

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

**REPORT & ACCOUNTS
TO 31 DECEMBER 2008**

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REPORT AND ACCOUNTS TO 31 DECEMBER 2008

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CE ELECTRIC UK FUNDING COMPANY

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

DIRECTORS' REPORT

Cautionary statement regarding forward-looking statements

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

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

The directors present the annual report and accounts of CE Electric UK Funding Company (the "Company") and its subsidiary companies (together the "Group") for the year ended 31 December 2008, which includes the business review and audited financial statements for that year. Pages 1 to 22 inclusive of this annual report comprise a directors' report that has been drawn up and presented in accordance with the Companies Act 1985.

PRINCIPAL ACTIVITIES

The Company is the ultimate parent undertaking incorporated in the United Kingdom and prepares group accounts for the year ended 31 December 2008. 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, with the Group's main businesses being as follows:

- Northern Electric Distribution Limited ("NEDL") and Yorkshire Electricity Distribution plc ("YEDL") (together the "Distribution Business") are authorised distributors under the Electricity Act 1989 and each company holds an electricity distribution licence granted by the Secretary of State. 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. The Distribution Business receives electricity from the National Grid's transmission system and distributes it to the 3.8 million customers connected to its electricity distribution networks of transformers, switchgear and overhead and underground cables, at voltages of up to 132kV;
- Integrated Utility Services Limited ("IUS") provides engineering contracting services to a range of clients, including E-on, Network Rail, Scottish Water, Northumbrian Water and Yorkshire Water; and
- CE Gas includes CalEnergy Gas (Australia) Limited and CalEnergy Resources (Australia) Limited, which hold hydrocarbon interests in Australia, and CalEnergy Resources Poland Sp. z o.o. and CalEnergy Gas Limited, which hold interests in hydrocarbon permits in Poland and the United Kingdom respectively.

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****DIRECTORS' REPORT (CONTINUED)****PRINCIPAL ACTIVITIES (CONTINUED)**

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

<u>Principle</u>	<u>Strategy</u>	<u>Indicator</u>
Financial strength	Effective stewardship of the Group's financial resources and investing in assets and focusing on long-term opportunities, which contribute to the Company's future strength.	Profitability. Cash flow. Maintenance of investment grade credit ratings.
Customer service	Delivering reliability, fair prices and exceptional service.	Improving network resilience and performance, measured by: Customer minutes lost; Customer interruptions; and Customer satisfaction.
Operational excellence	Setting high standards for the Group's operations and system investment, operation and maintenance.	Effective asset management. Managing commercial risk. Improving network resilience and performance.
Employee commitment	Equipping employees with the resources and skills they need to operate successfully and in a safe and rewarding environment.	Leading safety performer. Engaging employees. Effective leadership.
Environmental respect	Using natural resources wisely and effectively protecting the environment, where it is impacted by the Group's operations.	Reducing environmental impact. Promoting and pursuing long-term sustainability.
Regulatory integrity	Adhering to a policy of strict compliance with appropriate standards, policies and legislation.	Strong internal controls. Regulatory engagement. Industry influence.

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

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DIRECTORS' REPORT (CONTINUED)

BUSINESS REVIEW

Review of the year

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

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

During the year, NEDL and YEDL distributed electricity to customers in their distribution services areas, as defined in each company's electricity distribution licence, 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.

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

On 3 October 2008, CE Electric (Ireland) Limited, a member of the Group, completed the purchase of 5,000 B shares in the capital of Integrated Utility Services Limited (a company registered in the Republic of Ireland) ("IUS Ireland"), which were held by South Midland Construction Company Limited (in liquidation). As CE Electric (Ireland) Limited holds 5,000 A shares in the capital of IUS Ireland, with effect from 3 October 2008, IUS Ireland became a wholly-owned subsidiary of the Group. IUS Ireland provides engineering contracting services to clients in the Republic of Ireland and in the United Kingdom, including NEDL and YEDL.

IUS Ireland looked to develop its existing business with the Electricity Supply Board of Ireland and was successful in winning new framework contracts providing trenching, ducting and cabling services.

CE Gas has developed a portfolio of hydrocarbon exploration, construction and producing assets in Australia, Poland and the United Kingdom and 2008 saw the commencement of production from the Otway Gas Project in Australia and the award of new exploration concessions in Poland. During the year, CE Gas initially benefited from higher product prices. However, these prices reduced significantly during the latter part of the year as global commodity prices dropped commensurately with global recessionary pressures. During 2008, CE Gas disposed of two exploration permit interests, one of which was in the Perth Basin and the other in the Otway Basin.

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DIRECTORS' REPORT (CONTINUED)

Strategic objectives

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

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

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

Principal risks and uncertainties

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

Financial strength:

The main financial risks facing the Group are outlined in the Treasury section on page 10 below.

As holders of an electricity distribution licence, NEDL and YEDL 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 and has set the Distribution Business' revenue through to 31 March 2010. A resetting of the formula requires the consent of the electricity distribution licence holder but licence modifications may be unilaterally imposed by Ofgem without such consent following review by the Competition Commission. During the term of the price control, changes in costs incurred will have a direct impact on the financial results of the Distribution Business.

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

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DIRECTORS' REPORT (CONTINUED)

Principal risks and uncertainties (continued)

As a seller of hydrocarbon commodities, sales made by CE Gas may be made under long-term contracts where prices are either escalated annually in line with defined indices (e.g. inflation) or based on floating commodity prices. Where there is an exposure to floating commodity prices, CE Gas periodically reviews the appropriate use of commodity hedges to mitigate this risk. As at the date of approval of this report and accounts, no commodity hedges are in place.

Other:

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

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

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DIRECTORS' REPORT (CONTINUED)

Principal risks and uncertainties (continued)

Network risk posed by cables through the Tyne Tunnel	The 66kV fluid-filled cables in the tunnel are aging with increased risk of failure, leading to a requirement for the substantial use of generating units and potential guaranteed standards failures and incentive penalties.	The Group's Primary Engineering Projects team is developing a solution but has assessed the potential for simultaneously losing all circuits as being remote.
Network risk in the Bradford area	Should the 132kV infeeds fail, the main supply point would be lost and result in substantial cost impact to restore the customers via the use of generating units or through potential guaranteed standards failures and incentive penalties.	Completion of a number of the key deliverables has gone some way towards reducing the overall risk but other deliverables are required to ensure elimination of the risk.
Motor accident management	Any significant road traffic accident involving a Group vehicle may create a liability, which the Group has to meet, and involve injury to employees and/or third parties.	The Safety Improvement Plan has a substantial focus on road risk and the reduction of preventable vehicle accidents. A dedicated road risk manager has been appointed.
Electricity, Safety, Quality and Continuity Regulations 2002	The regulations impose various statutory obligations, non-compliance with which could lead to incidents, prosecution and claims.	A full site inspection and risk assessment regime is in place designed to ensure compliance.
Shortage of supply and increased demand for copper	The global demand for copper has impacted the availability and cost of a number of core products and increased the risk of theft.	Improved and more efficient procurement processes have been introduced and security at all sites where copper products are stored has been reviewed and enhanced where required.

Hydrocarbon exploration, construction and production are activities with inherent risk and, therefore, much of CE Gas' management time is directed towards managing those risks, which include:

- Exploration risk, which occurs during the process of identifying prospects through to exploration drilling and, potentially, appraising them. Uncertainties include timing, cost and outcome. CE Gas evaluates all exploration projects to assess risk versus reward and, where appropriate, will seek to lay off unacceptable risks by disposing (through farm out or sale) of interests in projects in return for the farminee or purchaser covering part or all of those risks;
- Construction risk, which occurs during the conversion of an exploration discovery into a commercial project. Construction projects can last for long periods and may involve later incremental construction phases. Such projects face the risk of cost and time overruns; and
- Hydrocarbon reserve volumes may vary from current estimates causing a reduction of future revenue below expectations. CE Gas invests in a portfolio of discoveries thereby spreading risk. Updated reserve reports issued by operators or obtained by CE Gas are received and reviewed.

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DIRECTORS' REPORT (CONTINUED)

Principal risks and uncertainties (continued)

A Compliance Assurance Programme Steering Group ("CAPSG") is in place, 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. Those risks assessed to be significantly high are logged within a risk register that is reviewed regularly by the CAPSG and key indicators track the number of significant risks actively monitored by the CAPSG at any one time.

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

The 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 Section 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.

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 Group, requires a quarterly control risk self-assessment to be undertaken by all senior managers as part of its programme for compliance with the requirements of the Sarbanes-Oxley Act. During the year, an extensive programme to review the company-wide controls was completed and opportunities to enhance control arrangements, identified by that review, have been implemented.

The 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.

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DIRECTORS' REPORT (CONTINUED)

Internal control (continued)

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;
- Processes and procedures to operate under the Occupational Health and Safety Assessment Series ("OHSAS") standard OHSAS 18001, which is subject to external certification and regular assessment;
- An external obligations programme, which provides a robust approach to, and compliance with, financial, legal and regulatory obligations;
- Centralised treasury operations that operate within defined limits and are subject to regular reporting requirements and audit reviews; and
- Established procedures for planning, approving and monitoring major capital expenditure, major projects and the development of new business which includes short and long-term budgets, risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews.

Financial strength

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

In addition, NEDL and YEDL made representations to Ofgem, in accordance with the provisions set out in their electricity distribution licences, regarding certain categories of cost not fully taken into account when the current price controls were set, effective from 1 April 2005, due to uncertainties at that time regarding the amount and materiality of those costs. After a due process of review Ofgem generally accepted those representations and agreed that NEDL and YEDL were able to recover approximately £18m and £34m respectively, in addition to the otherwise agreed principles for calculating their allowed revenues, over the three regulatory years starting on 1 April 2009 and ending on 31 March 2012. The price controls were adjusted accordingly.

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DIRECTORS' REPORT (CONTINUED)

Financial strength (continued)

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

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

Revenue

Group revenue at £563.0m was £12.0m lower than the prior year reflecting a reduction in distribution income (£4.4m), mainly in YEDL, a fall in engineering contracting revenue (£12.3m) as a result of a reduction in major contracts activities in the year, and an increase in gas exploration income (£4.3m) mainly reflecting a full year's production on the Otway gas field.

Operating profit

Operating profit at £269.6m was £3.2m lower than the previous year, mainly due to higher pension costs partly offset by improved performance by CE Gas.

Finance costs and investment income

Net finance costs and investment income at £99.7m were £6.3m lower than the prior year due to a combination of the redemption of the short-term securities, the repayment of external loans and lower average floating rates of interest during the year.

Taxation

The Group's taxation charge in 2008 and 2007 has been affected by changes in tax rates and legislation the settlement of a prior period capital gains claim of £16m. Details are provided in Note 10 to the accounts.

Results and dividends

The Group made a profit after tax for the year of £119.8m. No interim dividend was paid during the year and the directors recommend that no final dividend be paid in respect of the year.

Share capital and debt structures

There were no changes to the Company's share capital during the year. On 25 February 2008, the Yorkshire Power Finance Limited \$281m 2008 bonds were redeemed using the proceeds of a matured guaranteed investment contract.

Dividend policy

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

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DIRECTORS' REPORT (CONTINUED)

Financial strength (continued)

Cash flow

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

Movements in cash flows were as follows:

- *Operating activities:* Cash flow from operating activities at £212.9m was £31.3m higher than 2007, reflecting lower cash profits (£13.7m) offset by favorable working capital movements (£34.2m) and a reduction in taxation and net interest payments (£10.8m).
- *Investing activities:* Net cash used in investing activities at £36.2m was £64.1m lower than the prior year and mainly reflects an increase in the amount received for the sale of long-term securities (£100m) offset by increased property, plant and equipment expenditure net of customer contributions (£39.1m).
- *Financing activities:* The net cash generated by financing activities at £157.7m was £54.7m higher than the prior year and mainly relates to an increase in the repayment of borrowings (£51.4m).

Treasury

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

The main risks are liquidity and interest rate risk.

Liquidity risk

The Group has considerable financial resources, in the form of committed revolving credit facilities from Lloyds TSB Bank plc, Royal Bank of Scotland plc and Westpac Banking Corporation. These credit facilities are due to expire in August 2009 (3m Euros), April 2010 (£100m) and December 2012 (A\$108m), at which points the Group expects to raise further finance as required. The directors do not consider there to be any doubt over the Group's ability to raise such finance, given the investment grade issuer credit ratings held by the Company and several of its subsidiary companies and the fundamental financial strength and nature of its business. Further details are contained within the going concern note on page 21.

Interest rate risk

The Group is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 December 2008, 92% of the Group's borrowings were at fixed rates and the average maturity for these borrowings was 19 years.

CE Gas has access to long-term borrowing facilities at floating rates of interest and, currently, advances are drawn in both Australian and United States Dollars. CE Gas aims to use interest rate swaps to shelter its Australian Dollar interest rate exposure but chooses to leave the United States Dollar interest rate exposure un-hedged.

Currency risk

No material currency risks are faced by the Group. CE Gas receives income and incurs costs in a number of different currencies and considers whether to use exchange rate swaps to shelter the impact of changing exchange rates. At present there are no exchange rate swaps in place.

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DIRECTORS' REPORT (CONTINUED)

Financial strength (continued)

Trading risk

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

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, such as Australian Dollar interest rate swaps in CE Gas, are used to hedge exposures to fluctuations in interest rates, foreign exchange rates and commodity prices. These swaps are tested quarterly for their effectiveness. Full details of the Group's derivative financial instruments are given in Note 19 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 were designed to remove the Scheme deficit of £95.1m by December 2010, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2007 being borne out in practice. The next triennial valuation will take place as at 31 March 2010, as part of which the Scheme deficit will be re-assessed.

Insurance

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

Customer service

During the year, NEDL 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. The Distribution Business is focused on delivering a reliable and dependable supply of electricity and a high standard of service to its customers and, in the first full year of operation since the launch of the "customer promises", a significant number of tangible improvements have been identified and delivered, as part of the overall goal to improve customer satisfaction with the service provided, including:

- improving under-performing parts of the distribution system by identifying "hot spots" and taking specific action to address the issues in those areas;
- undertaking a programme to reduce the number of instances by one third, in which the Distribution Business fails to meet an electricity guaranteed standard of performance;
- advancing the community care programme for the most vulnerable customers by ensuring that the needs of those customers are understood and responded to as effectively as possible, making available dedicated customer support vehicles and providing a 'language line' to facilitate conversations between customers and staff; and
- taking action to reduce the average length of time taken to restore supplies in fault situations.

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DIRECTORS' REPORT (CONTINUED)

Customer service (continued)

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

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

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

In respect of the key customer service performance indicators, for the year ended 31 March 2008, only the NEDL CI target was achieved but there was a general improvement in CI and CML performance in comparison to 2007, as follows:

	NEDL Actual	NEDL Target	YEDL Actual	YEDL Target
CML:	70.5 (2007: 78.2)	69.5 (2007: 70.4)	75.0 (2007: 81.7)	65.1 (2007: 66.8)
CI:	66.3 (2007: 74.0)	74.5 (2007: 74.5)	75.7 (2007: 84.8)	68.5 (2007: 68.6)
Customer satisfaction	88.6% (2007: 88.8%)	90% (2007: 90%)	86.8%% (2007: 87.6%)	90% (2007: 90%)

Operational excellence

The Group's core business continues to be providing and maintaining efficient distribution networks that deliver electricity effectively. During the year, £333.4m was invested in the improvement of the distribution systems, including the replacement of assets and continuing network improvements intended to increase the quality of the electricity supply provided to customers.

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DIRECTORS' REPORT (CONTINUED)

Operational excellence (continued)

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

- The completion of a project to establish a new 66/11kV primary substation at Scarborough;
- The completion of a project to establish a new 66/11kV primary substation at Breamish Street in Newcastle;
- The completion of a 132kV reinforcement project in the Richmond area and the establishment of a single transformer 132kV substation at Skeeby;
- Completion of the overhead line refurbishment works associated with phase two of the refurbishment of the Spennymoor to Skernside 66kV circuit;
- The continuation of a major 33kV reinforcement project in Newcastle designed to meet demand growth and provide further system security in the area;
- Completion of a major reinforcement scheme for the Leeds city area;
- Completion of major replacement of 33kV oil-filled cables in the Bradford area;
- Continuation of major replacement of 33kV oil-filled cables in the Hull area;
- Continuation of reinforcement of the Kirkstall - Horsforth 132kV & 33kV infrastructure;
- Continuation of the construction of 33/11kV substations to provide increased capacity to the Scunthorpe, Knottingley, Snaith and Rawmarsh areas;
- Commencement of a major 66kV asset replacement scheme at Ferrybridge;
- Continuation of a major protection upgrade scheme in the Bradford area;
- Replacement of 72 units of high voltage outdoor switchgear;
- Replacement of 111 high voltage distribution substations;
- Replacement of 96 units of high voltage indoor switchgear;
- Refurbishment of 5km of 132kV overhead line;
- Refurbishment or rebuilding of 160km of high voltage overhead line;
- Refurbishment or rebuilding of 48km of low voltage overhead line;
- The upgrade and reinforcement of 17.1km of overhead line to address the quality of supply performance issues relating to those circuits; and
- The installation and commissioning of 765 sites with remote control facilities.

CE ELECTRIC UK FUNDING COMPANY

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DIRECTORS' REPORT (CONTINUED)

Operational excellence (continued)

In order to deliver its investment strategy, the Distribution Business used a mix of its own staff and contractors, including IUS Ireland, to undertake its activities.

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

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

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

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

Employee commitment

Health and safety

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

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

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

	2008		2007	
	Target	Actual	Target	Actual
Lost time accidents	1	7	0	4
Medical treatment accidents	8	3	4	9
Operational incidents	8	18	12	21
Preventable vehicle accidents	26	36	30	39

CE ELECTRIC UK FUNDING COMPANY

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DIRECTORS' REPORT (CONTINUED)

Health and safety (continued)

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

Management structure

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

Employee commitment

Employees

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

The Group employed 2,517 staff at the end of December 2008 at various locations in the United Kingdom, the Republic of Ireland, Poland and Australia. (2007: 2,467).

Disabled employees

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

Employee consultation

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

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

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DIRECTORS' REPORT (CONTINUED)

Environmental respect

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

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

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

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

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

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DIRECTORS' REPORT (CONTINUED)

Environmental respect (continued)

Measurements used to monitor environmental performance include the following categories:

- An annual internal environmental management systems audit programme: (49 audits completed) (2007: 60);
- Internal environmental management systems non-conformances: (21 reported and addressed) (2007: 12);
- Continual improvement programmes: (12 underway and performing to target) (2007: 10 underway, with 9 performing to target and 1 temporarily delayed);
- Environmental incidents log: (70 investigated and remedial action taken, including 26 reported to the Environment Agency) (2007: 86 investigated and remedial action taken, including 39 reported to the Environment Agency);
- Cable fluid losses: (an average annual rate of 49.3 litres per kilometre) (2007: 66.8 litres per kilometre);
- Primary transformer oil losses: (zero litres) (2007: 329 litres);
- Secondary transformer oil losses: (4,807 litres) (2007: 14,062 litres);
- All other oil losses: (60 litres) (2007: 69 litres);
- SF6 switch-gear losses: (3.4 kg) (2007: 7.4 kg); and
- Environmental customer communications: (545, mainly substation related, regarding graffiti, weeds and fly-tipping) (2007: 735).

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

CE ELECTRIC UK FUNDING COMPANY

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DIRECTORS' REPORT (CONTINUED)

Regulatory integrity

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

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

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

OTHER DIRECTORS' REPORT REQUIREMENTS

Corporate social responsibility

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

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

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

CE ELECTRIC UK FUNDING COMPANY

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DIRECTORS' REPORT (CONTINUED)

Charitable and political donations

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

Research and development

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

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

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 2008 (2007: nil).

Future Developments

The financial position of the Group, as at the year end, is shown in the balance sheet on pages 27 and 28 and there have been no significant events since the year end.

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.

CE ELECTRIC UK FUNDING COMPANY

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DIRECTORS' REPORT (CONTINUED)

Future Developments (continued)

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.

IUS Ireland will look to further develop its engineering contracting business by delivering services to existing and new clients by building on its previous strong performance in safety, quality and customer service and securing additional framework contracts for a range of activities, including low voltage electrical works and distribution network refurbishment at all voltages up to and including 33kV.

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

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

G E Abel	President, MidAmerican Energy Holdings Company
D L Anderson	Senior Vice President and General Counsel, MidAmerican Energy Holdings Company
R Dixon	Non-Executive Director
J M France	Regulation Director, CE Electric UK
P J Goodman	Senior Vice President and Chief Financial Officer, MidAmerican Energy Holdings Company

P A Jones (President and Chief Operating Officer) was appointed as a director of the Company on 16 January 2009.

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

Auditors

On 1 December 2008, Deloitte & Touche LLP changed its name to Deloitte LLP. An elective resolution is in place dispensing with the need to appoint auditors annually. Deloitte LLP has indicated its willingness to continue in office.

CE ELECTRIC UK FUNDING COMPANY

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DIRECTORS' REPORT (CONTINUED)

Going Concern

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

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

- a) The Group's main subsidiaries, NEDL and YEDL, are stable electricity distribution businesses operating essential public services and are regulated by the Gas and Electricity Markets Authority ("GEMA"). In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance their activities. In response to an information request issued by GEMA as part of its review of the financial position of all electricity distribution licence holders, both NEDL and YEDL have certified that they have adequate financial facilities and/or resources to meet their obligations until 31 December 2009.
- b) The Group is profitable with strong underlying cash flows resulting in lower gearing. All of the major companies in the Group hold investment grade credit ratings.
- c) The Group is financed by long-term borrowings with an average maturity of 19 years and has access to borrowing facilities provided by Lloyds TSB Bank plc, Royal Bank of Scotland plc and Westpac Banking Corporation. No repayments of long-term debt are due until 2020. The directors therefore consider that the Group has sufficient liquidity to meet its current requirements and, based on recent discussions with certain financial institutions, will continue to have access to short-term working capital facilities and the capital markets as necessary to meet its ongoing financing needs.

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

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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', written in a cursive style.

By order of the board
John Elliott
Company Secretary

29 April 2009

RESPONSIBILITY OF DIRECTORS FOR THE PREPARATION OF THE REPORT AND ACCOUNTS

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

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

Directors are also required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which complies with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

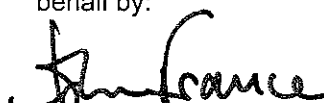
The Company has no ordinary shares listed on the London Stock Exchange. Accordingly, it has availed itself of the exemption from the London Stock Exchange requirements to make corporate governance and directors' remuneration disclosures and for auditor review thereof.

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

Each of the directors as at the date of the Annual Report, whose names and functions are set out on page 20 of the Directors' Report confirms that, to the best of their knowledge:

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

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


J M France
Regulation Director

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 (the "Company") for the year ended 31 December 2008 which comprise the Group income statement, the Group and individual company statements of recognised income and expense, the Group and individual company balance sheets, the Group and individual company cash flow statements, and the related notes 1 to 33. 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

We read the other information contained in the Annual Report 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 2008 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 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.



Deloitte LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne

29 April 2009

CE ELECTRIC UK FUNDING COMPANY

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GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 £m	2007 £m
Revenue	3	563.0	575.0
Cost of sales		(68.1)	(81.6)
Gross profit		494.9	493.4
Distribution costs		(171.7)	(171.7)
Administrative expenses		(53.6)	(48.9)
Operating profit	3 & 4	269.6	272.8
Share of profit after tax of joint venture entities accounted for using the equity method		0.7	0.6
Other income	5	0.6	5.7
Investment income	6	3.4	17.0
Finance costs	7	(103.1)	(123.0)
Profit before tax	3	171.2	173.1
Income tax expense	10	(51.4)	(25.0)
Profit from ordinary activities		119.8	148.1
Attributable to:			
Equity holder of the parent		118.6	146.5
Minority interest		1.2	1.6
		119.8	148.1

All activities relate to continuing operations.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 DECEMBER 2008

	GROUP		COMPANY	
	2008 £m	2007 £m	2008 £m	2007 £m
Profit from ordinary activities	119.8	148.1	1.5	0.7
Foreign exchange translation adjustments	2.1	0.3	-	-
(Losses)/gains on cash flow hedges	(2.6)	2.3	-	0.9
Total recognised income and expense	119.3	150.7	1.5	1.6
Attributable to:				
Equity holder of the parent	118.1	149.1	1.5	1.6
Minority interest	1.2	1.6	-	-
Total recognised income and expense	119.3	150.7	1.5	1.6

CE ELECTRIC UK FUNDING COMPANY

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BALANCE SHEETS

AT 31 DECEMBER 2008

		GROUP		COMPANY	
	Note	2008	2007	2008	2007
		£m	Restated Note 2 £m	£m	Restated Note 2 £m
Non-current assets					
Property, plant and equipment	12	3,434.3	3,205.2	-	-
Intangibles	13	266.5	268.7	-	-
Investments in joint venture entities	14	3.2	3.5	-	-
Investments in other undertakings	14	0.1	0.1	-	-
Investment in subsidiaries	14	-	-	376.3	376.3
Long-term securities	18	-	-	264.2	264.2
Derivative financial instruments	19	-	0.1	-	-
Retirement benefit asset	30	95.9	44.7	-	-
Trade and other receivables	18	4.3	4.7	-	-
		<u>3,804.3</u>	<u>3,527.0</u>	<u>640.5</u>	<u>640.5</u>
Current assets					
Inventories	16	20.7	22.7	-	-
Trade and other receivables	18	101.4	130.6	-	-
Short-term securities	18	-	206.5	-	-
Cash and cash equivalents	18	27.1	7.9	-	0.1
		<u>149.2</u>	<u>367.7</u>	<u>-</u>	<u>0.1</u>
Total assets		<u>3,953.5</u>	<u>3,894.7</u>	<u>640.5</u>	<u>640.6</u>
Current liabilities					
Trade and other payables	20	(115.6)	(128.6)	(0.7)	(0.6)
Derivative financial instruments	19	(0.6)	(55.5)	-	-
Current income tax liabilities	20	(14.4)	(27.7)	(0.3)	(0.3)
Deferred revenue	23	(32.5)	(29.3)	-	-
Borrowings	21	(94.6)	(205.0)	(29.7)	(31.7)
Provisions	24	(4.2)	(5.2)	-	-
		<u>(261.9)</u>	<u>(451.3)</u>	<u>(30.7)</u>	<u>(32.6)</u>
Net current liabilities		<u>(112.7)</u>	<u>(83.6)</u>	<u>(30.7)</u>	<u>(32.5)</u>
Non-current liabilities					
Borrowings	21	(1,532.8)	(1,508.3)	(192.8)	(192.5)
Derivative financial instruments	19	(3.8)	-	-	-
Deferred income tax liabilities	22	(419.0)	(392.8)	-	-
Retirement benefit obligations	30	(1.4)	(1.4)	-	-
Deferred revenue	23	(1,001.6)	(927.9)	-	-
Provisions	24	(6.8)	(6.1)	-	-
		<u>(2,965.4)</u>	<u>(2,836.5)</u>	<u>(192.8)</u>	<u>(192.5)</u>
Total liabilities		<u>(3,227.3)</u>	<u>(3,287.8)</u>	<u>(223.5)</u>	<u>(225.1)</u>
Net assets		<u>726.2</u>	<u>606.9</u>	<u>417.0</u>	<u>415.5</u>

CE ELECTRIC UK FUNDING COMPANY

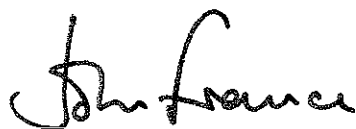
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BALANCE SHEETS (CONTINUED)

AT 31 DECEMBER 2008

		GROUP		COMPANY	
	Note	2008 £m	2007 £m	2008 £m	2007 £m
EQUITY					
Share capital	26	354.6	354.6	354.6	354.6
Merger reserve	27	0.2	1.2	-	-
Other reserves	27	2.9	0.8	-	-
Hedging reserve	27	(3.2)	(0.6)	-	-
Retained earnings	27	360.7	241.1	62.4	60.9
		715.2	597.1	417.0	415.5
Minority interest	25	11.0	9.8	-	-
Total equity		726.2	606.9	417.0	415.5

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



J M France
Director

CE ELECTRIC UK FUNDING COMPANY

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STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2008

		GROUP		COMPANY	
	Note	2008 £m	2007 £m	2008 £m	2007 £m
Net cash from operating activities	28	212.9	181.6	1.9	2.0
Investing activities					
Dividends received from joint venture entities		0.4	0.8	-	-
Proceeds from disposal of business unit		-	0.1	-	-
Acquisition of subsidiary		0.1	3.4	-	-
Sale of long-term securities		200.0	100.0	-	-
Amounts received from Group undertakings		-	-	-	142.4
Proceeds from disposal of property, plant and equipment		5.1	1.9	-	-
Purchases of property, plant and equipment		(345.5)	(298.5)	-	-
Purchases of intangible assets		(2.7)	(6.5)	-	-
Receipt of customer contributions		106.4	98.5	-	-
Net cash (used in)/from investing activities		(36.2)	(100.3)	-	142.4
Financing activities					
Movement in borrowings from parent undertaking		-	18.4	-	-
Movement in borrowings from subsidiary undertakings		-	-	(2.0)	(1.9)
Repayment of borrowings		(193.8)	(142.4)	-	(142.4)
New borrowings raised		36.1	21.0	-	-
Net cash used in financing activities		(157.7)	(103.0)	(2.0)	(144.3)
Net increase/(decrease) in cash and cash equivalents		19.0	(21.7)	(0.1)	0.1
Cash and cash equivalents at beginning of year		7.9	29.6	0.1	-
Effect of foreign exchange rate changes		0.2	-	-	-
Cash and cash equivalents at end of year		27.1	7.9	-	0.1

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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") and have also been prepared in accordance with IFRSs as adopted by the European Union and with those parts of the Act that are applicable to companies reporting under IFRS. The parent company's financial statements have also been prepared in accordance with IFRS, as applied in accordance with the provisions of the Act. The directors have taken advantage of the exemption offered by Section 230 of the Act not to present a separate income statement for the Company. The financial statements have been prepared under the historical cost convention. A summary of the more important Group accounting policies is set out below.

Going Concern

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

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

- The Group's main subsidiaries, NEDL and YEDL, are stable electricity distribution businesses operating essential public services and are regulated by the Gas and Electricity Markets Authority ("GEMA"). In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance their activities. In response to an information request issued by GEMA as part of its review of the financial position of all electricity distribution licence holders, both NEDL and YEDL have certified that they have adequate financial facilities and/or resources to meet their obligations until 31 December 2009.
- The Group is profitable with strong underlying cash flows resulting in lower gearing. All of the major companies in the Group hold investment grade credit ratings.
- The Group is financed by long-term borrowings with an average maturity of 19 years and has access to borrowing facilities provided by Lloyds TSB Bank plc, Royal Bank of Scotland plc and Westpac Banking Corporation. No repayments of long-term debt are due until 2020. The directors therefore consider that the Group has sufficient liquidity to meet its current requirements and, based on recent discussions with certain financial institutions, will continue to have access to short-term working capital facilities and the capital markets as necessary to meet its ongoing financing needs.

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

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

ACCOUNTING POLICIES (CONTINUED)

Judgements in applying accounting policies and key sources of estimation uncertainty

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

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

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

Critical accounting policies

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

Prior year restatement

A prior year restatement has been made in respect of accrued and prepaid interest on borrowings and short-term securities. These balances have been reclassified from trade and other payables and trade and other receivables to short-term borrowings and short-term securities on the face of the balance sheet and in the related notes to the accounts in line with IAS 39 "Financial Instruments: Recognition and Measurement". The effect of this adjustment is to increase borrowings and decrease trade and other payables in the prior year by £116.2m and £0.6m in relation to the Group and Company respectively. Trade and other receivables have decreased by £6.5m and short-term securities have increased by £6.5m in relation to the Group. The adjustment has no impact on the prior year profit.

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Adoption of new or revised standards

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

IAS 1	Presentation of Financial Statements – Amendments to IAS 1
IAS 23	Borrowing Costs – Amendments to IAS 23
IFRS 7	Financial Instruments: Disclosures – Amendments to IFRS 7
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.
IFRIC 18	Customer Contributions

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

The directors anticipate that the adoption of the amendments to IAS 1, IFRS 8, IFRIC 12 and IFRIC 18 in future periods will have no material impact on the financial statements of the Group or the Company. The amendments to IFRS 7 require enhanced disclosures about fair value measurement and liquidity risk. The amendments to IAS 23 will be adopted from its effective date of 1 January 2009. From this date, borrowing costs will be capitalised in line with the revised standard. The impact of the adoption of IAS 23 in the Group's financial statements for the year ended 31 December 2009 is expected to be approximately £2m.

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

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

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

Revenue

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

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

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

Customer contributions towards distribution system assets are included in deferred revenue. The Group's policy is to credit the customer contribution to revenue over 45 years 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.

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

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

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Operating profit

Operating profit is stated 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 the 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.

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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

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 identify 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.

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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.

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.

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.

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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, operators' 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.

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.

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.

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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.

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.

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Leases

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

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

Trade receivables

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

Trade Payables

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

Borrowings

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

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 uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

CE ELECTRIC UK FUNDING COMPANY

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

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

Pensions

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

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

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 30.

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

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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.

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 2008

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 2008 £m	Engineering Contracting 2008 £m	Hydrocarbon Exploration and Development 2008 £m	Other 2008 £m	Consolidation Adjustments 2008 £m	Total 2008 £m
REVENUE						
External sales	488.7	50.5	21.3	2.5	-	563.0
Inter-segment sales	0.5	0.3	-	11.3	(12.1)	-
Total revenue	<u>489.2</u>	<u>50.8</u>	<u>21.3</u>	<u>13.8</u>	<u>(12.1)</u>	<u>563.0</u>
SEGMENTS RESULTS						
Operating profit	<u>212.7</u>	<u>2.2</u>	<u>5.1</u>	<u>2.4</u>	<u>47.2</u>	269.6
Share of profit after tax of joint venture entities accounted for using the equity method						0.7
Other income						0.6
Investment income						3.4
Finance costs						(103.1)
Profit before tax						<u>171.2</u>
OTHER INFORMATION						
Capital additions	343.4	0.2	4.4	-	(5.0)	343.0
Depreciation and amortisation	116.6	0.1	8.4	0.1	(1.4)	123.8
Amortisation of deferred revenue	(28.8)	-	-	-	-	(28.8)
BALANCE SHEET						
Segment assets	<u>3,771.9</u>	<u>23.1</u>	<u>89.9</u>	<u>543.6</u>	<u>(502.4)</u>	3,926.1
Unallocated corporate assets						27.4
Total assets						<u>3,953.5</u>
Segment liabilities	<u>(1,124.4)</u>	<u>(10.6)</u>	<u>(8.6)</u>	<u>(5.7)</u>	<u>(12.8)</u>	(1,162.1)
Unallocated corporate liabilities						(2,065.2)
Total liabilities						<u>(3,227.3)</u>
Net assets by segment	<u>2,647.5</u>	<u>12.5</u>	<u>81.3</u>	<u>537.9</u>	<u>(515.2)</u>	2,764.0
Unallocated net corporate liabilities						(2,037.8)
Total net assets						<u>726.2</u>

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

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

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

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

CE ELECTRIC UK FUNDING COMPANY

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

3 REVENUE AND SEGMENTAL ANALYSIS (CONTINUED)

	Distribution 2007 £m	Engineering Contracting 2007 £m	Hydrocarbon Exploration and Development 2007 £m	Other 2007 £m	Consolidation Adjustments 2007 £m	Total 2007 £m
REVENUE						
External sales	493.3	63.1	17.0	1.6	-	575.0
Inter-segment sales	0.3	-	-	12.8	(13.1)	-
Total revenue	493.6	63.1	17.0	14.4	(13.1)	575.0
SEGMENTS RESULTS						
Operating profit	228.6	2.8	1.6	2.5	37.3	272.8
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						173.1
OTHER INFORMATION						
Capital additions	303.5	0.1	11.1	0.3	(3.9)	311.1
Depreciation and amortisation	115.3	-	9.3	0.1	(1.2)	123.5
Amortisation of deferred revenue	(27.2)	-	-	-	-	(27.2)
BALANCE SHEET						
Segment assets	3,566.0	26.5	86.0	544.1	(542.6)	3,680.0
Unallocated corporate assets						214.7
Total assets						3,894.7
Segment liabilities	(1,096.4)	(13.8)	(9.2)	(10.3)	(44.5)	(1,174.2)
Unallocated corporate liabilities						(2,113.6)
Total liabilities						(3,287.8)
Net assets/(liabilities) by segment	2,469.6	12.7	76.8	533.8	(587.1)	2,505.8
Unallocated net corporate liabilities						(1,898.9)
Total net assets						606.9

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

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

Goodwill has been reclassified from other to distribution to be comparable with the 2008 presentation.

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

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

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2008**4 OPERATING PROFIT**

Operating profit is stated after charging/(crediting):

	2008 £m	2007 £m
Staff costs (Note 8)	42.0	38.1
Research costs	1.0	0.8
Depreciation of property, plant and equipment	118.9	115.3
Amortisation of deferred revenue	(28.8)	(27.2)
Amortisation of intangibles	4.9	8.2
Impairment loss/(gain) on trade and other receivables	1.4	(0.8)
Movement in fair value of commodity hedges	2.2	0.7

The analysis of auditor remuneration is as follows:

Audit Fees	2008 £000	2007 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	57	50
Fees payable to the Company's auditors for the audit of the Company's subsidiaries pursuant to legislation	452	391
Total audit fees	509	441
Non-Audit Fees	2008 £000	2007 £000
Fees payable to the Company's auditors for other services pursuant to legislation	7	5

5 OTHER INCOME

	2008 £m	2007 £m
Profit on part disposal of Yolla interest	-	0.1
Profit on disposal of other property, plant and equipment	0.6	5.6
Total other income	0.6	5.7

6 INVESTMENT INCOME

	2008 £m	2007 £m
Dividends received	0.2	-
Interest receivable	3.2	17.0
Total investment income	3.4	17.0

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

7 FINANCE COSTS

	2008 £m	2007 £m
Unwinding of discount on abandonment provision	0.4	0.1
Interest payable on non-equity preference shares	2.7	2.7
Interest payable on other borrowings	100.0	120.2
Total finance costs	103.1	123.0

8 STAFF COSTS

	GROUP	
	2008 £m	2007 £m
Salaries	96.2	88.7
Social security costs	8.6	9.1
Defined benefit pension scheme credit (Note 30)	(2.9)	(4.8)
Defined contribution pension scheme costs	0.2	0.2
	102.1	93.2
Less: charged to property, plant and equipment	(58.9)	(55.1)
Less: charged to work in progress	(1.2)	-
	42.0	38.1

The average monthly number of employees:

	2008 Number	2007 Number
Distribution	2,085	2,090
Engineering contracting	351	310
Hydrocarbon exploration and development	10	10
Other	60	60
	2,506	2,470

The Company had no employees in the years ended 31 December 2008 and 31 December 2007.

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

9 DIRECTORS AND KEY PERSONNEL

a) EMOLUMENTS

	Highest paid director		All	
	2008	2007	2008	2007
	£000	£000	£000	£000
Short-term employee benefits	129	141	144	156
Post-retirement benefits	56	62	56	62
Other long-term benefits	158	151	192	164
	343	354	392	382
	Other Key Personnel			
	2008	2007		
	£000	£000		
Short-term employee benefits	1,063	1,125		
Post-retirement benefits	275	248		
Other long-term benefits	572	579		
	1,910	1,952		

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

b) PENSIONS

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

The accrued pension benefit relating to the highest paid director is £nil (2007: £52,725).

c) CONTRACTS

During the year, 1 director (2007: 1) and 9 key personnel (2007: 9) utilised the services provided by Northern Transport Finance Limited ("NTFL"), a wholly-owned subsidiary.

The amounts included in finance lease receivables (Note 18) owed by these directors and key personnel total £38,400 (2007: £67,600) in respect of non-current receivables and £69,400 (2007: £66,600) in respect of current receivables.

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

10 INCOME TAX EXPENSE

	2008	2007
	£m	£m
Tax expense comprises:		
Current tax:		
Corporation tax charge for the year	35.7	50.1
(Over)/under provision for prior years	(10.2)	1.3
Total current tax charge	25.5	51.4
Petroleum revenue tax	0.8	1.5
Deferred tax expense/(income) (Note 22):		
Deferred tax expense/(income) relating to the origination and reversal of temporary differences.	13.1	2.2
Under/(over) provision for prior years	9.7	(2.4)
Settlement of prior period capital gains claims	(16.0)	-
Effect of changes in tax legislation	18.3	-
Effect of changes in tax rates	-	(27.7)
	25.1	(27.9)
Tax charge on profit before tax	51.4	25.0
The total charge can be reconciled to the accounting profit as follows:		
Profit before tax	171.2	173.1
Tax on profit before tax at standard rate of corporation tax in the United Kingdom of 28.5% (2007: 30%)	48.8	51.9
Interest payable on non-cumulative preference shares	0.8	0.8
Tax effect of results of joint venture entities	(0.2)	(0.2)
Tax effect of PRT	0.4	0.7
Effect of changes in tax legislation	18.3	-
Effect of changes in tax rates	(0.4)	(27.7)
Foreign exchange impact	0.2	0.6
Settlement of prior period capital gains claims	(16.0)	-
Over provision for prior years	(0.5)	(1.1)
Tax charge on profit before tax	51.4	25.0

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

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

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

11 DIVIDENDS

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

12 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 2007	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	3,772.1	83.5	9.2	35.6	3,900.4
Additions	333.4	2.6	-	4.3	340.3
Foreign exchange translation adjustments	-	8.3	-	-	8.3
Disposals	(10.3)	-	-	(0.4)	(10.7)
At 31 December 2008	4,095.2	94.4	9.2	39.5	4,238.3
DEPRECIATION:					
At 1 January 2007	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
Provided during the year	105.8	7.4	0.3	5.4	118.9
Foreign exchange translation adjustments	-	0.6	-	-	0.6
Disposals	(10.3)	-	-	(0.4)	(10.7)
At 31 December 2008	752.5	14.2	2.8	34.5	804.0
Net book value at 31 December 2008	3,342.7	80.2	6.4	5.0	3,434.3
Net book value at 31 December 2007	3,115.1	77.3	6.7	6.1	3,205.2
Assets in the course of construction included above:					
At 1 January 2007	1,181.3	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
Additions	333.4	7.4	-	-	340.8
Available for use	(353.4)	(33.6)	-	-	(387.0)
At 31 December 2008	199.4	-	-	-	199.4

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

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	2008 £m	2007 £m
Freehold	4.2	4.4
Long leasehold	2.1	2.3
Short leasehold	0.1	0.1
	<u>6.4</u>	<u>6.8</u>

The Company had no property, plant and equipment assets at 31 December 2008 (2007: £nil).

13 GROUP INTANGIBLES

	Goodwill £m	Oil & Gas Assets £m	Software Development Costs £m	Total £m
COST:				
At 1 January 2007	252.2	9.5	59.5	321.2
Adjustment to consideration paid	(3.4)	-	-	(3.4)
Additions	-	4.5	2.0	6.5
	<u>248.8</u>	<u>14.0</u>	<u>61.5</u>	<u>324.3</u>
At 31 December 2007	248.8	14.0	61.5	324.3
Additions	-	1.8	0.9	2.7
	<u>248.8</u>	<u>15.8</u>	<u>62.4</u>	<u>327.0</u>
At 31 December 2008	248.8	15.8	62.4	327.0
AMORTISATION:				
At 1 January 2007	-	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	-	11.1	44.5	55.6
Charge for the year	-	1.0	3.9	4.9
	<u>-</u>	<u>12.1</u>	<u>48.4</u>	<u>60.5</u>
At 31 December 2008	-	12.1	48.4	60.5
Net book value at 31 December 2008	<u>248.8</u>	<u>3.7</u>	<u>14.0</u>	<u>266.5</u>
Net book value at 31 December 2007	<u>248.8</u>	<u>2.9</u>	<u>17.0</u>	<u>268.7</u>

The Company had no intangible assets at 31 December 2008 (2007: £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 cash generating units ("CGU") 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 2008

13 GROUP INTANGIBLES (CONTINUED)

The Group's distribution activities comprise two cash generating units ("CGUs") with carrying values as follows:

	2008 £m	2007 £m
NEDL	1,051	992
YEDL (including goodwill)	<u>1,543</u>	<u>1,455</u>
Total distribution	<u>2,594</u>	<u>2,447</u>

The carrying values of the CGUs comprise tangible and intangible assets with finite lives and are net of deferred revenues. In addition, YEDL includes goodwill of £248.8m (2007:£248.8m).

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected outcomes of future distribution price control reviews.

Management estimates discount rates using pre-tax rates that reflect the current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are derived from the historic results and the forecasts in the most recent board approved budget and ten-year plan. The use of the ten-year plan reflects the long-term nature of the assets and associated costs as well as the regulatory environment within which future revenue is determined.

The forecast of cash flows for future periods is extrapolated from the last year of the plan based on an estimated growth rate of 2.5% (real ignoring the impact of projected price inflation).

The rate used to discount the cash flows applicable to NEDL and YEDL was 6.7% pre-tax and ignoring the impact of price inflation.

The application of these assumptions did not give rise to an impairment charge in 2008 (2007:£nil).

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

14 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 2007	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
Share of joint venture entities results less dividends received	0.3	-	0.3	-
Reclassification to subsidiary (1)	(0.6)	-	(0.6)	-
At 31 December 2008	3.2	0.4	3.6	376.3
PROVISION FOR DIMINUTION IN VALUE:				
At 1 January 2007, 31 December 2007 and 2008	-	0.3	0.3	-
Net book value at 31 December 2008	3.2	0.1	3.3	376.3
Net book value at 31 December 2007	3.5	0.1	3.6	376.3

(1) On 3 October 2008, the Group acquired the remaining 50% of Integrated Utility Services Limited, a company registered in the Republic of Ireland.

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

14 INVESTMENTS (CONTINUED)

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

Name of company	Holding of shares	Proportion of voting rights 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
CalEnergy Resources (Australia) Limited			
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
Integrated Utility Services Limited (registered in Eire)	10,000 at €1.27	100%	Engineering contracting services
Northern Electric plc (ordinary shares)	127,689,809 at 56 12/23p	100%	Holding company
Northern Electric plc (preference shares)	77,188,079 at 1p	69.1%	Holding company
Northern Electric Distribution Limited	200,000,100 at £1	100%	Distribution Network Operator
Northern Electric Properties Limited	32,207,100 at £1	100%	Property investment company
Northern Electric Finance plc	50,000 at £1	100%	Finance company
Northern Transport Finance Limited	7,000,000 at £1	100%	Finance company
Yorkshire Electricity Distribution plc	290,000,000 at £1	100%	Distribution Network Operator
Yorkshire Electricity Group plc	159,270,954 at 68 2/11p	100%	Holding company
Yorkshire Power Finance Limited (registered in Caymen 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:

Vehicle Lease and Service Limited	950,000 at £1	50%	Transport Services
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CE ELECTRIC UK FUNDING COMPANY

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

15 INTEREST IN JOINT VENTURE ENTITIES

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

	2008 £m	2007 £m
Non-current assets	14.8	11.6
Current assets	14.7	14.3
Non-current liabilities	(13.9)	(10.7)
Current liabilities	(9.2)	(8.2)
Net assets	6.4	7.0
Group's share of joint venture entities net assets	3.2	3.5
Revenue	17.0	18.0
Profit for the year	1.4	1.2
Group's share of joint venture entities profit for the year.	0.7	0.6

16 INVENTORIES

	GROUP	
	2008 £m	2007 £m
Raw materials and consumables	8.0	7.9
Work in progress	12.4	14.3
Goods for resale	0.3	0.5
	20.7	22.7

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

17 CONSTRUCTION CONTRACTS

	GROUP	
	2008 £m	2007 £m
Contracts in progress at balance sheet date:		
Amounts due from customers included in inventories	12.4	14.3
Contract costs incurred plus recognised profits less recognised losses to date	78.4	79.3
Less: Progress billings	(66.0)	(65.0)
	12.4	14.3

At 31 December 2008, retentions held by customers for contract work amounted to £0.3m (2007: £0.1m) and advances received from customers for contract work amounted to £nil (2007: £nil). Within amounts due from customers included in inventories is £8.2m (2007: £8.9m) due from a key customer, E.on, which has accounted for approximately 59% of construction contract revenue in the year (2007: 57%).

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

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

18 OTHER FINANCIAL ASSETS

Long-term securities

	COMPANY			
	Book value		Fair value	
	2008	2007	2008	2007
	£m	£m	£m	£m
Amounts owed by subsidiary undertakings	264.2	264.2	278.1	291.0

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 Company's maximum risk exposure is the book value of these debts, which are not past due at the balance sheet date. The directors do not consider there to be any indicators that these debts require impairment.

Short-term securities

	GROUP			
	Book value		Fair value	
	2008	2007	2008	2007
	£m	£m	£m	£m
		Restated Note 2		Restated Note 2
Guaranteed investment contract matured 15 February 2008 (4.73%)	-	206.5	-	206.3

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

CE ELECTRIC UK FUNDING COMPANY

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

18 OTHER FINANCIAL ASSETS (CONTINUED)

Trade and other receivables

	GROUP	
	2008	2007
	£m	Restated Note 2 £m
Non current:		
Finance lease receivables	4.3	4.7
Current:		
Distribution use of system receivable	62.2	81.7
Amounts receivable for sale of goods or services	8.7	5.7
Construction contract customers	10.4	13.2
Finance lease receivables	3.6	2.8
Amounts due from related parties	-	4.3
Amounts due from joint venture entities	-	0.5
Other receivables	5.4	11.6
Petroleum revenue tax	-	0.2
Prepayments and accrued income	11.1	10.6
	101.4	130.6

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. The maximum risk exposure is the book value of these assets.

The Company had no trade and other receivables at 31 December 2008 (2007: £nil)

Finance lease receivables

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

NTFL 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% (2007: 6.5%) per annum.

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

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

18 OTHER FINANCIAL ASSETS (CONTINUED)

Distribution use of system receivables

The Group's distribution customers are concentrated in a small number of electricity supply businesses with RWE NPower plc accounting for approximately 36% of distribution revenues in 2008 (2007: 40%). Ofgem has determined a framework which sets credit limits for each supply business based on its credit rating or payment history and requires it to provide credit cover if its value at risk (measured as being equivalent to 45 days usage) exceeds the credit limit. Acceptable credit typically is provided in the form of a customer deposit, a parent company guarantee, letter of credit or an escrow account. Included within other payables (Note 20) are customer deposits of £3.5m as at December 2008 (2007: £3.5m).

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. Included within the Group's use of system ("UoS") receivables are debtors with a carrying value of £0.8m which have been placed into administration and have therefore been provided for in full at the year end (2007: £nil).

Amounts receivable for sale of goods and services

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

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

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £1.0m (2007: £1.6m) which are past due at the reporting date and for which the Group has provided an irrecoverable amount of £0.4m (2007: £0.4m) based on past experience. The Group does not hold any collateral over these balances. The average age of these receivables is 588 days (2007: 570 days).

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £2.8m (2007: £2.8m) 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 96 days (2007: 88 days).

Ageing of past due but not impaired receivables

	2008 £m	2007 £m
30-60 days	1.1	0.9
60-120 days	0.8	1.4
120-210 days	0.9	0.5
Total	2.8	2.8

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

18 OTHER FINANCIAL ASSETS (CONTINUED)

Construction contracts

The average credit period on construction contracts is 30 days. Interest is not generally charged on construction contracts paid after the due date. The Group has provided fully for all receivables over 1 year for UK Contracting debts and all receivables over 6 months for Multi Utility debts. Trade receivables between 30 days and these predetermined provision dates are provided for based on estimated irrecoverable amounts, determined by reference to past default experience.

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

Included in the Group's construction contracts balance are debtors with a carrying amount of £2.1m (2007: £1.7m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables was 63 days (2007: 46 days).

Ageing of past due but not impaired receivables

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

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

Movement in the allowance for doubtful debts

	£m
At 1 January 2008	0.7
Amounts utilised/written off in the year	(0.4)
Amounts recognised in income statement	1.4
At 31 December 2008	1.7

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 £0.8m (2007: £nil) for the Group and £nil (2007: £nil) for the Company, which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2008**18 OTHER FINANCIAL ASSETS (CONTINUED)****Cash and cash equivalents**

	Group		Company	
	2008	2007	2008	2007
	£m	£m	£m	£m
Short-term deposits	9.5	5.2	-	-
Cash at bank and in hand	17.6	2.7	-	0.1
	27.1	7.9	-	0.1

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

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

19 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's approach to liquidity management uses 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 2008, the Group had 92% (2007: 96%) of net debt at fixed rates.

(ii) Foreign exchange risk

The Group had issued US\$281m of debt which was repaid in 2008. Currency swaps had been entered into to convert this dollar denominated debt and interest payments to fixed sterling amounts. The nominal value of this debt was 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 were 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	
	2008	2007
	£m	£m
Assets:		
Barrier swap	<u>-</u>	<u>0.1</u>
Liabilities:		
Current:		
Commodity contracts	-	2.2
Currency swaps	-	53.3
Interest rate swaps	<u>0.6</u>	<u>-</u>
Interest rate swaps	<u>0.6</u>	<u>55.5</u>
Non-current:		
Interest rate swaps	<u>3.8</u>	<u>-</u>

The Company had no derivative financial instruments at 31 December 2008 (2007: £nil)

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

19 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.

20 OTHER FINANCIAL LIABILITIES

Trade and other payables

	GROUP		COMPANY	
	2008	2007	2008	2007
		Restated		Restated
	£m	Note 2	£m	Note 2
		£m		£m
Payments received on account	28.6	32.1	-	-
Trade payables	14.0	13.2	-	-
Amounts due to parent undertakings	1.5	0.2	0.2	0.1
Amounts due to joint venture entities	0.7	2.7	-	-
Other taxes and social security	9.7	13.8	0.5	0.5
Accruals	55.7	60.1	-	-
Other payables	5.4	6.5	-	-
	115.6	128.6	0.7	0.6

Current income tax liabilities

	GROUP		COMPANY	
	2008	2007	2008	2007
	£m	£m	£m	£m
Corporation tax	14.4	27.7	-	-
Group relief	-	-	0.3	0.3
	14.4	27.7	0.3	0.3

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

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

20 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 20 and 21. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest possible date on which the Group or Company can be required to pay. The tables include both interest and principal cash flows.

	GROUP				
	Less than 3 months £m	3 months to 1 year £m	1 to 5 years £m	5+ years £m	Total £m
2008:					
Non-interest bearing	87.0	-	-	-	87.0
Variable interest rate liability	56.4	2.6	54.0	-	113.0
Fixed interest rate liability	18.5	54.8	293.0	2,855.1	3,221.4
	161.9	57.4	347.0	2,855.1	3,421.4
2007:					
Non-interest bearing	96.5	-	-	-	96.5
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
	343.3	57.5	337.8	2,949.7	3,688.3
	COMPANY				
	Less than 3 months £m	3 months to 1 year £m	1 to 5 years £m	5+ years £m	Total £m
2008:					
Non-interest bearing	0.7	-	-	-	0.7
Variable interest rate liability	29.1	-	-	-	29.1
Fixed interest rate liability	-	14.5	58.0	330.5	403.0
	29.8	14.5	58.0	330.5	432.8
2007:					
Non-interest bearing	0.6	-	-	-	0.6
Variable interest rate liability	31.1	-	-	-	31.1
Fixed interest rate liability	-	14.5	58.0	345.0	417.5
	31.7	14.5	58.0	345.0	449.2

Within the fixed rate interest liability in the '5+ years' column is £34.5m relating to the cumulative preference shares (Note 21).

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

21 BORROWINGS

	GROUP			
	Book value		Fair value	
	2008	2007	2008	2007
		Restated		Restated
	£m	Note 2	£m	Note 2
		£m		£m
The borrowings are repayable as follows:				
On demand or within one year	94.6	205.0	94.6	205.0
In the second to fifth year	-	-	-	-
After five years	1,532.8	1,508.3	1,285.3	1,419.8
	1,627.4	1,713.3	1,379.9	1,624.8
Short-term loans	56.4	22.0	56.4	22.0
CE Gas – LIBOR plus margin	40.9	34.0	40.9	34.0
2008 – 6.496%	-		-	
Yorkshire Power Finance Limited	-	144.1	-	141.9
2020 – 8.875%				
Northern Electric Finance plc	100.3	100.2	122.7	129.4
2020 – 9.25%				
Yorkshire Electricity Distribution plc	254.9	259.0	261.7	277.3
2022 – 7.25%				
CE Electric UK Funding Company	193.5	193.2	226.0	237.0
2028 – 7.25%				
Yorkshire Power Finance Limited	198.3	198.7	185.5	219.1
2035 – 5.125%				
Northern Electric Finance plc	152.6	152.5	130.6	146.0
2035 – 5.125%				
Yorkshire Electricity Distribution plc	203.5	203.4	169.5	197.1
Amounts owed to parent undertaking – 7%	392.9	372.1	140.2	174.6
Cumulative preference shares	34.1	34.1	46.4	46.4
	1,627.4	1,713.3	1,379.9	1,624.8

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

21 BORROWINGS (CONTINUED)

	COMPANY			
	Book value		Fair value	
		Restated		Restated
		Note 2		Note 2
	2008	2007	2008	2007
	£m	£m	£m	£m
The borrowings are repayable as follows:				
On demand or within one year	29.7	31.7	29.7	31.7
After five years	192.8	192.5	226.0	233.1
	222.5	224.2	255.1	264.8
Analysis of borrowings:				
2022 – 7.25%	193.4	193.1	226.0	233.7
Amounts owed to Group undertakings	29.1	31.1	29.1	31.1
	222.5	224.2	255.1	264.8

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.

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. A 1% movement in the interest rates on the CE Gas loans would have a £0.4m impact on the 2009 financial statements. This is considered to be an acceptable level of risk.

As at 31 December 2008, 34,474,299 Northern Electric plc preference shares were held by non-Group undertakings (2007: 34,474,409).

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.

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

21 BORROWINGS (CONTINUED)

At 31 December 2008, the Group had available £70.0m (2007: £90.0m) 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.

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 defined by the covenants, as at 31 December 2008 totaled £1,062m.

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 2008 of £1,890m. 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 2008

22 DEFERRED TAX

	Accelerated Tax Depreciation	Rollover/ Holdover Relief	GROUP Retirement Benefit (Obligations)/ Asset (i)	Other	Total
	£m	£m	£m	£m	£m
At 1 January 2007	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
Charge/(credit) to income statement	18.2	(20.7)	14.1	13.5	25.1
Foreign exchange translation	2.0	-	-	-	2.0
Movement in cash flow hedges	-	-	-	(0.9)	(0.9)
At 31 December 2008	397.3	21.4	26.5	(26.2)	419.0

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

- (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 2007	(0.4)
Movement in cash flow hedges	0.4
At 31 December 2007 and 31 December 2008	-

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

23 GROUP DEFERRED REVENUE

	£m	
At 1 January 2007		894.7
Additions		89.7
Amortisation		(27.2)
		<hr/>
At 31 December 2007		957.2
Additions		105.7
Amortisation		(28.8)
		<hr/>
At 31 December 2008		<u>1,034.1</u>
	2008	2007
	£m	£m
Included in current liabilities	32.5	29.3
Included in non-current liabilities	<u>1,001.6</u>	<u>927.9</u>
	<u>1,034.1</u>	<u>957.2</u>

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

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

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

24 GROUP PROVISIONS FOR LIABILITIES AND CHARGES

	Abandonment £m	Claims £m	Onerous Contracts £m	Other £m	Total £m
At 1 January 2008	5.1	3.0	1.8	1.4	11.3
Utilised/paid in year	-	(2.0)	(1.5)	(0.8)	(4.3)
Unwinding of discount	0.4	-	-	-	0.4
Additions in the year	1.2	-	-	-	1.2
Charged to the income statement	-	1.4	-	1.0	2.4
At 31 December 2008	6.7	2.4	0.3	1.6	11.0

	2008 £m	2007 £m
Included in current liabilities	4.2	5.2
Included in non-current liabilities	6.8	6.1
	11.0	11.3

Abandonment: A provision and corresponding asset have been created for the costs of site restoration.

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

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

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

At 31 December 2008, the Company had no provisions for liabilities and charges (2007: £nil).

25 GROUP MINORITY INTEREST

	2008 £m	2007 £m
At 1 January	9.8	8.2
Share of profit on ordinary activities after taxation	1.2	1.6
At 31 December	11.0	9.8

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

26 SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	Number (millions)	£m	Number (millions)	£m
At 31 December 2007 and 2008				
Equity – ordinary shares of £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.

27 MOVEMENT ON RESERVES AND RECONCILIATION OF EQUITY

	Share Capital £m	Merger Reserve £m	GROUP Other Reserve £m	Hedging Reserve £m	Retained Earnings £m	Total Equity £m
Total equity at 1 January 2007	354.6	-	0.5	(2.9)	(95.8)	448.0
Foreign exchange translation adjustments	-	-	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	354.6	1.2	0.8	(0.6)	241.1	597.1
Foreign exchange translation adjustments	-	-	2.1	-	-	2.1
Movement in merger reserve	-	(1.0)	-	-	1.0	-
Movement in cash flow hedges	-	-	-	(2.6)	-	(2.6)
Profit for the year	-	-	-	-	118.6	118.6
Total equity at 31 December 2008	<u>354.6</u>	<u>0.2</u>	<u>2.9</u>	<u>(3.2)</u>	<u>360.7</u>	<u>715.2</u>

The merger reserve resulted following a group reconstruction of the hydrocarbon, exploration and development activities of the Group. The movement in the year represents amortisation of those assets which gave rise to the merger reserve in 2005.

	COMPANY			
	Share Capital £m	Hedging Reserve £m	Retained Earnings £m	Total Equity £m
Total equity at 1 January 2007	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	354.6	-	60.9	415.5
Profit for the year	-	-	1.5	1.5
Total equity at 31 December 2008	<u>354.6</u>	<u>-</u>	<u>62.4</u>	<u>417.0</u>

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

28 NET CASH FROM OPERATING ACTIVITIES

	GROUP		COMPANY	
	2008	2007	2008	2007
	£m	£m	£m	£m
Operating profit/(loss)	269.6	272.8	(0.1)	-
Depreciation and amortisation	123.8	123.5	-	-
Amortisation of deferred revenue	(28.8)	(27.2)	-	-
Difference in retirement benefit contributions and amounts charged to operating profit	(46.2)	(36.8)	-	-
Decrease in provisions	(1.9)	(2.1)	-	-
Operating cash flows before movements in working capital	316.5	330.2	(0.1)	-
Decrease/(increase) in inventories	2.2	(4.7)	-	-
Decrease/(increase) in receivables	22.0	(12.0)	-	0.9
(Decrease)/increase in payables	(10.6)	(3.9)	0.1	0.3
Cash generated by operations	330.1	309.6	-	1.2
Income taxes paid	(38.7)	(41.9)	-	-
Group relief paid	-	-	(0.6)	(0.4)
Petroleum revenue tax paid	(0.6)	(2.0)	-	-
Dividends received	0.2	-	-	-
Interest received	9.4	20.1	18.5	28.5
Interest paid	(87.5)	(104.2)	(16.0)	(27.3)
Net cash from operating activities	212.9	181.6	1.9	2.0

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

29 OPERATING LEASE ARRANGEMENTS

	GROUP	
	2008 £m	2007 £m
Minimum lease payments under operating leases recognised in the year	<u>8.8</u>	<u>8.9</u>

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	
	2008 £m	2007 £m
Within one year	5.2	5.2
In the second to fifth year inclusive	11.2	10.7
After five years	<u>4.7</u>	<u>1.5</u>
	<u>21.1</u>	<u>17.4</u>

The lease commitments represent obligations in relation to property and transport facilities. The transport facilities are provided by Vehicle Lease and Service Limited, a joint venture entity.

The Company had no obligations under hire agreements (2007: £nil).

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

30 PENSION COMMITMENTS

The Group has three retirement benefit schemes.

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

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

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

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

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

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

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

The Northern Electric Money Purchase Scheme and the Yorkshire Electricity Group Personal Pension Plan are accounted for as a defined contribution scheme.

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2008**30 PENSION COMMITMENTS (CONTINUED)**

Principal assumptions:

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

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

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

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

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

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

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

	2008	2007
	£m	£m
Current service cost	10.3	11.9
Interest cost on obligations	53.0	47.2
Expected return on plan assets	(66.2)	(63.9)
	(2.9)	(4.8)
Allocated to income statement	(6.0)	(8.3)
Allocated to property, plant and equipment	3.1	3.5

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

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

30 PENSION COMMITMENTS (CONTINUED)

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

The amounts recovered from Group undertakings are credited against operating costs.

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

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

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

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

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

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

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

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

30 PENSION COMMITMENTS (CONTINUED)

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

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

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligation	(855.3)	(917.2)	(925.9)	(906.0)	(819.0)
Fair value of plan assets	801.4	956.6	912.8	821.6	708.4
(Deficit)/surplus	(53.9)	39.4	(13.1)	(84.4)	(110.6)
Experience gains/(losses) on plan liabilities:					
Amount (£m)	87.3	32.0	(2.1)	(70.1)	(56.9)
Percentage of scheme liabilities (%)	10.2	3.5	(0.2)	(7.7)	(6.9)
Experience (losses)/gains on plan assets:					
Amount (£m)	(231.4)	(19.6)	32.4	66.5	12.4
Percentage of scheme assets (%)	(28.9)	(2.0)	3.5	8.2	1.8

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

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

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

31 CAPITAL AND OTHER COMMITMENTS

The Group has entered into contractual commitments in relation to capital investment of £24.3m (2007: £31.5m).

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

32 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
2008:				
CE Insurance Services Limited	-	1.7	-	-
Integrated Utility Services Limited (registered in Eire) (1)	-	0.7	-	-
Vehicle Lease and Service Limited	<u>0.2</u>	<u>8.5</u>	<u>-</u>	<u>0.7</u>
2007:				
CE Insurance Services Limited	-	1.7	4.3	-
Integrated Utility Services Limited (registered in Eire)	-	0.1	-	-
Vehicle Lease and Service Limited	<u>0.2</u>	<u>8.1</u>	<u>0.5</u>	<u>2.7</u>

Included within Note 18 is £nil (2007: £4.2m) receivable from CE Insurance Services Limited.

(1) On 3 October 2008, the Group acquired the remaining 50% holding in Integrated Utility Services Limited ("IUS Ireland"), a company registered in the Republic of Ireland, And, from this date, IUS Ireland became a member of the Group. The above figures represent transactions prior to this date.

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 2008 was £20.8m (2007: £20.0m). Included within borrowings is £392.9m as at 31 December 2008 (2007: £372.1m) in respect of these loans.

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

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

32 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 2008 was £18.5m (2007: £28.5m). Included within long-term/short-term securities is £264.2m as at 31 December 2008 (2007: £264.2m) 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 2008 was £1.5m (2007: £1.6m). Included within borrowings is £29.1m as at 31 December 2008 (2007: £31.1m) 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 £2.1m (2007: £1.0m) of group relief from other companies in the Group. Payment at the UK statutory rate of 28.5% (2007: 30%) will be made for the use of these tax losses.

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

33 PARENT UNDERTAKINGS AND CONTROLLING PARTY

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, and the largest group into which CE Electric UK Funding Company is consolidated is the Berkshire Hathaway, Inc. group. The smallest group into which CE Electric UK Funding Company is consolidated is the MidAmerican Energy Holdings Company group. MidAmerican Energy Holdings Company is a company incorporated in the United States of America.

Copies of the group accounts of Berkshire Hathaway Inc. and MidAmerican Energy Holding Company, 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.