

YORKSHIRE POWER FINANCE LIMITED

Registered in the Cayman Islands Registered Number: CR 75763
Registered Office: P O Box 309, Ugland House, South Church Street, Georgetown,
Grand Cayman, Cayman Islands

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The Company is a subsidiary of CE Electric UK Funding Company and its principal activity is to act as the issuer of long term debt securities in order to raise finance for Yorkshire Power Group Limited, its immediate parent company, and to other companies in the CE Electric UK Funding Company Group ("CE Group"). The Company's financial instruments include borrowings and loans.

Financial Review

Results and dividends

The Company made a profit after tax for the year of £1.3m. No dividends were paid during the year and the directors recommend that no final dividend be paid in respect of the year.

Share capital

There were no changes to the Company's share capital 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.

Taxation

Full details of the Group's taxation charge are provided in Note 6 to the accounts.

Financial commentary

The profit before tax at £1.9m was the same as the previous year.

Net cash inflow from operating activities

The net cash inflow from operating activities at £1.3m was £0.1m higher than 2006 mainly due to lower Group relief paid.

Principal risks facing the Company

The principal risk facing the Company is not having sufficient liquidity to enable the Company to meet its liabilities as they fall due. In this respect, borrowing facilities are made available to the Company by other companies in the CE Group. Details of the principal risks and uncertainties facing the CE Group can be found in the CE Electric UK Funding Company directors' report.

Future Developments

It is the intention of the directors that the Company will continue to act as the issuer of long term debt securities in order to raise finance for the CE Group.

YORKSHIRE POWER FINANCE LIMITED

REGISTERED NUMBER CR 75763

DIRECTORS' REPORT (CONTINUED)

DIRECTORS AND THEIR INTERESTS

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

G E Abel
P E Connor
P J Goodman
B K Hankel
P A Jones appointed 9 October 2007
K Linge

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

AUDITORS

A resolution to reappoint the auditors, Deloitte & Touche LLP and to authorise the directors to determine their remuneration will be proposed at the Annual General Meeting.

YORKSHIRE POWER FINANCE LIMITED

REGISTERED NUMBER CR 75763

DIRECTORS' REPORT (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the Annual Report and the financial statements. The directors have elected to prepare financial statements for the Company in accordance with IFRS and the provisions of the United Kingdom Companies Act 1985 (the "Companies Act 1985"), which would have been applied if the financial statements were UK statutory financial statements.

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

In accordance with the Yorkshire Power Finance – 7.25% £200m Bonds 2028 Trust Deed ("the Trust Deed"), the directors are also required to:

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

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

Audit of the accounts

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

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

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

By order of the board



P A Jones
Director

20 June 2008

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF YORKSHIRE POWER FINANCE LIMITED

We have audited the non-statutory financial statements (the "Financial Statements") of Yorkshire Power Finance Limited for the year ended 31 December 2007 which comprise the income statement, the statement of recognised income and expenses, the balance sheet, the cash flow statement and the related notes 1 to 14. These Financial Statements have been prepared under the accounting policies set out therein.

This report ("the Report") has been prepared under the terms of our engagement letter with Yorkshire Power Finance Limited dated 12 June 2008.

Our work was planned and conducted solely for the purpose of enabling Yorkshire Power Finance Limited to comply with its obligations under an agreement, known as "the Trust Deed", pertaining to the issue, management and amortisation of the bond issue of £200m 7.25% notes due in 2028 and for no other purpose. Accordingly, we consent to Yorkshire Power Finance Limited providing a copy of the Report to Bankers Trustee Company Limited but to no other party.

Although further to Yorkshire Power Finance Limited's obligations under the Trust Deed a copy of the Report will be provided to Bankers Trustee Company Limited, there are a number of inherent limitations in audited financial statements (see for example Audit 4/00 – Tech 29/00: "Firms' reports and duties to lenders in connection with loans and other facilities to clients and related covenants" issued by the Consultative Committee of Accountancy Bodies). In particular, the scope of our work was set and judgments made by reference to our assessment of materiality in the context of the Financial Statements taken as a whole, rather than in the context of Bankers Trustee Company Limited's needs. For this reason, our work would not necessarily have addressed or reflected matters in which lenders (such as Bankers Trustee Company Limited) might be primarily interested.

Accordingly, the decision as to whether to enter into or continue with a lending transaction is solely that of Bankers Trustee Company Limited and our audit work does not in any way constitute a recommendation as to what decision Bankers Trustee Company Limited (or any other party) should take or supplant the enquiries and procedures that Bankers Trustee Company Limited (or any other party) should undertake in its consideration of that decision.

Deloitte & Touche LLP, its partners, employees and agents neither accept nor assume any duty of care (whether contractual, tortious or otherwise) to Bankers Trustee Company Limited (or any party other than Yorkshire Power Finance Limited) in respect of any loss, damage or expense of whatsoever nature which Bankers Trustee Company Limited (or any other party) may incur in connection with the Report. Insofar as any liability might otherwise arise by virtue of Bankers Trustee Company Limited having access to the Report, such liability is hereby expressly disclaimed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with the Trust Deed and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the provisions of the Companies Act 1985, if they had applied to the Company. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements.

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF YORKSHIRE POWER FINANCE LIMITED (CONTINUED)

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by the provisions of the Companies Act 1985, if they had applied to the Company, regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

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

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

Opinion

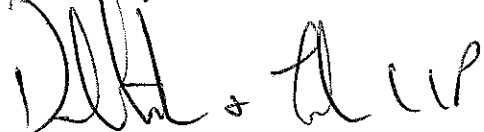
In our opinion:

- the Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Financial Statements have been properly prepared in accordance with the provisions of the Companies Act 1985 if they had applied to the Company; and
- the information given in the Directors' Report is consistent with the Financial Statements.

Separate opinion in relation to IFRSs

The company, in addition to complying with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the Financial Statements give a true and fair view, in accordance with IFRSs, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Newcastle upon Tyne

23 June 2008

YORKSHIRE POWER FINANCE LIMITED

REGISTERED NUMBER CR 75763

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 £m	2006 £m
Investment income	4	29.7	29.6
Finance costs	5	<u>(27.8)</u>	<u>(27.7)</u>
Profit before tax		1.9	1.9
Income tax expense	6	<u>(0.6)</u>	<u>(0.6)</u>
Profit from ordinary activities after tax	11	<u>1.3</u>	<u>1.3</u>

All activities relate to continuing operations.

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

There is no other income or expense for the Company for 2007 and 2006, other than the profits reported above.

YORKSHIRE POWER FINANCE LIMITED

REGISTERED NUMBER CR 75763

BALANCE SHEET AS AT 31 DECEMBER 2007

	Note	2007 £m	2006 £m
Non-current assets			
Trade and other receivables	7	<u>181.7</u>	<u>324.4</u>
Current assets			
Trade and other receivables	7	149.6	8.7
Cash and cash equivalents	7	<u>28.8</u>	<u>27.5</u>
		<u>178.4</u>	<u>36.2</u>
Total assets		<u>360.1</u>	<u>360.6</u>
Current liabilities			
Borrowings	9	(141.6)	-
Trade and other payables	8	(8.6)	(8.5)
Current income tax liabilities	8	<u>(0.3)</u>	<u>(0.3)</u>
		<u>(150.5)</u>	<u>(8.8)</u>
Net current assets		<u>27.9</u>	<u>27.4</u>
Non-current liabilities			
Borrowings	9	<u>(183.0)</u>	<u>(326.5)</u>
Total liabilities		<u>(333.5)</u>	<u>(335.3)</u>
Net assets		<u>26.6</u>	<u>25.3</u>
Equity			
Share capital	10	-	-
Share premium	11	20.0	20.0
Retained earnings	11	<u>6.6</u>	<u>5.3</u>
Total equity	11	<u>26.6</u>	<u>25.3</u>

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



P A Jones
Director

YORKSHIRE POWER FINANCE LIMITED

REGISTERED NUMBER CR 75763

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 £m	2006 £m
Net cash from operating activities	12	<u>1.3</u>	<u>1.2</u>
Net increase in cash and cash equivalents		1.3	1.2
Cash and cash equivalents at beginning of year		<u>27.5</u>	<u>26.3</u>
Cash and cash equivalents at end of year		<u>28.8</u>	<u>27.5</u>

YORKSHIRE POWER FINANCE LIMITED

REGISTERED NUMBER CR 75763

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007

1 GENERAL INFORMATION

Yorkshire Power Finance Limited is a company incorporated in Cayman Islands. The address of the registered office is P O Box 309, Ugland House, South Church Street, Georgetown, Grand Cayman, Cayman Islands.

The nature of the Company's operations and its principal activities are set out in the principal activity and review of the business in the directors' report.

2 ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS") and with the parts of the Companies Act 1985 ("the Act") that are applicable to Companies reporting under IFRS.

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

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

Accounting convention

The accounts have been prepared under the historical cost convention.

Adoption of new or revised standards

In the current year, the Company has adopted IFRS 7 "Financial Instruments: Disclosures", which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 "Presentation of Financial Statements". The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Company's financial instruments and management of capital (Notes 7-9).

At the date of authorisation of these financial statements there were a number of Standards and Interpretations in issue but not yet effective.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company.

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

Revenue

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

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Taxation

Income tax expense represents tax currently payable.

Tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade payables

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

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. Issue costs are amortised over the period of the related loan. Borrowing costs are recognised on an accrual basis and allocated to the income statement as incurred.

Cash and cash equivalents

Loans advanced to group undertakings, having a maturity of less than three months, are included within cash and cash equivalents.

Financial Instruments

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

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

YORKSHIRE POWER FINANCE LIMITED

REGISTERED NUMBER CR 75763

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity

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

3 DIRECTORS', KEY PERSONNEL AND AUDITORS' REMUNERATION

No directors' or key personnel remuneration was charged for the year (2006: £nil). There are no directors' emoluments that are required to be disclosed under the Companies Act 1985 (2006: £nil). There were no employees of the Company during the year (2006: nil).

Auditors' remuneration of £3,500 was charged to the Company for the year. In 2006 auditors' remuneration of £3,500 for the audit of the Company's annual accounts was incurred by another company in the CE Electric UK Funding Company group (the "CE Group").

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

4 INVESTMENT INCOME

	2007 £m	2006 £m
Interest receivable on loans to Group undertakings	<u>29.7</u>	<u>29.6</u>

5 FINANCE COSTS

	2007 £m	2006 £m
Interest payable	27.8	27.8
Loss on translation of debt	<u>-</u>	<u>(0.1)</u>
	<u>27.8</u>	<u>27.7</u>

6 INCOME TAX CHARGE

	2007 £m	2006 £m
(a) Analysis of charge for year:		
Corporation tax:		
Payments for use of group losses @30%	<u>0.6</u>	<u>0.6</u>
(b) Reconciliation of current tax charge		
Profit on ordinary activities before tax	<u>1.9</u>	<u>1.9</u>
Tax on loss before tax at standard rate of corporation tax in United Kingdom of 30 %	<u>0.6</u>	<u>0.6</u>

YORKSHIRE POWER FINANCE LIMITED

REGISTERED NUMBER CR 75763

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

7 OTHER FINANCIAL ASSETS

Trade and other receivables

	Book Value		Fair Value	
	2007	2006	2007	2006
	£m	£m	£m	£m
Non Current:				
Amounts owed by Group undertakings	<u>181.7</u>	<u>324.4</u>	<u>217.8</u>	<u>423.8</u>
Current:				
Amounts owed by Group undertakings	<u>149.6</u>	<u>8.7</u>	<u>202.0</u>	<u>8.7</u>

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

Cash and cash equivalents

Cash and cash equivalents comprise loans advanced to the parent company, having a maturity of less than three months. The carrying amount of these assets approximates their fair value.

Credit risk

The Company's principal financial assets are loans advanced to group undertakings and trade and other receivables.

8 OTHER FINANCIAL LIABILITIES

Trade and other payables

	2007	2006
	£m	£m
Interest payable	<u>8.6</u>	<u>8.5</u>

Current income tax liabilities

	2007	2006
	£m	£m
Group relief	<u>0.3</u>	<u>0.3</u>

The directors consider that 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.

The following tables detail the remaining contractual maturities for the non-derivative financial liabilities included in Notes 8 and 9. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest possible date on which the Company can be required to pay. The tables include both interest and principal cash flows.

YORKSHIRE POWER FINANCE LIMITED

REGISTERED NUMBER CR 75763

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

8 OTHER FINANCIAL LIABILITIES (CONTINUED)

	Less than 3 Months £m	3 Months to 1 Year £m	1 Year to 5 Years £m	5 Years Plus £m	Total £m
2007:					
Fixed interest rate liability	<u>146.8</u>	<u>13.4</u>	<u>53.5</u>	<u>402.2</u>	<u>615.9</u>
Total	<u>146.8</u>	<u>13.4</u>	<u>53.5</u>	<u>402.2</u>	<u>615.9</u>
2006:					
Fixed interest rate liability	<u>-</u>	<u>27.6</u>	<u>202.2</u>	<u>415.4</u>	<u>645.2</u>
Total	<u>-</u>	<u>27.6</u>	<u>202.2</u>	<u>415.4</u>	<u>645.2</u>

9 BORROWINGS

	Book Value		Fair Value	
	2007 £m	2006 £m	2007 £m	2006 £m
Loans	<u>324.6</u>	<u>326.5</u>	<u>411.0</u>	<u>419.3</u>
The Borrowings are payable as follows:				
On demand or within 1 year	141.6	-	193.2	-
Between 1 and 2 years	-	143.5	-	196.1
After five years	<u>183.0</u>	<u>183.0</u>	<u>217.8</u>	<u>223.2</u>
	<u>324.6</u>	<u>326.5</u>	<u>411.0</u>	<u>419.3</u>
Analysis of borrowings:				
Dollar denominated debt due 2008 @ 6.5 %	141.6	143.5	193.2	-
Eurobond due 2028 @ 7.25 %	<u>183.0</u>	<u>183.0</u>	<u>226.6</u>	<u>223.2</u>
	<u>324.6</u>	<u>326.5</u>	<u>419.8</u>	<u>223.2</u>

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

Interest on the fixed interest rate loans exposes the Company to fair value interest rate risk.

The loans are non-secured.

The Company has no undrawn committed borrowing facilities.

YORKSHIRE POWER FINANCE LIMITED

REGISTERED NUMBER CR 75763

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

10 SHARE CAPITAL

	2007 £m	2006 £
Ordinary shares of \$1 each		
Authorised - 50,000 shares	35,000	35,000
Allotted, called up and fully paid - 2000 shares	<u>1,250</u>	<u>1,250</u>

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

11 MOVEMENT ON RESERVES AND RECONCILIATION OF MOVEMENTS IN EQUITY

	Share Capital £m	Share Premium £m	Retained Earnings £m	Total Equity £m
At 1 January 2006	-	20.0	4.0	24.0
Profit for the year	<u>-</u>	<u>-</u>	<u>1.3</u>	<u>1.3</u>
At 31 December 2006	-	20.0	5.3	25.3
Profit for the year	<u>-</u>	<u>-</u>	<u>1.3</u>	<u>1.3</u>
At 31 December 2007	<u>-</u>	<u>20.0</u>	<u>6.6</u>	<u>26.6</u>

12 NOTES TO THE CASH FLOW STATEMENT

	2007 £m	2006 £m
Interest received	29.6	29.6
Interest paid	(27.7)	(27.7)
Group relief paid	<u>(0.6)</u>	<u>(0.7)</u>
Net cash from operating activities	<u>1.3</u>	<u>1.2</u>

13 RELATED PARTY TRANSACTIONS

The Company had advanced loans to companies within the CE Group. Interest is charged at a commercial rate of interest. The total interest included in investment income in the income statement for the year ended 31 December 2007 was £29.7m (2006: £29.6m). Included within trade and other receivables is £331.3m as at 31 December 2007 (2006: £333.1m) and in cash and cash equivalents is £28.8m as at 31 December 2007 (2006: £27.5m) in respect of these loans.

14 ULTIMATE HOLDING COMPANY

The immediate parent undertaking of Yorkshire Power Finance Limited is Yorkshire Power Group Limited. The ultimate controlling party and ultimate parent undertaking of Yorkshire Power Group Limited is Berkshire Hathaway, Inc., a company incorporated in the United States of America.

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