

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

**REPORT & ACCOUNTS
TO 31 DECEMBER 2009**

CE ELECTRIC UK FUNDING COMPANY

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REPORT AND ACCOUNTS TO 31 DECEMBER 2009

CONTENTS

Directors' Report	1
Business Review	3
Review of the Year	3
Strategic Objectives	4
Principal Risks and Uncertainties	4
Internal Control	8
Financial Strength	9
Customer Service	13
Operational Excellence	14
Employee Commitment	17
Environmental Respect	19
Regulatory Integrity	20
Corporate Governance Statement	24
Responsibility Statement of the Directors in respect of the Annual Report and Accounts	30
Independent Auditors' Report to the Members of CE Electric UK Funding Company	31
Group Income Statement	33
Statements of Comprehensive Income	34
Statements of Changes in Equity	35
Balance Sheets	36
Cash Flow Statement	38
Notes to the Accounts	39

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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 2009, which includes the business review and audited financial statements for that year. Pages 1 to 30 inclusive of this annual report comprise a directors' report that has been drawn up and presented in accordance with the Companies Act 2006.

PRINCIPAL ACTIVITIES

The Company is the ultimate parent undertaking incorporated in the United Kingdom and has prepared group accounts for the year ended 31 December 2009. 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, Yorkshire Power Group Limited and its subsidiaries and Integrated Utility Services Limited, a company registered in the Republic of Ireland ("IUS Ireland"). 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 approximately 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") operates an engineering contracting business. During the year, that business was divided into the four main streams of E.ON, UK Contracting, Rail and Multi-Utility and also provided connections consultancy and system study services. Under the E.ON framework contract, IUS provided engineering contracting services to E.ON's two electricity distribution businesses in the Midlands. UK Contracting provides design, construction and maintenance services to public and private networks throughout the UK. Rail focuses on providing a total service from feasibility to design, installation, commissioning and on-going maintenance. Multi-Utility provides new electrical, gas and water connections to housing and property developers; and

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

PRINCIPAL ACTIVITIES (CONTINUED)

- 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.

The Group operates a business model and strategy based on its six core principles (the "Core Principles"), which remain consistent and are:

<u>Principle</u>	<u>Strategy</u>	<u>Indicator</u>
Financial strength	Effective stewardship of the Group's financial resources, investing in assets and focusing on long-term opportunities, which contribute to the Group's future strength.	Profitability. Cash flow. Maintenance of investment grade credit ratings.
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 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 continues to put plans in place to deliver its objectives against the strategy based on the Core Principles, executes on those plans across a range of activities, measures its progress and introduces corrective action wherever required. Adherence to its strategy and the Core Principles enabled the Group to deliver a satisfactory financial performance against the challenging economic environment, which persisted throughout 2009. This resulted in the greatest reduction in the number of units distributed across the electricity distribution networks for a number of years and significant impacts on the earnings of IUS. In addition, the Group's performance was adversely impacted by CE Gas' Somerset-1 well in the Australian offshore T/34P block not resulting in a commercial hydrocarbon discovery.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

BUSINESS REVIEW

Review of the year

The Distribution Business

The performance of the Group during the year was considered to be solid, with the Distribution Business' performance meeting the challenges of the year, assisted by a strong cost control exercise. Customer service performance improved in the call centre with the introduction of a new inter-active voice recognition system and a significant reduction was achieved in the relation to the amount of outstanding work in progress to repair faults on the distribution networks.

Disappointingly, those incidents classified as preventable vehicle accidents increased during the year and the Group failed to meet its internal targets in respect of lost time accidents, medical treatment accidents and operational incidents. In addition, a single network fault early in 2009 resulted in NEDL's guaranteed standards of performance failures being in excess of those experienced in 2008.

During 2009, the Distribution Business was fully engaged with Ofgem in the Distribution Price Control Review 5 ("DPCR5") process, which culminated on 7 December 2009 with Ofgem publishing its final proposals in respect of the price control formula that took effect for the five-year period commencing 1 April 2010. That process involved submission of detailed business plans in February 2009, the publication by Ofgem of an initial set of proposals on 3 August 2009 and continuing subsequent dialogue with Ofgem throughout the remainder of 2009. Following detailed analysis, NEDL and YEDL advised Ofgem, on 23 December 2009, that they were accepting its final proposals.

Under its final proposals for DPCR5, Ofgem set a 4.7 per cent 'vanilla' weighted average cost of capital ("WACC"), which equates to a 5.6 per cent pre-tax WACC, in order to allow NEDL and YEDL to fund their cost of debt and equity. NEDL and YEDL were disappointed at the low level of the return on capital allowed but noted that Ofgem recognised them as being among the more efficient distribution network operators ("DNOs").

The Group also noted the focus in DPCR5 on rewarding DNOs for delivering high standards of customer service and providing the opportunity for outperforming Ofgem's baseline expenditure and performance targets. In addition, Ofgem has set out the "outputs" it expects NEDL and YEDL to achieve and, as an incentive to provide better customer service, will introduce new statutory guaranteed standards of performance in respect of connections to the distribution networks, more challenging targets for network reliability and a new measure of customer satisfaction with the service provided.

Based on the DPCR5 final proposals, together with a rebalancing of distribution charges between customer groups, meant that, on 1 April 2010, NEDL's charges made in relation to the distribution of electricity to domestic customers increased by 2.8%, or equivalent to about 0.4% on their electricity bills. As of the same date, YEDL's charges made in relation to the distribution of electricity to domestic customers reduced by 1%, or equivalent to about 0.1% on their electricity bills.

Changes to the charges made in relation to non-domestic customers by both NEDL and YEDL vary more widely between different types of non-domestic customers.

IUS

2009 was a disappointing year for IUS with the loss of a major customer contract. The E.ON framework service provider contract was worth £23.8m in revenue in 2009 (2008: £29.4m). With the existing contract due to expire in March 2010, E.ON made the decision to adopt an 'Alliance' delivery strategy from April 2010. IUS successfully pre-qualified and subsequently tendered for both the Infrastructure and New Connections Alliances. However, IUS was ultimately unsuccessful and transferred activity to the new service providers at the end of March 2010. IUS' headcount reduced by approximately 52% following the transfer of the E.ON service staff to the new service providers.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

BUSINESS REVIEW (CONTINUED)

Review of the year (continued)

The year also provided IUS with an opportunity to extend its current relationship with Scottish Water for a further 10 years. IUS is currently operating in the South of Scotland but the new contract includes the potential to also work in the North of Scotland. The Scottish Water projects are delivered by the UK Contracting business stream and, although IUS experienced reduced revenues compared to 2009, margins remained stable. The downturn in order intake in UK Contracting as a result of the economic climate was also experienced in the Multi-Utility business stream, which is directly linked to the UK housing market. Although this area was extremely challenging in 2009, the final quarter saw the first indications of an upturn in enquiries and provides some grounds for optimism in 2010.

The IUS Rail division had a promising year with an increase in order intake from £0.4m in 2008 to £4.2m in 2009. Within High Voltage Customer Service, IUS has continued to grow its maintenance and small works activity, with the Midlands and Scotland being target areas for new customers.

CE Gas

CE Gas has developed a portfolio of hydrocarbon exploration, construction and producing assets in Australia, Poland and the United Kingdom. During the year, CE Gas participated in exploration drilling activity in the Australian offshore T/34P and T/18P blocks. The Somerset-1 well in the T/34P block did not result in a commercial hydrocarbon discovery. The drilling program in the T/18P block is continuing but hydrocarbons have been encountered in both the Trefoil-2 and Rockhopper-1 wells and evaluation is ongoing. During 2009, agreements were signed under which CE Gas' interest in the offshore Australian Yolla field was to be sold in 2010 (see note 33 for further information). That sale was completed on 23 April 2010.

Strategic objectives

The Group's strategic objectives remain based on the Core Principles and are to build a business, which:

- continues to generate value over the long-term;
- 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 continues to be 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 an impact on the Group, its financial position and its operations, which may cause actual results to vary materially from those expected or historically experienced. The principal risks are outlined as follows:

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Principal risks and uncertainties (continued)

Financial strength

As holders of an electricity distribution licence, NEDL and YEDL are subject to regulation by the Gas and Electricity Markets Authority ("GEMA"), which acts through 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 2010 and has set the revenues of NEDL and YEDL through to 31 March 2015. A resetting of the formula requires the consent of the electricity distribution licence holder but licence modifications may be unilaterally imposed by Ofgem without such consent following review by the Competition Commission. During the term of the price control, changes in costs incurred will have a direct impact on the financial results of NEDL and YEDL.

IUS operates in the competitive engineering contracting market and, therefore, is subject to the issues created by the general economic downturn and associated trading conditions. Demand for IUS' multi-utility service has reduced in that respect, given the slow-down in the house building and property development markets. Current economic conditions have also enhanced the risk of counter-party default so increasing the potential for IUS to be exposed to bad debt. Recognising that issue, IUS has continued to strengthen its debt follow-up procedures with closer monitoring of the debtors position. Given the competitive market, in which IUS operates, it is also exposed to the risk of contract churn and the loss of personnel to competitors.

As a seller of hydrocarbon commodities, sales 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.

The other financial strength risks facing the Group are outlined in the Treasury section on page 11 below.

Operational risk

The principal risks in respect of the other Core Principles include:

<u>Risk</u>	<u>Issue</u>	<u>Mitigation</u>
Counter-party security (Financial Strength)	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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Principal risks and uncertainties (continued)

Operational risk (continued)

Potential flooding and other weather related events. (Operational Excellence and Customer Service)	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.
Network risk posed by cables through the Tyne Tunnel (Operational Excellence and Environmental Respect)	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.	NEDL's Primary Engineering Projects team has identified a solution and arrangements to commission the new configuration are due to commence in mid-2010.
Network risk in the Bradford area (Operational Excellence)	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 and a programme of major replacement, reinforcement and refurbishment works runs through to 2015.
Motor accident management (Employee Commitment and Regulatory Integrity)	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 inclusion of road risk related issues in the Group's Safety Improvement Plan and the appointment of a dedicated road risk manager, together with improved reporting routines, has increased the focus on road safety.
Electricity Safety Quality and Continuity Regulations 2002 (Employee Commitment and Regulatory Integrity)	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 (Operational Excellence)	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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Principal risks and uncertainties (continued)

Operational risk (continued)

Influenza pandemic (Employee Commitment and Operational Excellence)	A pandemic may occur, substantially impacting on normal business operations.	Risk management and mitigation was tested during the 2009 swine flu pandemic. The Group put crisis management measures in place and appropriate provision was made to secure network operation, which showed that this risk was manageable.
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In addition to the above, 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 farming-in party 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.

Risk management

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

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 regular review of the key risks, controls and action plans is undertaken. The Governance and Risk Section co-ordinates the risk and compliance activity, emphasising the Group's commitment to maintaining an appropriate risk and governance framework across the business.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Principal risks and uncertainties (continued)

Risk management (continued)

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

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

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

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

NEDL and YEDL have appropriate controls in place directed at ensuring compliance with the conditions in their licences requiring any payments made to, or received from, affiliates or related undertakings in respect of goods and services provided or supplied to be on an arm's length basis and on normal commercial terms.

Other key features of the internal control system are:

- Comprehensive business planning and financial reporting procedures, including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- Regular review of key performance indicators to assess progress towards objectives;
- A range of policies, codes of practice and more detailed instructions that define the processes to be followed;

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Internal control (continued)

- A strong internal audit function to provide independent scrutiny of internal control systems and risk management procedures, including the 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 2009, the Group continued to improve its management of routine financial performance, implemented tighter expenditure controls through a wide-ranging cost mitigation exercise, enhanced the reporting of management information and embedded the culture of continuous financial improvement in all areas of its operations.

In addition, representations were made to Ofgem, in accordance with the provisions set out in the electricity distribution licence, regarding certain categories of cost not fully taken into account when the fourth distribution price control was 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 control was adjusted accordingly to enable recovery of the total of £52 million.

NEDL and YEDL each operate under price controls that determine a maximum permitted revenue for each regulatory year. Where either company recovers more, or less, than this maximum the difference is carried forward, with interest, into the entitlement for the following year. In the regulatory year 2009/10 NEDL and YEDL are forecast to exceed the maximum permitted under the price controls by a total of approximately £33m, of which approximately £15m is attributable to the financial year 2009. This level of over-recovery results mainly from late changes in the volumes of sales reported by the electricity suppliers that have had an impact on the companies' entitlements under the electrical losses incentive of their price control formulae.

The Group remains very aware of the impact that the general economic climate has had and may continue to have for 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 distribution 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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Financial strength (continued)

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

Revenue

The Group's revenue at £566.4m was £3.4m higher than the prior year representing an increase in income from the electricity distribution network as a result of tariff increases partly offset by lower units distributed. There was also a reduction in IUS' revenue as a result of a reduction in activity on its major contracts in the year.

Operating profit

The Group's operating profit at £244.2m was £25.4m lower than the previous year. Higher electricity distribution revenue (£7.3m) was offset by an increase in pension costs (£14.1m), mainly relating to a reduction in the expected return on plan assets (Note 30 to the accounts) and lower hydrocarbon profits (£15.1m) reflecting the impairment of the Yolla assets held for sale.

Finance costs and investment income

Finance costs net of investment income at £98.6m were £1.1m lower than the prior year due to a reduction on interest rates charged on short term borrowings in the year.

Taxation

The effective tax rate in the current year is 27.4%. Details are provided in Note 10 to the accounts.

Results and dividends

The Group made a profit after tax for the year of £106.7m. The directors recommend that no final dividend be paid in respect of the year. An interim dividend was not paid during the year.

Share capital and debt structures

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

Dividend policy

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

Cash flow

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

Movements in cash flows were as follows:

- *Operating activities:* Cash flow from operating activities at £211.2m was £1.7m lower than 2008. Higher cash profits of £12.9m and a reduction in tax payments of £7.6m were offset by adverse working capital and other movements of £22.2m.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Financial strength (continued)

Cash flow (continued)

- *Investing activities:* Net cash used in investing activities at £249.0m was £212.8m higher than 2008, mainly due to the sale of the long term securities in the prior year, combined with a fall in customer contributions received in 2009 compared to 2008.
- *Financing activities:* The net cash generated by financing activities at £16.1m was £173.8m higher than the prior year reflecting the repayment of long term borrowings in the prior year.

Treasury

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

The main risks are liquidity and interest rate risk.

Liquidity risk

Companies in the Group have access to short-term borrowing facilities provided by YEG. During the year, the Group had access to £100m in committed revolving credit facilities provided by Lloyds TSB Bank plc and Royal Bank of Scotland plc. CE Gas has access to A\$68m provided by Westpac Banking Corporation and BOS International (Australia) Limited. The Group has additional overdraft facilities of £12m provided by Lloyds TSB Bank plc, which are renewed on an annual basis.

The revolving credit facilities provided by Lloyds TSB Bank plc and Royal Bank of Scotland plc expired on 31 March 2010 and were replaced with a new three year £150m revolving credit facility provided by Lloyds TSB Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc. The facility provided by Westpac Banking Corporation and BOS International (Australia) Limited is due to expire in December 2012.

The directors do not consider there to be any doubt over the Group's ability to raise finance in the future, given the investment grade issuer credit rating held by several of the Group's subsidiary companies and the fundamental financial strength and nature of its business.

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 2009, 93% of the Group's borrowings were at fixed rates and the average maturity for those borrowings was 18 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

The only material currency risks faced by the Group are in relation to hydrocarbon and gas exploration assets held in Australian dollars. This risk is mitigated by borrowings taken out in Australian dollars.

Trading risk

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

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Financial strength (continued)

Financial derivatives

As at 31 December 2009 and during the year it was the Group's policy not to hold any derivative financial instruments, with the exception of the interest rate swaps held by CE Gas (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. Full details of the Group's commitments to the Scheme and the associated deficit repair payments are provided in Note 30 to the accounts. During 2010, NE will be engaged with the Group Trustees in the triennial actuarial valuation process, which is as at 31 March 2010, in order to determine the funding position of the Scheme and the associated deficit repair arrangements.

Ofgem recognises that pensions, particularly with respect to the current deficit positions of various schemes, represent a significant cost to the DNOs and, as part of the DPCR5 process, undertook a review of the pension principles it established in 2003. That review included the issue of three consultation documents and the holding of three seminars for interested parties and, as a result, Ofgem confirmed that the DNOs would be allowed to recover the full value of the deficits attributable to a licensee's distribution business in existence as at 31 March 2010, via its regulated revenues. However, given the regulated nature of the DNOs' businesses, Ofgem took the view that there is not the same risk or urgency as in other sectors of the economy to ensure that those deficits are repaired as soon as possible and, therefore, set a notional repair period of 15 years for the purpose of assessing the DNOs' allowed revenues in respect of pension costs over the DPCR5 period.

As the actual repair period for each scheme is a matter for the trustees of that scheme to agree with its sponsoring employer, Ofgem recognised that there is the potential for there to be a difference between the repair period so agreed and the 15 year notional repair period used in DPCR5. Noting this position, Ofgem commented in the DPCR5 final proposals that, should shorter deficit repair periods be agreed between trustees and sponsoring employers, the DNOs' allowed revenues over the remaining portion of the 15 years will be adjusted so that the DNOs suffer no detriment on a net present value basis.

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

Insurance

As part of its insurance and risk strategy, the Group has put in place a range of insurance policies, including damage to property, employer's and third party motor liability and public liability, which cover it against those risks. 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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

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 those networks through an investment strategy 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, during the year, a significant number of tangible improvements were identified and delivered as part of the overall goal to improve customer satisfaction with the service provided, including:

- implementing a new interactive voice response system into the Distribution Business' front line call centre, which takes advantage of the latest developments in automatic messaging, in order to assist in the handling of customer loss of supply calls;
- improving the accuracy of network fault estimated restoration times inputted to the trouble management system and, consequently, communicated to customers;
- implementing a new complaint handling process to ensure robust compliance with the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008 and that in excess of 90% of complaints are resolved at the initial point of contact;
- continuing to improve under-performing parts of the distribution system by identifying "hot spots" and taking specific action to address the issues in those areas;
- extending the priority services register so that the Distribution Business is aware of people with disabilities or special needs, who may be affected by interruptions to the electricity supply, and can take appropriate action to assist those people in such circumstances; and
- undertaking a programme to reduce the number of instances in which the Distribution Business fails to meet an electricity guaranteed standard of performance.

The Distribution Business' customer service satisfaction scores continued to show an improving trend through the year and in excess of 97% of complaints were resolved at the first time of asking. In that respect, developing the new telephony system for other customer facing processes will form a significant part of the Distribution Business' customer service improvement plan in order to meet the target of a customer satisfaction score of greater than 90%.

Ofgem has established an incentive scheme for quality of service, by which 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 Distribution Business 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 the regular reporting to Ofgem by NEDL and YEDL.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Customer service (continued)

In respect of the key customer service performance indicators, the performance of NEDL and YEDL for the regulatory year ended 31 March 2009, against targets determined by Ofgem, was as follows:

	NEDL Actual	NEDL Target	YEDL Actual	YEDL Target
CML:	76.3 (2008: 70.5)	68.4 (2008: 69.5)	73.1 (2008: 75.0)	63.4 (2008: 65.1)
CI:	64.2 (2008: 66.3)	74.5 (2008: 74.5)	76.4 (2008: 75.7)	68.5 (2008: 68.5)
Customer satisfaction:	89.2% (2008: 88.6%)	90% (2008: 90%)	88.2% (2008: 86.8%)	90% (2008: 90%)

Performance in the regulatory year to the 31 March 2009 fell short of Ofgem's targets and is being addressed by the customer service improvement actions mentioned above and the network service improvement actions set out below.

At the time the above targets were set, no account was taken of the customer service impact arising from additional vegetation management obligations, which were not allowed for in the distribution price control 4 settlement. The customer service targets were not adjusted to take account of the effects of the representations made by the Distribution Business and accepted by Ofgem, which are noted on page 9. Instead, the benefits arising from that decision were reflected in a favourable adjustment to the base allowed revenues of NEDL and YEDL. That position continued until 31 March 2010, when the DPCR5 arrangements became effective.

Operational excellence

The Group's core service continues to be providing and maintaining efficient distribution networks that deliver electricity effectively. During the year, £287.8m 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.

Operational activity

The Distribution Business' 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 2009 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.

That focus was designed to support the Group's goals in the area of operational excellence and to ensure that the distribution networks are operated as well as possible. To that end, the Distribution Business' priorities are to deliver an underlying improvement in the networks' resilience, deal appropriately with any risks as and when they arise, plan its operational activity so as to operate within the planning assumptions for pre-arranged system unavailability and, while doing so, to pay close attention to the underlying cost. Consequently, the Distribution Business has established five targets to enhance its performance in terms of operational excellence:

- Deliver enhancements to the networks by adding intelligent reconfiguration capability, which includes the commissioning of additional rural and urban remote control units on the high voltage systems and auto-sectionalisers in rural areas;
- Minimise abnormal running arrangements by maintaining a routine service level for fault repair work-in-progress on the high voltage networks, building on the success in that respect during 2009;

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Operational excellence (continued)

Operational activity (continued)

- Minimise the impact on costs and customer service by pursuing a “fix-first-time” approach on the low voltage networks, which will further improve the level of fault repair work-in-progress;
- Enhance the operational availability of the installed remote control units by improving the level of work-in-progress of failure investigations, which will have a consequential benefit in respect of the successful operation of those units; and
- Complete the capital and maintenance work programmes, along with repair, connection and diversion work, within the pre-arranged interruption target.

The major projects undertaken in support of those targets and as part of the investment strategy included:

- Completion of the replacement of existing 66kV and 11kV switchgear and reinforcement of the existing 66/11kV primary substation at Amberton Road in Hartlepool, a new 66/11kV primary substation at Melrosegate in York, replacement of the 66/6kV transformers at Carville substation in Newcastle, reinforcement of system security at Bedale substation by undertaking 33kV circuit modifications and connecting a new 33kV outlet at Leeming Bar in North Yorkshire and a 33kV reinforcement project in Newcastle designed to meet demand growth and provide further system security in the area;
- The completion of the underground cables works associated with the final stage of the refurbishment of the Spennymoor to Skernside 66kV circuit in Durham;
- The initiation of 132kV switchgear replacement at Tynemouth in North Tyneside;
- Commencement of the replacement of 132kV open terminal substations with indoor gas insulated switchgear in the Wakefield and Hull areas;
- Completion of the replacement of 33kV oil-filled cables in the Leeds area, reinforcement of the Kirkstall - Horsforth 132kV and 33kV infrastructure, construction of 33/11kV substations to provide increased capacity to the Scunthorpe, Knottingley, and Selby areas and of a protection upgrade scheme in the Bradford area;
- Continuation of the replacement of 33kV oil-filled cables in the Dewsbury area, construction of a 33/11kV substation to provide increased capacity to the Snaith area, replacement of 66kV assets at Ferrybridge and replacement of three 66/11kV substations in the South Yorkshire area;
- Replacement of 42 units of high voltage outdoor switchgear;
- Replacement of 106 high voltage distribution substations;
- Replacement of 148 units of high voltage indoor switchgear;
- Refurbishment of 12km of 132kV overhead line;

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Operational excellence (continued)

Operational activity (continued)

- Refurbishment or rebuilding of 125km of high voltage overhead line;
- Refurbishment or rebuilding of 51km of low voltage overhead line;
- The upgrade and reinforcement of 32.1km of overhead line to address the quality of supply performance issues relating to those circuits; and
- The installation and commissioning of 749 new remote control sites.

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.

Enduring Operating Model

During the year, a significant project was undertaken by the senior Field Operations team to reorganise the Distribution Business' operating structure within that area of its business in order to provide the best possible foundation for optimum operational performance into the future. The management structure within Field Operations is based on seven individual business units, as follows:

- Network Operations provides the day-to-day and reactive management of the distribution network at all voltages and includes activities such as network performance, emergency planning and restoration activities associated with network faults;
- Service Delivery has responsibility for the control and management of the craft-based staff, direct labour and the provision of this resource to the other business units and is structured across five geographic zones;
- Network Repairs focuses on core repair activities and significant cost control initiatives in respect of expenditure on the repair of faulted assets;
- Connections Delivery undertakes non-discretionary, customer-driven work and is structured across five geographic zones;
- Programme Delivery has a functional bias to its activities and includes primary engineering projects, overhead programme delivery, asset programme delivery and protection and technical services;
- Operational Services includes contract management, business controls and administration and supply chain management; and
- Field Standards provides training, quality assurance, services standards and health and safety services across Field Operations.

Commercial risk

Managing commercial risk in the context of the difficult economic and financial trading conditions, which continued throughout 2009, was, and will continue to be, of key importance to the Group's operations. In that respect, the Group has, throughout the year, focused on ensuring that its policies for credit checking, payment terms, payment performance tracking and debt management were strictly adhered to.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Operational excellence (continued)

Commercial risk (continued)

During 2009, the Group completed the process of putting in place contracts in the commercially significant areas of IT facilities management and cable engineering services. A number of major IT suppliers responded to the tender for IT facilities management services and, following an extensive evaluation process the new contract was awarded, effective from 1 April 2010 until 31 March 2015. Following a similar tender exercise, contracts for the provision of cable engineering services were awarded and are effective for the five year period to June 2014. However, in order to manage the commercial risk associated with such contracts, the Group continues to keep all of its contractual relationships under ongoing review.

NEDL and YEDL's relationship with their main customers is governed by a distribution connection and use of system agreement ("DCUSA"), which is place with each of those customers. Those customers are the electricity suppliers who, under the terms of the DCUSA, pay charges for the use of the distribution network, in respect of which it is necessary to ensure that the credit cover arrangements in line with Ofgem's guidance remain in place. The principal electricity suppliers that use the distribution 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 fourth successive Gold Medal, YEDL its first Gold Medal and IUS its second consecutive Gold Medal 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 Gold Award is the highest achievement award and the Gold Medal is presented for receiving five or more successive Gold Awards. 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:

	2009		2008	
	Target	Actual	Target	Actual
Lost time accidents	1	2	1	7
Medical treatment accidents	7	8	8	3
Operational incidents	8	11	10	16
Preventable vehicle accidents	26	41	26	36

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Employee commitment (continued)

Health and safety (continued)

As safety performance against target during 2009 was disappointing in the areas noted in the table on page 17, the Group continues to rigorously implement, review and adjust the safety improvement plan accordingly in its efforts to deliver continuous improvement. In terms of preventable vehicle accidents the performance has been unacceptable and focus continues heavily on this area with implementation of a robust assessment and training plan aimed at changing behaviour and improving concentration skills. It is expected that this, together with adoption of a zero tolerance approach, should deliver improvements in the Group's safety performance.

Management structure

The Group has a clearly defined leadership team, in which specific roles are identified, so allowing more effective management of the Group's business and response to any control weaknesses that may become apparent, with single units being in place for field operations, customer operations, asset management, performance and innovation and health, safety and environment. The business systems, 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.

Employees

2009 was a particularly challenging year, given the external economic environment. In response, the Group introduced a programme of cost mitigation which was extended to the control of headcount and salary cost allocation.

The Group has placed, and will continue to place, significant emphasis on the importance and application of high standards of management and performance in pursuit of the Core Principles and ensures that a level of consistency is adopted in doing so. In respect of employee relations, the Group and the trades unions continue to build a constructive relationship.

Given the demographics of the Distribution Business' workforce, the increasing investment in the distribution network and in order to encourage investment in a sustainable workforce, Ofgem provided an allowance in its DPCR5 final proposals, in order to fund the Distribution Business' plans for workforce renewal across the DPCR5 period. Ofgem has stated that the allowance is on a "use it or lose it" basis and the Distribution Business will need to demonstrate that it has used that allowance appropriately and efficiently to recruit and train new staff or for other means of renewing its workforce and report annually on its progress in that respect.

The Group employed 2,455 staff at the end of December 2009 at various locations in the United Kingdom, the Republic of Ireland, Poland and Australia. (2008: 2,517).

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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Employee commitment (continued)

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 an employee publication. During 2009, the Group introduced an additional means of communication in the form of regular broadcast briefings by the President and Chief Operating Officer using telephone conference call facilities. The broadcast briefings were used to provide employees with updates such as on the performance of the Group, progress in respect of DPCR5, organisational restructures and safety issues and performance.

Environmental respect

The Group's approach to environmental compliance is governed by its environmental policy and the MidAmerican policy of Environmental RESPECT (Responsibility, Efficiency, Stewardship, Performance, Evaluation, Communication and Training). These policies and their subordinate operational control procedures and systems address legal compliance, pollution prevention and continual improvement and also the promotion of environmental awareness and best practice amongst the Group's staff and contractors.

The Distribution Business has operated a United Kingdom Accreditation Service accredited scheme to the environmental management systems ("EMS") standard ISO 14001 since the late 1990s. The Distribution Business' EMS is subject to regular six-monthly assessments by an external certification body in order to retain that status. The 2009 assessment was carried out by Lloyd's Register Quality Assurance in September with no major or significant non-conformances raised. The report concluded that a sound approach to the implementation, maintenance and improvement of a mature EMS had been demonstrated.

The Distribution Business delivered its targeted improvement in the key area of fluid-filled cable leakage, was compliant against the required streetworks performance standards under the Traffic Management Act and was fully compliant with all required Environmental Agency reporting obligations.

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 sulphur hexafluoride (SF6) gas filled units at outdoor substations to reduce gas leakage;
- Improved monitoring and response measures with regard to the management of fluid-filled underground cable networks and the reduction of leakages;
- Installation of additional engineering controls where required to improve pollution prevention at strategic sites;
- Installation of underground cables using trenchless technology as opposed to open-cut excavations; and

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Environmental respect (continued)

- Environmental awareness training for all new start personnel and contractors, complemented by periodic refresher training for all staff.

Sustainability

The Group takes its responsibilities towards reducing the impact of global warming seriously, both in its capacity as a major participant in the UK energy industry and in terms of its own carbon footprint. Through its involvement in industry groups and its interactions with government and regulators, it is contributing to the target of transforming the UK electricity industry into a low carbon emitter. The Group also works with customers to assist in solving issues raised by the introduction of low carbon generation and products and their implications for the planning and operation of the electricity network.

The Group measures and publishes its own carbon footprint and has set a target of a reduction in its carbon footprint of 20 per cent by 2020. Actions taken during the course of the year to assist in meeting this target include fitting speed limiters to about a third of its vehicle fleet, the procurement of building energy management systems for its major office sites and a pilot project to recycle office waste at one of its non-operational sites.

In addition, Ofgem will be looking to NEDL and YEDL to contribute to the sustainability agenda through more detailed reporting on the carbon footprint of their businesses, considering the use of better demand side management techniques to address network constraints and by the provision of simpler information to those parties interested in connecting local, embedded generation to the networks.

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 three occasions throughout the year.

As has been the case for some years, breaches by a DNO of its licence conditions could lead to financial penalties, which Ofgem has stated "will have a proportionate impact on shareholder returns". In order to assure compliance with its licence and other regulatory obligations, the Distribution Business operates a regulatory compliance affirmation process, under which ownership of the approximately 1,170 regulatory obligations contained within the compliance database is currently assigned to 49 owners in the Group. Those owners are required, on a quarterly basis, to review compliance with their relevant obligations and report on any perceived risks to the compliance process, which are then addressed. The Regulation Manager reports to the board of directors of each of NEDL and YEDL on the outcome of each quarter's exercise.

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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Regulatory integrity (continued)

The Distribution Business has taken, 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.

Charitable and political donations

During the year, charitable donations of £100,602 were made (2008: £69,298), principally to local charities serving the communities in which the Group operates. No contributions were made to political organisations (2008: 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, on which the Group invested £0.8m (Note 4 to the accounts) 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;
- Contributing to the ongoing development of eligibility for and governance of the new Low Carbon Networks Fund, initiated by Ofgem, as a part of DPCR5. The Low Carbon Networks Fund is intended to encourage innovation in terms of the technology used and the commercial and operational environments, in which the DNOs undertake their activities in order to contribute towards achieving a low or zero carbon position in the industry. The Distribution Business will, therefore, be looking to develop its programme of research and development in order to provide opportunities to access that fund;
- Initial field trials of newly developed superconducting fault limiters have been successfully undertaken;
- The network deployment of a fault passage indicator system, reducing reaction time to network faults and minimising customer impact;

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Other directors' report requirements (continued)

Research and development (continued)

- Further developing a suite of health indices, for improved asset management, completing EHV cables and commencing work on poles and substations; and
- 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. A follow up project, investigating demand side management impacts on network risk, has been developed.

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 Group had trade payables of £10.6m as at 31 December 2009 (2008: £14.0m) The Company had no trade payables as at 31 December 2009 (2008: nil). The number of days purchases in trade creditors for the Group at 31 December 2009 was 9 (2008: 9).

Future Developments

The financial position of the Group, as at the year end, is shown in the balance sheet on pages 36 and 37. All significant events since the year end are detailed in note 33.

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 the hydrocarbon exploration activities of CE Gas.

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

IUS will look to further develop its engineering contracting business by delivering a high standard of service to its existing clients and pursuing opportunities in the health, education, industrial, chemical and manufacturing sectors. The framework service provider contract with E.ON expired on 31 March 2010, resulting in 52% of IUS' workforce being transferred to the new service providers at that date.

CE Gas will continue to look to build value through the management of a portfolio of hydrocarbon projects in Australia, Poland and the United Kingdom. The sale of CE Gas' interest in the offshore Australian Yolla gas field was completed on 23 April 2010. 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
P J Goodman	Senior Vice President and Chief Financial Officer, MidAmerican Energy Holdings Company
P A Jones	President and Chief Operating Officer (appointed 16 January 2009).

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Other directors' report requirements (continued)

Directors (continued)

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

An elective resolution is in place dispensing with the need to appoint auditors annually. Deloitte LLP has indicated its willingness to continue in office.

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 an essential public service 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 the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- b) The Group is profitable with strong underlying cash flows. The Company, NEDL and YEDL hold investment grade credit ratings;
- c) The Group is financed by long-term borrowings with an average maturity of 18 years and has access to £150m borrowing facilities provided by Lloyds TSB Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc, part of the Banco Santander group, for a three year period and to borrowing facilities provided by Westpac Banking Corporation and BOS International (Australia) Limited; and
- d) No repayments of long term debt are due until 2020.

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.

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 S418 of the Companies Act 2006.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Corporate Governance Statement

The Financial Reporting Council in the United Kingdom issued a revised version of the Combined Code on Corporate Governance (the "Combined Code") in June 2008. To the extent that it departs from the Combined Code, a company is required to explain from which parts of the Combined Code it departs and the reasons for doing so.

Compliance statement

Set out below and in the business review of the year in the directors' report are the areas in which the Company adopts and complies with the principles of the Combined Code. The Company has not complied with certain principles of the Combined Code, including the principles A2, A3, A4, A6, A7, B1, B2, D1 and D2. The directors confirm that such non-compliance was of a continuing nature throughout the year but consider the governance framework in place to be appropriate to the circumstances of the Company and the Group, given that the framework is agreed with MidAmerican and includes regular reporting to and meetings with the President and senior management of MidAmerican, the presence of an independent non-executive director at board meetings of the Company and other companies in the Group and a strong internal control environment designed to meet the standards required by the Sarbanes-Oxley Act.

The intention of the Combined Code is that companies should be able to explain their governance policies in light of the principles contained in the Combined Code, including any special circumstances applying to them, which have led to a particular approach. The directors are of the opinion that, in the instances where the Company does not comply with certain provisions of the Combined Code, this approach is justifiable, given that the Company is a wholly-owned subsidiary of MidAmerican and, as mentioned above, the governance framework in place throughout the Group is agreed with MidAmerican.

A Directors

Principle A1: The Board:

The board of directors is responsible for the overall management of the Company and its system of internal controls. The directors have agreed a quarterly schedule of board meetings at which they review performance, strategy and operational and risk-related issues. In addition, the President and Chief Operating Officer of the Group participates in weekly performance review meetings with Mr Abel, the President of MidAmerican, a parent company of the Company, and other senior managers of the MidAmerican group, including Mr Goodman, the Senior Vice President and Chief Financial Officer and Mr Anderson, the Senior Vice President and General Counsel. At those weekly meetings, the views of the President of MidAmerican and the senior management team regarding the key, current issues facing the Group are discussed.

Mr Abel also receives weekly, monthly and quarterly reports on the Group's performance from the Group's President and Chief Operating Officer. Mr Goodman and Mr Anderson each hold a similar weekly review meeting in respect of MidAmerican's financial and legal functions, at which the Group's Finance Director and General Counsel present their respective weekly reports.

The board meets quarterly and as required to consider relevant issues and met on six occasions in total during the year ended 31 December 2009, with the attendance of those directors, who were directors as at 31 December 2009, being as follows:

G E Abel	President, MidAmerican	0
D L Anderson	Senior Vice President and General Counsel, MidAmerican	0
R Dixon	Non-Executive Director	6
J M France	Regulation Director	5
P J Goodman	Senior Vice President and Chief Financial Officer, MidAmerican	0
P A Jones	President and Chief Operating Officer	6

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Corporate Governance Statement (continued)

Principle A1: The Board (continued):

Operational management of the Distribution Business is delegated to a single senior management team, with specific functional responsibilities. That senior management team meets monthly with the senior management of the Group to monitor performance and address issues of policy across all areas of the business and holds weekly conference calls to report on and consider performance related issues for that week. The senior management team of IUS and IUS Ireland also meet monthly but separately with the President and Chief Operating Officer and other senior managers of the Group. The performance of CE Gas is monitored through a process of regular reporting to the Group's President and Chief Operating Officer and to MidAmerican.

The directors have overall responsibility for the internal control environment, which, within the Group, is 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. In addition, MidAmerican 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. A review is undertaken of the company-wide controls in place on an annual basis and the review carried out in 2009, while not identifying any areas of significant weakness, resulted in the implementation of various recommended improvements. The key features of the Group's internal control system and the issues addressed during the year can be found on pages 8 and 9 of the business review of the year.

Details of the management structure of the Group are provided on page 18 of the directors' report. A schedule of key delegations of authority has been approved by the board, which delegates authority for decision-making to senior and other managers in respect of issues such as capital expenditure, procurement, contractual, human resource and payment matters and for the conduct of claims and litigation. That schedule reserves decision-making to the directors above certain financial limits. During the year, there were a number of committees in operation, acting under delegated terms of reference, which oversee Group policy. As part of the approved terms of reference, those committees report regularly to the delegating boards on their activities. The committees in operation during the year were as follows:

Health and Safety Management Committee

The board has established the Group Health and Safety Management Committee with delegated powers to manage the health and safety policy and performance of the Group. Membership of the committee comprises:

T E Fielden	Finance Director;
J M France	Regulation Director;
N M Gill	Field Operations Director;
P A Jones	President and Chief Operating Officer;
A J MacLennan	Managing Director, Integrated Utility Services Limited; and
P McCormick	Director of Health, Safety and Environment.

The committee meets on a regular basis in order to oversee implementation of health and safety policy, review and agree strategy for the management of health and safety issues, monitor health and safety performance across the Group, establish goals and targets, review the effectiveness of the health and safety policies and the health and safety management system and consider recommendations for changes in Group policy due to changes in appropriate legislation, codes of practice or guidance or due to recommendations arising from significant incidents.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Corporate Governance Statement (continued)

Principle A1: The Board (continued):

Treasury Committee

The Treasury Committee oversees and implements the treasury policies outlined in the business review of the year in the directors' report and comprises:

G E Abel	President, MidAmerican;
P Ainsley	Financial Controller;
D Brady	Treasurer;
T E Fielden	Finance Director;
P J Goodman:	Senior Vice President and Chief Financial Officer, MidAmerican;
P A Jones	President and Chief Operating Officer;
R D McHaddan	Assistant Treasurer; and
O Sutherland	Investor Reporting Manager.

Pensions Committee

The Pensions Committee oversees the Group's approach to the pension schemes to which it contributes and comprises:

P Ainsley	Financial Controller;
T E Fielden	Finance Director;
J M France	Regulation Director;
K Mawson	Head of Finance Development and Systems;
A Patterson	Director of Human Resources;
N Dawson	Pensions Manager;
L Taylor	Director of Business Systems; and
L Tweedie	Head of Service Delivery

Compliance Assurance Programme Steering Group ("CAPSG")

As mentioned in the business review, during the year the CAPSG was the principal management forum in the Group with regard to corporate governance. Its purpose is to ensure that Group companies apply and maintain appropriate arrangements to deliver sound corporate governance and comply with the overall strategy, framework and supporting policies. The CAPSG monitors and reviews the strategic risk environment, ensuring the continued suitability, adequacy and effectiveness of risk management arrangements. The CAPSG comprises:

J P Barnett	Director of Customer Operations;
R Dixon	Non-Executive Director;
M Drye	Director of Asset Management;
J Elliott	Company Secretary;
T E Fielden	Finance Director;
J M France	Regulation Director;
N M Gill	Field Operations Director; and
L Taylor	Director of Business Systems.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Corporate Governance Statement (continued)

A Directors (continued)

Principle A1: The Board (continued):

The risk management framework was monitored regularly during the year to ensure that all strategic risks, including those relating to environmental and social issues, were being addressed. Risk management policies and procedures were reviewed and updated to ensure a robust and clear approach was maintained. Mr Dixon attended meetings of the CAPSG to provide an independent view in respect of the matters discussed.

Asset risk continued to be a strong focus through the Asset Risk Management Executive Review Group and comprehensive plans continued to be in place to manage risks affecting all critical property assets and to strengthen the arrangements for crisis management and business continuity planning.

Further details of the Group's approach to corporate governance and the management of internal controls can be found in the business review of the year in the directors' report.

As explained in Principles A4 and B1, the Company does not have a remuneration committee or a nomination committee.

Principle A2: Chairman and Chief Executive

The Company does not have a formally appointed Chairman or Chief Executive. However, that division of responsibility is effectively achieved with the President and Chief Operating Officer of the Group chairing the board meetings, being responsible for the operation and management of the Group and reporting directly to the President of MidAmerican.

Principle A3: Board balance and independence

The board comprises five executive directors and Mr Dixon, a non-executive director, who, collectively, bring a range of skills and experience to the board. Consequently, the board believes that it possesses the skills and experience necessary to provide effective leadership, stewardship and control of the Company. During the year, Dr Jones was appointed as a director of the Company.

The directors of the Company, as at the date of approval of the annual accounts, were as follows:

G E Abel	President, MidAmerican;
D L Anderson	Senior Vice President and General Counsel, MidAmerican;
R Dixon	Non-Executive Director;
J M France	Regulation Director;
P J Goodman	Senior Vice President and Chief Financial Officer, MidAmerican;
P A Jones	President and Chief Operating Officer.

Principle A4: Appointments to the Board

The Group does not have a nomination committee. Appointments to the board are made by MidAmerican, in conjunction with the President and Chief Operating Officer.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Corporate Governance Statement (continued)

A Directors (continued)

Principle A5: Information and professional development

Directors receive monthly reports outlining progress against the Group's goals and targets, enabling financial performance against budget and operational performance against a number of indicators to be reviewed, and also participate in weekly meetings, which consider the key issues of that week in some detail. The directors are able to utilise the advice and services of the Company Secretary, in respect of their duties and responsibilities as directors and any new legislation that may affect those duties and responsibilities. A briefing programme continued to run throughout the year for the directors in respect of the changes introduced by the phased implementation of the Companies Act 2006, including the procedural requirements in respect of the authorisation of potential conflicts of interest. The directors also have access to external legal advice, should they feel it necessary. Interim briefings are provided to the non-executive director, as appropriate.

Principle A6: Performance evaluation

As part of their approved terms of reference, the committees report regularly on their activities, enabling the directors to evaluate the activities of those committees. However, the board does not have a process of evaluation of its own performance or of the performance of individual directors in their capacity as directors. MidAmerican has a performance appraisal and development scheme in place, under which each senior manager of the Group is subject to a formal annual appraisal of performance against his individual and MidAmerican's goals.

Principle A7: Re-election

The Company's articles of association do not require periodic retirement and re-election of directors.

B Remuneration

Principle B1: The level and make-up of remuneration

The Group does not have a remuneration committee. Annual remuneration awards for senior management of the Group are subject to the performance appraisal and development scheme process and consideration by the President of MidAmerican and the President and Chief Operating Officer. As the Company has no securities listed on the London Stock Exchange, it is not required to make directors' remuneration disclosures and have auditor review thereof.

Principle B2: Procedure

As mentioned under Principle B1, the annual remuneration awards for senior management of the Group is subject to the performance appraisal and development scheme process and consideration by the President of MidAmerican and the President and Chief Operating Officer. Dr France and Dr Jones are subject to the performance appraisal and development scheme process in their capacity as senior managers of the Group and not, specifically, in their capacity as board directors. No director is involved in deciding his own remuneration.

C Accountability and Audit

Principle C1: Financial Reporting

The board believes that the directors' report and business review of the year included in the annual accounts provides a balanced and understandable assessment of the Group's position and prospects. The directors explain, at page 30, their responsibility for preparing the annual accounts, have reported, at page 23 in the directors' report, that the Company is a going concern and included the independent accountant's report to the members of the Company at pages 31 and 32 of the annual accounts.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

DIRECTORS' REPORT (CONTINUED)

Corporate Governance Statement (continued)

C Accountability and Audit (continued)

Principle C2: Internal control

The principal risks and uncertainties facing the Group and the key features of the Group's internal control system, together with details of the issues addressed by the Group during the year, can be found at pages 4 to 9 of the business review of the year in the directors' report.

Principle C3: Audit committee and auditors

The Company has established an audit committee for the Group, under delegated terms of reference, which include monitoring of the financial reporting process, the effectiveness of the internal control, internal audit and risk management systems, the statutory audit of the accounts, the independence of and the provision of additional services by the auditor and receiving an annual report from the Group's Head of Internal Audit on the work of the Internal Audit Section during the year and the audit plan for the following year. Combined Code provision C.3.1 states that the board should establish an audit committee of at least three independent non-executive directors and should satisfy itself that at least one member has recent and relevant financial experience. Given that Mr Dixon is the Group's sole independent non-executive director, the Audit Committee comprises:

R Dixon	Non-Executive Director; and
T E Fielden	Finance Director.

The Group also operates under the oversight of the MidAmerican Audit Committee, which is comprised of Mr. Marc D. Hamburg who, the MidAmerican board of directors has determined, qualifies as an "audit committee financial expert," as defined by the rules of the Securities and Exchange Commission, based on his education, experience and background. The MidAmerican Audit Committee is attended, from time to time, by the Senior Vice President and Chief Financial Officer and the Vice President and Chief Accounting Officer of MidAmerican, the Director of Internal Auditing of Berkshire Hathaway, Inc. and the Heads of Internal Audit of the various MidAmerican business platforms.

The directors confirm that no fees were payable by the Company to Deloitte LLP in relation to non-audit services during the year.

The internal control section on page 8 of the directors' report contains details of the Group's "speaking up" policy.

D Relations with shareholders

Principle D1: Dialogue with Institutional Shareholders

This section of the Combined Code is not applicable to the Company, as it is a wholly-owned subsidiary of a privately held group of companies and, therefore, has no institutional shareholders.

Principle D2: Constructive use of the AGM

This section of the Combined Code is not applicable to the Company, as it is a wholly-owned subsidiary of a privately held group of companies and, therefore, has no institutional shareholders.

By order of the board



John Elliott
Company Secretary

28 April 2010

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"), as adopted by the European Union. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 2006 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 2006.

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.

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 22 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 2010 and signed on its behalf by:



P A Jones
President and Chief Operating Officer

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

We have audited the financial statements of CE Electric UK Funding Company (the "Company") for the year ended 31 December 2009, which comprise the Group Income Statement, the Group and Parent Company Statements of Comprehensive Income, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Balance Sheets and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2009 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

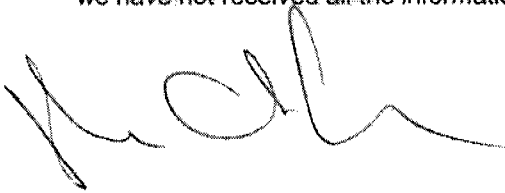
**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CE ELECTRIC UK FUNDING COMPANY
(CONTINUED)**

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



John Charlton (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne England

29 April 2010

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 £m	2008 £m
Revenue	3	566.4	563.0
Cost of sales		(67.1)	(68.1)
Gross profit		499.3	494.9
Distribution costs		(179.4)	(171.7)
Administrative expenses		(75.7)	(53.6)
Operating profit	3 & 4	244.2	269.6
Share of profit after tax of joint venture entities accounted for using the equity method		0.3	0.7
Other income	5	1.1	0.6
Investment income	6	1.9	3.4
Finance costs	7	(100.5)	(103.1)
Profit before tax	3	147.0	171.2
Income tax expense	10	(40.3)	(51.4)
Profit from ordinary activities		106.7	119.8
Attributable to:			
Equity holder of the parent		105.9	118.6
Minority Interest		0.8	1.2
		106.7	119.8

All activities relate to continuing operations.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

	GROUP		COMPANY	
	2009 £m	2008 £m	2009 £m	2008 £m
Profit from ordinary activities	106.7	119.8	2.4	1.5
Exchange differences on translation of foreign operations	3.4	2.1	-	-
Fair value movement on cash flow hedge	5.6	(2.6)	-	-
Transfer to profit or loss on cash flow hedge	(2.4)	-	-	-
Total comprehensive income	113.3	119.3	2.4	1.5
Attributable to:				
Equity holder of the parent	112.5	118.1	2.4	1.5
Minority interest	0.8	1.2	-	-
Total comprehensive income	113.3	119.3	2.4	1.5

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

	Share Capital £m	Merger Reserve £m	Other Reserves £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 adjustment	-	-	0.3	-	-	0.3
Movement in merger reserve	-	1.2	-	-	(1.2)	-
Movement in cash flow hedges	-	-	-	2.3	-	2.3
Profit from ordinary activities before minority interest	-	-	-	-	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 adjustment	-	-	2.1	-	-	2.1
Movement in merger reserve	-	(1.0)	-	-	1.0	-
Movement in cash flow hedges	-	-	-	(2.6)	-	(2.6)
Profit from ordinary activities before minority interest	-	-	-	-	118.6	118.6
Total equity at 31 December 2008	354.6	0.2	2.9	(3.2)	360.7	715.2
Foreign exchange translation adjustment	-	-	3.4	-	-	3.4
Movement in merger reserve	-	1.0	-	-	(1.0)	-
Movement in cash flow hedges	-	-	-	3.2	-	3.2
Profit from ordinary activities before minority interest	-	-	-	-	105.9	105.9
Total equity at 31 December 2009	354.6	1.2	6.3	-	465.6	827.7

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

	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
Comprehensive income for the year	-	-	0.7	0.7
Total equity at 31 December 2007	354.6	-	60.9	415.5
Comprehensive income for the year	-	-	1.5	1.5
Total equity at 31 December 2008	354.6	-	62.4	417.0
Comprehensive income for the year	-	-	2.4	2.4
Total equity at 31 December 2009	354.6	-	64.8	419.4

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

BALANCE SHEETS

AT 31 DECEMBER 2009

	Note	2009 £m	GROUP 2008 £m	2007 £m	COMPANY 2009 £m	2008 £m
Non-current assets						
Property, plant and equipment	12	3,553.4	3,434.3	3,205.2	-	-
Intangibles	13	265.2	266.5	268.7	-	-
Investments in joint venture entities	14	3.2	3.2	3.5	-	-
Investments in other undertakings	14	0.1	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	128.4	95.9	44.7	-	-
Trade and other receivables	18	5.4	4.3	4.7	-	-
		3,955.7	3,804.3	3,527.0	640.5	640.5
Current assets						
Inventories	16	14.4	20.7	22.7	-	-
Trade and other receivables	18	123.4	101.4	130.6	-	-
Short-term securities	18	-	-	206.5	-	-
Cash and cash equivalents	18	6.0	27.1	7.9	0.2	-
Non-current assets held for sale	29	50.0	-	-	-	-
		193.8	149.2	367.7	0.2	-
Total assets		4,149.5	3,953.5	3,894.7	640.7	640.5

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

BALANCE SHEETS (CONTINUED)

AT 31 DECEMBER 2009

	Note	2009 £m	GROUP 2008 £m	2007 £m	COMPANY 2009 £m	2008 £m
Current liabilities						
Trade and other payables	20	(120.9)	(115.6)	(128.6)	(0.3)	(0.7)
Derivative financial instruments	19	(2.4)	(0.6)	(55.5)	-	-
Current income tax liabilities	20	(18.8)	(14.4)	(27.7)	(0.5)	(0.3)
Deferred revenue	23	(35.7)	(32.5)	(29.3)	-	-
Borrowings	21	(118.8)	(94.6)	(205.0)	(27.4)	(29.7)
Provisions	24	(4.6)	(4.2)	(5.2)	-	-
Liabilities associated with non-current assets held for sale	29	(5.9)	-	-	-	-
		<u>(307.1)</u>	<u>(261.9)</u>	<u>(451.3)</u>	<u>(28.2)</u>	<u>(30.7)</u>
Net current liabilities		<u>(113.3)</u>	<u>(112.7)</u>	<u>(83.6)</u>	<u>(28.0)</u>	<u>(30.7)</u>
Non-current liabilities						
Borrowings	21	(1,545.6)	(1,532.8)	(1,508.3)	(193.1)	(192.8)
Derivative financial instruments	19	-	(3.8)	-	-	-
Deferred income tax liabilities	22	(428.0)	(419.0)	(392.8)	-	-
Retirement benefit obligations	30	(1.4)	(1.4)	(1.4)	-	-
Deferred revenue	23	(1,024.2)	(1,001.6)	(927.9)	-	-
Provisions	24	(3.7)	(6.8)	(6.1)	-	-
		<u>(3,002.9)</u>	<u>(2,965.4)</u>	<u>(2,836.5)</u>	<u>(193.1)</u>	<u>(192.8)</u>
Total liabilities		<u>(3,310.0)</u>	<u>(3,227.3)</u>	<u>(3,287.8)</u>	<u>(221.3)</u>	<u>(223.5)</u>
Net assets		<u>839.5</u>	<u>726.2</u>	<u>606.9</u>	<u>419.4</u>	<u>417.0</u>
EQUITY						
Share capital	26	354.6	354.6	354.6	354.6	354.6
Merger reserve		1.2	0.2	1.2	-	-
Other reserves		6.3	2.9	0.8	-	-
Hedging reserve		-	(3.2)	(0.6)	-	-
Retained earnings		<u>465.6</u>	<u>360.7</u>	<u>241.1</u>	<u>64.8</u>	<u>62.4</u>
		<u>827.7</u>	<u>715.2</u>	<u>597.1</u>	<u>419.4</u>	<u>417.0</u>
Minority interest	25	<u>11.8</u>	<u>11.0</u>	<u>9.8</u>	<u>-</u>	<u>-</u>
Total equity		<u>839.5</u>	<u>726.2</u>	<u>606.9</u>	<u>419.4</u>	<u>417.0</u>

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



P A Jones
Director

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

		GROUP		COMPANY	
	Note	2009 £m	2008 £m	2009 £m	2008 £m
Net cash from operating activities	27	211.2	212.9	2.2	1.9
Investing activities					
Dividends received from joint venture entities		0.3	0.4	-	-
Acquisition of subsidiary		-	0.1	-	-
Sale of long-term securities		-	200.0	-	-
Deposit received for future sale of property, plant and equipment		4.4	-	-	-
Proceeds from disposal of property, plant and equipment		1.7	5.1	-	-
Purchases of property, plant and equipment		(306.2)	(345.5)	-	-
Purchases of intangible assets		(3.9)	(2.7)	-	-
Receipt of customer contributions		54.7	106.4	-	-
Net cash used in investing activities		(249.0)	(36.2)	-	-
Financing activities					
Movement in borrowings from subsidiary undertakings		-	-	(2.0)	(2.0)
Repayment of borrowings		(10.9)	(193.8)	-	-
New borrowings raised		27.0	36.1	-	-
Net cash generated from / (used in) financing activities		16.1	(157.7)	(2.0)	(2.0)
Net (decrease)/increase in cash and cash equivalents		(21.7)	19.0	0.2	(0.1)
Cash and cash equivalents at beginning of year		27.1	7.9	-	0.1
Effect of foreign exchange rate changes		0.6	0.2	-	-
Cash and cash equivalents at end of year		6.0	27.1	0.2	-

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2009

1 GENERAL INFORMATION

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

The nature of the 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 Companies Act 2006 (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 408 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 directors have, at the time of approving the Financial Statements, a reasonable expectation that the Company has 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. Further detail is contained in the Directors Report on page 23.

Judgments in applying accounting policies and key sources of estimation uncertainty

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

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

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

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Adoption of new or revised standards

In the current year, the following new and revised Standards have been adopted and have affected the amounts reported in these financial statements.

Standards affecting presentation and disclosure

IAS 1	Presentation of Financial Statements – Amendments to IAS 1
IFRS 8	Operating Segments
IFRS 7	Financial Instruments Disclosures – Amendments to IFRS 7

IAS 1 has introduced a number of changes in the format of the financial statements. In addition, the revised Standard has required the presentation of a *third balance sheet* as at 31 December 2007 because the Group has applied certain changes in accounting policies retrospectively. There is no third balance sheet presented for the Company as there have been no such changes in accounting policy and hence no impact on the balance sheet or disclosures.

IFRS 8 is a disclosure Standard that has redefined the process for measuring segmental information in the notes to the accounts, and is the reason for the third balance sheet as mentioned above. In practice however, the reporting segments shown in note 3 to these financial statements have not been affected by this change in methodology and remain comparable with the prior year.

The amendments to IFRS 7 expand the disclosures required in respect of fair value measurement and liquidity risk. In practice these amendments have had no material effect on these financial statements.

Standards affecting the reported results and the financial position

IAS 23 Borrowing Costs – Amendments to IAS 23

The principal change to IAS 23 was to eliminate the option to expense all borrowing costs when incurred. From 1 January 2009, all borrowing costs relating to qualifying assets have therefore been capitalised. The effect of this adjustment in 2009 has been less than £0.1m.

Standards and Interpretations approved but not yet effective

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

IFRIC 18 Transfer of Assets from Customers

The Group will adopt this Interpretation in the annual report for the year ended 31 December 2010. The potential impact of IFRIC 18 is being considered by the directors and is currently unclear.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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.

Revenue from the sale of gas is measured at the fair value of the consideration receivable, principally from the Company's share of production from its field interests, net of value added tax.

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

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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 brought into use.

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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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.

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.

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.

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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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.

Non-Current Assets Held for Sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Reserves

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognized in profit or loss only when the hedged transaction impacts the profit or loss or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

In 2002, the merger reserve was created following the transfer of Property, Plant and Equipment between companies in the CE Gas group.

Reserves shown as "Other" on the balance sheet are foreign currency translation reserves, primarily held in to the Group's investment in the CE Gas group.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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.

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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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 comprehensive income. 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

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2009**

3 REVENUE AND SEGMENTAL ANALYSIS

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the President and Chief Operating Officer to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required the Group to identify two sets of segments (business and geographical), using a risk and returns approach, with the Group's system of internal financial reporting to key management personnel serving only as the starting point for identification of such segments.

In practice however, the segments previously reported by the Group under IAS 14 already meet the requirements of IFRS 8. This is because the business segments reported in these financial statements reflect the format of the information presented to the President and Chief Operating Officer for the purpose of strategic resource allocation and decision making. The adoption of IFRS 8 therefore has had no impact on the disclosures made in these financial statements in respect of segmental analysis, other than the decision to combine the 'other' and the 'consolidation adjustments' segments as such information is not presented to the President and Chief Operating Officer.

The Group operates in three principal areas of activity, being the distribution of electricity (the Distribution Business), engineering contracting (IUS) and hydrocarbon exploration and development (CE Gas). 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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2009

3 REVENUE AND SEGMENTAL ANALYSIS (CONTINUED)

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

	Distribution 2009 £m	Engineering Contracting 2009 £m	Hydrocarbon Exploration and Development 2009 £m	Other 2009 £m	Total 2009 £m
REVENUE					
External sales	496.0	46.6	21.3	2.5	566.4
Inter-segment sales	0.4	1.0	-	(1.4)	-
Total revenue	<u>496.4</u>	<u>47.6</u>	<u>21.3</u>	<u>1.1</u>	<u>566.4</u>
SEGMENTS RESULTS					
Operating profit/(loss)	<u>219.9</u>	<u>1.2</u>	<u>(10.0)</u>	<u>33.1</u>	<u>244.2</u>
Share of profit after tax of joint venture entities accounted for using the equity method					0.3
Other income					1.1
Investment income					1.9
Finance costs					<u>(100.5)</u>
Profit before tax					<u>147.0</u>
OTHER INFORMATION					
Capital additions	287.8	-	8.2	(0.5)	295.5
Depreciation and amortisation	123.1	0.2	23.8	(1.6)	145.5
Amortisation of deferred revenue	<u>(31.3)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31.3)</u>
BALANCE SHEET					
Segment assets	<u>3,958.4</u>	<u>16.8</u>	<u>112.9</u>	<u>55.4</u>	<u>4,143.5</u>
Unallocated corporate assets					6.0
Total assets					<u>4,149.5</u>
Segment liabilities	<u>(1,157.9)</u>	<u>(10.4)</u>	<u>(16.5)</u>	<u>(8.6)</u>	<u>(1,193.4)</u>
Unallocated corporate liabilities					<u>(2,116.6)</u>
Total liabilities					<u>(3,310.0)</u>
Net assets by segment	<u>2,800.5</u>	<u>6.4</u>	<u>96.4</u>	<u>46.8</u>	<u>2,950.1</u>
Unallocated net corporate liabilities					<u>(2,110.6)</u>
Total net assets					<u>839.5</u>

Unallocated net corporate liabilities include current and deferred tax liabilities (£447.5m) and borrowings (£1,664.4m).

"Other" includes the retirement benefit asset of £128.4m, a £57.6m reduction in cumulative capitalised costs and a £29.2m credit to operating profit as a consequence of the Distribution and Engineering Contracting divisions accounting for retirement benefits on a cash accrued basis. "Other" also includes Business Support Units.

Revenue from a key customer, RWE Npower, totaling £170.5m is included within the distribution segment. Revenue from a key customer, E.ON, totaling £23.8m is included within the engineering contracting segment.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2009

3 REVENUE AND SEGMENTAL ANALYSIS (CONTINUED)

	Distribution 2008 £m	Engineering Contracting 2008 £m	Hydrocarbon Exploration and Development 2008 £m	Other 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	-	(0.8)	-
Total revenue	<u>489.2</u>	<u>50.8</u>	<u>21.3</u>	<u>1.7</u>	<u>563.0</u>
SEGMENTS RESULTS					
Operating profit	<u>212.7</u>	<u>2.2</u>	<u>5.1</u>	<u>49.6</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	(1.3)	123.8
Amortisation of deferred revenue	<u>(28.8)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28.8)</u>
BALANCE SHEET					
Segment assets	<u>3,771.9</u>	<u>23.1</u>	<u>89.9</u>	<u>41.2</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>(18.5)</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>22.7</u>	2,764.0
Unallocated net corporate liabilities					(2,037.8)
Total net assets					<u>726.2</u>

Unallocated net corporate liabilities include current and deferred tax liabilities (£433.4m) and borrowings (£1,627.4m).

"Other" includes the retirement benefit asset of £95.9m, a £55.9m reduction in cumulative capitalised costs and a £44.9m credit to operating profit as a consequence of the Distribution and Engineering Contracting divisions accounting for retirement benefits on a cash accrued basis. "Other" also includes Business Support Units.

Revenue from a key customer, RWE Npower, totaling £183.2m is included within the distribution segment. Revenue from a key customer, E.ON, totaling £29.4m is included within the engineering contracting segment.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

3 REVENUE AND SEGMENTAL ANALYSIS (CONTINUED)

	Distribution 2007 £m	Engineering Contracting 2007 £m	Hydrocarbon Exploration and Development 2007 £m	Other 2007 £m	Total 2007 £m
REVENUE					
External sales	493.3	63.1	17.0	1.6	575.0
Inter-segment sales	0.3	-	-	(0.3)	-
Total revenue	493.6	63.1	17.0	1.3	575.0
SEGMENTS RESULTS					
Operating profit	228.6	2.8	1.6	39.8	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	(3.6)	311.1
Depreciation and amortisation	115.3	-	9.3	(1.1)	123.5
Amortisation of deferred revenue	(27.2)	-	-	-	(27.2)
BALANCE SHEET					
Segment assets	3,566.0	26.5	86.0	1.5	3,680.0
Unallocated corporate assets					214.7
Total assets					3,894.7
Segment liabilities	(1,096.4)	(13.8)	(9.2)	(54.8)	(1,174.2)
Unallocated corporate liabilities					(2,113.6)
Total liabilities					(3,287.8)
Net assets by segment	2,469.6	12.7	76.8	(53.3)	2,505.8
Unallocated net corporate liabilities					(1,898.9)
Total net assets					606.9

Unallocated net corporate liabilities include current and deferred tax liabilities (£420.3m) and borrowings (£1,713.3m).

"Other" includes the retirement benefit asset of £44.7m, a £52.9m reduction in cumulative capitalised costs and a £37.7m credit to operating profit as a consequence of the Distribution and Engineering Contracting divisions accounting for retirement benefits on a cash accrued basis. "Other" also includes Business Support Units.

Revenue from a key customer, RWE Npower, totaling £202.0m is included within the distribution segment. Revenue from a key customer, E.ON, totaling £36.0m is included within the engineering contracting segment.

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2009**4 OPERATING PROFIT**

Operating profit is stated after charging/(crediting):

	2009 £m	2008 £m
Staff costs (Note 8)	51.7	42.0
Research costs	0.8	1.0
Depreciation of property, plant and equipment	127.0	118.9
Impairment of non-current assets held for sale	12.4	-
Amortisation of deferred revenue	(31.3)	(28.8)
Amortisation of intangibles	6.1	4.9
Impairment loss on trade and other receivables	0.5	1.4
Movement in fair value of commodity hedges	2.0	2.2

The analysis of auditors' remuneration is as follows:

	2009 £000	2008 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	83	57
Fees payable to the Company's auditors for the audit of the Company's subsidiaries pursuant to legislation	397	452
Total audit fees	480	509

	2009 £000	2008 £000
Fees payable to the Company's auditors for other services pursuant to legislation	5	7

5 OTHER INCOME

	2009 £m	2008 £m
Profit on disposal of other property, plant and equipment	1.1	0.6

6 INVESTMENT INCOME

	2009 £m	2008 £m
Dividends received	0.1	0.2
Interest receivable	1.8	3.2
Total investment income	1.9	3.4

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2009**7 FINANCE COSTS**

	2009 £m	2008 £m
Unwinding of discount on abandonment provision	0.5	0.4
Interest payable on non-equity preference shares	2.8	2.7
Release of hedging reserve (Note 33)	2.4	-
Interest payable on other borrowings	94.8	100.0
	<hr/>	<hr/>
Total finance costs	100.5	103.1
	<hr/>	<hr/>

8 STAFF COSTS

	GROUP	
	2009 £m	2008 £m
Salaries	98.8	96.2
Social security costs	8.9	8.6
Defined benefit pension scheme charge / (credit) (Note 30)	11.2	(2.9)
Defined contribution pension scheme costs	0.5	0.2
	<hr/>	<hr/>
	119.4	102.1
Less: charged to property, plant and equipment	(66.5)	(58.9)
Less: charged to work in progress	(1.2)	(1.2)
	<hr/>	<hr/>
	51.7	42.0
	<hr/>	<hr/>

The average monthly number of employees:

	2009 Number	2008 Number
Distribution	2,069	2,085
Engineering contracting	348	351
Hydrocarbon exploration and development	12	10
Other	60	60
	<hr/>	<hr/>
	2,489	2,506
	<hr/>	<hr/>

The Company had no employees in the years ended 31 December 2009 and 31 December 2008.

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2009**9 DIRECTORS AND KEY PERSONNEL****a) EMOLUMENTS**

	Highest paid director		All	
	2009 £000	2008 £000	2009 £000	2008 £000
Short-term employee benefits	271	129	419	144
Post-retirement benefits	22	56	75	56
Other long-term benefits	123	158	169	192
	416	343	663	392

	Other Key Personnel	
	2009 £000	2008 £000
Short-term employee benefits	861	1,063
Post-retirement benefits	252	275
Other long-term benefits	108	572
	1,221	1,910

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 2009, three directors were members of defined benefit schemes (2008: three directors).

The accrued pension benefit relating to the highest paid director is £nil (2008: nil).

c) CONTRACTS

During the year, two directors (2008: 1) and eight key personnel (2008: 9) utilised the services provided by Northern Transport Finance Limited ("NTFL"), a wholly-owned subsidiary to obtain a motor vehicle.

The amounts included in finance lease receivables (Note 18) owed by the directors and key personnel total £48,351 (2008: £38,400) in respect of non-current receivables and £13,024 (2008: £69,400) in respect of current receivables.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

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

10 INCOME TAX EXPENSE

	2009		2008	
	£m	£m	£m	£m
Tax expense comprises:				
Current tax:				
Corporation tax charge for the year	36.6		35.7	
Over provision for prior years	(1.4)		(10.2)	
Total current tax charge		35.2		25.5
Petroleum revenue tax ("PRT")		0.5		0.8
Deferred tax expense (Note 22):				
Deferred tax expenses relating to the origination and reversal of temporary differences.	4.6		22.8	
Settlement of prior period capital gains claims	-		(16.0)	
Effect of changes in tax legislation	-		18.3	
		4.6		25.1
Tax charge on profit before tax		40.3		51.4
The total charge can be reconciled to the accounting profit as follows:				
Profit before tax		147.0		171.2
Tax on profit before tax at standard rate of corporation tax in the United Kingdom of 28% (2008: 28.5%)		41.1		48.8
Interest payable on non-cumulative preference shares		0.8		0.8
Tax effect of results of joint venture entities		(0.1)		(0.2)
Tax effect of PRT		0.2		0.4
Effect of changes in tax legislation		-		18.3
Effect of changes in tax rates		-		(0.4)
Foreign exchange impact		-		0.2
Settlement of prior period capital gains claims		-		(16.0)
Over provision for prior years		(1.7)		(0.5)
Tax charge on profit before tax		40.3		51.4

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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

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

10 INCOME TAX EXPENSE (CONTINUED)

There was an increase in the deferred tax liability provided in 2008 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.

11 DIVIDENDS

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

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

12 PROPERTY, PLANT AND EQUIPMENT

			GROUP		
	Distribution System £m	Oil & Gas Assets £m	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
Re-classifications	-	2.3	-	(2.3)	-
Additions	287.8	3.9	-	4.8	296.5
Transfer to assets held for resale	-	(54.1)	-	-	(54.1)
Foreign exchange translation	-	11.7	-	-	11.7
Disposals	(9.1)	-	(2.4)	(0.3)	(11.8)
At December 2009	<u>4,373.9</u>	<u>58.2</u>	<u>6.8</u>	<u>41.7</u>	<u>4,480.6</u>
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
Provided during the year	112.9	21.0	0.3	5.2	139.4
Transfer to assets held for resale	-	(5.0)	-	-	(5.0)
Disposals	(9.1)	-	(1.8)	(0.3)	(11.2)
At 31 December 2009	<u>856.3</u>	<u>30.2</u>	<u>1.3</u>	<u>39.4</u>	<u>927.2</u>
Net book value at 31 December 2009	<u>3,517.6</u>	<u>28.0</u>	<u>5.5</u>	<u>2.3</u>	<u>3,553.4</u>
Net book value at 31 December 2008	<u>3,342.7</u>	<u>80.2</u>	<u>6.4</u>	<u>5.0</u>	<u>3,434.3</u>
Net book value at 31 December 2007	<u>3,115.1</u>	<u>77.3</u>	<u>6.7</u>	<u>6.1</u>	<u>3,205.2</u>

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets in the course of construction
included above:

			GROUP Non- operational land and buildings £m	Fixtures and equipment £m	Total £m
	Distribution System £m	Oil & Gas Assets £m			
At 1 January 2007	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
Additions	287.8	-	-	-	287.8
Available for use	(365.6)	-	-	-	(365.6)
At 31 December 2009	121.6	-	-	-	121.6

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

	2009 £m	2008 £m	2007 £m
Freehold	4.0	4.2	4.3
Long leasehold	1.4	2.1	2.3
Short leasehold	0.1	0.1	0.1
	5.5	6.4	6.7

The Company had no property, plant and equipment assets at 31 December 2009 (2008: £nil).

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

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
At 31 December 2007	248.8	14.0	61.5	324.3
Additions	-	1.8	0.9	2.7
At 31 December 2008	248.8	15.8	62.4	327.0
Additions	-	4.3	0.5	4.8
At 31 December 2009	248.8	20.1	62.9	331.8
AMORTISATION:				
At 1 January 2007	-	6.5	40.9	47.4
Charge for the year	-	4.6	3.6	8.2
At 31 December 2007	-	11.1	44.5	55.6
Charge for the year	-	1.0	3.9	4.9
At 31 December 2008	-	12.1	48.4	60.5
Charge for the year	-	2.5	3.6	6.1
At 31 December 2009	-	14.6	52.0	66.6
Net book value at 31 December 2009	248.8	5.5	10.9	265.2
Net book value at 31 December 2008	248.8	3.7	14.0	266.5
Net book value at 31 December 2007	248.8	2.9	17.0	268.7

The Company had no intangible assets at 31 December 2009 (2008: £nil, 2007: £nil).

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2009

13 GROUP INTANGIBLES (CONTINUED)

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.

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

	2009 £m	2008 £m	2007 £m
NEDL	1,108	1,051	992
YEDL (including goodwill)	1,635	1,543	1,455
Total distribution	2,743	2,594	2,447

The carrying values of the CGUs comprise tangible and intangible assets with finite lives and are net of deferred revenues. In addition, the YEDL CGU includes goodwill of £248.8m (2008: £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. Growth rates are derived from the historic results and the forecasts in the most recent board approved budgets and ten-year plans. 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 rate used to discount the cash flows applicable to Northern Electric Distribution Limited ("NEDL") and Yorkshire Electricity Distribution plc ("YEDL") was 6.6% (2008: 6.7%, 2007: 6.9%) pre-tax and ignoring the impact of price inflation. This rate represents the directors' estimate of the average rate of return for the Group, incorporating some degree of out-performance against Ofgem allowances.

The forecast of cash flows for future periods is extrapolated from the last year of the ten-year plan based on an estimated growth rate of 2.5% (real ignoring the impact of projected price inflation), which is not more than the expected long-term growth rate for the sector.

The application of these assumptions did not give rise to an impairment charge in 2009 (2008: £nil, 2007: £nil).

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

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
Share of joint venture entities results less dividends received	-	-	-	-
At 31 December 2009	3.2	0.4	3.6	376.3
PROVISION FOR DIMINUTION IN VALUE:				
At 1 January 2007, 31 December 2007, 2008 and 2009	-	0.3	0.3	-
Net book value at 31 December 2009	3.2	0.1	3.3	376.3
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 remaining 50% of Integrated Utility Services Limited, a company registered in the Republic of Ireland, was acquired.

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2009**14 INVESTMENTS (CONTINUED)**

Details of the principal investments of the Group at 31 December 2009 are listed below:

Name of company	Holding of shares	Proportion of voting rights held	Nature of business
Principal subsidiary undertakings held by the 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	1 @ £1	100%	Hydrocarbon exploration and development
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)	77,188,706 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 Cayman Islands)	2,000 at \$1	100%	Finance company
Yorkshire Power Group Limited	416,900,001 at £1	94.75%	Holding Company
Joint venture entities held by CE Electric UK Holdings and its subsidiaries:			
Vehicle Lease and Service Limited	950,000 at £1	50%	Transport Services

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2009**15 INTEREST IN JOINT VENTURE ENTITIES**

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

	2009 £m	2008 £m	2007 £m
Non-current assets	16.1	14.8	11.6
Current assets	13.3	14.7	14.3
Non-current liabilities	(13.5)	(13.9)	(10.7)
Current liabilities	(9.5)	(9.2)	(8.2)
Net assets	6.4	6.4	7.0
Group's share of joint venture entities net assets	3.2	3.2	3.5
Revenue	14.4	17.0	18.0
Profit for the year	0.6	1.4	1.2
Group's share of joint venture entities profit for the year.	0.3	0.7	0.6

16 INVENTORIES

	2009 £m	2008 £m	2007 £m
Raw materials and consumables	7.1	8.0	7.9
Work in progress (note 17)	7.1	12.4	14.3
Goods for resale	0.2	0.3	0.5
	14.4	20.7	22.7

The Company had no inventories at 31 December 2009 (2008: nil).

17 CONSTRUCTION CONTRACTS

	2009 £m	GROUP 2008 £m	2007 £m
Contracts in progress at balance sheet date:			
Amounts due from customers included in inventories	7.1	12.4	14.3
Contract costs incurred plus recognised profits less recognised losses to date	63.5	78.4	79.3
Less: Progress billings	(56.4)	(66.0)	(65.0)
	7.1	12.4	14.3

At 31 December 2009, retentions held by customers for contract work amounted to £0.4m (2008: £0.3m, 2007: £0.1m) and advances received from customers for contract work amounted to £nil (2008: £nil, 2007: £nil). Within amounts due from customers included in inventories is £3.0m (2008: £8.2m, 2007: £8.9m) due from a key customer, E.ON, which has accounted for approximately 52% of construction contract revenue in the year (2008: 59%, 2007: 57%).

The Company had no construction contracts at 31 December 2009 (2008: £nil, 2007: £nil).

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

18 OTHER FINANCIAL ASSETS

Long-term securities

	COMPANY			
	Book value		Fair value	
	2009	2008	2009	2008
	£m	£m	£m	£m
Amounts owed by subsidiary undertakings	264.2	264.2	288.8	278.1

The directors' estimate of the fair value is calculated by discounting the future cash flows at the market rate at the balance sheet date. The 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		
	2009	2008	2007	2009	2007
	£m	£m	£m	£m	£m
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

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

18 OTHER FINANCIAL ASSETS (CONTINUED)

Trade and other receivables

	2009 £m	GROUP 2008 £m	2007 £m
Non current:			
Finance lease receivables	<u>5.4</u>	<u>4.3</u>	<u>4.7</u>
Current:			
Distribution use of system receivable	79.8	62.2	81.7
Amounts receivable for sale of goods or services	19.5	8.7	5.7
Construction contract customers	9.8	10.4	13.2
Finance lease receivables	3.1	3.6	2.8
Amounts due from related parties	-	-	4.3
Amounts due from joint venture entities	-	-	0.5
Other receivables	3.0	5.4	11.6
Petroleum revenue tax	0.3	-	0.2
Prepayments and accrued income	<u>7.9</u>	<u>11.1</u>	<u>10.6</u>
	<u>123.4</u>	<u>101.4</u>	<u>130.6</u>

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 2009 (2008: £nil)

Finance lease receivables

	Minimum lease payments			Present value of minimum lease payments		
	2009 £m	2008 £m	2007 £m	2009 £m	2008 £m	2007 £m
Amounts receivable under finance leases:						
Within one year	3.5	3.9	3.1	3.1	3.6	2.8
In the second to fifth years inclusive	<u>5.8</u>	<u>4.7</u>	<u>5.1</u>	<u>5.4</u>	<u>4.3</u>	<u>4.7</u>
	9.3	8.6	8.2	8.5	7.9	7.5
Less: unearned finance income	<u>(0.8)</u>	<u>(0.7)</u>	<u>(0.7)</u>	-	-	-
	<u>8.5</u>	<u>7.9</u>	<u>7.5</u>	<u>8.5</u>	<u>7.9</u>	<u>7.5</u>

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% (2008: 6.5%, 2007: 6.5%) per annum.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2009**

18 OTHER FINANCIAL ASSETS (CONTINUED)

None of these debts are past due and there are no indicators of impairment. The directors consider the carrying value of finance lease receivables approximates their fair value. The maximum risk exposure is the book value of these receivables, less the residual value of the leased vehicle.

Distribution use of system receivables

The customers served by the Group's distribution networks are supplied by a small number of electricity supply businesses with RWE NPower plc accounting for approximately 33% of distribution revenues in 2009 (2008: 36%, 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 £3.3m as at December 2008 (2008: £3.5m, 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 £nil which have been placed into administration and have therefore been provided for in full at the year end (2008: £0.8m, 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 £2.0m (2008: £1.0m, 2007: £1.6m) which are past due at the reporting date and for which the Group has provided an irrecoverable amount of £0.6m (2008: £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 329 days (2008: 588 days, 2007: 570 days).

Included in the Group's amounts receivable for goods and services balance are debtors with a carrying amount of £1.1m (2008: £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 88 days (2008: 96 days, 2007: 88 days).

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2009**18 OTHER FINANCIAL ASSETS (CONTINUED)**

Ageing of past due but not impaired receivables

	2009	2008	2007
	£m	£m	£m
30-60 days	0.6	1.1	0.9
60-120 days	0.4	0.8	1.4
120-210 days	0.1	0.9	0.5
Total	1.1	2.8	2.8

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 one year for UK Contracting debts and all receivables over six 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 £4.4m (2008: £3.1m, 2007: £4.4m) which are past due at the reporting date for which the Group has provided for an irrecoverable amount of £0.3m (2008: £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 105 days (2008: 111 days, 2007: 101 days).

Included in the Group's construction contracts balance are debtors with a carrying amount of £2.0m (2008: £2.1m, 2007: £1.7m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 45 days (2008: 63 days, 2007: 46 days).

Ageing of past due but not impaired receivables

	2009	2008	2007
	£m	£m	£m
30-90 days	2.0	1.9	1.5
90-180 days	-	0.2	-
180-365 days	-	-	0.2
Total	2.0	2.1	1.7

E.ON accounted for approximately 52% of construction contract revenues in 2009 (2008: 59%, 2007: 57%) and £2.1m of the construction contract debt outstanding as at 31 December 2009 (2008: £5.0m, 2007: £7.4m). The E.ON contract expired in March 2010 and was not renewed.

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2009**18 OTHER FINANCIAL ASSETS (CONTINUED)****Movement in the allowance for doubtful debts**

	£m
At 1 January 2008	0.7
Amounts utilized/written off in the year	(0.4)
Amounts recognized in income statement	1.4
	<hr/>
At 31 December 2008	1.7
Amounts utilised/written off in the year	(1.1)
Amounts recognised in income statement	0.5
	<hr/>
At 31 December 2009	<u>1.1</u>

In determining the recoverability of the trade and other receivables, the Group considers any change in the credit quality of the trade and other receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk, other than in relation to UoS 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 £0.3m (2008: £0.8m, 2007: £nil) for the Group and £nil (2008: £nil, 2007: £nil) for the Company, which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

Cash and cash equivalents

	2009	Group		Company	
	£m	2008	2007	2009	2008
		£m	£m	£m	£m
Short-term deposits	2.3	9.5	5.2	-	-
Cash at bank and in hand	3.7	17.6	2.7	0.2	-
	<hr/> 6.0 <hr/>	<hr/> 27.1 <hr/>	<hr/> 7.9 <hr/>	<hr/> 0.2 <hr/>	<hr/> - <hr/>

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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

18 OTHER FINANCIAL ASSETS (CONTINUED)

Categories of financial assets

GROUP

	2009 £m	2008 £m	2007 £m
Cash and cash equivalents	6.0	27.1	7.9
Loans and receivables	170.9	94.6	331.3
Designated as fair value through profit and loss	3.3	3.3	3.6
Total financial assets	<u>180.2</u>	<u>125.0</u>	<u>342.8</u>
Non current assets	3,818.6	3,700.8	3,473.9
Retirement benefit asset	128.4	95.9	44.7
Inventories	14.4	20.7	22.7
Prepayments and accrued income	7.9	11.1	10.6
Total non-financial assets	<u>3,969.3</u>	<u>3,828.5</u>	<u>3,551.9</u>
Total Assets	<u>4,149.5</u>	<u>3,953.5</u>	<u>3,894.7</u>

COMPANY

	2009 £m	2008 £m
Cash and cash equivalents	0.2	-
Loans and receivables	264.2	264.2
Total financial assets	<u>264.4</u>	<u>264.2</u>
Investments held in subsidiaries and joint ventures	376.3	376.3
Total non-financial assets	<u>376.3</u>	<u>376.3</u>
Total Assets	<u>640.7</u>	<u>640.5</u>

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2009

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

b) Market Risk

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

(i) Interest rate risk

The Group's policy on interest rate risk is designed to limit the Group's exposure to floating interest rates. Consistent with this policy, at 31 December 2009 the Group had 93% (2008: 92%, 2007: 96%) of net debt at fixed rates. In 2009, the interest rate swaps were designated as ineffective cash flow hedges. As such, any movements in the fair value of these hedges now flow through the income statements immediately.

(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. An analysis of the carrying value of the swaps is shown below. The CE Gas business is exposed to Australian dollars and US dollars through its operations in Australia. In particular, the non-current assets are in Australian dollars and sales are made in US and Australian dollars. The Group manages this foreign currency exposure with a policy of funding the business through Australian dollar and US dollar loans.

(iii) Commodity Price Risk

The Group is exposed to price risk on CE Gas revenues..

An analysis of the carrying value of the derivative instruments is shown below.

	GROUP		
	2009	2008	2007
	£m	£m	£m
Assets:			
Barrier swap	-	-	0.1
Liabilities:			
Current:			
Commodity contracts	-	-	2.2
Currency swaps	-	-	53.3
Interest rate swaps	2.4	0.6	-
Interest rate swaps	2.4	0.6	55.5
Non-current:			
Interest rate swaps	-	3.8	-

The Company had no derivative financial instruments at 31 December 2009 and 31 December 2008.

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2009**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 interest rates.

Any reasonable movement in foreign exchange rates or commodity prices would not have a material affect on the results of the Group.

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

	GROUP			COMPANY	
	2009	2008	2007	2009	2008
	£m	£m	£m	£m	£m
Payments received on account	39.0	28.6	32.1	-	-
Trade payables	10.6	14.0	13.2	-	-
Amounts due to parent undertakings	1.3	1.5	0.2	0.3	0.2
Amounts due to joint venture entities	0.7	0.7	2.7	-	-
Other taxes and social security	12.9	9.7	13.8	-	0.5
Accruals	54.5	55.7	60.1	-	-
Other payables	1.9	5.4	6.5	-	-
	120.9	115.6	128.6	0.3	0.7

Current income tax liabilities

	GROUP			COMPANY	
	2009	2008	2007	2009	2008
	£m	£m	£m	£m	£m
Corporation tax	18.8	14.4	27.7	-	-
Group relief	-	-	-	0.5	0.3
	18.8	14.4	27.7	0.5	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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

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 this note and in Note 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
2009:					
Non-interest bearing	80.6	-	-	-	80.6
Variable interest rate liability	82.1	2.4	43.3	-	127.8
Fixed interest rate liability	18.5	54.8	293.0	2,781.8	3,148.1
	181.2	57.2	336.3	2,781.8	3,356.5
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
2009:					
Non-interest bearing	0.4	-	-	-	0.4
Variable interest rate liability	27.5	-	-	-	27.5
Fixed interest rate liability	-	14.5	58.0	309.5	382.0
	27.9	14.5	58.0	309.5	409.9
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

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

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

20 OTHER FINANCIAL LIABILITIES (CONTINUED)

Categories of financial liabilities

GROUP	2009 £m	2008 £m	2007 £m
Loans and payables	<u>1,687.7</u>	<u>1,653.4</u>	<u>1,791.4</u>
Total financial liabilities	<u>1,687.7</u>	<u>1,653.4</u>	<u>1,791.4</u>
Payments received on account	39.0	28.6	32.1
Income tax liabilities	446.3	433.4	420.5
Other taxes and social security	12.9	9.7	13.8
Accruals	54.5	55.7	60.1
Deferred Revenue	1,059.9	1,034.1	957.2
Provisions	8.3	11.0	11.3
Retirement benefit liability	1.4	1.4	1.4
Total non-financial liabilities	<u>1,622.3</u>	<u>1,573.9</u>	<u>1,496.4</u>
Total liabilities	<u>3,310.0</u>	<u>3,227.3</u>	<u>3,287.8</u>
COMPANY		2009 £m	2008 £m
Loans and payables		<u>220.9</u>	<u>223.2</u>
Total financial liabilities		<u>220.9</u>	<u>223.2</u>
Income tax liabilities		<u>0.4</u>	<u>0.3</u>
Total non-financial liabilities		<u>0.4</u>	<u>0.3</u>
Total liabilities		<u>221.3</u>	<u>223.5</u>

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

21 BORROWINGS

	GROUP					
	2009 £m	Book value 2008 £m	2007 £m	2009 £m	Fair value 2008 £m	2007 £m
The borrowings are repayable as follows:						
On demand or within one year	118.8	94.6	205.0	122.4	94.6	279.4
After five years	1,545.6	1,532.8	1,508.3	1,362.9	1,294.5	1,345.4
	1,664.4	1,627.4	1,713.3	1,485.3	1,389.1	1,624.8
Short-term loans	80.9	56.4	22.0	82.1	56.4	22.0
CE Gas – LIBOR plus margin	36.1	40.9	34.0	36.1	40.9	34.0
2008 – 6.496%						
Yorkshire Power Finance Limited	-	-	144.1	-	-	141.9
2020 – 8.875%						
Northern Electric Finance plc	100.4	100.3	100.2	123.6	122.7	129.4
2020 – 9.25%						
Yorkshire Electricity Distribution plc	251.2	254.9	259.0	270.3	261.7	277.3
2022 – 7.25%						
CE Electric UK Funding Company	193.8	193.5	193.2	221.6	226.0	237.0
2028 – 7.25%						
Yorkshire Power Finance Limited	198.0	198.3	198.7	209.5	194.7	219.1
2035 – 5.125%						
Northern Electric Finance plc	152.7	152.6	152.5	139.9	130.6	146.0
2035 – 5.125%						
Yorkshire Electricity Distribution plc	203.5	203.5	203.4	184.1	169.5	197.1
Amounts owed to parent undertaking – 7%	413.7	392.9	372.1	171.7	140.2	174.6
Cumulative preference shares	34.1	34.1	34.1	46.4	46.4	46.4
	1,664.4	1,627.4	1,713.3	1,485.3	1,389.1	1,624.8

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2009

21 BORROWINGS (CONTINUED)

	COMPANY		
	Book value		Fair value
	2009 £m	2008 £m	2009 £m
			2008 £m
The borrowings are repayable as follows:			
On demand or within one year	27.4	29.7	27.4
After five years	193.1	192.8	221.6
	<u>220.5</u>	<u>222.5</u>	<u>249.0</u>
			<u>255.1</u>
Analysis of borrowings:			
2028 – 7.25%	193.1	193.4	221.6
Amounts owed to Group undertakings	27.4	29.1	27.4
	<u>220.5</u>	<u>222.5</u>	<u>249.0</u>
			<u>255.1</u>

Of the total financial liabilities of £1,687.7m, £1,133.7m relates to external borrowings and preference shares whose fair value is determined with reference to quoted market prices. The directors' estimates of the fair value of internal borrowings (£449.8m) and short-term borrowings under the revolving credit facility (£80.9m) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments.

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 2009, 34,473,672 Northern Electric plc preference shares were held by non-Group undertakings (2008: 34,474,299).

The terms of the cumulative preference shares:

- 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;
- 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;
- 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
- 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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2009**

21 BORROWINGS (CONTINUED)

At 31 December 2009, the Group had available £32.0m (2008: £59.0m) 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 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 2009 totalled £1,109.5m (2008: £1,062m).

Using the RAV value as at March 2010 as outlined by Ofgem in its Final Proposals for Distribution Prices published in December 2009 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 2009 of £1,997.6m (2008: £1,890.0m). The Senior Total Net Debt to RAV ratio for the Group is therefore estimated at 56% (2008: 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.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

22 DEFERRED TAX

	Accelerated Tax Depreciation	Rollover/ Holdover Relief	GROUP Retirement Benefit 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 1 January 2008	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
(Credit)/charge to income statement	(4.1)	0.1	9.0	(0.4)	4.6
Foreign exchange translation	2.6	0.5	-	0.1	3.2
Movement in cash flow hedges	-	-	-	1.2	1.2
At 31 December 2009	395.8	22.0	35.5	(25.3)	428.0

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 asset. A proportion of the movement has been capitalised in property, plant and equipment.

The Company had no deferred tax liability as at 31 December 2009 (2008: £nil).

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

23 GROUP DEFERRED REVENUE

	£m		
At 1 January 2007			894.7
Additions			89.7
Amortisation			(27.2)
At 1 January 2008			957.2
Additions			105.7
Amortisation			(28.8)
At 31 December 2008			1,034.1
Additions			57.1
Amortisation			(31.3)
At 31 December 2009			1,059.9
	2009	2008	2007
	£m	£m	£m
Included in current liabilities	35.7	32.5	29.3
Included in non-current liabilities	1,024.2	1,001.6	927.9
	1,059.9	1,034.1	957.2

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 2009 (2008: £nil).

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2009

24 GROUP PROVISIONS FOR LIABILITIES AND CHARGES

	Abandonment	Claims	Onerous Contracts	Other	Total
	£m	£m	£m	£m	£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
Utilised/paid in year	-	(1.6)	-	(0.3)	(1.9)
Unwinding of discount	0.5	-	-	-	0.5
Additions in the year	0.2	-	-	-	0.2
Charged to the income statement	-	1.4	-	0.8	2.2
Transfer to liabilities associated with assets held for sale	(3.7)	-	-	-	(3.7)
At 31 December 2009	3.7	2.2	0.3	2.1	8.3

	2009 £m	2008 £m	2007 £m
Included in current liabilities	4.6	4.2	5.2
Included in non-current liabilities	3.7	6.8	6.1
	8.3	11.0	11.3

Abandonment: A provision and corresponding asset have been created for the costs of site restoration. Settlement is expected substantially after the next 12 months.

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 employees' "holidays in suspense". Settlement is expected substantially after the next 12 months.

At 31 December 2009, the Company had no provisions for liabilities and charges (2008: £nil).

25 GROUP MINORITY INTEREST

	2009 £m	2008 £m	2007 £m
At 1 January	11.0	9.8	8.2
Share of profit on ordinary activities after taxation	0.8	1.2	1.6
At 31 December	11.8	11.0	9.8

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

26 SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	Number (millions)	£m	Number (millions)	£m
At 31 December 2007, 2008, 2009				
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 NET CASH FROM OPERATING ACTIVITIES

	GROUP		COMPANY	
	2009 £m	2008 £m	2009 £m	2008 £m
Operating profit/(loss)	244.2	269.6	(0.1)	(0.1)
Depreciation and amortisation	145.5	123.8	-	-
Amortisation of deferred revenue	(31.3)	(28.8)	-	-
Difference in retirement benefit contribution and amounts charged to operating profit	(29.2)	(46.2)	-	-
Decrease in provisions	0.2	(1.9)	-	-
Operating cash flows before movements in working capital	329.4	316.5	(0.1)	(0.1)
Decrease in inventories	6.2	2.2	-	-
(Increase)/decrease in receivables	(11.3)	22.0	-	-
Increase/(decrease) in payables	2.3	(10.6)	(0.3)	0.1
Cash generated by operations	322.0	330.1	(0.4)	-
Income taxes paid	(31.7)	(38.7)	-	-
Group relief paid	-	-	(0.8)	(0.6)
Petroleum revenue tax paid	-	(0.6)	-	-
Dividends received	0.1	0.2	-	-
Interest received	2.2	9.4	18.5	18.5
Interest paid	(81.4)	(87.5)	(15.1)	(16.0)
Net cash from operating activities	211.2	212.9	2.2	1.9

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2009**28 OPERATING LEASE ARRANGEMENTS**

	GROUP		
	2009	2008	2007
	£m	£m	£m
Minimum lease payments under operating leases recognised in the year	9.1	8.8	8.9

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		
	2009	2008	2007
	£m	£m	£m
Within one year	4.8	5.2	5.2
In the second to fifth year inclusive	10.0	11.2	10.7
After five years	1.8	4.7	1.5
	16.6	21.1	17.4

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 (2008: £nil).

29 NON-CURRENT ASSETS HELD FOR SALE

On 23 April 2010, the Group's interest in the offshore Australian Yolla field was sold. As at 31 December 2009, therefore, these operations have been classified as a disposal group held for sale and presented separately on the face of the balance sheet in these financial statements. An advance payment of £4.4m was received in respect of the sale and an impairment charge of £12.4m has been recognised in the income statement (Note 4).

The major classes of assets and liabilities comprising the disposal group are as follows:

	£m
Property, plant and equipment	49.1
Inventories	0.1
Trade and other receivables	0.8
Total assets held for sale	50.0
Trade and other payables	(2.2)
Abandonment provision	(3.7)
Total liabilities associated with assets held for sale	(5.9)

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2009**

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 are 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 aim to remove the shortfall of £95.1m by December 2010 subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2007 being borne out in practice. The next triennial valuation is as at 31 March 2010, as part of which the scheme deficit will be reassessed.

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% for certain senior management and 26.3% other employees. These rates will remain in place until such a time as a new schedule of contributions is agreed between the trustees of the Northern Electric Group of the ESPS and the Company as part of the triennial valuation process.

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 2009

30 PENSION COMMITMENTS (CONTINUED)

Principal assumptions:

	2009 Projected unit	2008 Projected unit	2007 Projected unit
Valuation method			
Discount rate	5.70%	6.40%	5.90%
Inflation rate	3.20%	3.00%	3.20%
Increase to pensions	3.20%	3.00%	3.20%
Increase to deferred benefits	3.20%	3.00%	3.20%
Salary increases	2.75%*	3.25%	3.45%

* 2.75% per annum for 10 years then 3.20% thereafter.

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:

	2009 £m	2008 £m	2007 £m
Present value of funded defined benefit obligations	(1,021.9)	(855.3)	(917.2)
Fair value of plan assets	938.4	801.4	956.6
	(83.5)	(53.9)	39.4
Unrecognised actuarial losses	211.9	149.8	5.3
Net surplus recognised on the balance sheet	128.4	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:

	2009 £m	2008 £m	2007 £m
Current service cost	7.5	10.3	11.9
Interest cost on obligations	53.7	53.0	47.2
Expected return on plan assets	(54.6)	(66.2)	(63.9)
Amortisation of actuarial loss	4.6	-	-
	11.2	(2.9)	(4.8)

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2009

30 PENSION COMMITMENTS (CONTINUED)

The actual return on plan assets was a £133.2m (2008: £165.2m loss, 2007: £44.3m gain).

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

	2009 £m	2008 £m	2007 £m
Opening defined benefit obligation	855.3	917.2	925.9
Current service cost	7.5	10.3	11.9
Interest cost	53.7	53.0	47.2
Contributions from employees	3.0	3.1	3.5
Actuarial losses/(gains)	145.7	(87.3)	(32.0)
Benefits paid	(43.3)	(41.0)	(39.3)
Closing defined benefit obligation	1,021.9	855.3	917.2

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

	2009 £m	2008 £m	2007 £m
Opening fair value of plan assets	801.4	956.6	912.8
Expected returns	54.6	66.2	63.9
Actuarial gains/(losses)	78.6	(231.4)	(19.6)
Contributions by employer	44.1	47.9	35.3
Contribution from employees	3.0	3.1	3.5
Benefits paid	(43.3)	(41.0)	(39.3)
Closing fair value of plan assets	938.4	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		
	2009 %	2008 %	2007 %	2009 £m	2008 £m	2007 £m
Equities	8.50	8.90	8.90	340.5	322.2	388.7
Gilts	5.10	5.35	5.10	516.0	404.7	445.3
Cash	4.50	3.25	6.00	0.5	(4.8)	23.3
Property	8.50	7.90	7.90	81.4	79.3	99.3
Total fair value of plan assets				938.4	801.4	956.6

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

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2009**30 PENSION COMMITMENTS (CONTINUED)**

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

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligation	(1,021.9)	(855.3)	(917.2)	(925.9)	(906.0)
Fair value of plan assets	<u>938.4</u>	<u>801.4</u>	<u>956.6</u>	<u>912.8</u>	<u>821.6</u>
(Deficit)/surplus	<u>(83.5)</u>	<u>(53.9)</u>	<u>39.4</u>	<u>(13.1)</u>	<u>(84.4)</u>
Experience (losses)/gains on plan liabilities:					
Amount (£m)	(145.7)	87.3	32.0	(2.1)	(70.1)
Percentage of scheme liabilities (%)	<u>(14.3)</u>	<u>10.2</u>	<u>3.5</u>	<u>(0.2)</u>	<u>(7.7)</u>
Experience gains/(losses) on plan assets:					
Amount (£m)	78.6	(231.4)	(19.6)	32.4	66.5
Percentage of scheme assets (%)	<u>8.4</u>	<u>(28.9)</u>	<u>(2.0)</u>	<u>3.5</u>	<u>8.2</u>

The Group expects to contribute approximately £44.1m to its defined benefit plan in 2010.

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	<u>0.1</u>
At 1 January 2009	1.4
Utilised/paid in the year	(0.1)
Transferred from income statement	<u>0.1</u>
At 31 December 2009	<u>1.4</u>

31 CAPITAL AND OTHER COMMITMENTS

The Group has entered into contractual commitments in relation to capital investment of £40.3m (2008: £24.3m, 2007: £31.5m). The Company has no contractual commitments in relation to capital investment (2008: nil).

CE ELECTRIC UK FUNDING COMPANY**REGISTERED NUMBER 3476201****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2009**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 18) £m	Amounts Owed to Related Party (Note 20) £m
2009:				
CE Insurance Services Limited	-	1.7	-	-
Vehicle Lease and Service Limited	<u>0.2</u>	<u>6.7</u>	<u>-</u>	<u>0.6</u>
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 (2008: nil, 2007: £nil) receivable from CE Insurance Services Limited.

(1) On 3 October 2008, the remaining 50% holding in Integrated Utility Services Limited ("IUS Ireland"), a company registered in Eire, was acquired. From this date IUS Ireland was a member of the CE 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 2009 was £20.8m (2008: £20.8m). Included within borrowings is £413.7m as at 31 December 2009 (2008: £392.9m, 2007: £372.1m) in respect of these loans.

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

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2009**

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 2009 was £8.5m (2008: £18.5m). Included within long-term/short-term securities is £264.2m as at 31 December 2009 (2008: £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 200 was £1.5m (2008: £1.5m). Included within borrowings is £27.5m as at 31 December 2009 (2008: £29.1m) 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 £3.7m (2008: £2.1m) of group relief from other companies in the Group. Payment at the UK statutory rate of 28% (2008: 28.5%) 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 POST BALANCE SHEET EVENTS

The framework service provider contract with E.ON expired in March 2010. This contract generated revenues of £23.8m in 2009 (2008: £29.4m, 2007: £36.0m) and gross profit of £1.5m (2008: £2.0m, 2007: £2.2m). The Group transferred activity to the new service providers at the end of March 2010. As a result, the Group's headcount reduced by 170 (52%) at that date.

The revolving credit facilities provided by Lloyds TSB Bank plc and Royal Bank of Scotland plc expired on 31 March 2010 and were replaced with a new three year £150m revolving credit facility provided by Lloyds TSB Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc.

On 23 April 2010 the sale of the Yolla gas field to AWE Petroleum Pty Limited was completed.

As at 31 December 2009, advanced payments totaling £4.4m had been received (as included within Proceeds from Disposal of Property, Plant and Equipment in the Cash Flow Statement) and an impairment charge of £12.4m recognised in the income statement (Note 4). Also recognised in the income statement is a £2.4m charge for the release of the hedging reserve in relation to interest rate swaps designated as ineffective as a result of this sale. All associated non-current assets and liabilities have been separately identified in these financial statements on the face of the balance sheet in line with the requirements of IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

On completion, additional proceeds of AUD\$72m (£43.2m) were received, which were used to repay project-related debt provided by Westpac Banking Corporation and BOS International (Australia) Limited. Such proceeds were in line with the assumptions used in computing the impairment charge of £12.4m recorded in these financial statements.

CE ELECTRIC UK FUNDING COMPANY

REGISTERED NUMBER 3476201

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009

34 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.

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