

**REGISTERED NUMBER: 03070482 (England and Wales)**

**STRATEGIC REPORT, REPORT OF THE DIRECTORS AND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015  
FOR  
NORTHERN ELECTRIC FINANCE PLC**

**CONTENTS OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	<b>Page</b>
<b>Company Information</b>	<b>1</b>
<b>Strategic Report</b>	<b>2</b>
<b>Report of the Directors</b>	<b>5</b>
<b>Responsibility Statement of the Directors</b>	<b>10</b>
<b>Report of the Independent Auditor</b>	<b>11</b>
<b>Statement of Profit or Loss</b>	<b>12</b>
<b>Statement of Profit or Loss and Other Comprehensive Income</b>	<b>13</b>
<b>Statement of Financial Position</b>	<b>14</b>
<b>Statement of Changes in Equity</b>	<b>15</b>
<b>Statement of Cash Flows</b>	<b>16</b>
<b>Notes to the Financial Statements</b>	<b>17</b>

**NORTHERN ELECTRIC FINANCE PLC**

**COMPANY INFORMATION  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**DIRECTORS:**

G E Abel  
P A Jones  
T E Fielden  
S J Lockwood

**COMPANY SECRETARY:**

J Elliott

**REGISTERED OFFICE:**

Lloyds Court  
78 Grey Street  
Newcastle upon Tyne  
NE1 6AF

**REGISTERED NUMBER:**

03070482 (England and Wales)

**AUDITOR:**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Newcastle upon Tyne

## **NORTHERN ELECTRIC FINANCE PLC**

### **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015**

The directors present the annual reports and accounts of Northern Electric Finance plc (the "Company") for the year ended 31 December 2015, which includes the Strategic Report, the Report of the Directors, the Responsibility Statement and the audited financial statements for that year. Pages 2 to 4 of this annual report comprise the Strategic Report and pages 5 to 9 comprise the Report of the Directors, which have been drawn up and presented in accordance with the Companies Act 2006.

#### **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.

## **NORTHERN ELECTRIC FINANCE PLC**

### **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015**

#### **REVIEW OF BUSINESS**

##### **BUSINESS MODEL**

The Company is a wholly-owned subsidiary of Northern Powergrid (Northeast) Limited ("Northern Powergrid"), which is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group"). During the year, the Company continued to be the issuer of long-term bonds.

The Northern Powergrid Group operates a business model and strategy based on its six core principles (the "Core Principles"), which are financial strength, customer service, operational excellence, employee commitment, environmental respect and regulatory integrity. The core principles of the Northern Powergrid Group that are applicable to the Company are as follows:

<b>Principle</b>	<b>Strategy</b>	<b>Indicator</b>
Financial strength	Effective stewardship of the Company's financial resources, investing in assets and focusing on long-term opportunities, which contribute to the Company's future strength.	Profitability, cash flow and maintenance of investment grade credit ratings.
Regulatory integrity	Adhering to a policy of strict compliance with applicable laws, regulations, standards and policies.	Strong internal controls, regulatory engagement and industry influence.

##### **STRATEGIC OBJECTIVES**

Given that the sole purpose of the Company is to raise finance on behalf of Northern Powergrid, its immediate parent company, the objective of the Company is to ensure that it has sufficient funds to cover its interest charges as they fall due.

##### **REVIEW OF THE YEAR**

The Company's sole activity during the year was to meet its obligations to make the interest payments required by the 2020 8.875% bonds and the 2035 5.125% bonds. Those payments were made on 16 October 2015 and 5 May 2015 respectively. The Company undertakes its activities through employees of other companies in the Northern Powergrid Group and has no employees of its own.

As the Company's business purpose is to make the interest payments required by the 2020 8.875% bonds and the 2035 5.125% bonds, as they fall due, the business of the Company is not sufficiently large or complex for analysis of key performance indicators to be required for an understanding of the development, performance or position of that business. Details of the operations and activities of and the key performance indicators used in the Northern Powergrid Group can be found in the Strategic Report in the Northern Powergrid Holdings Company annual reports and accounts.

##### **CORE PRINCIPLES**

###### **Financial strength**

###### **Results, dividends and position at the year end**

The Company made a loss after tax for the year of £107,000 (2014: loss £127,000) mainly due to interest expenses exceeding interest income. No dividends were paid during the year and the directors recommend that no final dividend be paid in respect of the year. The statement of financial position on page 14 shows that, as at 31 December 2015, the Company had total equity and liabilities of £252.9 million. Given that it is part of the Northern Powergrid Group, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Further details of the other factors taken into account by the directors when forming that view are included in the Going Concern statement on page 8 in the Report of the Directors.

# **NORTHERN ELECTRIC FINANCE PLC**

## **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015**

### **CORE PRINCIPLES - continued**

#### **Financial strength**

##### **Share capital and debt structure**

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

##### **Taxation**

Full details of the Company's taxation credit are provided in Note 5 to the accounts.

##### **Net cash outflow from operating activities**

The net cash outflow from operating activities was in line with the prior year at £24,000 (2014: £40,000).

##### **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.

#### **Regulatory integrity**

The Northern Powergrid 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 Governance and Risk Management Group ("GRMG") is the principal risk management forum in the Northern Powergrid Group and monitors and manages performance in risk-related and compliance areas. The GRMG met on three occasions during the year in order to review the mechanisms for meeting external obligations, to strengthen the business-control-improvement environment and to consider and advise on key strategic risks facing the Northern Powergrid Group. Further details regarding the activities of the GRMG and the main features of the Northern Powergrid Group's internal control and risk management systems are included in the Corporate Governance Statement in the Report of the Directors.

### **PRINCIPAL RISKS AND UNCERTAINTIES**

The Company'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.

#### **Liquidity risk**

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 Northern Powergrid Group, if required. The Company continues to maintain its investment grade issuer credit rating.

#### **Interest rate risk**

The Company is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 December 2015, 100% of the Company's borrowings were at fixed rates and the average maturity of these borrowings was 14 years.

#### **Foreign currency risk**

No material currency risks are faced by the Company.

Details of the other financial risks faced by the Company can be found on page 5 in the Report of the Directors.

### **ON BEHALF OF THE BOARD:**



P A Jones  
Director

5 April 2016

## **NORTHERN ELECTRIC FINANCE PLC**

### **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2015**

#### **DIVIDENDS**

No dividends were paid during the year (2014: £nil) and the directors recommend that no final dividend be paid in respect of the year (2014: £nil).

#### **RESEARCH AND DEVELOPMENT**

Given that the sole purpose of the Company is to raise finance on behalf of Northern Powergrid, the Company does not undertake research and development.

#### **FUTURE DEVELOPMENTS**

The financial position of the Company, as at the year end, is shown in the statement of financial position on page 14. There have been no significant events since the year end and it is the intention of the directors that the Company will continue to meet its obligations as they fall due and to raise finance on behalf of Northern Powergrid, if required, in the future.

#### **DIRECTORS**

The directors shown below have held office during the whole of the period from 1 January 2015 to the date of this report:

G E Abel	Chairman
T E Fielden	Finance Director
P A Jones	President and Chief Executive Officer
S J Lockwood	Group Financial Controller

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

During the financial year and up to the date of approval of the Report of the Directors, an indemnity contained in the Company's Articles of Association was in force for the benefit of the directors of the Company and as directors of associated companies, which was a qualifying indemnity provision for the purposes of the Companies Act 2006.

#### **FINANCIAL RISK MANAGEMENT**

The main risks are liquidity and interest rate risk, further details of which can be found on page 4 in the Strategic Report. Other financial risks are:

##### **Trading risk**

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

##### **Financial derivatives**

As at 31 December 2015 and during the year (2014: £nil) it was the Company's policy not to hold any derivative financial instruments.

#### **POLITICAL DONATIONS**

During the year, no contributions were made to political organisations (2014: £nil).

## **NORTHERN ELECTRIC FINANCE PLC**

### **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2015**

#### **CORPORATE GOVERNANCE STATEMENT**

Section 1B.1.5R of the Disclosure and Transparency Rules ("DTR") requires an issuer, whose transferable securities are admitted to trading, to provide a corporate governance statement in its annual Report of the Directors. However, DTR 1B.1.6R provides that the rules in DTR 7.2.2R, 7.2.3R and 7.2.7R do not apply to an issuer, which has not issued shares, which are admitted to trading. Accordingly, as the Company has no shares admitted to trading, it is eligible for the exemption provided by DTR 1B.1.6R.

#### **Main features of the internal control risk and management systems**

The GRMG is the principal risk management forum in the Northern Powergrid Group and monitors and manages performance in risk-related and compliance areas. The GRMG monitors and reviews the strategic risk environment, ensuring the continued suitability, adequacy and effectiveness of risk management arrangements and reports to the Northern Powergrid Group's Audit Committee.

The GRMG implemented a new process during Quarter 1 of 2015, which is designed to improve the effectiveness of the risk management and control activities, better define the risk environment within the Northern Powergrid Group, rationalise the reporting procedures to focus attention on key risk movements and to identify accountabilities for each risk sector.

The GRMG met on three occasions during the year in order to monitor the risk management framework and to ensure that all strategic risks were being addressed. Risk management policies and procedures were reviewed and updated to ensure a robust and clear approach was maintained. Mr R Dixon, an independent non-executive director of both Northern Powergrid Holdings Company and Northern Powergrid, attended meetings of the GRMG to provide an independent view in respect of the matters discussed.

The Northern Powergrid Group operates a structured and disciplined approach to the management of risk, as part of its overall risk management policy. Risks are divided into a number of risk sectors which, in turn, align to the Northern Powergrid Group's Core Principles. A report regarding the effectiveness of each risk sector in terms of risk management, control activity, key success factors, and supporting measures is presented at meetings of the GRMG. The risk environment is reviewed continually in order that new or emerging potential risks are identified.

A rigorous internal control environment exists within the Northern Powergrid 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. The directors consider that the governance framework in place is appropriate to the circumstances of the Company, given that the framework is agreed with its parent company, Berkshire Hathaway Energy Company ("Berkshire Hathaway Energy"), and includes regular reporting to and meetings with the Chairman and senior management of Berkshire Hathaway Energy. In addition, the internal control environment is designed to meet the standards required by the United States Sarbanes-Oxley Act.

Berkshire Hathaway Energy requires a quarterly risk control assessment to be undertaken by certain senior managers as part of its programme for compliance with the requirements of the United States Sarbanes-Oxley Act and, while no significant areas of weakness have been identified, any recommended improvements are implemented. In addition, the Northern Powergrid Group employs comprehensive business planning and financial reporting procedures, regularly reviews key performance indicators to assess progress towards its goals and has a strong internal audit function to provide independent scrutiny of its internal control systems. The Northern Powergrid Group has risk management procedures in place, including the standards required by the United States Sarbanes-Oxley Act, and has centralised treasury operations and established procedures for the planning, approving and monitoring of major capital expenditure.

Details of other financial risks faced by the Company can be found in the Strategic Report and on page 5 in the Report of the Directors.

Other key features of the Northern Powergrid Group's 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;



## **NORTHERN ELECTRIC FINANCE PLC**

### **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2015**

#### **CORPORATE GOVERNANCE STATEMENT – continued**

##### **Main features of the internal control risk and management systems - continued**

- A range of policies, codes of practice and more detailed instructions that define the processes to be followed;
- 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.

The Northern Powergrid Group is committed to maintaining the highest ethical standards in the conduct of its business and, in that respect, implements Berkshire Hathaway Energy's code of business conduct for employees. The code of conduct sets out and emphasises the required standards and commitment to ethical behaviour, provides reporting mechanisms for known or suspected ethical issues, helps prevent wrongdoing, and creates and sustains an ethical work environment across the Northern Powergrid Group. All employees are required to complete annual training on the code of business conduct and then confirm that they understand the requirements outlined in the code. The training is available online and employees who do not have access to the online system attend a briefing with their line manager.

The Northern Powergrid Group is also committed to preventing corruption in all its forms and continues to have a zero-tolerance approach to corruption in its business or by those with whom it does business. The board of Northern Powergrid Holdings Company has addressed the risks introduced by the Bribery Act 2010 through a compliance policy, changes to contractual terms, training and other staff awareness measures. The introduction of annual risk assessments and enhanced due diligence in respect of new business transactions has further assisted in ensuring compliance. The Northern Powergrid Group requires staff, suppliers of services and business partners to comply with the Bribery Act. Its policies encourage an employee who has any suspicion of bribery or other form of corruption within or related to the Northern Powergrid Group to report the suspicion to a manager or via an international, anonymous help line, which is provided for the use of employees of the Northern Powergrid Group.

##### **Audit committee**

The board of Northern Powergrid Holdings Company has established an audit committee for the Northern Powergrid 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, and the independence of and the provision of additional services by the auditor. The Audit Committee, which comprises one member who is independent and one member who has competence in accounting, receives annual reports from the GRMG and from the Northern Powergrid 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.

Given that Mr Dixon is an independent non-executive director of Northern Powergrid Holdings Company and Northern Powergrid, the Audit Committee comprises:

R Dixon	Non-Executive Director
T E Fielden	Finance Director

##### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Strategic Report, the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES - continued**

In preparing these financial statements, International Accounting Standard 1 requires the directors 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 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of any corporate and financial information relating to the Company, which is included on the Northern Powergrid Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**GOING CONCERN**

The Company's business activities, together with details regarding its future development, performance and position are set out in the Strategic Report and in the Report of the Directors. In addition, the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk are included in the Principal Risks and Uncertainties section of the Strategic Report, the Report of the Directors 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 account of a number of factors that arise due to the Company being a wholly-owned subsidiary of Northern Powergrid, including the following:

- a) Northern Powergrid is a stable electricity distribution business operating an essential public service and is regulated by the Gas and Electricity Markets Authority ("GEMA"). In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance their activities, 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) Northern Powergrid is profitable with strong underlying cash flows resulting in low gearing and holds investment grade credit ratings; and
- c) Northern Powergrid has access to considerable financial resources, in the form of short-term borrowings made available by Yorkshire Electricity Group plc, a fellow company in the Northern Powergrid Group, and an overdraft facility provided by Lloyds Bank plc which is reviewed annually. In addition, Northern Powergrid has committed revolving credit facilities in place from Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc until 30 April 2020.

Consequently, after making enquiries, the directors have 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.

**NORTHERN ELECTRIC FINANCE PLC**

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR**

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

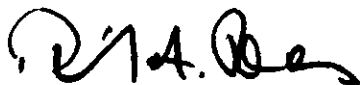
- a) so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- b) he has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

**AUDITOR**

A resolution to re-appoint Deloitte LLP as the Company's auditor and authorise the directors to determine their remuneration will be proposed at the Annual General Meeting.

**ON BEHALF OF THE BOARD:**

A handwritten signature in black ink, appearing to read 'P A Jones', with a stylized flourish at the end.

P A Jones  
Director

5 April 2016


**NORTHERN ELECTRIC FINANCE PLC**

**RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORTS AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015**

Each of the directors as at the date of the Annual Report, whose names and functions are set out on page 5 in the Report of the Directors confirms that, to the best of their knowledge:

- a) the Company's financial statements, 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
- b) the Management Report (which is comprised of the Strategic Report and the Report of the Directors) includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties it faces.

This responsibility statement was approved by the Board of Directors on 5 April 2016 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'P A Jones', is written over the printed name and title.

P A Jones  
Director

5 April 2016

## **REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF NORTHERN ELECTRIC FINANCE PLC**

We have audited the financial statements of Northern Electric Finance plc ("the Company") for the year ended 31 December 2015, which comprise the Statement of Profit or Loss, the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) 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 a Report of the Auditor 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 auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on pages 7 and 8, 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 and express an opinion on 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 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 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. In addition, we read all the financial and non-financial information in the Strategic Report and the Report of the Directors to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- returns adequate for our audit have not been received from branches not visited by us; or
- the 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.



David M Johnson FCA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Newcastle upon Tyne  
United Kingdom

Date: 14 April 2016

**NORTHERN ELECTRIC FINANCE PLC**

**STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Notes	<b>2015 £'000</b>	<b>2014 £'000</b>
<b>CONTINUING OPERATIONS</b>			
Revenue		-	-
Administrative expenses		<u>(7)</u>	<u>(9)</u>
<b>OPERATING LOSS</b>		<b>(7)</b>	<b>(9)</b>
Finance costs	3	<b>(17,173)</b>	<b>(17,175)</b>
Finance income	3	<b><u>17,026</u></b>	<b><u>17,024</u></b>
<b>LOSS BEFORE INCOME TAX</b>	4	<b>(154)</b>	<b>(160)</b>
Income tax	5	<b><u>47</u></b>	<b><u>33</u></b>
<b>LOSS FOR THE YEAR</b>		<b><u>(107)</u></b>	<b><u>(127)</u></b>

The notes on pages 17 to 24 form part of these financial statements

**NORTHERN ELECTRIC FINANCE PLC**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	<b>2015</b> <b>£'000</b>	<b>2014</b> <b>£'000</b>
<b>LOSS FOR THE YEAR</b>	<b>(107)</b>	<b>(127)</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>—</b>	<b>—</b>
<b>TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR</b>	<b><u>(107)</u></b>	<b><u>(127)</u></b>

The notes on pages 17 to 24 form part of these financial statements

STATEMENT OF FINANCIAL POSITION  
31 DECEMBER 2015

	Notes	2015 £'000	2014 £'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	6	<u>247,951</u>	<u>247,880</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	6	3,419	3,419
Tax receivable		33	28
Cash and cash equivalents	7	<u>1,536</u>	<u>1,560</u>
		<u>4,988</u>	<u>5,007</u>
<b>TOTAL ASSETS</b>		<u><u>252,939</u></u>	<u><u>252,887</u></u>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Called up share capital	8	50	50
Retained earnings	9	<u>(1,192)</u>	<u>(1,085)</u>
<b>TOTAL DEFICIT</b>		<u><u>(1,142)</u></u>	<u><u>(1,035)</u></u>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Interest bearing loans and borrowings	10	247,158	246,958
Deferred tax	11	<u>144</u>	<u>186</u>
		<u>247,302</u>	<u>247,144</u>
<b>CURRENT LIABILITIES</b>			
Interest bearing loans and borrowings	10	<u>6,779</u>	<u>6,778</u>
<b>TOTAL LIABILITIES</b>		<u><u>254,081</u></u>	<u><u>253,922</u></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>252,939</u></u>	<u><u>252,887</u></u>

The financial statements were approved by the Board of Directors on 5 April 2016 and were signed on its behalf by:



P A Jones  
Director



**NORTHERN ELECTRIC FINANCE PLC**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	<b>Called up share capital £'000</b>	<b>Retained earnings £'000</b>	<b>Total equity £'000</b>
<b>Balance at 1 January 2014</b>	50	(958)	(908)
<b>Changes in equity</b>			
Total comprehensive expense	<u>-</u>	<u>(127)</u>	<u>(127)</u>
<b>Balance at 31 December 2014</b>	<u>50</u>	<u>(1,085)</u>	<u>(1,035)</u>
<b>Changes in equity</b>			
Total comprehensive expense	<u>-</u>	<u>(107)</u>	<u>(107)</u>
<b>Balance at 31 December 2015</b>	<u>50</u>	<u>(1,192)</u>	<u>(1,142)</u>

The notes on pages 17 to 24 form part of these financial statements

**NORTHERN ELECTRIC FINANCE PLC**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

		<b>2015</b>	<b>2014</b>
		<b>£'000</b>	<b>£'000</b>
<b>Cash flows used in operating activities</b>			
Cash used in operations	13	(78)	(75)
Interest paid		(16,972)	(16,989)
Interest received		<u>17,026</u>	<u>17,024</u>
Net cash used in operating activities		<u>(24)</u>	<u>(40)</u>
 <b>Decrease in cash and cash equivalents</b>		 <b>(24)</b>	 <b>(40)</b>
 <b>Cash and cash equivalents at beginning of year</b>		 <u><b>1,560</b></u>	 <u><b>1,600</b></u>
 <b>Cash and cash equivalents at end of year</b>		 <u><u><b>1,536</b></u></u>	 <u><u><b>1,560</b></u></u>

The notes on pages 17 to 24 form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**1. GENERAL INFORMATION**

Northern Electric Finance plc (the "Company") is a company incorporated in England and Wales and is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group"). The address of the registered office is Lloyds Court, 78 Grey Street, Newcastle-upon-Tyne, NE1 6AF.

The nature of the Company's business model, strategic objectives, operations and activities are set out in the Strategic Report.

**2. ACCOUNTING POLICIES**

**Accounting convention and basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have also been prepared in accordance with IFRS 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 financial statements have been prepared under the historical cost convention.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions which are in the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

**Adoption of new or revised standards**

Amendments to IFRS made by the International Accounting Standards Board ("IASB") that are effective mandatorily for an accounting period that begins on or after 1 January 2015 have not impacted these financial statements.

The Company has not applied the following new and revised IFRS that have been issued but are not yet effective for the year ending 31 December 2015:

- Annual Improvements to IFRS 2012-2014 Cycle.

The Annual Improvements to IFRS 2012-2014 Cycle include a number of amendments to various IFRS. The directors of the Company do not anticipate that the application of these amendments will have a significant impact on the Company's financial statements.

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**2. ACCOUNTING POLICIES- continued**

**Financial instruments**

Financial assets and financial liabilities are recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

**Taxation**

The income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

**Financial assets**

Financial assets, including trade and other receivables and cash and cash equivalents, are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

The effective interest method is a method of calculating the amortised cost of an instrument and of allocating income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the instrument to the net carrying amount on initial recognition.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Cash and cash equivalents (which are presented as a single class of assets on the face of the statement of financial position) comprise loans advanced to the parent company, having a maturity of less than three months on the basis that they are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**2. ACCOUNTING POLICIES - continued**

**Financial assets - continued**

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be 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 affected.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of profit or loss.

**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 financial statements. Further detail is contained within the Going Concern Statement in the Report of the Directors on page 8.

**3. NET FINANCE COSTS**

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Finance income:		
Interest receivable on loans to Group undertakings	<u>17,026</u>	<u>17,024</u>
Finance costs:		
Interest payable on other loans	<u>17,152</u>	17,139
Interest payable on loans from Group undertakings	<u>21</u>	<u>36</u>
	<u>17,173</u>	<u>17,175</u>
Net finance costs	<u>147</u>	<u>151</u>

**4. LOSS BEFORE INCOME TAX**

Analysis of auditor's remuneration is as follows:

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Fees payable to the Company's auditor for the audit of the Company's annual accounts	<u>7</u>	<u>6</u>
Total fees payable to the Company's auditor	<u>7</u>	<u>6</u>

**NORTHERN ELECTRIC FINANCE PLC**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**5. INCOME TAX**

**Analysis of tax income**

	<b>2015</b> <b>£'000</b>	<b>2014</b> <b>£'000</b>
Current tax	(5)	(9)
Deferred tax	<u>(34)</u>	<u>(24)</u>
Total tax income in statement of profit or loss	<u><u>(39)</u></u>	<u><u>(33)</u></u>

**Factors affecting the tax income**

The tax assessed for the year is lower (2014 - higher) than the standard rate of corporation tax in the UK. The difference is explained below:

	<b>2015</b> <b>£'000</b>	<b>2014</b> <b>£'000</b>
Loss on ordinary activities before income tax	<u>(154)</u>	<u>(160)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.25% (2014 - 21.5%)	(31)	(34)
Effects of: Changes in legislation	(16)	-
Other	<u>-</u>	<u>1</u>
Tax income	<u><u>(47)</u></u>	<u><u>(33)</u></u>
	<b>2015</b> <b>£'000</b>	<b>2014</b> <b>£'000</b>
Tax expense comprises:		
Current tax income:		
Receipt for surrender of group losses	(5)	(9)
Total current tax credit	<u>(5)</u>	<u>(9)</u>
Deferred tax:		
Deferred tax expenses relating to the origination and reversal of temporary differences	(26)	(24)
Effect of changes in legislation	<u>(16)</u>	<u>-</u>
Total deferred tax credit	<u><u>(42)</u></u>	<u><u>(24)</u></u>
Tax on profit before tax	<u><u>(47)</u></u>	<u><u>(33)</u></u>

The Finance Act 2015 included a provision that the standard rate of corporation tax in the United Kingdom was to reduce from 20% to 19% from April 2017 and to 18% from April 2020. Accordingly, 18% has been applied when calculating deferred tax assets and liabilities throughout the Northern Powergrid Group as at 31 December 2015.

# NORTHERN ELECTRIC FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2015

### 6. TRADE AND OTHER RECEIVABLES

	2015 £'000	2014 £'000
Current:		
Prepayments and accrued income	<u>3,419</u>	<u>3,419</u>
Non-current:		
Amounts due from group undertakings	<u>247,951</u>	<u>247,880</u>
Aggregate amounts	<u>251,370</u>	<u>251,299</u>

The fair value of the trade and other receivables as at 31 December 2015 is estimated to be £308 million (2014: £316 million), determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market transactions or dealer quotes for similar instruments. The valuation is based on Level 1 inputs.

Amounts owed to group undertakings represent the value of loans made to Northern Powergrid (Northeast) Limited, the Company's immediate parent, and are at fixed rates of interest. Prepayments and accrued income represent the accrued interest due on these loans. The maximum exposure to risk to the Company is the book value of these loans.

### 7. CASH AND CASH EQUIVALENTS

	2015 £'000	2014 £'000
Cash in hand	<u>1,536</u>	<u>1,560</u>

Cash and cash equivalents represent amounts owed by companies within the Northern Powergrid Group (see related party disclosures note), which have a maturity date of less than three months and which are subject to an insignificant risk of changes in value. The fair value of cash and cash equivalents is equal to their book value.

### 8. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:			2015	2014
Number:	Class:	Nominal value:	£	£
50,000	Ordinary shares	£1	<u>50,000</u>	<u>50,000</u>

### 9. RESERVES

	Retained earnings £'000
At 1 January 2015	(1,085)
Deficit for the year	<u>(107)</u>
At 31 December 2015	<u>(1,192)</u>

# NORTHERN ELECTRIC FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2015

### 9. RESERVES - continued

	Retained earnings £'000
At 1 January 2014	(958)
Deficit for the year	<u>(127)</u>
At 31 December 2014	<u>(1,085)</u>

### 10. BORROWINGS

The directors' consideration of liquidity, interest rate and foreign currency risk are described in the Strategic Report.

	Book Value		Fair Value	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Loans	<u>253,937</u>	<u>253,736</u>	<u>311,022</u>	<u>319,285</u>
	<u>253,937</u>	<u>253,736</u>	<u>311,022</u>	<u>319,285</u>
The borrowings are repayable as follows:				
On demand or within one year	6,779	6,778	6,779	6,778
After five years	<u>247,158</u>	<u>246,958</u>	<u>304,243</u>	<u>312,507</u>
	<u>253,937</u>	<u>253,736</u>	<u>311,022</u>	<u>319,285</u>
Analysis of borrowings:				
2020 - 8.875% bonds	101,052	100,923	130,560	135,364
2035 - 5.125% bonds	<u>152,885</u>	<u>152,813</u>	<u>180,462</u>	<u>183,921</u>
	<u>253,937</u>	<u>253,736</u>	<u>311,022</u>	<u>319,285</u>

The fair value of the external borrowings is determined with reference to quoted market prices.

The fair valuation of the borrowings is based on Level 1 inputs.

The Company's 8.875% 2020 bonds are guaranteed by Northern Powergrid (Northeast) Limited, its immediate parent company, and Northern Electric plc. The Company's 5.125% 2035 bonds are guaranteed by Northern Powergrid (Northeast) Limited and AMBAC Assurance UK Limited.

The covenants associated with the 2035 bonds issued by the Company include restrictions on the issuance of new indebtedness and the making of distributions dependent on the scale of the ratio of Senior Total Net Debt to Regulatory Asset Value ("RAV") of Northern Powergrid (Northeast) Limited. The definition of Senior Total Net Debt excludes any subordinated debt and any debt incurred on a non-recourse basis. In addition, it excludes interest payable, any fair value adjustments and unamortised issue costs.

At 31 December 2015, the Company had no undrawn committed borrowing facilities.

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



**NORTHERN ELECTRIC FINANCE PLC**

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**10. BORROWINGS - continued**

	Less than 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
2015:					
Fixed interest rate liability	-	16,563	166,250	265,312	448,125
	<u>-</u>	<u>16,563</u>	<u>166,250</u>	<u>265,312</u>	<u>448,125</u>
2014:					
Fixed interest rate liability	-	16,563	66,250	381,875	464,688
	<u>-</u>	<u>16,563</u>	<u>66,250</u>	<u>381,875</u>	<u>464,688</u>

**11. DEFERRED TAX**

	Total £'000
At 1 January 2015	186
Credit to statement of profit or loss	(42)
At 31 December 2015	<u>144</u>
	Total £'000
At 1 January 2014	210
Credit to statement of profit or loss	(24)
At 31 December 2014	<u>186</u>

The balance represents deferred tax on unamortised loan issue costs in relation to the 8.875% 2020 bonds.

**12. RELATED PARTY DISCLOSURES**

Transactions entered into and balances outstanding at the year end were as follows:

Related Party	Interest received from related parties £'000 (Note 3)	Interest paid to related parties £'000 (Note 3)	Amounts owed from related parties £'000 (Notes 6 & 7)
2015:			
Northern Powergrid (Northeast) Limited	17,023	-	251,370
Yorkshire Electricity Group plc	3	21	1,536
	<u>17,026</u>	<u>21</u>	<u>252,906</u>
2014:			
Northern Powergrid (Northeast) Limited	17,021	-	251,299
Yorkshire Electricity Group plc	3	36	1,560
	<u>17,024</u>	<u>36</u>	<u>252,859</u>

# **NORTHERN ELECTRIC FINANCE PLC**

## **NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2015**

### **13. RECONCILIATION OF LOSS BEFORE INCOME TAX TO CASH USED IN OPERATIONS**

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Loss before income tax	(154)	(160)
Finance costs	17,173	17,175
Finance income	<u>(17,026)</u>	<u>(17,024)</u>
	(7)	(9)
Increase in trade and other receivables	<u>(71)</u>	<u>(66)</u>
<b>Cash used in operating activities</b>	<u><b>(78)</b></u>	<u><b>(75)</b></u>

### **14. ULTIMATE CONTROLLING PARTY**

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

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