

NORTHERN ELECTRIC FINANCE plc

Registered Number: 3070482

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

DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 31 December 2006.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The Company is a subsidiary of Northern Electric Distribution Limited and was established in August 1995 to raise finance on behalf of the Northern Electric group of companies, including the issue of long-term bonds. During the year, the Company continued to be the issuer of long-term bonds. On 29 March 2006, the Company made a call of 75p per share on the 49,998 issued ordinary shares of £1 of the Company which were partly paid up to 25p per share. The call was paid on 31 March 2006, at which point the shares became fully paid.

Given that the sole purpose of the Company is to raise finance on behalf of the Northern Electric group of companies, the business of the Company is not sufficiently large or complex for analysis of key performance indicators to be appropriate as part of the operation of the Company. Details of key performance indicators used in the CE Electric UK Funding Company group of companies (the "CE Group") can be found in the CE Electric UK Funding Company directors' report. Details of the key risks faced by the Company in respect of its borrowings can be found in notes 7 and 9 to the accounts.

FUTURE DEVELOPMENTS

The Company will continue to raise finance, as required, in the future.

RESULTS AND DIVIDENDS

The Company made a loss of £0.1m during the year ended 31 December 2006. The directors do not recommend that a dividend be paid in respect of the year, leaving £0.1m to be withdrawn from reserves.

DIRECTORS AND THEIR INTERESTS

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

G E Abel
P Ainsley
P E Connor
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 re-appoint Deloitte & Touche LLP as the Company's auditors and authorise the directors to determine their remuneration will be proposed at the Annual General Meeting.

NORTHERN ELECTRIC FINANCE plc

REGISTERED NUMBER 3070482

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 International Financial Reporting Standards (IFRS). Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

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

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

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

By order of the board



John Elliott
Company Secretary
19 June 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NORTHERN ELECTRIC FINANCE plc

We have audited the financial statements of Northern Electric Finance plc for the year ended 31 December 2006 which comprise the income statement, the balance sheet, the cash flow statement, the statement of recognised income and expenses and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in 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 Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report 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 circumstances of the Company, consistently applied and adequately disclosed.

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NORTHERN ELECTRIC FINANCE plc
(CONTINUED)**

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with those IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2006 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Separate opinion in relation to IFRS

As explained in Note 2 to the financial statements, the Company, in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Company's affairs as at 31 December 2006 and of its loss for the year then ended.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants & Registered Auditors
Newcastle upon Tyne, England

22 June 2007

NORTHERN ELECTRIC FINANCE plc

REGISTERED NUMBER 3070482

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £m	2005 £m
Investment income	4	16.8	20.9
Finance costs	5	<u>(16.9)</u>	<u>(21.1)</u>
Loss before tax		(0.1)	(0.2)
Income tax credit	6	<u>-</u>	<u>0.1</u>
Loss from ordinary activities after tax	12	<u>(0.1)</u>	<u>(0.1)</u>

All activities relate to continuing operations.

STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2006

There is no other income or expense other than the losses reported above.

NORTHERN ELECTRIC FINANCE plc

REGISTERED NUMBER 3070482

BALANCE SHEET AS AT 31 DECEMBER 2006

	Notes	2006 £m	2005 £m
Non-current assets			
Trade and other receivables	7	147.4	147.3
Long-term securities	7	-	100.0
		<u>147.4</u>	<u>247.3</u>
Current assets			
Short-term securities	7	100.0	-
Trade and other receivables	7	7.0	7.0
		<u>107.0</u>	<u>7.0</u>
Total assets		<u>254.4</u>	<u>254.3</u>
Current liabilities			
Trade and other payables	8	(7.0)	(6.9)
Borrowings	9	(1.5)	(1.6)
		<u>(8.5)</u>	<u>(8.5)</u>
Net current assets/(liabilities)		<u>98.5</u>	<u>(1.5)</u>
Non-current liabilities			
Borrowings	9	(245.8)	(245.6)
Deferred income tax liabilities	10	(0.5)	(0.5)
		<u>(246.3)</u>	<u>(246.1)</u>
Total liabilities		<u>(254.8)</u>	<u>(254.6)</u>
Net liabilities		<u>(0.4)</u>	<u>(0.3)</u>
Equity			
Share capital	11	-	-
Retained earnings	12	(0.4)	(0.3)
Total equity	12	<u>(0.4)</u>	<u>(0.3)</u>

The financial statements were approved by the board of directors and authorised for issue on 19 June 2007 and were signed on its behalf by:


K Linde
Director

NORTHERN ELECTRIC FINANCE plc

REGISTERED NUMBER 3070482

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £m	2005 £m
Net cash from operating activities	13	<u>0.1</u>	<u>(0.1)</u>
Investing activities			
New long-term securities purchased		-	(100.0)
Movement in loans to Group undertakings		<u>-</u>	<u>50.7</u>
Net cash used in investing activities		<u>-</u>	<u>(49.3)</u>
Financing activities			
Repayment of borrowings		-	(100.0)
New borrowings		-	149.3
Movement in loans from Group undertakings		<u>(0.1)</u>	<u>0.1</u>
Net cash from financing activities		<u>(0.1)</u>	<u>49.4</u>
Net movement in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year		<u>-</u>	<u>-</u>

NORTHERN ELECTRIC FINANCE plc

REGISTERED NUMBER 3070482

NOTES TO THE ACCOUNTS - 31 DECEMBER 2006

1 GENERAL INFORMATION

Northern Electric Finance plc is a company 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 Company's operations and its principal activities are set out in the directors' report on page 1.

2 ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with IFRS adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation.

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.

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

Accounting convention

The accounts have been prepared under the historical cost convention.

Recently issued accounting pronouncements

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

IFRS 7 Financial Instruments: Disclosures

The directors anticipate that the adoption of this Standard in future periods will have no material impact on the financial statements of the Company.

The directors anticipate that the Company will adopt this Standard on its effective date.

NOTES TO THE ACCOUNTS - 31 DECEMBER 2006 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

Taxation

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 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 substantially enacted at the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in 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.

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.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or asset realised, based on tax rates and tax legislation enacted or substantially enacted at the balance sheet date.

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 allocated to the income statement as incurred.

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.

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 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.

NORTHERN ELECTRIC FINANCE plc**REGISTERED NUMBER 3070482****NOTES TO THE ACCOUNTS - 31 DECEMBER 2006 (CONTINUED)****3 DIRECTORS', KEY PERSONNEL AND AUDITORS' REMUNERATION**

No directors', key personnel or auditors' remuneration was charged for the year (2005: £nil). There are no directors' emoluments that are required to be disclosed under the Companies Act 1985 (2005: £nil). There were no employees of the Company during the year (2005: nil).

Auditors' remuneration of £6,000 (2005: £5,000) was incurred by another Group company for the audit of the Company's annual accounts.

There were no fees payable in relation to non-audit services in 2006 or 2005.

4 INVESTMENT INCOME

	2006 £m	2005 £m
Interest receivable on loans to Group undertakings	12.0	17.8
Interest receivable on long-term securities	4.8	3.1
Total investment income	<u>16.8</u>	<u>20.9</u>

5 FINANCE COSTS

	2006 £m	2005 £m
Interest payable on loans from Group undertakings	0.1	0.1
Interest payable on other loans	16.8	21.0
Total finance costs	<u>16.9</u>	<u>21.1</u>

6 INCOME TAX CREDIT

	£m	£m
(a) Analysis of credit for the year:		
Corporation tax:		
Corporation tax credit for the year	-	0.1
Total current tax credit	-	0.1
Deferred tax	-	-
Tax on loss before tax	<u>-</u>	<u>0.1</u>
(b) Reconciliation of tax credit:		
Loss on ordinary activities before tax	(0.1)	(0.2)
Tax on loss before tax at standard rate of corporation tax in United Kingdom of 30%	-	0.1
Tax credit for the year	<u>-</u>	<u>0.1</u>

NORTHERN ELECTRIC FINANCE plc**REGISTERED NUMBER 3070482****NOTES TO THE ACCOUNTS - 31 DECEMBER 2006 (CONTINUED)****6 INCOME TAX CREDIT (CONTINUED)**

(c) Factors that may affect future tax charge:

The Chancellor of the Exchequer's Budget of March 2007 announced changes to the rate of corporation tax to take effect from April 2008. The Company is to evaluate the effect of these changes.

7 OTHER FINANCIAL ASSETS**Long-term securities**

	Book value		Fair value	
	2006	2005	2006	2005
	£m	£m	£m	£m
Guaranteed investment contract maturing on 27 December 2007 (4.75%)	-	100.0	-	101.1

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

Short-term securities

	Book value		Fair value	
	2006	2005	2006	2005
	£m	£m	£m	£m
Guaranteed investment contract maturing on 27 December 2007 (4.75%)	100.0	-	99.5	-

Trade and other receivables

	Book value		Fair value	
	2006	2005	2006	2005
	£m	£m	£m	£m
Non-current:				
Amounts owed by Group undertakings	147.4	147.3	182.5	192.6
Current:				
Amounts owed by Group undertakings	3.9	3.8	3.9	3.8
Interest receivable	3.1	3.1	3.1	3.1
Income tax recoverable	-	0.1	-	0.1
	7.0	7.0	7.0	7.0

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

NORTHERN ELECTRIC FINANCE plc**REGISTERED NUMBER 3070482****NOTES TO THE ACCOUNTS - 31 DECEMBER 2006 (CONTINUED)****7 OTHER FINANCIAL ASSETS (CONTINUED)****Credit risk**

The Company's principal financial assets are long-term securities, short-term securities and trade and other receivables.

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

8 TRADE AND OTHER PAYABLES

	2006 £m	2005 £m
Accruals and deferred income	<u>7.0</u>	<u>6.9</u>

The directors consider that the carrying amount of trade and other payables approximates their fair value.

9 BORROWINGS

	Book value		Fair value	
	2006 £m	2005 £m	2006 £m	2005 £m
Loans	245.8	245.6	287.9	302.0
Amounts owed to Group undertakings	<u>1.5</u>	<u>1.6</u>	<u>1.5</u>	<u>1.6</u>
	<u>247.3</u>	<u>247.2</u>	<u>289.4</u>	<u>303.6</u>
The borrowings are repayable as follows:				
On demand or within one year	1.5	1.6	1.5	1.6
After five years	<u>245.8</u>	<u>245.6</u>	<u>287.9</u>	<u>302.0</u>
	<u>247.3</u>	<u>247.2</u>	<u>289.4</u>	<u>303.6</u>
Analysis of borrowings:				
2035 – 5.125%	147.4	147.3	158.1	164.0
2020 – 8.875%	98.4	98.3	129.8	138.0
Working capital loan	<u>1.5</u>	<u>1.6</u>	<u>1.5</u>	<u>1.6</u>
	<u>247.3</u>	<u>247.2</u>	<u>289.4</u>	<u>303.6</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.

Interest on the working capital loan is charged at a floating rate of interest, thus exposing the Company to cash flow interest rate risk. All other loans are at fixed interest rates and expose the Company to fair value interest rate risk.

The loans are non-secured.

NORTHERN ELECTRIC FINANCE plc**REGISTERED NUMBER 3070482****NOTES TO THE ACCOUNTS - 31 DECEMBER 2006 (CONTINUED)****9 BORROWINGS (CONTINUED)**

The covenants associated with the 2035 bonds include restrictions on the issuance of new indebtedness and the making of distributions from the immediate and ultimate UK parent companies dependent on the scale of the ratio of Senior Total Net Debt to Regulatory Asset Value (RAV), as outlined by Ofgem in its Final Proposals for Distribution Prices published in November 2004. 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 Company has no undrawn committed borrowing facilities.

10 DEFERRED TAX

	£m
At 1 January 2005	0.5
Credit to income	-
At 31 December 2005	0.5
Credit to income	-
At 31 December 2006	<u>0.5</u>

The balance represents deferred tax on unamortised debt issue costs.

11 SHARE CAPITAL

	2006 £	2005 £
Authorised		
50,000 ordinary shares of £1 each	50,000	50,000
Issued and partly paid		
50,000 ordinary shares of £1 each partly paid	-	12,500
Issued and fully paid		
50,000 ordinary shares of £1 each fully paid	<u>50,000</u>	<u>-</u>

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

12 MOVEMENT ON RESERVES AND RECONCILIATION OF MOVEMENTS IN TOTAL EQUITY

	Share Capital £m	Retained Reserves £m	Total Equity £m
At 1 January 2005	-	(0.2)	(0.2)
Loss for the year	-	(0.1)	(0.1)
At 31 December 2005	-	(0.3)	(0.3)
Loss for the year	-	(0.1)	(0.1)
At 31 December 2006	<u>-</u>	<u>(0.4)</u>	<u>(0.4)</u>

NORTHERN ELECTRIC FINANCE plc**REGISTERED NUMBER 3070482****NOTES TO THE ACCOUNTS - 31 DECEMBER 2006 (CONTINUED)****13 NET CASH FROM OPERATING ACTIVITIES**

	2006 £m	2005 £m
Income taxes received	0.1	-
Interest received	16.6	19.7
Interest paid	(16.6)	(19.8)
Net cash from/(used in) operating activities	<u>0.1</u>	<u>(0.1)</u>

14 RELATED PARTY TRANSACTIONS

The Company has advanced loans to Northern Electric Distribution Limited, the Company's immediate parent company. The total interest included in investment income for the year ended 31 December 2006 was £12.0m (2005: £17.8m). Included within trade and other receivables is £151.3m as at 31 December 2006 (2005: £151.1m) in respect of these loans.

The Company has received loans from other companies in the CE Electric UK Funding Company Group. The total interest included in finance costs in the income statement for the year ended 31 December 2006 was £0.1m (2005: £0.1m). Included within borrowings is £1.5m as at 31 December 2006 (2005: £1.6m) in respect of these loans.

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

15 ULTIMATE HOLDING COMPANY

The immediate parent undertaking of Northern Electric Finance plc is Northern Electric Distribution Limited. The ultimate controlling party and ultimate parent undertaking of Northern Electric Distribution 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, CE Electric UK Funding Company, Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.