9% (assuming an annual inflation rate of 3.0%).

The impairment review included assumptions about the level of premium to be achieved on the regulated asset value (RAV), the outcome of future Distribution Price Control Reviews and the discount rate to be applied.

The application of these assumptions did not give rise to an impairment charge in 2007 (2006: £nil).

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

13 INVESTMENTS

	Share of joint venture entities net assets £m	GROUP Shares in other undertakings £m	Total £m	COMPANY Shares in subsidiary undertakings £m
SHARE OF NET ASSETS/COST:				
At 1 January 2006	4.2	13.9	18.1	376.3
Share of joint venture entities results less dividends received	(0.5)	-	(0.5)	-
Disposals	-	(13.5)	(13.5)	-
At 31 December 2006	3.7	0.4	4.1	376.3
Share of joint venture entities results less dividends received	(0.2)	-	(0.2)	-
At 31 December 2007	3.5	0.4	3.9	376.3
PROVISION FOR DIMINUTION IN VALUE:				
At 1 January 2006, 31 December 2006 and 2007	-	0.3	0.3	-
Net book value at 31 December 2007	3.5	0.1	3.6	376.3
Net book value at 31 December 2006	3.7	0.1	3.8	376.3

On 22 December 2006, CalEnergy Gas (Polska) Sp. z.o.o, with a carrying value of £13,000, issued 10,000,000 shares to a related party outside of the Group, thereby reducing the Group's interest from 100% to 0.7%. Consequently, that investment is no longer accounted for as a subsidiary and the Group realised a gain of £22.0m on its deconsolidation.

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

13 INVESTMENTS (CONTINUED)

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

Name of company	Holding of shares	Proportion of voting rights held	Nature of business
Principal subsidiary undertakings			
Held by Company:			
CE Electric UK Holdings	354,550,312 at £1	99%	Holding company
Yorkshire Power Group Limited	23,100,001 at £1	5.25%	Holding company
Held by CE Electric UK Holdings and its subsidiaries:			
CalEnergy Gas Limited	2,682,373 at £1	100%	Hydrocarbon exploration and development
CalEnergy Gas (Australia) Limited	9,539,909 at £1	100%	Hydrocarbon exploration and development
CalEnergy Gas (Holdings) Limited	36,000,000 at £1	100%	Holding company
CalEnergy Resources Limited	17,298,755 at £1	99.9%	Holding company
CE Electric (Ireland) Limited (registered in Eire)	2 at €1	100%	Holding company
CE Electric UK Limited	405,000,000 at £1	100%	Holding company
CE UK Gas Holdings Limited	36,000,001 at £1	100%	Holding 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 Finance plc	50,000 at £1	100%	Finance company
Northern Electric & Gas Limited	84,785,000 at £1	100%	Electrical and gas appliance retailing (discontinued)
Northern Electric Genco	2 at £1	100%	Holding company
Northern Electric Generation (Peaking) Limited	1,500,000 at £1	100%	Generation of electricity
Northern Electric plc (ordinary shares)	127,689,809 at 56 12/23p	100%	Holding company
Northern Electric plc (preference shares)	77,188,229 at 1p	69.1%	Holding company
Northern Electric Properties Limited	32,207,100 at £1	100%	Property holding and management company
Northern Transport Finance Limited	7,000,000 at £1	100%	Car finance company
UK Distribution Limited	1 at £1	100%	Holding company
Yorkshire Electricity Distribution plc	290,000,000 at £1	100%	Distribution of electricity
Yorkshire Electricity Group plc	159,270,954 at 68 2/11p	100%	Holding company
Yorkshire Holdings plc	50,000 at £1	100%	Holding company
Yorkshire Power Finance Limited (registered in Cayman Islands)	2,000 at \$1	100%	Finance company
Yorkshire Power Group Limited	416,900,001 at £1	94.75%	Holding company

Joint venture entities held by CE Electric UK Holdings and its subsidiaries:

Integrated Utility Services Limited (registered in Eire)	5,000 at €1.27	50%	Engineering contracting services
Vehicle Lease and Service Limited	950,000 at £1	50%	Transport Services

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2007**14 INTEREST IN JOINT VENTURE ENTITIES**

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

	2007 £m	2006 £m
Non-current assets	11.6	10.5
Current assets	14.3	13.8
Non-current liabilities	(10.7)	(8.5)
Current liabilities	(8.2)	(8.4)
Net assets	7.0	7.4
Group's share of joint venture entities net assets	3.5	3.7
Revenue	18.0	20.5
Profit for the year	1.2	1.6
Group's share of joint venture entities profit for the year.	0.6	0.8

15 INVENTORIES

	GROUP	
	2007 £m	2006 £m
Raw materials and consumables	7.9	6.9
Work in progress	14.3	10.6
Goods for resale	0.5	0.5
	22.7	18.0

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

16 CONSTRUCTION CONTRACTS

	GROUP	
	2007 £m	2006 £m
Contracts in progress at balance sheet date:		
Amounts due from customers included in inventories	14.3	10.6
Contract costs incurred plus recognised profits less recognised losses to date	79.3	68.6
Less: Progress billings	(65.0)	(58.0)
	14.3	10.6

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

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

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

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

17 OTHER FINANCIAL ASSETS

Long-term securities

	GROUP			
	Book value		Fair value	
	2007	2006	2007	2006
	£m	£m	£m	£m
Guaranteed investment contract maturity 15 February 2008 (4.73%)	-	200.0	-	198.8

	COMPANY			
	Book value		Fair value	
	2007	2006	2007	2006
	£m	£m	£m	£m
Amounts owed by subsidiary undertakings	264.2	264.2	291.0	297.7

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

Short-term securities

	GROUP			
	Book value		Fair value	
	2007	2006	2007	2006
	£m	£m	£m	£m
Guaranteed investment contract maturity 27 December 2007 (4.75%)	-	100.0	-	99.5
Guaranteed investment contract maturity 15 February 2008 (4.73%)	200.0	-	199.8	-
	200.0	100.0	199.8	99.5

	COMPANY			
	Book value		Fair value	
	2007	2006	2007	2006
	£m	£m	£m	£m
Amounts owed by subsidiary undertakings	-	142.4	-	144.1

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

The credit risk on long-term and short-term securities is limited because the counterparty is a financial institution with high credit ratings assigned by international credit-rating agencies.

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

17 OTHER FINANCIAL ASSETS (CONTINUED)

Trade and other receivables

	GROUP		COMPANY	
	2007 £m	2006 £m	2007 £m	2006 £m
Non current:				
Finance lease receivables	4.7	4.6	-	-
Current:				
Distribution use of system receivable	81.7	71.1	-	-
Amounts receivable for sale of goods or services	5.7	9.8	-	-
Construction contract customers	13.2	10.4	-	-
Finance lease receivables	2.8	3.1	-	-
Amounts due from parent undertakings	4.3	0.9	-	0.9
Amounts due from joint venture entities	0.5	-	-	-
Interest receivable	6.5	9.4	-	-
Other receivables	11.6	5.7	-	-
Petroleum revenue tax	0.2	-	-	-
Prepayments and accrued income	10.6	8.7	-	-
	137.1	119.1	-	0.9

The directors consider the carrying amount of trade and other receivables approximates their fair value calculated by discounting the future cash flows by the market rate at the balance sheet date.

Finance lease receivables

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

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

The interest rate inherent in the agreements is fixed at the contract date for all of the term of the agreement. The average effective interest rate contracted is approximately 6.5% (2006: 6.5%) per annum.

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NOTES TO THE ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

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 40% of distribution revenues in 2007 (2006: 42%). Ofgem has determined a framework which sets credit limits for each supply business based on its credit rating or payment history and requires it to provide credit cover if its value at risk (measured as being equivalent to 45 days usage) exceeds the credit limit. Acceptable credit typically is provided in the form of a customer deposit, a parent company guarantee, letter of credit or an escrow account. Included within other payables (Note 19) are customer deposits of £3.5m as at December 2007 (2006: £0.2m). Ofgem has indicated that, provided NEDL and YEDL have implemented credit control, billing and collection processes in line with best practice guidelines and can demonstrate compliance with the guidelines or are 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 Group has provided an irrecoverable amount of £nil (2006: £0.4m) in relation to bad debts.

Amounts receivable for sale of goods and services

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

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £1.6m (2006: £6.6m) which are past due at the reporting date and for which the Group has provided an irrecoverable amount of £0.4m (2006: £0.9m) based on past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 570 days (2006: 263 days).

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £2.8m (2006: £nil) which are past due at the reporting date and for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 88 days (2006: nil).

Ageing of past due but not impaired receivables

	2007 £m	2006 £m
30-60 days	0.9	-
60-120 days	1.4	-
120-210 days	0.5	-
Total	<u>2.8</u>	<u>-</u>

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NOTES TO THE ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

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 construction contract receivables over 1 year. Construction contract receivables between 30 days and 1 year are provided for based on estimated irrecoverable amounts, determined by reference to past default experience.

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

Included in the Group's construction contracts balance are debtors with a carrying amount of £1.7m (2006: £1.2m), which are past due at the reporting date and for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 46 days (2006: 37 days).

Ageing of past due but not impaired receivables

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

Movement in the allowance for doubtful debts

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

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

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

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

17 OTHER FINANCIAL ASSETS (CONTINUED)

Cash and cash equivalents

	Group		Company	
	2007	2006	2007	2006
	£m	£m	£m	£m
Short-term deposits greater than 24 hours	5.2	29.0	-	-
Cash at bank and in hand	2.7	0.6	0.1	-
	7.9	29.6	0.1	-

The carrying amount of these assets approximates their fair value calculated by discounting the future cash flows at the market rate at the balance sheet date.

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2007**18 DERIVATIVE FINANCIAL INSTRUMENTS**

Exposure to liquidity, credit and market price risk arises as a result of the day to day business activities of the Group and the financing of those activities. Derivative financial instruments are used to hedge exposures to fluctuations in interest rates, foreign exchange rates and commodity prices.

a) Funding and Liquidity Risk

The Group operates a prudent approach to liquidity management using a mixture of long term debt and investments together with short term debt, cash and investments to meet its liabilities when due.

b) Market Risk

Market risk is the risk of loss arising from movements in market variables such as interest rates, exchange rates and commodity prices. Risks are mitigated by utilising appropriate risk management products.

(i) Interest rate risk

The Group's policy on interest rate risk is designed to limit the Group's exposure to floating interest rates. Consistent with this policy, at 31 December 2007 the Group had 96% (2006: 98%) of net debt at fixed rates.

(ii) Foreign exchange risk

The Group has issued US\$281m (2006: US\$518m) of debt. Currency swaps have been entered into to convert this dollar denominated debt and interest payments to fixed sterling amounts. The nominal value of this debt is included in the balance sheet at the closing exchange rate. The currency swaps are designated and are effective cash flow hedges. An analysis of the carrying value of the swaps is shown below.

Changes in the fair value of the swaps and translation of debt are taken to equity. They are then recycled through the income statement in the year during which the hedge instrument impacts the income statement.

(iii) Commodity Price Risk

The Group is exposed to price risk on CE Gas revenues. The risk is managed by derivative instruments which were not recognised as designated hedge relationships. An analysis of the carrying value of the derivative instruments is shown below.

	GROUP		COMPANY	
	2007 £m	2006 £m	2007 £m	2006 £m
Assets:				
Barrier swap	<u>0.1</u>	<u>0.2</u>	<u>-</u>	<u>-</u>
Liabilities:				
Current:				
Commodity contracts	2.2	8.7	-	-
Currency swaps	<u>53.3</u>	<u>22.6</u>	<u>-</u>	<u>22.6</u>
	<u>55.5</u>	<u>26.3</u>	<u>-</u>	<u>22.6</u>
Non-current:				
Commodity contracts	-	8.4	-	-
Currency swaps	<u>-</u>	<u>53.5</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>54.9</u>	<u>-</u>	<u>-</u>

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2007**18 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

The directors believe that the risks identified above are mitigated by the high proportion of debt which is held at fixed rates and by the financial derivatives which are in place in order to hedge against movements in foreign exchange rates and commodity prices. Therefore, any movement in these variables would not have a material effect on the results of the Group.

All derivative financial liabilities are due to reach maturity within 3 months of the balance sheet date.

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

	GROUP		COMPANY	
	2007	2006	2007	2006
	£m	£m	£m	£m
Non-current:				
Amounts due to parent undertaking	74.8	54.8	-	-
Current:				
Payments received on account	32.1	18.4	-	-
Trade payables	13.2	11.8	-	-
Amounts due to parent undertakings	0.2	0.4	0.1	-
Amounts due to joint venture entities	2.7	2.0	-	-
Other taxes and social security	13.8	10.6	0.5	0.3
Accruals	60.1	52.2	-	-
Interest payable	40.7	40.8	0.6	0.7
Other payables	7.2	13.9	-	-
	170.0	150.1	1.2	1.0

Current income tax liabilities

	GROUP		COMPANY	
	2007	2006	2007	2006
	£m	£m	£m	£m
Corporation tax	27.7	18.2	-	-
Group relief	-	-	0.3	0.4
Petroleum revenue tax	-	0.3	-	-
	27.7	18.5	0.3	0.4

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.

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NOTES TO THE ACCOUNTS (CONTINUED)
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19 OTHER FINANCIAL LIABILITIES (CONTINUED)

The following tables detail the remaining contractual maturity for the Group's and Company's non-derivative financial liabilities included in Notes 19 and 20. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest possible date on which the Group or Company can be required to pay. The tables include both interest and principal cash flows.

	GROUP				
	Less than 3 months £m	3 months to 1 year £m	1 to 5 years £m	5+ years £m	Total £m
2007:					
Non-interest bearing	100.2	10.2	18.2	-	128.6
Variable interest rate liability	22.0	2.7	44.8	-	69.5
Fixed interest rate liability	224.8	54.8	293.0	2,949.7	3,522.3
	347.0	67.7	356.0	2,949.7	3,720.4
2006:					
Non-interest bearing	96.5	14.7	13.4	-	124.6
Variable interest rate liability	-	4.0	34.7	7.5	46.1
Fixed interest rate liability	31.1	61.8	305.8	3,338.8	3,737.5
	127.6	80.5	353.8	3,346.3	3,908.2
	COMPANY				
	Less than 3 months £m	3 months to 1 year £m	1 to 5 years £m	5+ years £m	Total £m
2007:					
Non-interest bearing	0.6	-	-	-	0.6
Variable interest rate liability	-	-	-	-	-
Fixed interest rate liability	-	14.5	58.0	345.0	417.5
	0.6	14.5	58.0	345.0	418.1
2006:					
Non-interest bearing	0.3	-	-	-	0.3
Variable interest rate liability	-	-	-	-	-
Fixed interest rate liability	-	14.5	58.0	359.5	432.0
	0.3	14.5	58.0	359.5	432.3

Within the fixed rate interest liability in the '5+ years' column is £34.5m relating to the cumulative preference shares (Note 20).

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

20 BORROWINGS

	GROUP			
	Book value		Fair value	
	2007	2006	2007	2006
	£m	£m	£m	£m
The borrowings are repayable as follows:				
On demand or within one year	163.6	125.1	163.9	125.9
In the second to fifth year	-	162.9	-	164.2
After five years	1,433.5	1,393.9	1,345.4	1,404.0
	1,597.1	1,681.9	1,509.3	1,694.1
Short term loans	22.0	-	22.0	-
CE Gas – LIBOR plus margin	34.0	33.0	34.0	33.0
2007 – 6.995%	-	121.1	-	121.9
2008 – 6.496%	141.6	143.5	141.9	144.8
2020 – 8.875%	98.4	98.4	127.5	129.8
2020 – 9.25%	240.7	244.1	259.7	266.2
2022 – 7.25%	192.5	192.2	233.1	242.5
2028 – 7.25%	193.2	193.5	213.6	223.2
2035 – 5.125%	147.4	147.4	140.9	158.1
2035 – 5.125%	196.6	196.5	190.4	210.3
Amounts owed to parent undertaking – 7%	297.3	278.8	99.8	117.9
Cumulative preference shares	33.4	33.4	46.4	46.4
	1,597.1	1,681.9	1,509.3	1,694.1

	COMPANY			
	Book value		Fair value	
	2007	2006	2007	2006
	£m	£m	£m	£m
The borrowings are repayable as follows:				
On demand or within one year	31.1	154.1	31.1	154.9
After five years	192.5	192.2	233.1	242.5
	223.6	346.3	264.2	397.4
Analysis of borrowings:				
2007 – 6.995%	-	121.1	-	121.9
2022 – 7.25%	192.5	192.2	233.1	242.5
Amounts owed to Group undertakings	31.1	33.0	-	33.0
	223.6	346.3	264.2	397.4

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

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NOTES TO THE ACCOUNTS (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2007**

20 BORROWINGS (CONTINUED)

Interest on the CE Gas loans is charged at floating rates of interest, thus exposing the Group to cash flow interest rate risk. All other loans are at fixed interest rates and expose the Group to fair value interest rate risk.

As at 31 December 2007, 34,474,259 Northern Electric plc preference shares were held by non Group undertakings (2006: 34,474,259).

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 Northern Electric plc, 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 the winding-up of Northern Electric plc 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 Northern Electric plc's Public Electricity Supply Licence at the value given in (ii) above.

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

At 31 December 2007, the Group had available £90.0m (2006: £112.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

The amounts due to parent undertaking represent the amounts drawn under the terms of an uncommitted subordinated revolving credit facility provided by MidAmerican Energy Holdings Company's subsidiary, CalEnergy Investments C.V. This facility expires on 15 September 2035. The terms and conditions relating to the facility were filed with the U.S. Securities and Exchange Commission on 22 April 2006 by MidAmerican Energy Holdings Company. Drawings under this subordinated revolving credit facility are not included within the definition of Senior Total Net Debt when determining compliance with the covenants associated with the Group's bonds.

Yorkshire Power Group Limited has entered into certain currency rate swap agreements for its U.S. dollar denominated debt with large multi-national financial institutions. The swap agreements effectively convert the U.S. dollar fixed interest rate to a fixed rate in sterling for \$281.0m of 6.496% Yankee Bonds outstanding at 31 December 2007. The agreements extended until 25 February 2008 and converted the U.S. dollar interest rate to a fixed sterling rate ranging from 7.3175% to 7.345%. The estimated fair value of these swap agreements at 31 December 2007 was approximately £53.3m (2006: £53.5m) based on quotes from the counterparties to these instruments and represents the estimated amount that the Group would expect to pay if these agreements were terminated. Certain of these counterparties have the option to terminate the swap agreements and demand payment of the fair value of the swaps if Yorkshire Power Group Limited's credit ratings from the three recognised credit rating agencies decline below investment grade.

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

20 BORROWINGS (CONTINUED)

The covenants associated with some of the Group's 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.

The Group's Senior Total Net Debt as at 31 December 2007 totalled £1,043m.

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 £1,856m. The Senior Total Net Debt to RAV ratio for the Group is therefore estimated at 56%.

The loan provided to CE Gas is a limited recourse loan repayable only from the income of the secured assets. The security provided by CalEnergy Gas (Australia) Limited is a charge over all of its assets, an assignment of its interest in the offtake agreements and a specific charge over its bank accounts.

All other loans provided to the Group are unsecured.

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

21 DEFERRED TAX

	Accelerated Tax Depreciation	Rollover/ Holdover Relief	GROUP Retirement Benefit (Obligations)/ Asset (i)	Other	Total
	£m	£m	£m	£m	£m
At 1 January 2006	409.8	37.3	(11.1)	(29.8)	406.2
(Credit)/charge to income statement	(1.1)	4.7	12.2	(3.8)	12.0
Movement in cash flow hedges	-	-	-	1.6	1.6
At 31 December 2006	408.7	42.0	1.1	(32.0)	419.8
(Credit)/charge to income statement	(31.6)	0.1	11.3	(7.7)	(27.9)
Movement in cash flow hedges	-	-	-	0.9	0.9
At 31 December 2007	377.1	42.1	12.4	(38.8)	392.8

The other deferred tax asset primarily represents the tax benefit on interest accrued on loans from parent undertaking and fair value adjustments on borrowings acquired on the acquisition of Yorkshire Power Group Limited.

- (i) Movement in the year represents deferred tax on the movement in retirement benefit obligation/asset. A proportion of the movement has been capitalised in property, plant and equipment.

	COMPANY £m
At 1 January 2006	(1.0)
Movement in cash flow hedges	0.6
At 31 December 2006	(0.4)
Movement in cash flow hedges	0.4
At 31 December 2007	-

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

22 GROUP DEFERRED REVENUE

	Customer Contributions £m	
At 1 January 2006		828.6
Additions		87.3
Amortisation		(21.2)
		<hr/>
At 31 December 2006		894.7
Additions		89.7
Amortisation		(27.2)
		<hr/>
At 31 December 2007		957.2
		<hr/>
	2007	2006
	£m	£m
Included in current liabilities	29.3	26.4
Included in non-current liabilities	927.9	868.3
	<hr/>	<hr/>
	957.2	894.7
	<hr/>	<hr/>

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

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

23 GROUP PROVISIONS FOR LIABILITIES AND CHARGES

	Claims £m	Onerous Contracts £m	Other £m	Total £m
At 1 January 2007	3.7	2.3	5.4	11.4
Utilised/paid in year	(2.0)	(0.8)	(2.0)	(4.8)
Transferred from income statement	1.3	0.3	3.1	4.7
	<u>3.0</u>	<u>1.8</u>	<u>6.5</u>	<u>11.3</u>
At 31 December 2007				

	2007 £m	2006 £m
Included in current liabilities	5.2	7.0
Included in non-current liabilities	6.1	4.4
	<u>11.3</u>	<u>11.4</u>

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: Relates to former retail business property leases. Settlement is expected substantially within the next 12 months.

Other: Relates primarily to abandonment and deferred income associated with the hydrocarbons exploration and development business segment, environmental liabilities, wayleave disputes and holidays in suspense.

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

24 GROUP MINORITY INTEREST

	2007 £m	2006 £m
At 1 January	8.2	6.8
Share of profit on ordinary activities after taxation	1.6	1.4
	<u>9.8</u>	<u>8.2</u>
At 31 December		

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25 SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	Number (millions)	£m	Number (millions)	£m
At 31 December 2006 and 2007				
Equity – ordinary shares of £1 each	<u>400.0</u>	<u>400.0</u>	<u>354.6</u>	<u>354.6</u>

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

26 MOVEMENT ON RESERVES AND RECONCILIATION OF EQUITY

	Share Capital £m	Merger Reserve £m	GROUP Other Reserves £m	Hedging Reserve £m	Retained Earnings £m	Total Equity £m
Total equity at 1 January 2006	354.6	-	0.5	(6.7)	(56.0)	292.4
Movement in cash flow hedges	-	-	-	3.8	-	3.8
Profit for the year	-	-	-	-	151.8	151.8
Total equity at 31 December 2006	354.6	-	0.5	(2.9)	95.8	448.0
Foreign exchange translation adjustment	-	-	0.3	-	-	0.3
Movement in merger reserve	-	1.2	-	-	(1.2)	-
Movement in cash flow hedges	-	-	-	2.3	-	2.3
Profit for the year	-	-	-	-	146.5	146.5
Total equity at 31 December 2007	<u>354.6</u>	<u>1.2</u>	<u>0.8</u>	<u>(0.6)</u>	<u>241.1</u>	<u>597.1</u>

The merger reserve resulted following a group reconstruction of the hydrocarbon, exploration and development activities of the group.

	COMPANY			
	Share Capital £m	Hedging Reserve £m	Retained Earnings £m	Total Equity £m
Total equity at 1 January 2006	354.6	(2.2)	59.4	411.8
Movement in cash flow hedges	-	1.3	-	1.3
Profit for the year	-	-	0.8	0.8
Total equity at 31 December 2006	354.6	(0.9)	60.2	413.9
Movement in cash flow hedges	-	0.9	-	0.9
Profit for the year	-	-	0.7	0.7
Total equity at 31 December 2007	<u>354.6</u>	<u>-</u>	<u>60.9</u>	<u>415.5</u>

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27 NET CASH FROM OPERATING ACTIVITIES

	GROUP		COMPANY	
	2007	2006	2007	2006
	£m	£m	£m	£m
Operating profit	272.8	271.6	-	-
Depreciation and amortisation	123.5	94.3	-	-
Amortisation of deferred revenue	(27.2)	(21.2)	-	-
Increase/decrease in net retirement benefit asset/obligation	(36.8)	(35.9)	-	-
Decrease in provisions	(2.1)	(1.1)	-	-
Operating cash flows before movements in working capital	330.2	307.7	-	-
Increase in inventories	(4.7)	(0.3)	-	-
(Increase)/decrease in receivables	(12.0)	(10.4)	0.9	(0.9)
(Decrease)/increase in payables	(3.9)	(5.7)	0.3	(0.2)
Cash generated by/(used in) operations	309.6	291.3	1.2	(1.1)
Income taxes paid	(41.9)	(44.7)	-	-
Group relief (paid)/received	-	-	(0.4)	0.3
Petroleum revenue tax paid	(2.0)	(0.8)	-	-
Dividends received	-	1.6	-	-
Interest received	20.1	16.0	28.5	28.5
Interest paid	(104.2)	(104.2)	(27.3)	(27.1)
Net cash from operating activities	181.6	159.2	2.0	0.6

NOTES TO THE ACCOUNTS (CONTINUED)
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28 OPERATING LEASE ARRANGEMENTS

	GROUP	
	2007	2006
	£m	£m
Minimum lease payments under operating leases recognised in the year	8.9	8.3

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

	GROUP	
	2007	2006
	£m	£m
Within one year	5.2	4.5
In the second to fifth year inclusive	10.7	10.0
After five years	1.5	3.4
	17.4	17.9

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 entity.

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

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NOTES TO THE ACCOUNTS (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2007**

29 PENSION COMMITMENTS

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

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

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

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

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

At the Group's request the actuary has carried out a separate formal review of the Group's future pension costs using the assumptions set out below, which the actuary has confirmed facilitate a reasonable best estimate of those costs. This review has been based on the same membership and other data as at 31 March 2007. The board has accepted the advice of the actuary and formally approved the use of these assumptions for the purpose of calculating the Group's pension cost.

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

29 PENSION COMMITMENTS (CONTINUED)

Principal assumptions:

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

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

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

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

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

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

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

	2007	2006
	£m	£m
Current service cost	11.9	10.0
Interest cost on obligations	47.2	42.2
Expected return on plan assets	(63.9)	(57.5)
	(4.8)	(5.3)

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NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

29 PENSION COMMITMENTS (CONTINUED)

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

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 plan assets			956.6	912.8

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

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2007**29 PENSION COMMITMENTS (CONTINUED)**

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

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

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

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

	£m
At 1 January 2007	1.3
Utilised/paid in the year	(0.1)
Transferred from income statement	0.2
At 31 December 2007	1.4

30 CAPITAL AND OTHER COMMITMENTS

The Group has entered into contractual commitments in relation to capital investment of £31.5m (2006: £33.7m).

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NOTES TO THE ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

31 RELATED PARTY TRANSACTIONS

GROUP

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

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 19) £m
2007:				
CE Insurance Services Limited	-	1.7	4.3	-
Integrated Utility Services Limited (registered in Eire)	-	1.0	-	-
Vehicle Lease and Service Limited	<u>0.2</u>	<u>8.1</u>	<u>0.5</u>	<u>2.7</u>
2006:				
CE Insurance Services Limited	-	1.7	-	-
Integrated Utility Services Limited (registered in Eire)	-	0.1	-	0.1
Vehicle Lease and Service Limited	<u>0.2</u>	<u>8.3</u>	<u>-</u>	<u>1.9</u>

Included within Note 6 is £4.2m (2006: £nil) receivable from CE Insurance Services Limited.

Loans

The Group has received loans from companies in the MidAmerican Energy Holdings Company group. The total interest included in finance costs in the income statement for the year ended 31 December 2007 was £20.0m (2006: £18.5m). Included within borrowings is £297.3m as at 31 December 2007 (2006: £278.8m) and within trade and other payables £74.8m as at 31 December 2007 (2006: £54.8m) in respect of these loans.

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

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NOTES TO THE ACCOUNTS (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2007**

31 RELATED PARTY TRANSACTIONS (CONTINUED)

COMPANY

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

Loans

The Company has advanced loans to other companies in the Group. The total interest included in investment income in the income statement for the year ended 31 December 2007 was £28.5m (2006: £28.5m). Included within long-term/short-term securities is £264.2m as at 31 December 2007 (2006: £406.6m) in respect of these loans.

The Company has received loans from other companies in the Group. The total interest included in finance costs in the income statement for the year ended 31 December 2007 was £1.6m (2006: £1.6m). Included within borrowings is £31.1m as at 31 December 2007 (2006: £33.0m) in respect of these loans.

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

Taxation

The Company has received £1.0m (2006: £1.2m) of group relief from other companies in the CE Group. Payment at the UK statutory rate of 30% (2006: 30%) will be made for the use of these tax losses.

32 PARENT UNDERTAKINGS

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

Copies of the group accounts of Berkshire Hathaway Inc., which include CE Electric UK Funding Company, can be obtained from the Company Secretary, CE Electric UK Funding Company, Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.